

02 June 2023

Padini Holdings

Revenge No More, But Still Spending

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PADINI is optimistic of continued top line growth in 2QFY23 driven by: (i) a reasonably robust Hari Raya Adifil-fitri shopping period, (ii) sustained footfall in its outlets, and (iii) stores expansion. Though feeling the pinch from positive rental reversions and rising administrative cost, this is cushioned by the stabilising cost of apparel and footwear. Hence, we maintain our forecasts, TP of RM5.80 and OUTPERFORM call.

We came away from PADINI's post-results briefing feeling assured of its near-term prospects. The key takeaways are as follows:

- PADINI is mindful that the "revenge spending" by consumers on apparel will eventually wane. However, it is still optimistic over continued top line growth in 2QFY23 driven by: (i) a reasonably good Hari Raya Adifil-fitri shopping period and sustained footfall in its outlets thereafter, and (ii) stores expansion.
- In FY23, PADINI will open 2-3 stores in Malaysia and two stores in Cambodia. Meanwhile, its expansion plan in Thailand will be on hold due to the highly competitive apparel retailing industry there. PADINI guided that it will continue to increase its outlets (a combination of Padini and Brands Outlets). We conservatively assumed an addition of 3 stores in FY24.
- PADINI is feeling the pinch from positive rental reversions and rising administrative cost. However, the good news is that the cost of apparel and footwear has stabilised. It is confident that it can keep its gross profit margin at c.39% which is in line with our assumption.

Forecasts. Maintained.

We maintain our TP of RM5.80 based on 15x FY24F PER which is 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).

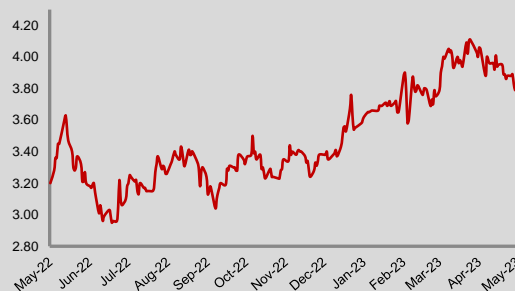
We like PADINI for: (i) it being a beneficiary of consumers replenishing their wardrobes for their return to offices and schools, and social activities, (ii) the strong spending power of its primary target customers, i.e. M40 group, given their healthy household balance sheets, and (iii) its strong net cash position enabling it to purchase inventory ahead of price hikes and potential supply disruptions. 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: RM3.71
Target Price: RM5.80 ↔

Share Price Performance



KLCI 1,383.01
YTD KLCI chg -7.5%
YTD stock price chg 10.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PAD MK Equity
Market Cap (RM m)	2,440.8
Shares Outstanding	657.9
52-week range (H)	4.18
52-week range (L)	2.91
3-mth avg daily vol:	659,552
Free Float	35%
Beta	0.7

Major Shareholders

Yong Pang Chaun Holdings	43.7%
Kumpulan Wang PersaraanDiperbadankan	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	154	225	254
Consensus	-	216	228
Earnings Revision	-	-	-
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)	16.7	11.4	10.1
P/BV (x)	2.9	2.4	2.1
Gearing (x)	N.Cash	N.Cash	N.Cash
Net. Dvd Yield (%)	2.6	2.6	2.6



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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.

