



Padini Holdings Berhad

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

Maintain BUY

On the Right Track

Unchanged Target Price: RM4.30

KEY INVESTMENT HIGHLIGHTS

- **Sales breakdown across regions and product categories**
- **Inventory management on track**
- **Improved SSSG and store optimization**
- **Potential product price adjustments to improve gross profit margin**
- **Maintain BUY with an unchanegd TP of RM4.30**


We recently attended Padini's virtual briefing and maintain an optimistic outlook on the company's future. Key highlights are as follows:-

Sales breakdown across regions and product categories. Malaysia outlets contributed the highest revenue in 9MFY24 (95.3%), followed by own-managed overseas outlets (2.4%), overseas franchise sales (1%), Malaysia consignment (0.5%), and e-commerce (0.5%). Within Malaysia outlets, ladies' categories were the largest contributors (44%). Kids' categories contribution increased by +1ppt yoy to 16%, while men's categories decreased by -1ppt yoy to 40%.

Inventory management on track. Inventory stood at 113 days in 9MFY24, compared to 111 days in 9MFY23. This was within the management target of an average of 3-4 months of inventory days to meet customer demand. Note that inventory includes display products.

Improved SSSG and store optimization. Padini recorded a higher SSSG of 19% in 3QFY24 compared to -5% in 2QFY23. Padini closed down 1 FSS Vincci Jusco Cheras Selatan store and 1 own-managed overseas store in 3QFY24, bringing the total stores to 152 in 3QFY24 compared to 154 in 2QFY24.

Potential product price adjustments to improve gross profit margin. The lower gross profit margin of 35.3% (-4.6ppt yoy; -2.8%ppt qoq) in 3QFY24 was primarily due to stock clearance and higher purchase costs. Moving forward, management plans to gradually increase product prices to offset higher costs and improve product margins.

Maintain BUY with an unchanged TP of RM4.30. We make no changes to our earnings forecast post analyst briefing. Our TP is unchanged at **RM4.30**, based on PER of 14.5x (3-year forward consumer discretionary mean PER) pegged to Padini's FY25F EPS of 29.6 sen/share. We maintain **BUY** call on Padini as we remain optimistic about the solid demand for competitively priced Padini products, supported by a stable job market and progressive wage hikes for public servants. We also favor the group's strong net cash position of RM722m, which could mitigate potential downside risks and seize investment opportunities. **Downside risks** are (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. 

RETURN STATISTICS

| | |
|--|--------------|
| Price @ 31 st May 2024 (RM) | 3.78 |
| Expected share price return (%) | 13.7 |
| Expected dividend yield (%) | 3.0 |
| Expected total return (%) | 16.76 |

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 | 3.2 | 3.2 |

KEY STATISTICS

| | |
|----------------------------------|---------------|
| FBM KLCI | 1,596.68 |
| 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 |

Analyst

Genevieve Ng Pei Fen
genevieve.ng@midf.com.my

FINANCIAL SUMMARY

| Income Statement (RM'm) | 2022A | 2023A | 2024F | 2025F | 2026F |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 1,319.1 | 1,822.1 | 1,909.0 | 1,987.1 | 2,069.4 |
| Cost of sales | (811.6) | (1,104.4) | (1,205.6) | (1,242.4) | (1,280.9) |
| Gross Profit | 507.5 | 717.8 | 703.4 | 744.7 | 788.5 |
| 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) |
| EBITDA | 330.0 | 416.8 | 355.0 | 383.8 | 414.4 |
| EBIT | 213.5 | 300.8 | 234.9 | 260.7 | 288.2 |
| Net finance (expenses)/income | (8.4) | (4.9) | (3.4) | (2.4) | (1.3) |
| Profit before tax (PBT) | 205.1 | 295.9 | 231.5 | 258.3 | 286.9 |
| Profit After tax (PAT) | 154.1 | 222.7 | 174.8 | 195.0 | 216.6 |
| Core PATANCI | 156.0 | 225.1 | 174.8 | 195.0 | 216.6 |
| 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 |

| Balance Sheet (RM'm) | 2022A | 2023A | 2024F | 2025F | 2026F |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| 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 |
| Total Non-current assets | 490.1 | 561.6 | 635.6 | 713.7 | 796.6 |
| 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 |
| Total current assets | 1,003.9 | 1,104.5 | 1,115.4 | 1,150.1 | 1,186.7 |
| Total Assets | 1,494.0 | 1,666.1 | 1,750.9 | 1,863.8 | 1,983.3 |
| Total Equity | 891.1 | 1,040.1 | 1,096.9 | 1,217.0 | 1,342.8 |
| LT Loans and borrowings | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Non-current liabilities | 325.9 | 379.0 | 373.9 | 368.7 | 363.6 |
| 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 |
| Total Current Liabilities | 277.1 | 247.0 | 280.1 | 278.1 | 276.8 |
| Total Liabilities | 603.0 | 626.0 | 654.0 | 646.8 | 640.4 |

| Cash Flow Statement (RM'm) | 2022A | 2023A | 2024F | 2025F | 2026F |
|-----------------------------------|--------------|----------------|--------------|--------------|--------------|
| 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) |
| Net cash flow | 186.0 | (309.4) | 35.2 | 19.5 | 20.5 |
| (+/-) Adjustments | 3.1 | 4.6 | 0.0 | 0.0 | 0.0 |
| Net cash/(debt) b/f | 523.8 | 808.9 | 605.3 | 640.5 | 660.0 |
| Net cash/(debt) c/f | 808.9 | 605.3 | 640.5 | 660.0 | 680.5 |

| Key Metrics | 2022A | 2023A | 2024F | 2025F | 2026F |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Effective tax rate (%) | 24.9 | 24.7 | 24.5 | 24.5 | 24.5 |
| PER (x) | 16.1 | 11.2 | 14.2 | 12.8 | 11.5 |
| Net Cash/Market Capitalisation (%) | 32.5 | 24.2 | 25.6 | 26.4 | 27.2 |

| Profitability Margins | 2022A | 2023A | 2024F | 2025F | 2026F |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| 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

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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