



Padini Holdings Berhad

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

Dwindling Profit Margins in 1QFY24

KEY INVESTMENT HIGHLIGHTS

- **Below expectations.**
- **PBT margin slumped to single digits in 1QFY24**
- **Store update in 1QFY24**
- **Capex allocation and updates**
- **Revised earnings projections for FY24F-26F**
- **Downgrade to NEUTRAL (from BUY) with a lower TP of RM3.50 (from RM4.60)**

Below expectations. Padini Holdings Berhad ("Padini") reported a 3MFY24 core PATANCI of RM27.3m, excluding a one-time item of RM0.6m. The core earnings came in below both our and consensus' FY24F projections, accounting for 11.6% of ours and 11.9% of the street's. This was primarily due to (1) a lower-than-expected gross profit margin resulting from greater sales of low margin products to deplete outdated inventory and boost sales volume, as well as (2) higher-than-expected administrative and selling & distribution costs due to a greater staff count and salary adjustments. The group declared a dividend of 2.5 sen/share for 1QFY24 against to no dividend was declared in 1QFY23.

PBT margin slumped to single digits in 1QFY24. On a quarterly basis, revenue for 1QFY24 dropped -18.5%qoq to RM388.2m, mainly due to the lack of a festive season during the quarter. Note that revenue in the previous quarter was supported by Hari Raya and mid-term school holidays. The gross profit margin dropped -2.9ppt qoq to 36.1%, primarily attributed to greater sales of low-margin products to clear out-of-fashion inventory and boost sales. This, along with salary adjustments for employees to curb rising inflationary pressure, weighed on the operating profit margin, lowering it by -7.4ppt qoq to 10.4% in 1QFY24. As such, the core PATANCI plunged -53%qoq to RM27.3m. On a yearly basis, revenue rose +2.4%yoy to RM388.2m, mainly attributed to greater sales volume from higher sales of low-margin products. The greater sales of low-margin products, along with higher purchase costs and staff costs, dragged down the operating profit by -41.2%yoy to RM40.5m despite higher revenue. Similarly, core PATANCI dropped from RM47.2m in 1QFY23 to RM27.3m in 1QFY24.

Store update in 1QFY24. In 1QFY24, the group opened 4 stores, including (1) 1 Padini Concept store at Aeon Mall Ipoh Klebang and City Square Johor; (2) a freestanding Vincci store at City Square Johor, as well as (3) Vincci at Bangkapi, Thailand. However, the group closed 5 stores during the quarter, reducing the total store count from 148 stores in 4QFY23 to 147 stores in 1QFY24. Moving forward, the group targets to open at least 5 more new stores, with a focus on the Central, East Coast, and Northern regions, particularly in areas with malls.

Downgrade to Neutral

(Previously BUY)

Revised Target Price: RM3.50

(Previously RM4.60)

RETURN STATISTICS

Price @ 30 th Nov 2023 (RM)	3.7
Expected share price return (%)	-5.50
Expected dividend yield (%)	2.70
Expected total return (%)	-2.75

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-5.1	-5.8
3 months	-5.1	-5.1
12 months	9.4	12.2

INVESTMENT STATISTICS

FYE Jun	2024F	2025F	2026F
Revenue	1,886.0	1,958.5	2,039.0
EBITDA	334.3	371.5	399.3
Profit before tax (PBT)	210.6	245.8	271.6
Core PATANCI	160.0	186.8	206.4
Core EPS (sen)	24.3	28.4	31.4
DPS (sen)	10.0	10.0	10.0
Dividend Yield (%)	2.7	2.7	2.7

KEY STATISTICS


FBM KLCI	1,452.74
Issue shares (m)	657.91
Estimated free float (%)	30.00
Market Capitalisation (RM'm)	2,467.16
52-wk price range	RM3.22-RM4.16
3-mth average daily volume (m)	0.30
3-mth average daily value (RM'm)	1.17
Top Shareholders (%)	
Yong Pang Chaun Holdings Sdn	43.74
Kumpulan Wang Persaraan	7.77
Employees Provident Fund Board	5.98

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Capex allocation and updates. The management allocated RM30m for capital expenditure on warehouse automation and radio frequency identification ("RFID") for FY24F. Additionally, the group aims for a capex of RM50m for store openings in FY24.

