Padini Holdings

Costs Bite, Stronger Mix Bites Back

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PADINI's FY25 results missed our expectation on higher-than-expected operating costs, though core net profit, adjusted for forex, still grew 11% YoY, supported by stronger margins. This was likely driven by an improved sales mix, with greater contribution from higher-margin activewear and IP products. We expect gross profit margins to remain elevated in the near term, aided by a strengthening MYR that should ease purchase costs. We trim our FY26F earnings by 3%, and lower TP by 4% to RM2.35 (from RM2.45). With valuations trading at 1SD below the 5-year mean and backed by decent dividend yield of c.4%, we reiterate our OUTPERFORM call. The briefing today should give more colour, including on costs.

Within expectations. PADINI's FY25 core net profit of RM163m (after excluding RM7.8m net forex loss) missed our expectation at 93% of our forecast but met consensus at 98% of the street's estimate. The key variance against our forecast came largely from higher-than-expected operating costs (including depreciation +14% YoY), while sales were broadly in line. It declared a final dividend of 1.8 sen during the quarter, bringing full-year dividend to 8.9 sen, which was below our expectation of 9.8 sen.

YoY, FY25 revenue was flattish (+1%) but gross profit climbed 8% likely on an improved sales mix with greater contribution from higher-margin categories such as activewear and IP products, including *Hello Kitty*, *Garfield* and *Snoopy*. The better product mix expanded GP margin by 2.7 ppt to 38.9%. FY25 core net profit, adjusted for forex, grew 11%.

QoQ, 4QFY25 turnover fell 37% from a high base in the preceding quarter, which benefitted from both Chinese New Year and Hari Raya, with the absence of such spending this quarter weighing on sales. Consequently, its bottom line plunged 85%, which we believe, was due to weaker cost absorption in the off-peak season, as net margin dropped from 11.6% to 2.7%.

Outlook. While near-term headwinds in the apparel retail environment from inflation and competition remain, a shift towards higher-margin products and a strengthening MYR should help mitigate purchase cost pressures and support earnings. Our latest house view sees the MYR/USD strengthening to 4.08 by end-2025, which, despite Padini's sourcing mainly from China, could ease some import costs. We are also mindful of the 8% SST on leased properties effective July 2025, and we await further clarity during the results briefing today.

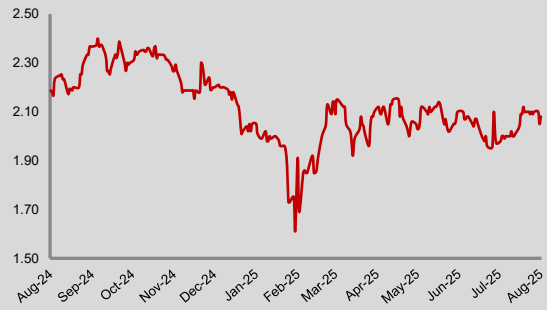
Forecasts. We trim our FY26F earnings forecasts by 3% mainly to reflect higher operating costs. We also introduce our FY27F numbers.

Valuations. We reduce our TP by 4% to RM2.35 (from RM2.45), while keeping an unchanged 13.5x FY26F PER. This remains at a 10% discount to the departmental store/apparel sector's average historical forward PER of 15x, reflecting the deteriorated spending power of its target customers, i.e. the M40 income group, amid rising living costs. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

OUTPERFORM ↔

Price: **RM2.08**
Target Price: **RM2.35** ↓

Share Price Performance



KLCI	1,587.91
YTD KLCI chg	-3.3%
YTD stock price chg	-5.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PAD MK EQUITY
Market Cap (RM m)	2,052.7
Shares Outstanding	986.9
52-week range (H)	2.40
52-week range (L)	1.59
3-mth avg. daily vol.	707,132
Free Float	45%
Beta	0.5

Major Shareholders

Yong Pang Chaun Holdings Sdn Bhd	43.7%
Kumpulan Wang Persaraan Diperbadankan	10.3%
Employees Provident Fund Board	9.6%

Summary Earnings Table

FYE Jun (RM m)	2025A	2026F	2027F
Turnover	1,938	2,014	2,093
EBIT	238	259	263
PBT	209	227	237
Net Profit (NP)	155	172	180
Core NP	163	172	180
Consensus (NP)	-	182	193
Earnings Revision	-	-3%	NEW
Core EPS (sen)	16.5	17.4	18.2
Core EPS Growth (%)	-26	6	5
NDPS (sen)	8.9	9.1	8.1
BVPS (RM)	1.20	1.28	1.38
Core PER (x)	12.6	11.9	11.4
PBV (x)	1.7	1.6	1.5
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	4.3	4.4	3.9

Investment case. We like PADINI for: (i) its position in offering value-for-money apparel, which resonates well with budget-conscious consumers, (ii) its potential to benefit from the strengthening MYR translating into more favourable purchase costs, and (iii) its strong net cash position, which enables efficient inventory management. Reiterate **OUTPERFORM**.

