



## Padini Holdings Berhad

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

### A Beacon of Hope in Retail

**Upgrade to BUY**

(Previously NEUTRAL)

**Revised Target Price: RM4.30**

(Previously RM3.50)

#### KEY INVESTMENT HIGHLIGHTS

- **Above expectation**
- **Special dividend declared in line with robust revenue**
- **3QFY24 revenue boosted by festive celebrations**
- **Raised FY24-26F earnings forecast**
- **Upgrade to BUY (previously NEUTRAL) with a higher TP of RM4.30 (previously RM3.50)**

**Above expectation.** Padini's 9MFY24 core PATANCI of RM130.6m (excluding one-off items of +RM10.3m) came in above our full-year FY24F projection at 81.6% of our full year forecast despite 9MFY24 revenue came in within forecast. This was primarily due to lower-than-expected administrative, selling, and distribution costs. Nevertheless, the core PATANCI came in within consensus FY24F forecast, at 77.7%.

**A special dividend declared in line with robust revenue.** The group declared a 4th single-tier interim dividend of 2.5 sen/share and special single-tier dividend of 1.5 sen/share with a payable date in Jun 2024. This brings the total FY24 dividend to 11.5 sen/ share, matching the FY23 total dividend of 11.5 sen/share.

**3QFY24 revenue boosted by festive celebrations.** The group's 3QFY24 revenue rose by +25.8%yoy to RM575.4m, driven by CNY, early Raya and school holiday sales. Core PATANCI increased by +2.3%yoy to RM45.8m, as higher sales offset increased operating costs and normalized product margins. On a quarterly basis, core PATANCI fell by -20.4%qoq to RM45.8m due to bonus payouts, normalized gross profit margin of 35.3% (-2.8ppt yoy), and higher operating costs that outweighed the +15.1%qoq revenue increase.

**Strategy to sell value products within guided gross profit margin.** Cumulatively, the group's core PATANCI reduced -23.2%yoy to RM130.6m, despite an +8.8%yoy revenue increase to RM1.46b. This decline was mainly due to the strategy of boosting sales volume at slightly lower product margins, coupled with higher staff and selling and distribution costs.

**Raised FY24-26F earnings forecast.** Given that earnings came in above expectation, we raised our FY24-26F earnings projection by +9.2%/4.4%/4.9% respectively. This was after factoring in: (1) higher sales volumes driven by the group's ongoing efforts to offer value yet competitively priced products, (2) lower selling and distribution costs, and (3) reduced administrative costs with a lower number of employees and marginal salary hikes in FY24.

#### RETURN STATISTICS

Price @ 30 <sup>th</sup> May 2024 (RM)	3.87
Expected share price return (%)	+11.1
Expected dividend yield (%)	+3.0
Expected total return (%)	+14.1

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	8.1	5.9
3 months	12.8	10.1
12 months	6.2	-7.8

#### INVESTMENT STATISTICS

FYE Jun	2024F	2025F	2026F
Revenue	1,909.0	1,987.1	2,069.4
EBITDA	355.0	383.8	414.4
Profit before tax (PBT)	231.5	258.3	286.9
Core PATANCI	174.8	195.0	216.6
Core EPS (sen)	26.6	29.6	32.9
DPS (sen)	11.5	12.0	12.0
Dividend Yield (%)	3.0	3.1	3.1

#### KEY STATISTICS


FBM KLCI	1,604.26
Issue shares (m)	657.91
Estimated free float (%)	27.23
Market Capitalisation (RM'm)	2,546.11
52-wk price range	RM3.33-RM4.16
3-mth average daily volume (m)	0.56
3-mth average daily value (RM'm)	2.01
Top Shareholders (%)	
Yong Pang Chaun Holdings Sdn	43.74
Kumpulan Wang Persaraan	9.65
Employees Provident Fund Board	6.87

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**Upgrade to BUY (previously NEUTRAL) with a higher TP of RM4.30 (previously RM3.50).** We revised our valuation to a three-year forward consumer discretionary mean PER of 14.5x from the -0.5SD of the sector's three-year forward PE for consumer discretionary of 12.3x in view of the better mid-to-long term prospect. Our TP is revised to **RM4.30**, based on an revised PER of 14.5x (3-year forward consumer discretionary mean PER) pegged to Padini's FY25F EPS of 29.6 sen/share.