Revised earnings projections for FY24F-26F. Despite topline came in within our estimates, net earnings was disappointed, hence we cut our projections for FY24F-25F by -31.8%/-26.1%/-24.3% respectively. This adjustment is attributed to (1) lower gross profit margins resulting from increased sales of low-margin products to enhance footfall, and (2) higher staff costs due to an expanded headcount and increased salaries.

Downgrade to NEUTRAL (from BUY) with a lower TP of RM3.50 (from RM4.60). Our TP of RM4.60 is based on a revised PER of 12.3x (-0.5SD of sector's three year forward PE for consumer discretionary) pegging to Padini's FY24F EPS of 28.4sen/share (from 38.4sen/share). Moving forward, we are optimistic that the demand for Padini's will remain resilient due to the relatively cheaper product prices, as well as various cash handouts introduced in Budget 2024, which could boost consumer spending on Padini products. However, we turned cautious about the inflationary pressure that increased Padini's operating costs (higher staff costs, purchase costs, and more sales for lower-priced products to boost the footfall), and hence eroding the profit margin. Hence, we downgrade Padini to **Neutral** from Buy, mainly due to **cost-driven factors** that have compressed the margin. **Downside risks** are (1) weaker-than-expected consumer sentiment and (2) greater-than-expected operating cost. 

Padini Holdings Berhad: 1QFY24 Results Summary

FYE Jun (RM'm)	Quarterly results					Cumulative results		
	1QFY24	4QFY23	1QFY23	YoY (%)	QoQ (%)	3MFY24	3MFY23	YoY (%)
Revenue	388.2	476.3	379.1	2.4	(18.5)	388.2	379.1	2.4
Cost of sales	(248.0)	(290.2)	(230.6)	7.5	(14.6)	(248.0)	(230.6)	7.5
Gross profit	140.2	186.1	148.5	(5.6)	(24.6)	140.2	148.5	(5.6)
Other income	4.5	13.0	7.4	(38.5)	(64.9)	4.5	7.4	(38.5)
Administrative expenses	(18.6)	(16.3)	(16.6)	12.2	14.3	(18.6)	(16.6)	12.2
Selling and distribution costs	(85.7)	(98.0)	(70.5)	21.7	(12.6)	(85.7)	(70.5)	21.7
Operating profit (EBIT)	40.5	84.7	68.8	(41.2)	(52.3)	40.5	68.8	(41.2)
Net finance income/(cost)	(5.5)	(8.3)	(4.7)	17.5	(33.5)	(5.5)	(4.7)	17.5
Profit before tax (PBT)	34.9	76.4	64.1	(45.5)	(54.3)	34.9	64.1	(45.5)
Income tax expense	(8.3)	(19.1)	(15.3)	(45.9)	(56.8)	(8.3)	(15.3)	(45.9)
Profit After tax (PAT)	26.7	57.3	48.9	(45.4)	(53.5)	26.7	48.9	(45.4)
PATANCI	26.7	57.3	48.9	(45.4)	(53.5)	26.7	48.9	(45.4)
Core PATANCI	27.3	58.0	47.2	(42.3)	(53.0)	27.3	47.2	(42.3)
Core EPS (sen)	4.1	8.8	7.2	(42.3)	(53.0)	4.1	7.2	(42.3)
DPS (sen)	2.5	2.5	2.5	0.0	0.0	2.5	2.5	0.0
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Gross Profit Margin	36.1	39.1	39.2	(3.0)	(2.9)	36.1	39.2	(3.0)
Operating Profit Margin	10.4	17.8	18.2	(7.7)	(7.4)	10.4	18.2	(7.7)
PBT Margin	9.0	16.0	16.9	(7.9)	(7.0)	9.0	16.9	(7.9)
Core PATANCI Margin	7.0	12.2	12.5	(5.4)	(5.2)	7.0	12.5	(5.4)
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net cash/market cap (%)	25.7	24.7	27.7	(2.0)	1.0	25.7	27.7	(2.0)
Effective tax rate (%)	23.7	25.0	23.8	(0.2)	(1.4)	23.7	23.8	(0.2)

