

30 May 2023

Padini Holdings

Healthy Top Line, Pinched by Cost

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PADINI's 9MFY23 missed our forecast but beat market expectation. A healthy top line growth was partially offset by higher cost. Its outlook will remain strong with sustained consumer spending and the return of tourists. We cut our FY23-24F net profit forecasts by 5% and 3%, respectively, trim our TP by 3% to RM5.80 (from RM6.00) but maintain our OUTPERFORM call.

Below expectations. 9MFY23 net profit missed our expectation at only 70% of our full-year forecast but beat market expectation at 80% of the full-year consensus estimate. The variation against our forecast came largely from higher operating and administrative cost.

YoY, 9MFY23 revenue rose 61% driven by strong sales and higher store traffic at outlets on the economy reopening. Net profit more than doubled on a better product mix that was skewed towards higher-margin products, and improved cost efficiency on higher sales.

QoQ, 3QFY23 revenue declined by 10% from a high base during the preceding quarter due to Christmas and early Chinese New Year festive shopping. Net profit decreased by a larger 41%, mainly due to higher administrative cost such as bonuses and salary adjustments.

Outlook. There has not been a significant slowdown in consumer spending despite the high inflation (thanks partly to government subsidies on fuel and food items, cash handouts to the B40 group and a relatively stable job market). Strong demand for apparel and footwear remains, as it appears that there is still room for consumers to replenish their wardrobes. An additional earnings kicker will come from the return of international tourists.

Forecasts. We cut our FY23-24F earnings forecasts by 5% and 3%, respectively, to reflect higher operating cost.

We like PADINI for: (i) it being a beneficiary of consumers replenishing their wardrobes for their return to offices and schools, and social functions, (ii) the strong spending power of its primary target customers (i.e. B40 and M40 group) given their healthy household balance sheets, and (iii) its strong net cash position enabling it to purchase inventory ahead of price hikes and potential supply disruptions.

We trim our TP by 3% to RM5.80 (from RM6.00) based on an unchanged 15x FY24F PER, in line with the sector's forward PER. There is no change to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). Maintain **OUTPERFORM**.

Risks to our call include: (i) competition from existing and new players, (ii) sustained high inflation eventually erode consumers' spending power, stalling consumption including apparel and footwear, and (iii) rising textile prices.

OUTPERFORM ↔

Price: RM3.70
Target Price: RM5.80 ↓

Share Price Performance



KLCI 1,404.93
YTD KLCI chg -6.1%
YTD stock price chg 11.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PAD MK Equity
Market Cap (RM m)	2,467.2
Shares Outstanding	657.9
52-week range (H)	4.18
52-week range (L)	2.91
3-mth avg daily vol:	650,238
Free Float	35%
Beta	0.7

Major Shareholders

Yong Pang Chaun Holdings	43.7%
Kumpulan Wang Persaraan	
Diperbadankan	7.7%
Employees Provident Fund Board	5.0%

Summary Earnings Table

FY Jun (RM m)	2022A	2023F	2024F
Turnover	1,319	1,804	2,001
EBIT	224	324	353
PBT	205	300	338
Net Profit (NP)	154	225	254
Core Net Profit	154	225	254
Consensus (NP)	-	207	220
Earnings Revision	-	-5%	-3%
EPS (sen)	23.4	34.2	38.6
EPS growth (%)	185.1	45.9	12.8
NDPS (sen)	10.0	10.0	10.0
BV/Share (RM)	1.4	1.6	1.9
PER (x)	15.8	11.0	9.7
P/BV (x)	2.7	2.3	2.0
Gearing (x)	N.Cash	N.Cash	N.Cash
Net. Dvd Yield (%)	2.7	2.7	2.7



30 May 2023

Key Assumptions			
	FY22A	FY23F	FY24F
Av. No. of Padini Stores	144	149	152
Chg. In Av. No. of Padini Stores	-	5	3
Same-Store Sales (RMm)	9.3	12.3	13.3
Same-Store Sales Growth (%)	+32	+33	+8

Key assumptions:

1. Our estimate of same-store sale in FY22 is c.RM9.3m, and we expect same-store sales growth of 33% for FY23F and 8% for FY24F.

