Padini Holdings

Waiting For Clearer Skies

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OUTPERFORM ↑

Price: RM1.42

Target Price: RM1.75 ↔

Despite the stronger festive-driven QoQ uplift during Chinese New Year and Hari Raya, PADINI's 9MFY26 earnings still declined 17% YoY amid relatively flattish sales (-2%). Beyond the festive quarter, we believe underlying apparel demand remains soft amid subdued discretionary spending and heightened competition within the apparel retail segment. That said, following our downgrade in early March 2026 and the subsequent MACC-related developments, the stock has already fallen c.25% to 9x FY27F PER, near its 10-year low valuation. Its share price has since stabilised following the recent company briefing where management assured that there has been no operational disruption and indicated that the investigation relates to certain suppliers rather than PADINI itself. As such, we believe fundamental risk-reward has turned positive, supported by its ~6.5% dividend yield, the highest within our consumer coverage. We therefore upgrade the stock to OUTPERFORM from MARKET PERFORM with an unchanged TP of RM1.75, although a more meaningful rerating would likely hinge on sentiment improvement after the affected bank accounts are unfrozen.

Within expectations. PADINI's 9MFY26 core net profit of RM125.8m (after excluding RM3.5m net forex loss) came in at 91% of our full-year forecast and 84% of the full-year consensus estimate. We deem the results within expectations, as we expect 4QFY26 to be seasonally softer due to the absence of festive spending. The group declared DPS of 3.8 sen in 3QFY26 (comprising a 1.8 sen interim and 2.0 sen special dividend), versus total 2.8 sen in 3QFY25, exceeding our expectation. As such, we raise our FY26 and FY27 dividend forecasts to 9.2 sen each (from 8.2 sen and 8.9 sen, respectively).

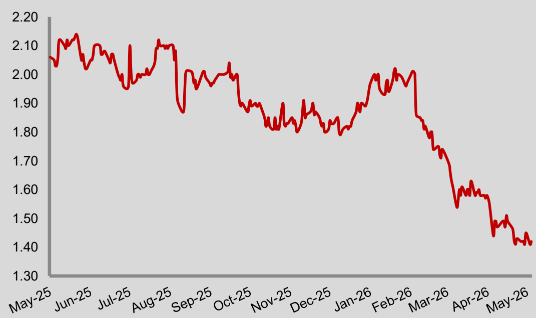
YoY, 9MFY26 revenue dipped 2%, which we believe was attributed to subdued consumer sentiment and competition headwinds within the apparel retail space. Core net profit, adjusted for forex, fell by a sharper 17% dragged by increased depreciation (+11% YoY), SST-related rental costs starting July 2025, and higher effective tax rate.

QoQ, 3QFY26 turnover grew 29% boosted by seasonally stronger sales amid double festive periods of Chinese New Year and Hari Raya. Despite higher operating costs and bonus payout during the quarter, bottom line surged 37% in tandem with higher revenue and better cost efficiency.

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 (e.g. *Sanrio* and *Peanuts*) should help sustain gross margins within management's guidance of 36%-40% (9MFY6: 39.9%). The reduction in SST on leased properties to 6% (from 8%) effective Jan 2026 is also expected to partly ease the annual cost impact to RM6m-RM17m (versus RM10m-RM20m previously). However, upside from a stronger MYR remains limited under the group's cost-plus model, as cost savings are largely passed on to customers, while the group continues to prioritise affordable pricing.

Meanwhile, management reiterated that operations remain largely business-as-usual despite the freezing of 21 bank accounts (with four partially released) under the ongoing MACC investigation. While visibility on the investigation timeline remains limited, management assured that the matter is primarily related to certain third-party vendors and service providers rather than PADINI itself, and there has been no immediate disruption to working capital or supplier payments.

Share Price Performance



KLCI	1,699.02
YTD KLCI chg	1.1%
YTD stock price chg	-20.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PAD MK Equity
Market Cap (RM m)	1,401.3
Shares Outstanding	986.9
52-week range (H)	2.14
52-week range (L)	1.41
3-mth avg. daily vol.	1,723,727
Free Float	45%
Beta	0.6

Major Shareholders

Yong Pang Chaun Holdings Sdn Bhd	43.7%
Employees Provident Fund Board	10.4%
Kumpulan Wang Persaraan Diperbadankan	9.9%

Summary Earnings Table

FYE Jun (RM m)	2025A	2026F	2027F
Turnover	1,938	1,901	1,972
EBIT	238	216	232
PBT	209	185	206
Net Profit (NP)	155	135	157
Core NP	163	138	157
Consensus (NP)	-	149	160
Earnings Revision	-	-	-
Core EPS (sen)	16.5	14.0	15.9
Core EPS Growth (%)	-26	-15	14
NDPS (sen)	8.9	9.2	9.2
BVPS (RM)	1.20	1.25	1.31
Core PER (x)	8.6	10.1	8.9
PBV (x)	1.2	1.1	1.1
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	6.3	6.5	6.5

Forecasts. Maintained.