**Outlook.** We are optimistic about Padini's FY25F outlook, driven by solid demand for its competitively priced products as we believe that Padini is well-positioned from the consumers are shifting towards value fashion products in the current inflationary environment. This demand is further supported by a stable job market, progressive wage policies for public servants, and EPF Account 3 withdrawals. We also like the group's strong net cash position of RM722m that could protect against potential downside risks. Hence, we upgrade our recommendation on Padini to **BUY** from Neutral.

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

### Padini Holdings Berhad: 3QFY24 Results Summary

FYE Jun (RM'm)	Quarterly results					Cumulative results		
	3QFY24	2QFY24	3QFY23	YoY (%)	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	575.4	500.1	457.2	25.8	15.1	1,463.7	1,345.8	8.8
Cost of sales	(372.2)	(309.6)	(274.8)	35.4	20.2	(929.8)	(814.1)	14.2
<b>Gross profit</b>	<b>203.2</b>	<b>190.5</b>	<b>182.5</b>	<b>11.4</b>	<b>6.7</b>	<b>533.9</b>	<b>531.7</b>	<b>0.4</b>
Other income	8.9	4.8	4.8	85.2	85.8	18.2	13.7	33.3
Administrative expenses	(33.1)	(19.4)	(30.7)	7.7	70.7	(71.0)	(66.0)	7.6
Selling and distribution costs	(119.3)	(99.7)	(94.2)	26.6	19.6	(304.7)	(246.4)	23.7
<b>Operating profit (EBIT)</b>	<b>59.8</b>	<b>76.2</b>	<b>62.3</b>	<b>(4.1)</b>	<b>(21.5)</b>	<b>176.4</b>	<b>232.9</b>	<b>(24.3)</b>
Net finance income/(cost)	(5.1)	(5.2)	(4.3)	18.8	(2.4)	(15.8)	(13.4)	17.8
<b>Profit before tax (PBT)</b>	<b>54.7</b>	<b>70.9</b>	<b>58.1</b>	<b>(5.8)</b>	<b>(22.9)</b>	<b>160.6</b>	<b>219.5</b>	<b>(26.8)</b>
Income tax expense	(14.2)	(17.8)	(14.7)	(3.6)	(20.6)	(40.3)	(54.1)	(25.5)
<b>Profit After tax (PAT)</b>	<b>40.5</b>	<b>53.1</b>	<b>43.4</b>	<b>(6.6)</b>	<b>(23.7)</b>	<b>120.3</b>	<b>165.4</b>	<b>(27.3)</b>
PATANCI	40.5	53.1	43.4	(6.6)	(23.7)	120.3	165.4	(27.3)
<b>Core PATANCI</b>	<b>45.8</b>	<b>57.5</b>	<b>44.8</b>	<b>2.3</b>	<b>(20.4)</b>	<b>130.6</b>	<b>170.0</b>	<b>(23.2)</b>
Core EPS (sen)	7.0	8.7	6.8	2.3	(20.4)	19.8	25.8	(23.2)
DPS (sen)	2.5	2.5	2.5	0.0	0.0	7.5	7.5	0.0
<b>Growth &amp; Margin (%)</b>				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Gross Profit Margin	35.3	38.1	39.9	(4.6)	(2.8)	36.5	39.5	(3.0)
Operating Profit Margin	10.4	15.2	13.6	(3.2)	(4.8)	12.1	17.3	(5.3)
PBT Margin	9.5	14.2	12.7	(3.2)	(4.7)	11.0	16.3	(5.3)
Core PATANCI Margin	8.0	11.5	9.8	(1.8)	(3.5)	8.9	12.6	(3.7)
<b>Ratios &amp; Valuation</b>				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Net cash/market cap (%)	31.6	29.2	24.6	6.9	2.4	31.6	24.6	6.9
Effective tax rate (%)	25.9	25.1	25.3	0.6	0.7	25.1	24.6	0.4