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	1,319.1	1,822.1	1,886.0	1,958.5	2,039.0
Cost of sales	(811.6)	(1,104.4)	(1,188.8)	(1,197.5)	(1,221.7)
Gross Profit	507.5	717.8	697.2	761.0	817.2
Other Income	27.4	9.8	10.1	10.5	10.9
Selling and distribution costs	(259.6)	(344.4)	(399.4)	(423.8)	(449.6)
Administrative expenses	(61.8)	(82.3)	(93.7)	(99.4)	(105.5)
EBITDA	330.0	416.8	334.3	371.5	399.3
EBIT	213.5	300.8	214.2	248.4	273.1
Net finance (expenses)/income	(8.4)	(4.9)	(3.6)	(2.6)	(1.5)
Profit before tax (PBT)	205.1	295.9	210.6	245.8	271.6
Profit After tax (PAT)	154.1	222.7	160.0	186.8	206.4
Core PATANCI	156.0	225.1	160.0	186.8	206.4
Core EPS (sen)	23.7	34.2	24.3	28.4	31.4
DPS (sen)	10.0	11.5	10.0	10.0	10.0
Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Property, plant and equipment	76.1	86.3	108.0	130.3	153.2
Intangible assets	3.3	3.9	4.8	5.7	6.9
Total Non-current assets	490.1	561.6	633.1	708.7	789.1
Inventories	137.3	433.2	390.8	393.7	401.7
ST - Trade and other receivables	56.5	66.0	77.5	80.5	83.8
Cash and cash equivalents	808.9	605.3	632.8	650.6	670.5
Total current assets	1,003.9	1,104.5	1,101.1	1,124.7	1,156.0
Total Assets	1,494.0	1,666.1	1,734.2	1,833.4	1,945.0
Total Equity	891.1	1,040.1	1,084.0	1,194.4	1,314.3
LT Loans and borrowings	0.0	0.0	0.0	0.0	0.0
Total Non-current liabilities	325.9	379.0	373.7	368.5	363.4
ST Trade and other payables	178.3	125.2	162.9	164.0	167.4
ST Loans and borrowings	0.0	3.2	3.2	3.2	3.2
Total Current Liabilities	277.1	247.0	276.5	270.5	267.3
Total Liabilities	603.0	626.0	650.2	639.0	630.7
Cash Flow Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Pretax profit	205.1	295.9	210.6	245.8	271.6
Cash flow from operations	474.0	(19.2)	240.5	236.6	245.0
Cash flow from investing	(131.4)	(109.8)	(137.8)	(143.3)	(149.4)
Cash flow from financing	(156.6)	(180.3)	(75.2)	(75.5)	(75.6)
Net cash flow	186.0	(309.4)	27.5	17.8	20.0
(+/-) Adjustments	3.1	4.6	0.0	0.0	0.0
Net cash/(debt) b/f	523.8	808.9	605.3	632.8	650.6
Net cash/(debt) c/f	808.9	605.3	632.8	650.6	670.5
Key Metrics	2022A	2023A	2024F	2025F	2026F
Effective tax rate (%)	24.9	24.7	24.0	24.0	24.0
PER (x)	15.8	10.9	15.2	13.0	11.8
Net Cash/Market Capitalisation (%)	33.2	24.7	25.9	26.6	27.4
Profitability Margins	2022A	2023A	2024F	2025F	2026F
Gross Profit Margin (%)	38.5	39.4	37.0	38.9	40.1
EBITDA Margin (%)	25.0	22.9	17.7	19.0	19.6
EBIT Margin (%)	16.2	16.5	11.4	12.7	13.4
Core PATANCI Margin (%)	11.8	12.4	8.5	9.5	10.1

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