Income Statement						Financial Data & Ratios					
FY Jun (RM m)	2020A	2021A	2022F	2023F	2024F	FY Jun	2020A	2021A	2022F	2023F	2024F
Revenue	1,354.7	1,029.4	1,319.1	1,803.6	2,001.1	Growth (%)					
EBIT	278.5	219.6	341.0	444.1	476.1	Revenue	-24.0	-24.0	28.1	36.7	10.9
Interest Exp	(26.2)	(21.1)	(19.3)	(24.1)	(15.0)	EBIT	26.0	-21.2	55.3	30.2	7.2
PBT	107.3	74.1	205.1	299.9	338.2	Pre-tax Income	-51.1	-30.9	176.6	46.2	12.8
Taxation	(32.1)	(20.1)	(51.0)	(75.0)	(84.5)	Core Net Income	-53.1	-28.1	185.1	45.9	12.8
Net Profit	75.2	54.0	154.1	224.9	253.6						
Core Net Profit	75.2	54.0	154.1	224.9	253.6	Profitability (%)					
						EBITDA Margin	20.6	21.3	25.8	24.6	23.8
						EBIT Margin	7.9	7.2	15.5	15.5	15.5
						PBT Margin	5.5	5.3	11.7	12.5	12.7
						Net Margin	5.5	5.3	11.7	12.5	12.7
						Effective Tax Rate	30.0	27.1	24.9	25.0	25.0
						ROA	6.4	4.1	11.1	14.9	15.1
						ROE	10.0	6.9	18.2	23.2	22.2
						DuPont Analysis					
						Net Margin (%)	5.5	5.3	11.7	12.5	12.7
						Assets Turnover (x)	1.2	0.8	1.0	1.2	1.2
						Leverage Factor (x)	1.6	1.7	1.6	1.6	1.5
						ROE (%)	10.0	6.9	18.2	23.2	22.2
						Leverage					
						Debt/Asset (x)	0.0	-	-	0.0	0.0
						Debt/Equity (x)	0.0	-	-	0.0	0.0
						Net Debt/(Cash)	(9)	(199)	(483)	(662)	(932)
						Net Debt/Equity (x)	(0.6)	(0.7)	(0.9)	(0.9)	(1.0)
						Valuations					
						Core EPS (sen)	11.4	8.2	23.4	34.2	38.6
						DPS (sen)	7.5	2.5	10.0	10.0	10.0
						BVPS (RM)	116.4	121.9	135.4	159.6	188.2
						Core PER (x)	34.1	47.5	34.1	47.5	16.7
						N. Div. Yield (%)	1.9	0.6	2.6	2.6	2.6
						PBV (x)	3.4	3.2	2.9	2.4	2.1

Source: Kenanga Research

Peer Table 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.				
CONSUMER																	
7-ELEVEN MALAYSIA HOLDINGS BHD	OP	2.00	2.38	19.0%	2,220.1	N	12/2023	6.7	8.5	11.5%	26.3%	29.8	23.6	16.1	57.0%	2.7	1.4%
AEON CO. (M) BHD	OP	1.30	1.80	38.5%	1,825.2	Y	12/2023	9.1	10.0	15.2%	9.4%	14.2	13.0	1.0	7.3%	4.0	3.1%
DUTCH LADY MILK INDUSTRIES BHD	MP	25.08	26.99	7.6%	1,605.1	Y	12/2023	116.6	122.7	-16.4%	5.2%	21.5	20.4	3.4	16.3%	60.0	2.4%
FRASER & NEAVE HOLDINGS BHD	OP	25.40	28.44	12.0%	9,316.2	Y	09/2023	118.6	129.1	13.5%	8.8%	21.4	19.7	2.9	14.1%	62.5	2.5%
MR D.I.Y.	MP	1.55	1.67	7.7%	14,621.8	Y	12/2023	6.3	6.4	24.8%	2.7%	24.7	24.1	8.8	38.1%	4.0	2.6%
MYNEWS HOLDINGS BHD	UP	0.465	0.410	-11.8%	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	134.40	121.18	-9.8%	31,516.8	Y	12/2023	303.0	305.1	14.6%	0.7%	44.4	44.0	44.8	106.9%	270.0	2.0%
PADINI HOLDINGS BHD	OP	3.71	5.80	56.3%	2,440.8	Y	06/2023	34.2	38.6	46.0%	12.8%	10.9	9.6	2.5	24.1%	10.0	2.7%
POWER ROOT BHD	OP	2.03	2.70	33.0%	887.8	Y	03/2024	14.3	15.2	0.8%	6.0%	14.2	13.4	2.5	18.1%	12.0	5.9%
QL RESOURCES BHD	OP	5.45	6.29	15.4%	13,263.4	Y	03/2024	16.6	17.9	16.3%	7.8%	32.9	30.5	4.0	12.9%	8.4	1.5%
Sector Aggregate					78,014.5					18.5%	6.2%	28.8	27.1	6.1	21.1%		2.4%
TOBACCO PRODUCTS & BREWERIES																	
BRITISH AMERICAN TOBACCO (M) BHD	MP	10.26	10.00	-2.5%	2,929.5	N	12/2023	73.0	74.7	-20.6%	2.4%	14.1	13.7	7.6	54.5%	69.3	6.8%
CARLSBERG BREWERY MALAYSIA BHD	MP	20.98	23.50	12.0%	6,414.6	N	12/2023	113.7	122.8	13.0%	8.0%	18.4	17.1	32.5	203.3%	100.0	4.8%
HEINEKEN MALAYSIA BHD	MP	26.76	28.60	6.9%	8,084.1	N	12/2023	144.2	150.4	5.5%	4.3%	18.6	17.8	20.7	111.1%	144.2	5.4%
Sector Aggregate					17,428.3					0.9%	5.2%	17.5	16.7	20.2	123.0%		5.6%

Source: Kenanga Research

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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
 ★★★★★ +10% 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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