



Padini Holdings Berhad

(7052 | PAD MK) Main | Consumer Products & Services | Retailers

Stabilizing Material and Freight Costs

KEY INVESTMENT HIGHLIGHTS

- **Beat estimates**
- **Sales boosted by festive occasions in 4QFY23**
- **Strong revenue and earnings in 12MFY23**
- **Revised earnings forecast for FY24-FY25F and introduced FY26F**
- **Maintain BUY with a higher TP of RM4.60 (from RM4.40)**

Beat estimates. Padini Holdings ("Padini") reported core PATANCI for FY23 at RM228.1m, after excluding one-time items of RM5.4m. This exceeded both our and consensus' full-year estimates, accounting for 110.6% of our estimate and 105.5% of the street's estimate. The outperformance was primarily due to lower-than-expected material costs and selling & distribution expenses, which were influenced by normalized freight charges. Meanwhile, the group declared first interim dividend of 2.5 sen for FY24.

Sales boosted by festive occasions in 4QFY23. On quarterly basis, the group's higher revenue of RM476.3m in 4QFY23 was boosted by festive celebrations such as Hari Raya and school holidays. The core PATANCI of RM58m in 4QFY23, up from RM44.8m in 3QFY23, mainly due to reduced administrative expenses following a bonus payout in the previous quarter for FY23. On yearly basis, revenue decreased slightly by -1%yoy to RM476.3m due to the lower sales in existing stores (SSSG of -2%yoy) and high base in 4QFY22. This, combined with higher salary and finance costs, led to a -24% yoy decrease in core PATANCI to RM58m.

Strong revenue and earnings in 12MFY23. Cumulatively, core PATANCI increased by +46.9%yoy to RM228.1m in 12MFY23, which in tandem with higher topline growth of 38.1%yoy to RM1.82b. This improved performance was mainly supported by all outlets operating at full capacity in 12MFY23 and increased consumer spending after the economy reopened. Recall that most outlets closed from 1 Jun 2021 to 18 August 2021.

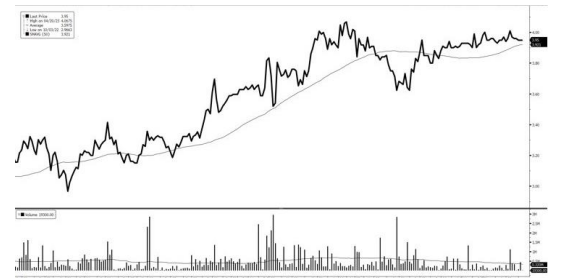
Revised earnings forecast for FY24-FY25F and introduced FY26F. Given that earnings came in above our projection, we raised our earnings forecast for FY24-25F by +4.6%/+5.1%. This was after factoring in lower material cost and normalized freight costs. We also introduce our FY26F forecast.

Maintain BUY**Revised Target Price: RM4.60***(From RM4.40)*

RETURN STATISTICS

Price @ 25 th Aug 2023 (RM)	3.95
Expected share price return (%)	+16.50
Expected dividend yield (%)	2.7
Expected total return (%)	+19.20

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.0	-1.5
3 months	1.8	1.6
12 months	21.6	25.9


INVESTMENT STATISTICS

FYE Jun	2024F	2025F	2026F
Revenue	1,886.3	1,989.1	2,105.5
EBITDA	354.5	379.8	407.9
Profit before tax (PBT)	312.5	336.3	362.9
Core PATANCI	234.8	252.7	272.6
Core EPS (sen)	35.7	38.4	41.4
DPS (sen)	10.7	11.5	12.4
Dividend Yield (%)	2.7	2.9	3.1

KEY STATISTICS

FBM KLCI	1,444.41
Issue shares (m)	657.91
Estimated free float (%)	34.38
Market Capitalisation (RM'm)	2,598.74
52-wk price range	RM3.02-RM4.16
3-mth average daily volume (m)	0.37
3-mth average daily value (RM'm)	1.42
Top Shareholders (%)	
Yong Pang Chaun Holdings Sdn	43.74
Kumpulan Wang Persaraan	7.77
Employees Provident Fund Board	5.24

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Maintain BUY with a higher TP of RM4.60 (from RM4.40). Our **TP of RM4.60** is based on a revised PER of 12x (from 12.9x, based on -0.5SD of sector's 3Y forward PE for consumer discretionary) pegging to Padini's FY24F EPS of 38.4sen/share. We like Padini underpinned by its: (1) moderately priced products, which are less susceptible to multiple headwinds, (2) its strong net cash position of RM602.1m as of 4QFY23 (equivalent to 25% of market cap), and (3) better margin ahead thanks to the stabilization of supply chain problems, material costs, and shipping charges. **Downside risk** is weaker-than-expected consumer sentiment. 

