

31 May 2024

Padini Holdings

Beneficiary of Civil Servant Pay Hike

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PADINI's 9MFY24 results met expectations. Its 9MFY24 net profit plunged 27% YoY as it grew top line (+9%) at the expense of margins amidst weak consumer sentiment. A significant pay rise for civil servants effective Dec 2024 should augur well for retailers like PADINI. We fine-tune up our FY24-25F earnings forecasts by 2% and 1%, respectively, lift our TP by 13% to RM3.63 (from RM3.20), and upgrade our call to MARKET PERFORM from UNDERPERFORM.

PADINI's 9MFY24 net profit of RM120m met expectations at 78% and 72% of our full-year forecast and the full-year consensus estimate, respectively. It declared a 1.5 sen special dividend on top of a 2.5 sen fourth interim dividend, bringing its YTD DPS to 9 sen. We raise our full-year DPS forecast to 11.5 sen (from 10 sen).

YoY, PADINI's 9MFY24 revenue improved 9%, thanks to strong 3Q sales during the festive and school holiday shopping periods. However, its net profit plunged by 27%, primarily attributed to higher operating costs, particularly staff cost & A&P expenses including discounts.

QoQ, its 3QFY24 revenue grew 15% due to festive and school holiday sales. However, its net profit fell 24% due to bonus pay-out and we believe, higher A&P expenses including discounts.

Outlook. PADINI guided for challenging near-term outlook in the apparel retailing sector due to weakened spending sentiment amidst persistent high inflation and consumers' anxiety over the impending subsidy rationalisation. While we understand PADINI has no immediate plan to raise product prices, it hopes to defend its margins by introducing higher-margin products amid volatile raw material costs, a weak MYR and sustained high staff and distribution expenses. On a brighter note, the 13% salary increase for civil servants effective Dec 2024 should at least partially restore consumer spending power.

Forecasts. We fine-tune up our FY24-25F net profit forecasts by 2% and 1%, respectively.

Valuations. We lift our TP by a steeper 13% to RM3.63 (from RM3.20) based on a higher targeted FY25F PER of 13.5x. This represents a 10% discount to the departmental store/apparel sector's average historical forward PER of 15x, narrower from 20% we assumed previously, largely to reflect reduced earnings risk with partial restoration of consumer spending power by the civil servant pay rise. There is no change to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

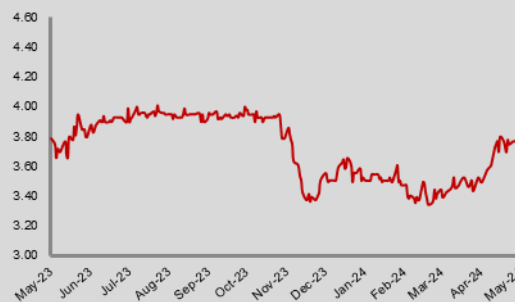
Investment case. We like PADINI for: (i) its position in offering value-for-money apparel, which continues to attract budget-conscious consumers; (ii) its potential to benefit from the civil servants' pay rise; and (iii) its strong net cash position, which enables efficient inventory management.

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.

MARKET PERFORM ↑

Price: RM3.87
Target Price: RM3.63 ↑

Share Price Performance



KLCI	1,604.26
YTD KLCI chg	10.3%
YTD stock price chg	10.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PAD MK EQUITY
Market Cap (RM m)	2,546.1
Shares Outstanding	657.9
52-week range (H)	4.04
52-week range (L)	3.32
3-mth avg. daily vol.	549,930
Free Float	27%
Beta	0.6

Major Shareholders

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

Summary Earnings Table

FY Jun (RM m)	2023A	2024F	2025F
Turnover	1,822	1,895	1,985
EBIT	318	226	251
PBT	296	206	233
Net Profit (NP)	223	155	177
Consensus (NP)	-	168	188
Earnings Revision	-	+2%	+1%
EPS (sen)	33.8	23.5	26.9
EPS Growth (%)	45	-30	14
NDPS (sen)	11.5	11.5	10.0
BV/Share (RM)	1.58	1.70	1.87
PER (x)	11.4	16.4	14.4
P/BV (x)	2.4	2.3	2.1
Gearing (x)	N.Cash	N.Cash	N.Cash
Net. Dvd. Yield (%)	3.0	3.0	2.6

