

27 February 2026

Padini Holdings

Earnings Hit by SST-Related Rentals

By Thin Yun Jing | thinyl@kenanga.com.my

PADINI's 1HFY26 results came in below expectations, with core net profit, adjusted for forex, down 18% YoY mainly due to higher-than-expected operating costs, particularly SST-related rental expenses, alongside a slight shortfall in revenue (-4% YoY). These overshadowed gross margin improvement to 39.8% (upper end of guidance) on better product mix driven by higher-margin activewear and IP products. While mix upgrades and a strengthening MYR should support margins, the expanded 8% SST on leased properties remains a key earnings headwind for FY26. We cut FY26–27F earnings by 20–11% and lower our TP to RM2.20 (from RM2.35), as we roll forward to FY27F (from FY26F), with an unchanged targeted PER of 13.5x. With valuations trading near 1SD below the 5-year mean and backed by decent dividend yield of c.4-5%, we reiterate our OUTPERFORM call. The company is holding a briefing today (27 Feb), where we expect to gain further clarity on revenue and margin trends.

Below expectations. PADINI's 1HFY26 core net profit of RM65m (after excluding RM3.3m net forex loss) came in below expectations at only 38% of our full-year forecast and 39% of the full-year consensus estimate. The key variance against our forecast came largely from higher-than-expected operating costs, particularly SST-related rental expenses, alongside a slight revenue shortfall. It declared DPS of 1.8 sen in 2QFY26, which was similar to 2QFY25 and in line with our expectation.

YoY, 1HFY26 revenue dropped 4% which we believe, possibly due to competition headwinds within the apparel retail space. Despite lower revenue, gross profit inched up 1% on better sales mix, with greater contribution from higher-margin categories such as activewear and IP products (e.g. *Snoopy* and *Hello Kitty*). This improved product mix lifted GP margin by 1.7 ppts to 39.8%, which is at the upper end of the group's FY26 guidance of 36%-40%. However, core net profit, adjusted for forex, fell 18% due to increased depreciation (+21% YoY), SST-related rental costs starting July 2025, and higher effective tax rate.

QoQ, 2QFY26 turnover climbed 21% thanks to seasonal year-end spending during Christmas and school holidays. Core net profit surged 114%, driven by better cost efficiency as stronger topline growth more than offset higher selling and distribution expenses, with core net margin expanding from 5.2% to 9.2%.

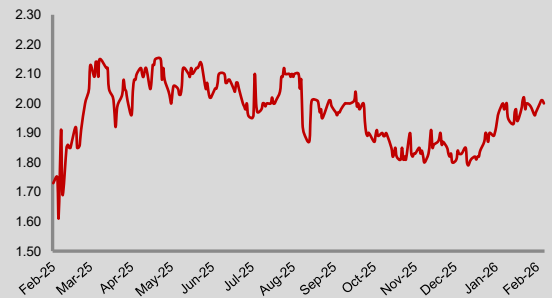
Outlook. While near-term headwinds in the apparel retail environment from inflation and competition remain, the continued shift towards higher-margin products, particularly activewear and IP products should help sustain gross margins within management's guidance of 36-40%. That said, the expanded 8% SST on leased properties (effective July 2025) estimated to add RM10m-RM20m annually, according to management, remains the key earnings headwind in FY26. While management has seen limited benefit so far from the stronger MYR, purchase-cost savings should gradually materialise over the coming quarters; if the MYR continues to stay firm (our house view: MYR/USD below 4.00 in 2026), this could help ease import cost pressures and partly offset rising operating expenses.

Forecasts. We cut our FY26F and FY27F earnings forecasts by 20% and 11%, respectively, to reflect more conservative sales growth assumptions of -2% in FY26 and +4% in FY27, as well as higher operating costs, particularly rental expenses.

OUTPERFORM ↔

Price: **RM2.00**
Target Price: **RM2.20** ↓

Share Price Performance



KLCI	1,740.94
YTD KLCI chg	3.6%
YTD stock price chg	11.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PAD MK EQUITY
Market Cap (RM m)	1,973.7
Shares Outstanding	986.9
52-week range (H)	2.18
52-week range (L)	1.68
3-mth avg. daily vol.	452,044
Free Float	45%
Beta	0.6

Major Shareholders

Yong Pang Chaun Holdings Sdn Bhd	43.7%
Employees Provident Fund Board	10.7%
Kumpulan Wang Persaraan Diperbadankan	10.6%

