

04 March 2024

# Padini Holdings

## Defending Margins Amidst Soft Volumes

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PADINI hopes to maintain its gross profit margin at 38% via optimisation of inventory, stores and product offerings, instead of price hikes that will hurt demand. It is considering expanding value-for-money offerings within its existing segments, which have been well received. We maintain our forecasts, TP of RM3.20 and UNDERPERFORM call.

We walked away from PADINI's post-results briefing feeling mixed about its near-term prospects. The key takeaways are as follows:

- Hoping to sustain its GP margin at 38%.** PADINI anticipates continued subdued consumer sentiment, especially with the expanded scope of the sales and service tax (SST). Despite these challenges, it hopes to maintain its gross profit margin at 38% by not raising product prices amidst rising product costs. It hopes to achieve this by (i) enhancing inventory management ahead of the upcoming Raya festival via the optimisation of its inventory levels to three months (from four months), (ii) focusing on high-volume value-for-money products tailored to the local needs, (iii) optimising store and product offerings, and (iv) exploring alternative sourcing in China. A tad more conservative, we are assuming a gross profit margin of 37%, having considered that its targeted M40 customers would likely be impacted by the higher SST and impending subsidy rationalisation, coupled with the uptrend in its selling and distribution costs (+22% YoY to RM185m in 1HFY24) due to the persistent rise in staff expenses.
- Widening its products offering range.** The group currently has no plans to expand its portfolio of partnership names, having already secured several well-known brands such as Snoopy, Peanuts, and Garfield, which have been performing reasonably well since their introduction to stores. Instead, PADINI is considering expanding value-for-money offerings within its existing segments, particularly in activewear and innerwear, which have been well received.
- Taking a cautious approach on store expansion plan.** PADINI has refrained from setting a specific target for new store openings in Malaysia for FY24, given the prevailing subdued consumer sentiment. Instead, it now focus on optimising underperforming stores that make up less than 10% of its 140 existing stores. Our forecasts assume a net addition of two stores each in FY24-25.

**Forecasts.** Maintained.

**Valuations.** We also maintain our TP of RM3.20 based on an unchanged targeted 12x FY25F PER, at a 20% discount to the segment's average historical forward PER of 15x to account for the weakened spending power of its target customers, i.e. the M40 group. There is no change to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

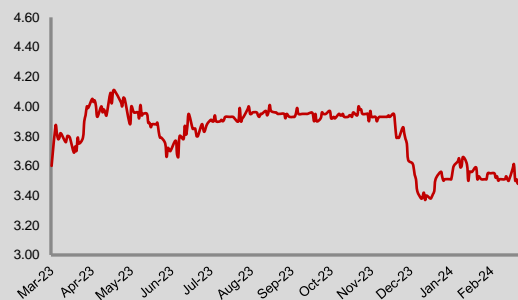
**Investment case.** We remain cautious on PADINI given: (i) sustained high inflation and the impending subsidy rationalisation, (ii) its target customers in the M40 group that will be the hardest hit by the subsidy rationalisation, and (iii) the downward pressure on its margins from rising input and operating costs and potentially heavy discounting to defend its market share. Maintain **UNDERPERFORM**.

**Risks to our call include:** (i) a strong recovery in consumer spending as inflation cools or the impending subsidy rationalisation turns out to be less painful to consumers, (ii) industry consolidation keeping competition in check, and (iii) cost pressure eases.

## UNDERPERFORM ↔

Price: **RM3.41**  
Target Price: **RM3.20** ↔

### Share Price Performance



KLCI 1,538.02  
YTD KLCI chg 5.7%  
YTD stock price chg -2.8%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PAD MK EQUITY
Market Cap (RM m)	2,243.5
Shares Outstanding	657.9
52-week range (H)	4.16
52-week range (L)	3.33
3-mth avg. daily vol.	539,235
Free Float	28%
Beta	0.6

### Major Shareholders

Yong Pang Chaun Holdings	43.7%
Kumpulan Wang	
PersaraanDiperbadankan	8.5%
Employees Provident Fund Board	6.9%

### Summary Earnings Table

FY Jun (RM m)	2023A	2024F	2025F
Turnover	1,822	1,721	1,812
EBIT	318	221	249
PBT	296	200	231
<b>Net Profit</b>	<b>223</b>	<b>152</b>	<b>175</b>
Consensus	-	167	191
Earnings Revision	-	-	-
EPS (sen)	33.8	23.0	26.7
EPS Growth (%)	45	-32	16
NDPS (sen)	11.5	10.0	10.0
BV/Share (RM)	1.58	1.71	1.88
PER (x)	10.1	14.8	12.8
P/BV (x)	2.2	2.0	1.8
Gearing (x)	N.Cash	N.Cash	N.Cash
Net. Dvd. Yield (%)	3.4	2.9	2.9



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### Peer Comparison

Name	Rating	Last Price at 1-Mar (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.
<b>CONSUMER</b>																	
AEON CO. (M) BHD	UP	1.13	1.00	-11.5%	1,586.5	Y	12/2024	8.3	8.4	1.2%	2.1%	13.7	13.4	0.8	6.2%	4.0	3.5%
DUTCH LADY MILK INDUSTRIES BHD	OP	23.94	26.90	12.4%	1,532.2	Y	12/2024	123.1	126.3	9.4%	2.5%	19.4	19.0	3.2	17.1%	50.0	2.1%
FRASER & NEAVE HOLDINGS BHD	OP	29.52	33.80	14.5%	10,827.3	Y	09/2024	150.2	155.7	13.8%	3.6%	19.6	19.0	3.0	16.0%	77.0	2.6%
MR D.I.Y. GROUP (M) BHD	OP	1.57	1.75	11.5%	14,830.6	Y	12/2024	7.0	7.8	17.6%	12.2%	22.6	20.1	7.3	34.8%	4.0	2.5%
NESTLE (MALAYSIA) BHD	UP	123.40	115.00	-6.8%	28,937.3	Y	12/2024	290.8	305.0	3.3%	4.9%	42.4	40.5	44.3	102.7%	300.0	2.4%
PADINI HOLDINGS BHD	UP	3.41	3.20	-6.2%	2,243.5	Y	06/2024	23.0	26.7	-31.9%	15.7%	14.8	12.8	2.0	14.0%	10.0	2.9%
POWER ROOT BHD	UP	1.66	1.55	-6.6%	766.8	Y	03/2024	10.2	11.6	-25.0%	13.4%	16.2	14.3	2.4	15.0%	8.0	4.8%
QL RESOURCES BHD	MP	5.93	6.25	5.4%	14,431.6	Y	03/2024	17.8	19.5	25.2%	9.2%	33.3	30.5	5.0	17.0%	9.0	1.5%
KAREX BHD	OP	0.830	1.06	27.7%	874.4	Y	06/2024	2.3	4.2	125.7%	87.8%	36.9	19.6	1.8	4.9%	0.5	0.6%
<b>SECTOR AGGREGATE</b>					<b>76,030.1</b>					<b>8.3%</b>	<b>8.3%</b>	<b>27.7</b>	<b>25.6</b>	<b>5.6</b>	<b>20.2%</b>		<b>2.6%</b>

Source: Bloomberg, Kenanga Research

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**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	☆	
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
<b>SPECIFIC</b>	Product Quality & Safety	★	★	★		
	Effluent/Waste Management	★	★	★		
	Digitalisation & Innovation	★	★	★	☆	
	Use of Biodegradable Materials	★	★	★	☆	
	Supply Chain Management	★	★	★		
	Energy Efficiency	★	★	★		
<b>OVERALL</b>		★	★	★		

☆ 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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