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

Results Highlights

FYE Jun (RM m)	4QFY25	3QFY25	QoQ Chg	4QFY24	YoY Chg	FY25	FY24	YoYChg
Revenue	392.1	626.8	-37%	455.2	-14%	1,937.7	1,918.8	1%
GP	145.7	256.7	-43%	161.2	-10%	752.9	695.1	8%
EBIT	19.5	104.4	-81%	45.8	-57%	238.0	222.2	7%
Interest Expense	(8.4)	(8.7)	-4%	(9.6)	-13%	(29.0)	(25.4)	14%
PBT	11.1	95.7	-88%	36.2	-69%	209.0	196.7	6%
Taxation	(4.2)	(23.7)	-82%	(9.9)	-58%	(54.2)	(50.1)	8%
Net Profit	7.0	72.0	-90%	26.3	-73%	154.8	146.6	6%
Core Net Profit	10.5	72.6	-85%	26.6	-60%	162.5	146.2	11%
*Core EPS (sen)	1.1	7.4	-85%	2.7	-60%	16.5	14.8	11%
DPS (sen)	1.8	2.8	-36%	4.0	-55%	8.9	13.0	-32%
GP Margin (%)	37.2	41.0		35.4		38.9	36.2	
EBIT Margin (%)	5.0	16.7		10.1		12.3	11.6	
PBT Margin (%)	2.8	15.3		7.9		10.8	10.3	
CNP Margin (%)	2.7	11.6		5.8		8.4	7.6	
Effective Tax Rate (%)	37.4	24.8		27.3		25.9	25.5	

**adjusted number of shares for the 1-for-2 Bonus Issue completed on 19 December 2024*

Source: Company, 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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
CONSUMER																	
AEON CO. (M) BHD	OP	1.30	1.55	19.2%	1,825.2	Y	12/2025	10.7	11.5	-0.7%	8.0%	12.2	11.3	0.9	7.6%	5.0	3.8%
FARM FRESH BHD	OP	1.92	2.10	9.4%	3,603.3	Y	03/2026	7.5	8.5	29.2%	13.0%	25.6	22.7	4.4	18.2%	3.0	1.6%
FRASER & NEAVE HOLDINGS BHD	OP	26.80	30.70	14.6%	9,829.7	Y	09/2025	135.5	159.0	-11.9%	17.3%	19.8	16.9	2.6	13.4%	75.0	2.8%
MR D.I.Y. GROUP (M) BHD	OP	1.56	2.04	30.8%	14,776.7	Y	12/2025	7.0	7.8	14.5%	12.4%	22.4	19.9	7.1	33.6%	5.8	3.7%
NESTLE (MALAYSIA) BHD	MP	94.12	85.10	-9.6%	22,071.1	Y	12/2025	210.5	240.6	23.4%	14.3%	44.7	39.1	32.0	72.6%	205.0	2.2%
PADINI HOLDINGS BHD	OP	2.08	2.35	13.0%	2,052.7	Y	06/2026	17.4	18.2	6.0%	4.5%	11.9	11.4	1.6	14.0%	9.1	4.4%
POWER ROOT BHD	UP	1.28	1.20	-6.3%	543.3	Y	03/2026	7.7	8.2	6.9%	5.6%	16.6	15.7	1.9	11.5%	7.0	5.5%
QL RESOURCES BHD	MP	4.15	4.52	8.9%	15,143.3	Y	03/2026	13.3	14.5	6.7%	8.7%	31.2	28.7	4.2	15.4%	5.0	1.2%
KAREX BHD	OP	0.680	0.900	32.4%	716.4	Y	06/2025	1.3	3.6	-40.2%	169.3%	51.1	19.0	1.5	2.9%	1.0	1.5%
SECTOR AGGREGATE					**70,561.7**					**7.0%**	**13.0%**	**26.7**	**23.6**	**4.7**	**17.6%**		**3.0%**

Source: 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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