Results Highlights								
FYE June (RM m)	3Q23	2Q23	QoQ Chg	3Q22	YoY Chg	9M23	9M22	YoY Chg
Turnover	457.2	509.5	-10.3%	329.3	38.8%	1,345.8	837.9	60.6%
Gross Profit	182.5	200.7	-9.1%	130.0	40.4%	531.7	316.4	68.1%
Operating Expenses	(98.6)	(74.2)	32.9%	(55.4)	78.0%	(231.9)	(139.8)	66.0%
EBITDA	88.7	128.0	-30.7%	79.8	-100.4%	313.4	204.7	53.1%
EBIT	62.3	101.7	-38.7%	47.2	-100.8%	232.9	117.0	99.0%
PBT/(LBT)	58.1	97.2	-40.3%	41.9	38.6%	219.4	102.9	113.3%
Taxation	(14.7)	(24.1)	-39.1%	(9.3)	58.4%	(54.1)	(26.3)	105.9%
Net Profit	43.4	73.1	-40.7%	32.6	33.0%	165.4	76.6	115.8%
Gross Margin	39.9%	39.4%		39.5%		39.5%	37.8%	
Opex Margin	21.6%	14.6%		16.8%		17.2%	16.7%	
EBITDA margin	19.4%	25.1%		24.2%		23.3%	24.4%	
PBT Margin	12.7%	19.1%		12.7%		16.3%	12.3%	
PATAMI Margin	9.5%	14.4%		9.9%		12.3%	9.1%	
ETR	25.3%	24.8%		22.1%		24.6%	25.5%	

Source: Company, Kenanga Research

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30 May 2023

Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
CONSUMER																	
7-ELEVEN MALAYSIA HOLDINGS BHD	OP	2.04	2.38	16.67%	2,264.5	N	12/2023	6.7	8.5	11.5%	26.3%	30.4	24.0	16.4	57.0%	2.7	1.3%
AEON CO. (M) BHD	OP	1.33	1.80	35.34%	1,867.3	Y	12/2023	9.1	10.0	15.2%	9.4%	14.6	13.3	1.1	7.3%	4.0	3.0%
DUTCH LADY MILK INDUSTRIES BHD	MP	25.52	26.99	5.76%	1,633.3	Y	12/2023	116.6	122.7	-16.4%	5.2%	21.9	20.8	3.4	16.3%	60.0	2.4%
FRASER & NEAVE HOLDINGS BHD	OP	25.92	28.44	9.72%	9,506.9	Y	09/2023	118.6	129.1	13.5%	8.8%	21.9	20.1	3.0	14.1%	62.5	2.4%
MR D.I.Y. GROUP (M) BHD	MP	1.61	1.67	3.73%	15,187.8	Y	12/2023	6.3	6.4	24.8%	2.7%	25.7	25.0	9.1	38.1%	4.0	2.5%
MYNEWS HOLDINGS BHD	UP	0.465	0.410	-11.83%	317.2	N	10/2023	1.0	2.2	-135.8%	127.7%	48.8	21.4	1.4	2.8%	0.0	0.0%
NESTLE (MALAYSIA) BHD	UP	132.60	121.18	-8.61%	31,094.7	Y	12/2023	303.0	305.1	14.6%	0.7%	43.8	43.5	44.2	106.9%	270.0	2.0%
PADINI HOLDINGS BHD	OP	3.75	6.00	60.00%	2,467.2	Y	06/2023	34.2	38.6	46.0%	12.8%	11.0	9.7	2.5	24.1%	10.0	2.7%
POWER ROOT BHD	OP	2.10	2.70	28.57%	907.4	Y	03/2024	14.3	15.2	0.8%	6.0%	14.7	13.8	2.6	18.1%	12.0	5.7%
QL RESOURCES BHD	OP	5.56	6.66	19.78%	13,531.1	Y	03/2023	14.3	17.7	60.3%	23.5%	38.8	31.4	4.3	12.1%	6.0	1.1%
SECTOR AGGREGATE					78,777.4					23.0%	8.2%	29.7	27.4	6.2	21.0%		2.3%
TOBACCO PRODUCTS & BREWERIES																	
BRITISH AMERICAN TOBACCO (M) BHD	MP	10.82	10.00	-7.58%	3,089.4	N	12/2023	73.0	74.7	-20.6%	2.4%	14.8	14.5	8.0	54.5%	69.3	6.4%
CARLSBERG BREWERY MALAYSIA BHD	MP	21.10	23.50	11.37%	6,451.3	N	12/2023	113.7	122.8	13.0%	8.0%	18.6	17.2	32.7	203.3%	100.0	4.7%
HEINEKEN MALAYSIA BHD	MP	27.00	28.60	5.93%	8,156.6	N	12/2023	144.2	150.4	5.5%	4.3%	18.7	18.0	20.9	111.1%	144.2	5.3%
Sector Aggregate					17,697.4					0.9%	5.2%	17.8	16.9	20.5	123.0%		5.5%

Source: Bloomberg, Kenanga Research

30 May 2023

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	☆	
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
SPECIFIC	Product Quality & Safety	★	★	★		
	Effluent/Waste Management	★	★	★		
	Digitalisation & Innovation	★	★	★	☆	
	Use of Biodegradable Materials	★	★	★	☆	
	Supply Chain Management	★	★	★		
	Energy Efficiency	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★★ +5% premium to TP

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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