



Padini Holdings Berhad

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

Maintain BUY

Solid ABS; Improved Gross Profit Margin

Unchanged Target Price: RM4.60

KEY INVESTMENT HIGHLIGHTS

- **High inventory level in 4QFY23**
- **Mixed Same-Store Sales Growth (SSSG)**
- **Solid average basket size ("ABS") in 4QFY23**
- **Stable gross profit margin ahead**
- **Capital allocation and store openings ahead**
- **Maintain BUY with an unchanged TP of RM4.60**

We attended Padini's virtual briefing and remained optimistic about the FY24F's outlook. The salient highlights are as follows:-

High inventory level in 4QFY23. The inventory for 4QFY23 was at RM433.2m as compared to RM137.3m in 4QFY22. Management highlighted that the impact of slightly higher inventory is manageable, with an inventory turnover of around 4 months (143 days as of 4QFY23). The elevated inventory was partly due to lower Hari Raya sales in certain outlets. Looking ahead, the group plans to reduce inventory level by offering promotions for its products in selected outlets.

Mixed Same-Store Sales Growth (SSSG). In 4QFY23, SSSG decreased by -2%, a notable contrast to the positive 41% SSSG seen in 3QFY23. However, SSSG for the full year, 12MFY23, increased by +29%.

Solid average basket size ("ABS") in 4QFY23. ABS remained relatively stable in 4QFY23, with the blended ABS at approximately RM100 per basket, similar to 4QFY22. Meanwhile, ABS for free-standing stores (FSS) ranged from RM80 to RM90 in 4QFY23.

Stable gross profit margin ahead. Padini's gross profit margin increased from 38.5% in 12MFY22 to 39.4% in 12MFY23. This was primarily due to price hikes on certain products over the years. Looking ahead, management aims to maintain the gross profit margin in the range of 38-39% so as to stay competitive in pricing while retaining customers.

E-commerce contribution remained low. In 4QFY23, Padini's e-commerce segment contributed only around 1% to total revenue, but the absolute amounts of contribution from e-commerce increased significantly as compared to 2019. Going forward, management plans to allocate RM1-3m of total capex for FY24 to the e-commerce segment. The group will continue focusing on enhancing the online platform, shopping experience, and related infrastructure.

RETURN STATISTICS

| | |
|--|-------|
| Price @ 28 th Aug 2023 (RM) | 3.95 |
| Expected share price return (%) | +16.5 |
| Expected dividend yield (%) | 2.7 |
| Expected total return (%) | +19.2 |

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 | 1,444.06 |
| 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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Capital allocation and store openings ahead. In 4QFY23, Padini opened four new stores, including: (1) FSS VL Station 18, (2) FSS at Mid Valley, (3) FSS at Bukit Indah, and (4) 1 consignment P&co Sogo. However, one Padini Concept store at The Starling and one Brands Outlet at Starling Mall were closed. This led to a net total of 135 stores in 4QFY23, compared to 133 stores in 3QFY23. Looking ahead, management plans to allocate RM50m for FY24F capex, which will include investments in store openings and automation. While the group intends to open more stores in FY24, the exact number is still under negotiation.

Maintain BUY with an unchanged TP of RM4.60. We make no changes to our earnings estimations for FY24-26F post analyst briefing. 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. 

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