Valuations. We keep our TP of RM1.75 based on an unchanged 11x FY27F PER, which remains at a 20% discount to the departmental store/apparel sector's average historical forward PER of 14x, reflecting the uneven demand recovery within the apparel retail segment and still-conservative spending behaviour of its target customers, i.e. the M40 income group, amid elevated 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 more favourable purchase costs amid the strengthening MYR, and (iii) its strong net cash position, which enables efficient inventory management. While we acknowledge near-term uncertainty surrounding the ongoing MACC investigation, we believe the current valuation already reflects much of the near-term risk following the recent sharp share price correction of c.25%, and that the fundamental risk-reward has turned more favourable. Hence, we upgrade the stock to **OUTPERFORM** from **MARKET PERFORM**, although a more meaningful rerating would likely hinge on sentiment recovery after the affected bank accounts are unfrozen.

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)	3QFY26	2QFY26	QoQ Chg	3QFY25	YoY Chg	9MFY26	9MFY25	YoY Chg
Revenue	624.5	484.0	29%	626.8	0%	1,509.6	1,545.6	-2%
GP	250.6	192.3	30%	256.7	-2%	603.1	607.2	-1%
EBIT	89.6	63.6	41%	104.4	-14%	191.9	218.5	-12%
Interest Expense	(6.8)	(7.2)	-5%	(8.7)	-22%	(21.5)	(20.6)	4%
PBT	82.8	56.4	47%	95.7	-13%	170.3	197.9	-14%
Taxation	(22.2)	(15.1)	48%	(23.7)	-6%	(48.1)	(50.1)	-4%
Net Profit	60.5	41.3	47%	72.0	-16%	122.2	147.8	-17%
Core Net Profit	60.8	44.3	37%	72.6	-16%	125.8	152.0	-17%
*Core EPS (sen)	6.2	4.5	37%	7.4	-16%	12.7	15.4	-17%
DPS (sen)	3.8	1.8	111%	2.8	36%	7.4	7.1	4%
GP Margin (%)	40.1	39.7		41.0		39.9	39.3	
EBIT Margin (%)	14.3	13.1		16.7		12.7	14.1	
PBT Margin (%)	13.3	11.6		15.3		11.3	12.8	
CNP Margin (%)	9.7	9.2		11.6		8.3	9.8	
Effective Tax Rate (%)	26.9	26.7		24.8		28.2	25.3	

**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	1.13	1.40	23.9%	1,586.5	Y	12/2026	11.0	11.8	15.3%	7.6%	10.3	9.6	0.8	7.5%	5.0	4.4%
FARM FRESH BHD	MP	2.12	2.25	6.1%	3,995.0	Y	03/2027	8.0	9.4	17.6%	16.8%	26.5	22.7	4.3	17.2%	3.0	1.4%
FRASER & NEAVE HOLDINGS BHD	OP	28.50	37.40	31.2%	10,453.2	Y	09/2026	118.0	144.6	-15.2%	22.5%	24.1	19.7	2.6	11.0%	70.0	2.5%
MR D.I.Y. GROUP (M) BHD	OP	1.58	1.95	23.4%	14,974.4	Y	12/2026	7.5	8.2	11.6%	9.0%	21.0	19.3	7.4	35.3%	8.0	5.1%
NESTLE (MALAYSIA) BHD	MP	94.98	106.00	11.6%	22,272.8	Y	12/2026	256.9	284.7	20.2%	10.8%	37.0	33.4	38.3	104.1%	255.0	2.7%
PADINI HOLDINGS BHD	OP	1.42	1.75	23.2%	1,401.3	Y	06/2026	14.0	15.9	-15.0%	13.5%	10.1	8.9	1.1	11.1%	9.2	6.5%
POWER ROOT BHD	MP	1.12	1.08	-3.6%	468.7	Y	03/2026	5.6	7.2	-21.5%	28.3%	20.0	15.6	1.6	7.5%	5.0	4.5%
QL RESOURCES BHD	MP	3.44	4.05	17.7%	12,556.9	Y	03/2026	12.2	13.4	-2.0%	9.5%	28.1	25.7	3.5	14.1%	5.0	1.5%
KAREX BHD	MP	0.480	0.530	10.4%	505.7	Y	06/2026	0.1	2.1	250.0%	3085.7%	722.1	22.7	1.1	0.2%	1.5	3.1%
SECTOR AGGREGATE					**68,214.5**					**4.0%**	**13.3%**	**25.6**	**22.6**	**4.5**	**17.5%**		**3.5%**

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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