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Results Highlights

FYE Jun (RM m)	3Q24	2Q24	QoQ Chg	3Q23	YoY Chg	9M24	9M23	YoY Chg
Turnover	575.4	500.1	15.1%	457.2	25.8%	1,463.7	1,345.8	8.8%
Gross Profit	203.2	190.5	6.7%	182.5	11.4%	533.9	531.7	0.4%
EBIT	59.8	76.2	-21.5%	62.3	-4.1%	176.4	232.9	-24.3%
Interest Expense	(5.1)	(5.2)	-2.4%	(4.3)	18.8%	(15.8)	(13.4)	17.8%
PBT/(LPT)	54.7	70.9	-22.9%	58.1	-5.8%	160.6	219.4	-26.8%
Taxation	(14.2)	(17.8)	-20.6%	(14.7)	-3.6%	(40.3)	(54.1)	-25.5%
Net Profit	40.5	53.1	-23.7%	43.4	-6.6%	120.3	165.4	-27.3%
EPS (sen)	6.2	8.1	-23.7%	6.6	-6.6%	18.3	25.1	-27.3%
DPS (sen)	4.0	2.5	60.0%	2.5	60.0%	9.0	7.5	20.0%
Gross Margin	35.3%	38.1%		39.9%		36.5%	39.5%	
EBIT margin	10.4%	15.2%		13.6%		12.1%	17.3%	
PBT Margin	9.5%	14.2%		12.7%		11.0%	16.3%	
NP Margin	7.0%	10.6%		9.5%		8.2%	12.3%	
Tax Rate	-25.9%	-25.1%		-25.3%		-25.1%	-24.6%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Rating	Last Price at 30-May (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																	
AEON CO. (M) BHD	MP	1.43	1.21	-15.4%	2,007.7	Y	12/2024	8.7	8.9	6.9%	2.1%	16.4	16.0	1.0	6.5%	4.0	2.8%
FRASER & NEAVE HOLDINGS BHD	OP	32.62	38.25	17.3%	11,964.3	Y	09/2024	167.6	176.4	26.9%	5.3%	19.5	18.5	3.3	17.7%	85.0	2.6%
MR D.I.Y. GROUP (M) BHD	OP	1.82	1.97	8.2%	17,199.2	Y	12/2024	7.0	7.9	18.2%	12.6%	26.0	23.0	8.6	35.4%	4.0	2.2%
NESTLE (MALAYSIA) BHD	UP	127.60	115.00	-9.9%	29,922.2	Y	12/2024	292.3	306.0	3.8%	4.7%	43.7	41.7	45.6	102.9%	300.0	2.4%
PADINI HOLDINGS BHD	MP	3.87	3.63	-6.2%	2,546.1	Y	06/2024	23.5	26.9	-30.4%	14.2%	16.4	14.4	2.3	14.3%	12.0	3.1%
POWER ROOT BHD	UP	1.70	1.40	-17.6%	782.5	Y	03/2025	9.1	9.8	2.6%	7.3%	18.6	17.4	2.2	12.2%	7.0	4.1%
QL RESOURCES BHD	MP	6.40	6.25	-2.3%	15,575.4	Y	03/2025	19.5	20.8	8.7%	6.2%	32.7	30.8	4.8	16.4%	9.0	1.4%
KAREX BHD	OP	0.830	1.10	32.5%	874.4	Y	06/2024	2.4	4.4	137.1%	85.1%	35.1	19.0	1.8	5.1%	1.0	1.2%
SECTOR AGGREGATE					80,871.8					9.9%	8.1%	29.0	26.9	6.0	20.7%		2.5%

Source: Bloomberg, Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating			
GENERAL	Earnings Sustainability & Quality	★	★	★	☆
	Community Investment	★	★	★	
	Workers Safety & Wellbeing	★	★	★	
	Corporate Governance	★	★	★	
	Anti-Corruption Policy	★	★	★	
	Emissions Management	★	★	★	
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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