

Kenneth Leong

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Recommendation: **HOLD**

Current Price: **RM 3.75**

Previous Target Price: **RM 4.67**

Target Price: ↓ **RM 3.79**

Upside/Downside: 1.1%

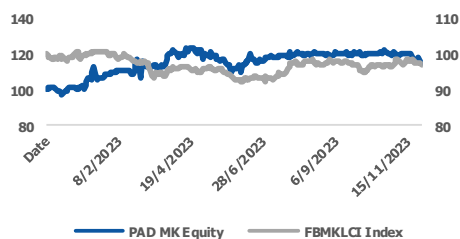
Stock information

Board	MAIN
Sector	Consumer Products
Bursa / Bloomberg Code	7052 / PAD MK
Syariah Compliant	Yes
FTSE4Good Index	Yes
FTSE ESG Rating	☆☆★★
Bloomberg ESG Rating	N/A
Shares issued (m)	657.9
Market Cap (RM' m)	2,467.2
52-Week Price Range (RM)	4.164-3.227
Beta (x)	0.6
Free float (%)	30.0
3M Average Volume (m)	0.3
3M Average Value (RM' m)	1.2

Top 3 Shareholders (%)

YONG PANG CHAUN HOLDINGS SDN BHD	43.7
Kumpulan Wang Persaraan Diperbadan	7.8
Employees Provident Fund Board	6.0

Share Price Performance



	1M	3M	12M
Absolute (%)	-3.8	-4.6	11.4
Relative (%)	-5.0	-3.9	14.4

Padini Holdings Berhad

Starting on a lower gear







Summary

- **3MFY24 core net profit at RM26.7m came below expectations, accounting to only 12.0% of our core net profit forecast at RM222.7m, mainly on weaker-than-expected margins arising from higher purchase costs.**
- **Aims to increase additional 5 stores for FY24 and is undertaking measures to improve warehouse operations through automation processes and implementation of RFID.**
- **Downgrade our recommendation to HOLD on PADINI with a lower target price of RM3.79, by pegging 14.0x P/E multiple to FY24F EPS of 27.0 sen**

Results Review

- **Results review.** 1QFY24 core net profit slipped 45.4% yoy to RM26.7m, dragged down by rising staff costs as well as higher average purchase cost (higher raw materials and unfavourable forex changes). Revenue for the quarter, however, rose 2.4% yoy to RM388.2m.
- **Results below expectations.** 3MFY24 core net profit at RM26.7m came below expectations, accounting to only 12.0% of our core net profit forecast at RM222.7m and was at 11.6% of consensus forecasted net profit of RM228.9m. Key deviation is mainly on weaker-than-expected margins arising from higher purchase costs.
- **Operations Highlights.** Number of stores at end-1QFY24 fell slightly to 147 vs. 148 recorded at end-4QFY23. All brand segments reported improvement in topline, but was weighed down by weaker margins. Gross margins during the quarter stood at 36.1%, falling from 39.2% registered in the previous corresponding quarter.
- **Industry Highlights.** Competitive landscape remains in place as players across the market strive to capture additional market shares through aggressive promotional activities and new store openings. Malaysia retail sales growth expected to remain soft as Retail Group Malaysia (RGM) has also cut their annual retail industry growth rate for 2023 to +2.7% yoy (from +4.8% yoy projected earlier).
- **Outlook.** Looking ahead, we gather that there are no plans to hike selling price, despite the higher raw material prices. Although 1QFY24 came below expectations, we opine that the quarter ahead to deliver improvement on expectations of better sales from the usual year-end festive season. The group also aims to increase additional 5 stores for FY24 and is undertaking measures to improve warehouse operations through automation processes and implementation of RFID.
- **Valuation.** Cut our earnings forecast by 21.1% and 17.3% for FY24F and FY25F respectively to adjust for the higher operational costs. Consequently, we downgrade our recommendation on PADINI to **HOLD** with a lower target price of RM3.79, by pegging 14.0x P/E multiple to FY24F EPS of 27.0 sen.
- **Risk.** Exposure to foreign exchange risk given that raw materials are imported from overseas. Weaker-than-expected retail purchasing power may dampen sales projection.

