

04 June 2024

Padini Holdings

Optimising Over Expanding

By Cheow Ming Liang | Cheowml@kenanga.com.my

PADINI hopes to sustain its gross profit (GP) margin at above 35% through inventory and store optimisation, rather than price hikes that could hurt demand. It remains cautious on store expansion. Instead, it will focus on optimising underperforming stores. We maintain our forecasts, TP of RM3.63 and MARKET PERFORM 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 above 35%.** PADINI hopes to maintain its GP margin at above 35% in coming quarters, despite challenges such as rising purchase cost due to unfavourable forex movements and the need to clear older stock (of more than four months on the shelves). Recall, in 3QFY24, it grew its top line (+15% QoQ) at the expense of its margins, resulting in its GP margin dropping to 35.3% (vs. 38.1% in 2QFY24 and 39.9% in 3QFY23). For 9MFY24, the GP margin fell to 36.5% (vs. 39.5% a year ago) with a 9% YoY topline improvement. We assume a 36.1% GP margin for full-year FY24.
- Cautious on store expansion plan.** PADINI remains cautious on store expansion due to subdued consumer sentiment. It plans to open less than five new stores in 4QFY24, bringing new stores opened in FY24 to less than nine (vs. our FY24F net store addition assumption of five). It will continue to optimise its underperforming stores that make up less than 10% of its 139 existing stores.
- Investing in logistics.** PADINI plans to invest RM50m to RM100m over the next 2-3 years to enhance its logistics capabilities by upgrading its automated warehouse and establishing a logistics hub. It has no other plans for its net cash of RM804m as at end-3QFY24.

Outlook. The near-term outlook in the apparel retailing sector remain challenging due to weakened spending sentiment amidst persistently high inflation and consumers' anxiety over the impending subsidy rationalisation. On a brighter note, the 13% salary increase for civil servants effective Dec 2024 should at least partially restore consumer spending power.

While we understand PADINI has no immediate plan to raise product prices, it hopes to defend its margins through inventory and store optimisation amid volatile raw material costs, a weak MYR and sustained high staff and distribution expenses.

Forecasts. Maintained. Our forecasts assume same-store sales growth of 1% and 2% and net additions of five and four stores in FY24-25F, respectively.

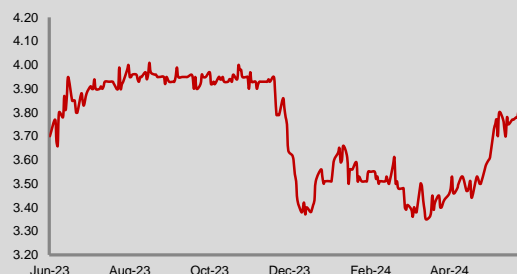
Valuations. We also maintain our TP of RM3.63 based on an unchanged targeted 13.5x FY25F PER, at a 10% discount to the segment's average historical forward PER of 15x to account for the weakened spending power of its target customers, i.e. the M40 group. There is no change to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

Investment case. We 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 enabling it to purchase inventory ahead of price hikes and potential supply disruptions.

MARKET PERFORM ↔

Price: **RM3.78**
Target Price: **RM3.63** ↔

Share Price Performance



KLCI 1,596.68
YTD KLCI chg 9.8%
YTD stock price chg 7.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PAD MK EQUITY
Market Cap (RM m)	2,486.9
Shares Outstanding	657.9
52-week range (H)	4.04
52-week range (L)	3.32
3-mth avg. daily vol.	545,652
Free Float	27%
Beta	0.7

Major Shareholders

Yong Pang Chaun Holdings	43.7%
Kumpulan Wang	
PersaraanDiperbadankan	9.7%
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	223	155	177
Consensus	-	167	187
Earnings Revision	-	-	-
EPS (sen)	33.8	23.5	26.9
EPS Growth (%)	45	-30	14
NDPS (sen)	11.5	11.5	11.5
BV/Share (RM)	1.58	1.70	1.86
PER (x)	11.2	16.1	14.1
P/BV (x)	2.4	2.2	2.0
Gearing (x)	N.Cash	N.Cash	N.Cash
Net. Dvd. Yield (%)	3.0	3.0	3.0



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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.

