



Padini Holdings Berhad

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

Maintain NEUTRAL

Expect Higher Operating Costs amidst Higher Services Tax

Unchanged Target Price: RM3.50

KEY INVESTMENT HIGHLIGHTS

- **Within expectations, with lower sales volume and gross margin as expected**
- **Consistent proposed dividend as expected**
- **Lower 2QFY24 sales volume with a greater sales mix of low-margin products**
- **1HFY24 core PATANCI plunged despite static revenue**
- **Maintain NEUTRAL with an unchanged TP of RM3.50**

Within expectations, with lower sales volume and gross margin as expected. Padini Holdings ("Padini") reported a 1HFY24 core PATANCI of RM84.8m, after excluding a one-time off item of RM5m. This came in within ours and consensus full-year FY24 core PATANCI, accounting for 53% of ours and 49.6% of consensus'.

Consistent proposed dividend as expected. Padini declared a 3rd interim single-tier dividend of 2.5sen/share (payable in Mar 2024) in 2QFY24, bringing the total dividend for 1HFY24 to 5sen/share. This was in line with the total dividend of 5sen/share in 1HFY23.

Lower 2QFY24 sales volume with a greater sales mix of low-margin products. On a yearly basis, the reduced revenue (-1.8%yoy) and lower gross profit (-5.1%yoy) were mainly due to the lower sales volume with a greater sales mix of low-margin products. This along with higher administrative costs and selling and distribution costs, dragged the core PATANCI lower by -26.3%yoy to RM57.5m. On a quarterly basis, Padini's core PATANCI more than doubled to RM57.5m, in line with the higher revenue of RM500.1m (+28.8%yoy). This was mainly due to festive sales for Christmas and the year-end holiday.

1HFY24 core PATANCI plunged despite flattish revenue. Padini's cumulative core PATANCI plunged -32.3%yoy to RM84.8m despite flattish revenue. This was mainly due to the greater sales of low-margin products, exacerbated by higher staff and distribution costs.

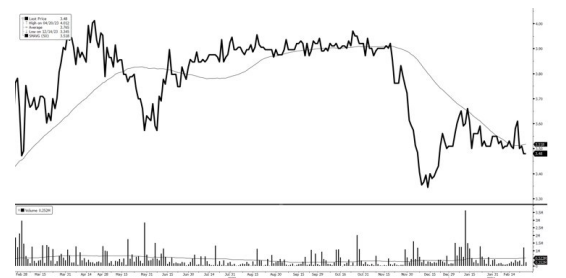
No changes to earnings forecast. We have made no changes to our FY24F-26F earnings projections given that the result came in within our expectations.

Maintain NEUTRAL with an unchanged TP of RM3.50. Our **TP** of **RM3.50** is based on an unchanged 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

RETURN STATISTICS

Price @ 27 th Feb 2024 (RM)	3.48
Expected share price return (%)	0.50
Expected dividend yield (%)	2.90
Expected total return (%)	3.39

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.9	-3.6
3 months	-0.9	-13.9
12 months	-5.6	-11.2

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	1,558.80
Issue shares (m)	657.91
Estimated free float (%)	28.37
Market Capitalisation (RM'm)	2,289.53
52-wk price range	RM3.33-RM4.16
3-mth average daily volume (m)	0.51
3-mth average daily value (RM'm)	1.80
Top Shareholders (%)	
Yong Pang Chaun Holdings Sdn	43.74
Kumpulan Wang Persaraan	8.54
Employees Provident Fund Board	6.84

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Outlook. Moving forward, we are optimistic that the demand for Padini's products will remain resilient due to their relatively cheaper prices, as well as various cash assistance introduced in Budget 2024 that could likely boost consumer spending on Padini products in 2HFY24. However, we are cautious about the inflationary pressure that could compress the profit margin, considering the higher services tax. This will not only have a direct impact on operating costs, but we also expect vendors/suppliers are also likely to pass on the higher services tax to the group. The ongoing global supply chain disruption will also likely delay the shipping of product purchases and increase freight costs. Hence, we maintain our **NEUTRAL** call on Padini.

Downside risks include: (1) weaker-than-expected consumer sentiment, (2) greater-than-expected sales mix of low-margin products to boost sales and consumer spending, and (3) greater-than-expected operating costs.



Padini Holdings Berhad: 2QFY24 Results Summary

FYE Jun (RM'm)	Quarterly results					Cumulative results		
	2QFY24	1QFY24	2QFY23	YoY (%)	QoQ (%)	1HFY24	1HFY23	YoY (%)
Revenue	500.1	388.2	509.5	(1.8)	28.8	888.3	888.6	(0.0)
Cost of sales	(309.6)	(248.0)	(308.8)	0.3	24.9	(557.6)	(539.3)	3.4
Gross profit	190.5	140.2	200.7	(5.1)	35.8	330.7	349.2	(5.3)
Other income	4.8	4.5	1.5	226.0	5.1	9.3	8.9	5.3
Administrative expenses	(19.4)	(18.6)	(18.7)	3.5	4.1	(38.0)	(35.3)	7.6
Selling and distribution costs	(99.7)	(85.7)	(81.8)	21.9	16.3	(185.4)	(152.2)	21.8
Operating profit (EBIT)	76.2	40.5	101.7	(25.1)	88.3	116.6	170.5	(31.6)
Net finance income/(cost)	(5.2)	(5.5)	(4.5)	17.3	(5.5)	(10.7)	(9.2)	17.4
Profit before tax (PBT)	70.9	34.9	97.2	(27.0)	103.1	105.9	161.4	(34.4)
Income tax expense	(17.8)	(8.3)	(24.1)	(26.0)	115.8	(26.1)	(39.4)	(33.7)
Profit After tax (PAT)	53.1	26.7	73.1	(27.4)	99.1	79.8	122.0	(34.6)
PATANCI	53.1	26.7	73.1	(27.4)	99.1	79.8	122.0	(34.6)
Core PATANCI	57.5	27.3	78.0	(26.3)	111.1	84.8	125.3	(32.3)
Core EPS (sen)	8.7	4.1	11.9	(26.3)	111.1	12.9	19.0	(32.3)
DPS (sen)	2.5	2.5	2.5	0.0	0.0	5.0	5.0	0.0
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Gross Profit Margin	38.1	36.1	39.4	(1.3)	2.0	37.2	39.3	(2.1)
Operating Profit Margin	15.2	10.4	20.0	(4.7)	4.8	13.1	19.2	(6.1)
PBT Margin	14.2	9.0	19.1	(4.9)	5.2	11.9	18.2	(6.2)
Core PATANCI Margin	11.5	7.0	15.3	(3.8)	4.5	9.5	14.1	(4.6)
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net cash/market cap (%)	32.5	27.3	32.2	0.2	5.2	32.5	32.2	0.2
Effective tax rate (%)	25.1	23.7	24.8	0.4	1.5	24.7	24.4	0.3

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)	14.9	10.3	14.3	12.3	11.1
Net Cash/Market Capitalisation (%)	35.3	26.3	27.5	28.3	29.1
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