Figure 1: Results Comparison

FYE Jun (RM m)	1QFY24	1QFY23	YoY (%)	4QFY23	QoQ (%)	3MFY23	3MFY24	YoY (%)	5 Quarters Trend	Comments
Revenue	388.2	379.1	2.4	476.3	(18.5)	379.1	388.2	(2.3)		Seasonally softer 1Q
EBITDA	66.0	92.8	(28.9)	115.9	43.0	92.8	66.0	40.6		
Pre-tax profit	34.9	64.1	(45.5)	76.4	54.3	64.1	34.9	83.6		Dampened by rising cost
Net profit	26.7	48.9	(45.4)	57.3	53.5	48.9	26.7	83.2		
Core net profit	26.7	48.9	(45.4)	57.3	53.5	48.9	26.7	83.2		
Core EPS (sen)	0.8	1.4	(45.4)	1.7	53.5	1.4	0.8	83.2		
EBITDA margin (%)	17.0	24.5		24.3		24.5	17.0			
PBT margin (%)	9.0	16.9		16.0		16.9	9.0			
Core PATMI margin (%)	6.9	12.9		12.0		12.9	6.9			

Source: Company, Apex Securities

Income Statement

FYE Jun (RM m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	1029.4	1319.1	1822.1	1851.8	1965.9
Gross Profit	389.5	507.5	717.8	666.7	707.7
EBITDA	211.7	330.0	416.8	370.4	393.2
Depreciation & Amortisation	-124.3	-116.5	-116.1	-123.9	-131.6
EBIT	87.4	213.5	300.8	246.4	261.6
Net Finance Income/ (Cost)	-13.3	-8.4	-4.9	-9.3	-11.2
Associates & JV	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	74.1	205.1	295.9	237.2	250.4
Tax	-20.1	-51.0	-73.2	-59.3	-62.6
Profit After Tax	54.1	154.1	222.7	177.9	187.8
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	54.1	154.1	222.7	177.9	187.8
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	54.1	154.1	222.7	177.9	187.8

Key Ratios

FYE Jun (RM m)	FY21	FY22	FY23	FY24F	FY25F
EBITDA margin	20.6%	25.0%	22.9%	20.0%	20.0%
EBIT margin	8.5%	16.2%	16.5%	13.3%	13.3%
PBT margin	7.2%	15.5%	16.2%	12.8%	12.7%
PAT margin	5.3%	11.7%	12.2%	9.6%	9.6%
NP margin	5.3%	11.7%	12.2%	9.6%	9.6%
Core NP margin	5.3%	11.7%	12.2%	9.6%	9.6%
ROE	6.7%	17.3%	21.4%	15.4%	14.7%
ROA	11.4%	31.4%	39.7%	26.9%	23.3%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Key Assumptions

FYE Jun (RM m)	FY21	FY22	FY23	FY24F	FY25F
Total no. of stores	130.0	133.0	135.0	140.0	145.0
Total Gross Floor Area (m sqft)	1.4	1.4	1.5	1.5	1.5
Average revenue/store (RM m)	7.9	9.9	13.5	13.2	13.6

Valuations

	FY25F
Core EPS (RM)	0.270
P/E multiple (x)	14.0
Fair Value (RM)	3.79

Source: Company, Apex Securities

Balance Sheet

FYE Jun (RM m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	1029.4	1319.1	1822.1	1851.8	1965.9
Gross Profit	389.5	507.5	717.8	666.7	707.7
EBITDA	211.7	330.0	416.8	370.4	393.2
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Profit After Tax	54.1	154.1	222.7	177.9	187.8
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	54.1	154.1	222.7	177.9	187.8
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	54.1	154.1	222.7	177.9	187.8

Cash Flow

FYE Jun (RM m)	FY21	FY22	FY23	FY24F	FY25F
Pre-tax profit	74.1	205.1	295.9	237.2	250.4
Depreciation & amortisation	124.3	116.5	116.1	123.9	131.6
Changes in working capital	25.8	187.6	-367.4	-75.7	-27.7
Others	-38.3	-35.3	-63.8	-63.8	-63.8
Operating cash flow	111.8	268.9	-315.1	-15.6	40.1
Net capex	-5.6	-16.3	-28.6	-129.6	-137.6
Others	7.8	-19.0	16.8	16.8	16.8
Investing cash flow	2.2	-35.4	-11.7	-112.8	-120.8
Dividends paid	-16.4	-65.8	-75.7	-65.8	-65.8
Others	-89.8	-90.8	-104.7	-104.7	-104.7
Financing cash flow	-106.2	-156.6	-180.3	-170.5	-170.5
Net cash flow	7.9	76.9	-507.2	-298.8	-251.1
Forex	0.3	3.1	4.6	4.6	4.6
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	441.5	523.8	808.9	602.1	545.0
Ending cash	523.8	808.9	602.1	545.0	548.9

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD

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RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain + dividend yield

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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