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
<b>Revenue</b>	<b>1,319.1</b>	<b>1,822.1</b>	<b>1,909.0</b>	<b>1,987.1</b>	<b>2,069.4</b>
Cost of sales	(811.6)	(1,104.4)	(1,205.6)	(1,242.4)	(1,280.9)
<b>Gross Profit</b>	<b>507.5</b>	<b>717.8</b>	<b>703.4</b>	<b>744.7</b>	<b>788.5</b>
Other Income	27.4	9.8	10.2	10.7	11.1
Selling and distribution costs	(259.6)	(344.4)	(389.7)	(401.6)	(414.1)
Administrative expenses	(61.8)	(82.3)	(89.0)	(93.1)	(97.3)
<b>EBITDA</b>	<b>330.0</b>	<b>416.8</b>	<b>355.0</b>	<b>383.8</b>	<b>414.4</b>
<b>EBIT</b>	<b>213.5</b>	<b>300.8</b>	<b>234.9</b>	<b>260.7</b>	<b>288.2</b>
Net finance (expenses)/income	(8.4)	(4.9)	(3.4)	(2.4)	(1.3)
<b>Profit before tax (PBT)</b>	<b>205.1</b>	<b>295.9</b>	<b>231.5</b>	<b>258.3</b>	<b>286.9</b>
Profit After tax (PAT)	154.1	222.7	174.8	195.0	216.6
<b>Core PATANCI</b>	<b>156.0</b>	<b>225.1</b>	<b>174.8</b>	<b>195.0</b>	<b>216.6</b>
Core EPS (sen)	23.7	34.2	26.6	29.6	32.9
DPS (sen)	10.0	11.5	11.5	12.0	12.0

<b>Balance Sheet (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Property, plant and equipment	76.1	86.3	108.0	130.4	153.4
Intangible assets	3.3	3.9	4.8	5.7	6.9
<b>Total Non-current assets</b>	<b>490.1</b>	<b>561.6</b>	<b>635.6</b>	<b>713.7</b>	<b>796.6</b>
Inventories	137.3	433.2	396.4	408.4	421.1
ST - Trade and other receivables	56.5	66.0	78.5	81.7	85.0
Cash and cash equivalents	808.9	605.3	640.5	660.0	680.5
<b>Total current assets</b>	<b>1,003.9</b>	<b>1,104.5</b>	<b>1,115.4</b>	<b>1,150.1</b>	<b>1,186.7</b>
<b>Total Assets</b>	<b>1,494.0</b>	<b>1,666.1</b>	<b>1,750.9</b>	<b>1,863.8</b>	<b>1,983.3</b>
<b>Total Equity</b>	<b>891.1</b>	<b>1,040.1</b>	<b>1,096.9</b>	<b>1,217.0</b>	<b>1,342.8</b>
LT Loans and borrowings	0.0	0.0	0.0	0.0	0.0
<b>Total Non-current liabilities</b>	<b>325.9</b>	<b>379.0</b>	<b>373.9</b>	<b>368.7</b>	<b>363.6</b>
ST Trade and other payables	178.3	125.2	165.2	170.2	175.5
ST Loans and borrowings	0.0	3.2	3.2	3.2	3.2
<b>Total Current Liabilities</b>	<b>277.1</b>	<b>247.0</b>	<b>280.1</b>	<b>278.1</b>	<b>276.8</b>
<b>Total Liabilities</b>	<b>603.0</b>	<b>626.0</b>	<b>654.0</b>	<b>646.8</b>	<b>640.4</b>

<b>Cash Flow Statement (RM'm)</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Pretax profit	205.1	295.9	231.5	258.3	286.9
Cash flow from operations	474.0	(19.2)	260.9	253.7	260.9
Cash flow from investing	(131.4)	(109.8)	(139.5)	(145.4)	(151.6)
Cash flow from financing	(156.6)	(180.3)	(86.2)	(88.8)	(88.8)
<b>Net cash flow</b>	<b>186.0</b>	<b>(309.4)</b>	<b>35.2</b>	<b>19.5</b>	<b>20.5</b>
(+/-) Adjustments	3.1	4.6	0.0	0.0	0.0
<b>Net cash/(debt) b/f</b>	<b>523.8</b>	<b>808.9</b>	<b>605.3</b>	<b>640.5</b>	<b>660.0</b>
<b>Net cash/(debt) c/f</b>	<b>808.9</b>	<b>605.3</b>	<b>640.5</b>	<b>660.0</b>	<b>680.5</b>

<b>Key Metrics</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Effective tax rate (%)	24.9	24.7	24.5	24.5	24.5
PER (x)	16.5	11.4	14.6	13.1	11.8
Net Cash/Market Capitalisation (%)	31.8	23.6	25.0	25.8	26.6

<b>Profitability Margins</b>	<b>2022A</b>	<b>2023A</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Gross Profit Margin (%)	38.5	39.4	36.8	37.5	38.1
EBITDA Margin (%)	25.0	22.9	18.6	19.3	20.0
EBIT Margin (%)	16.2	16.5	12.3	13.1	13.9
Core PATANCI Margin (%)	11.8	12.4	9.2	9.8	10.5

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