Income Statement						Financial Data & Ratios					
FY Jun (RM m)	2021A	2022A	2023A	2024F	2025F	FY Jun	2020A	2021A	2022A	2023F	2024F
Revenue	1,029	1,319	1,822	1,895	1,985	Growth (%)					
EBITDA	220	341	434	349	383	Turnover	-24.0	28.1	38.1	4.0	4.7
Depreciation	124	117	116	123	132	EBITDA	-20.9	55.3	27.2	-19.5	9.7
Operating Profit	95	224	318	226	251	Operating Profit	-28.6	135.7	41.5	-28.7	10.7
Interest Expense	40	38	27	25	28	PBT	-30.9	176.6	44.3	-30.3	12.9
Interest Income	21	19	22	20	18	Net Profit	-28.1	185.1	44.5	-30.4	14.2
Associate	0	0	0	0	0	Profitability (%)					
Exceptional Items	0	0	0	0	0	EBITDA Margin	21.3	25.8	23.8	18.4	19.3
PBT	74	205	296	206	233	Operating Margin	9.3	17.0	17.4	11.9	12.6
Taxation	-20	-51	-73	-51	-56	PBT Margin	7.2	15.5	16.2	10.9	11.7
Minority Interest	0	0	0	0	0	Core Net Margin	5.3	11.7	12.2	8.2	8.9
Net Profit	54	154	223	155	177	Effective Tax Rate	-27.1	-24.9	-24.7	-24.8	-24.0
Core Net Profit	54	154	223	155	177	ROA	4.2	10.3	13.4	8.9	9.5
						ROE	6.7	17.3	21.4	13.8	14.5
Balance Sheet						DuPont Analysis					
FY Jun (RM m)	2020A	2021A	2022A	2023F	2024F	Net Margin (%)	5.3	11.7	12.2	8.2	8.9
Fixed Assets	85	82	92	162	228	Assets Turnover (x)	0.8	0.9	1.1	1.1	1.1
Intangible Assets	3.8	3.3	3.9	2.2	1.2	Leverage Factor (x)	1.6	1.7	1.6	1.6	1.5
Other FA	374	393	453	453	453	ROE (%)	6.7	17.3	21.4	13.8	14.5
Inventories	219	137	433	397	416	Leverage					
Receivables	48	56	66	66	69	Debt/Asset (x)	0.3	0.3	0.3	0.3	0.3
Other CA	22	13	13	9	10	Debt/Equity (x)	0.5	0.4	0.5	0.4	0.4
Cash	524	809	605	660	680	Net Cash/(Debt)	122	410	136	194	214
Total Assets	1,274	1,494	1,666	1,749	1,857	Net Debt/Equity (x)	0.2	0.5	0.1	0.2	0.2
Payables	62	178	125	137	144	Valuations					
ST Borrowings	84	81	99	99	99	EPS (sen)	8.2	23.4	33.8	23.5	26.9
Other ST Liability	2	17	23	14	15	NDPS (sen)	2.5	10.0	11.5	11.5	11.5
LT Borrowings	317	318	367	367	367	BV/Share (RM)	1.22	1.35	1.58	1.70	1.86
Other LT Liability	7	8	12	12	12	PER (x)	46.0	16.1	11.2	16.1	14.1
Minorities Int.	-	-	-	-	-	Net Div. Yield (%)	0.7	2.6	3.0	3.0	3.0
Net Assets	802	891	1,040	1,119	1,221	P/NTA (x)	3.1	2.8	2.4	2.2	2.0
Share Capital	70	70	70	70	70	EV/EBITDA (x)	11.9	8.5	6.0	7.7	7.1
Reserves	732	821	971	1,050	1,151						
Equity	802	891	1,040	1,119	1,221						
Cashflow Statement											
FY Jun (RM m)	2020A	2021A	2022A	2023F	2024F						
Operating CF	186	474	-19	324	293						
Investing CF	2	-35	-12	-82	-79						
Financing CF	-106	-157	-177	-79	-76						
Change In Cash	82	282	-208	163	138						
Free CF	181	458	-46	242	214						

Source: Kenanga Research

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Peer Comparison

Name	Rating	Last Price at 31-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	1.41	1.21	-14.2%	1,979.6	Y	12/2024	8.7	8.9	6.9%	2.1%	16.1	15.8	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	1.81	1.97	8.8%	17,104.7	Y	12/2024	7.0	7.9	18.2%	12.6%	25.8	22.9	8.5	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	3.78	3.63	-4.0%	2,486.9	Y	06/2024	23.5	26.9	-30.4%	14.2%	16.1	14.1	2.2	14.3%	12.0	3.2%
POWER ROOT BHD	UP	1.71	1.40	-18.1%	787.1	Y	03/2025	9.1	9.8	2.6%	7.3%	18.8	17.5	2.3	12.2%	7.0	4.1%
QL RESOURCES BHD	MP	6.30	6.25	-0.8%	15,332.0	Y	03/2025	19.5	20.8	8.7%	6.2%	32.2	30.4	4.7	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					80,451.2					9.9%	8.1%	28.9	26.7	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
 ★★★★★ +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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KENANGA INVESTMENT BANK BERHAD (15678-H)
 Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