Summary Earnings Table

FYE Jun (RM m)	2025A	2026F	2027F
Turnover	1,938	1,901	1,972
EBIT	238	216	237
PBT	209	185	212
Net Profit (NP)	155	135	161
Core NP	163	138	161
Consensus (NP)	-	168	180
Earnings Revision	-	-20%	-11%
Core EPS (sen)	16.5	14.0	16.3
Core EPS Growth (%)	-26	-15	17
NDPS (sen)	8.9	8.2	8.9
BVPS (RM)	1.20	1.26	1.33
Core PER (x)	12.1	14.3	12.3
PBV (x)	1.7	1.6	1.5
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	4.5	4.1	4.5

27 February 2026

Valuations. Post-earnings revision, we reduce our TP to RM2.20 (from RM2.35), as we roll forward our valuation base year to FY27F (from FY26F) with an unchanged targeted PER of 13.5x. 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).

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)	2QFY26	1QFY26	QoQ Chg	2QFY25	YoY Chg	1HFY26	1HFY25	YoY Chg
Revenue	484.0	401.1	21%	525.6	-8%	885.1	918.8	-4%
GP	192.3	160.2	20%	210.4	-9%	352.5	350.5	1%
EBIT	63.6	38.7	64%	91.6	-31%	102.3	114.1	-10%
Interest Expense	(7.2)	(7.5)	-5%	(5.8)	25%	(14.7)	(11.9)	24%
PBT	56.4	31.2	81%	85.9	-34%	87.6	102.2	-14%
Taxation	(15.1)	(10.8)	40%	(21.5)	-30%	(25.9)	(26.4)	-2%
Net Profit	41.3	20.4	103%	64.3	-36%	61.7	75.8	-19%
Core Net Profit	44.3	20.7	114%	58.7	-25%	65.0	79.5	-18%
*Core EPS (sen)	4.5	2.1	114%	6.0	-25%	6.6	8.1	-18%
DPS (sen)	1.8	1.8	0%	1.8	0%	3.6	4.3	-16%
GP Margin (%)	39.7	39.9		40.0		39.8	38.1	
EBIT Margin (%)	13.1	9.7		17.4		11.6	12.4	
PBT Margin (%)	11.6	7.8		16.3		9.9	11.1	
CNP Margin (%)	9.2	5.2		11.2		7.3	8.6	
Effective Tax Rate (%)	26.7	34.6		25.1		29.5	25.8	

*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	1.28	1.40	9.4%	1,797.1	Y	12/2025	10.3	11.3	8.6%	9.0%	12.4	11.3	0.9	7.1%	5.0	3.9%
FARM FRESH BHD	MP	2.67	2.70	1.1%	5,031.2	Y	03/2026	7.5	9.0	29.2%	20.4%	35.7	29.7	6.1	18.2%	3.0	1.1%
FRASER & NEAVE HOLDINGS BHD	OP	33.50	37.70	12.5%	12,287.1	Y	09/2026	144.2	160.7	3.6%	11.4%	23.2	20.8	3.0	13.2%	70.0	2.1%
MR D.I.Y. GROUP (M) BHD	MP	1.76	1.95	10.8%	16,680.4	Y	12/2026	7.5	8.2	11.6%	9.0%	23.4	21.5	8.3	35.3%	8.0	4.5%
NESTLE (MALAYSIA) BHD	MP	110.80	106.00	-4.3%	25,982.6	Y	12/2026	256.9	284.7	20.2%	10.8%	43.1	38.9	44.7	104.1%	255.0	2.3%
PADINI HOLDINGS BHD	OP	2.00	2.20	10.0%	1,973.7	Y	06/2026	14.0	16.3	-15.0%	16.5%	14.3	12.3	1.6	11.1%	8.2	4.1%
POWER ROOT BHD	MP	1.18	1.08	-8.5%	496.9	Y	03/2026	5.6	7.2	-21.5%	28.3%	21.0	16.4	1.7	7.5%	5.0	4.2%
QL RESOURCES BHD	MP	4.00	4.26	6.5%	14,601.0	Y	03/2026	12.2	13.4	-2.0%	9.5%	32.7	29.9	4.1	14.1%	5.0	1.3%
KAREX BHD	MP	0.580	0.580	0.0%	611.0	Y	06/2026	1.0	2.3	5250.0%	126.2%	57.1	25.2	1.3	2.3%	1.5	2.6%
SECTOR AGGREGATE					79,461.0					8.2%	11.5%	28.9	25.9	5.2	18.1%		2.9%

Source: Kenanga Research

This section is intentionally left blank

27 February 2026

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

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