Padini Holdings Berhad: 4QFY23 Results Summary

FYE Jun (RM'm)	Quarterly results					Cumulative results		
	4QFY23	3QFY23	4QFY22	YoY (%)	QoQ (%)	12MFY23	12MFY22	YoY (%)
Revenue	476.3	457.2	481.2	(1.0)	4.2	1,822.1	1,319.1	38.1
Cost of sales	(290.2)	(274.8)	(290.0)	0.1	5.6	(1,104.4)	(811.6)	36.1
Gross profit	186.1	182.5	191.2	(2.7)	2.0	717.8	507.5	41.4
Other income	13.0	4.8	10.3	26.3	170.5	26.6	38.4	(30.7)
Administrative expenses	(16.3)	(30.7)	(15.2)	6.8	(47.0)	(82.3)	(61.8)	33.1
Selling and distribution costs	(98.0)	(94.2)	(78.8)	24.5	4.1	(344.4)	(259.6)	32.7
Operating profit (EBIT)	84.7	62.3	107.4	(21.1)	35.9	317.6	224.5	41.5
Net finance income/(cost)	(8.3)	(4.3)	(5.2)	59.1	93.8	(21.7)	(19.3)	12.4
Profit before tax (PBT)	76.4	58.1	102.2	(25.2)	31.7	295.9	205.1	44.3
Income tax expense	(19.1)	(14.7)	(24.8)	(22.7)	30.4	(73.2)	(51.0)	43.5
Profit After tax (PAT)	57.3	43.4	77.5	(26.0)	32.1	222.7	154.1	44.5
PATANCI	57.3	43.4	77.5	(26.0)	32.1	222.7	154.1	44.5
Core PATANCI	58.0	44.8	76.4	(24.0)	29.6	228.1	155.3	46.9
Core EPS (sen)	8.8	6.8	11.6	(24.0)	29.6	34.7	23.6	46.9
DPS (sen)	2.5	2.5	2.5	0.0	0.0	10.0	10.0	0.0
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Operating Profit Margin	17.8	13.6	22.3	(4.5)	4.2	17.4	17.0	0.4
PBT Margin	16.0	12.7	21.2	(5.2)	3.3	16.2	15.5	0.7
Core PATANCI Margin	12.2	9.8	15.9	(3.7)	2.4	12.5	11.8	0.7
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net cash/market cap (%)	24.7	25.7	33.1	(8.5)	(1.0)	24.7	33.1	(8.5)
Effective tax rate (%)	25.0	25.3	24.2	0.8	(0.3)	24.7	24.9	(0.1)

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023E	2024F	2025F	2026F
Revenue	1,319.1	1,822.1	1,886.3	1,989.1	2,105.5
Cost of sales	(811.6)	(1,104.4)	(1,141.0)	(1,200.7)	(1,268.5)
Gross Profit	507.5	717.8	745.3	788.3	837.0
Other Income	27.4	9.8	10.2	10.8	10.9
Selling and distribution costs	(259.6)	(344.4)	(354.8)	(372.3)	(392.1)
Administrative expenses	(61.8)	(82.3)	(83.9)	(87.2)	(90.4)
EBITDA	330.0	336.0	354.5	379.8	407.9
EBIT	213.5	300.8	316.8	339.8	365.4
Net finance (expenses)/income	(8.4)	(4.9)	(4.3)	(3.4)	(2.5)
Profit before tax (PBT)	205.1	295.9	312.5	336.3	362.9
Profit After tax (PAT)	154.1	222.7	234.8	252.7	272.6
Core PATANCI	156.0	228.1	234.8	252.7	272.6
Core EPS (sen)	23.7	34.7	35.7	38.4	41.4
DPS (sen)	10.0	10.0	10.7	11.5	12.4

Balance Sheet (RM'm)	2022A	2023E	2024F	2025F	2026F
Property, plant and equipment	76.1	86.3	95.4	104.9	114.8
Intangible assets	3.3	3.9	4.8	5.7	6.9
Total Non-current assets	490.1	561.6	634.0	711.1	792.9
Inventories	137.3	433.2	294.7	310.2	327.7
ST - Trade and other receivables	56.5	66.0	63.4	66.8	70.7
Cash and cash equivalents	808.9	605.3	607.8	621.7	638.4
Total current assets	1,003.9	1,104.5	965.9	998.7	1,036.7
Total Assets	1,494.0	1,666.1	1,599.9	1,709.8	1,829.6
Total Equity	891.1	1,040.1	955.7	1,068.1	1,188.4
LT Loans and borrowings	0.0	0.0	0.0	0.0	0.0
Total Non-current liabilities	325.9	379.0	373.7	368.7	363.9
ST Trade and other payables	178.3	125.2	156.8	165.0	174.3
ST Loans and borrowings	0.0	3.2	3.2	3.2	3.2
Total Current Liabilities	277.1	247.0	270.4	273.0	277.4
Total Liabilities	603.0	626.0	644.2	641.7	641.2

Cash Flow Statement (RM'm)	2022A	2023E	2024F	2025F	2026F
Pretax profit	205.1	295.9	312.5	336.3	362.9
Cash flow from operations	474.0	(19.2)	173.8	197.6	212.7
Cash flow from investing	(35.4)	(11.6)	(91.4)	(96.9)	(103.1)
Cash flow from financing	(156.6)	(177.3)	(79.9)	(86.8)	(92.9)
Net cash flow	282.0	(208.1)	2.5	13.9	16.6
(+/-) Adjustments	3.1	4.6	0.0	0.0	0.0
Net cash/(debt) b/f	523.8	808.9	605.3	607.8	621.7
Net cash/(debt) c/f	808.9	605.3	607.8	621.7	638.4

Key Metrics	2022A	2023E	2024F	2025F	2026F
Effective tax rate (%)	24.9	24.7	24.9	24.9	24.9
PER (x)	16.9	11.7	11.1	10.3	9.5
Net Cash/Market Capitalisation (%)	31.1	23.2	23.3	23.8	24.4

Profitability Margins	2022A	2023E	2024F	2025F	2026F
Gross Profit Margin (%)	38.5	39.4	39.5	39.6	39.8
EBITDA Margin (%)	25.0	18.4	18.8	19.1	19.4
EBIT Margin (%)	16.2	16.5	16.8	17.1	17.4
Core PATANCI Margin (%)	11.8	12.5	12.4	12.7	12.9

Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology