

Chelsea Chew

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Recommendation:	HOLD
Current Price:	RM 3.28
Previous Target Price:	RM 4.32
Target Price:	RM 3.51
Upside/Downside:	7.0%

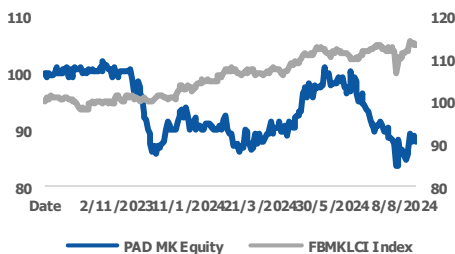
Stock information

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)	2,157.9
52-Week Price Range (RM)	3.994-3.18
Beta (x)	0.5
Free float (%)	34.1
3M Average Volume (m)	0.3
3M Average Value (RM' m)	0.9

Top 3 Shareholders (%)

Yong Pang Chaun Holdings Sdn Bhd	43.7
Kumpulan Wang Persaraan Diperbadan	9.7
Employees Provident Fund Board	7.5

Share Price Performance



	1M	3M	12M
Absolute (%)	-5.5	-15.6	-16.6
Relative (%)	-7.7	-17.4	-27.1

Padini Holdings Berhad

Lukewarm quarter

Summary

- **PADINI 4QFY24 core net profit of RM22.8m (-60.8% yoy and -50.3% qoq) came below ours and consensus expectations, constituting 89% and 91% of forecast respectively, impacted by higher depreciation and staff costs along with decline in GP margin from 39% to 36%.**
- **Kept our earnings forecast unchanged for FY25F and introduced FY26F core net profit at RM202.7m (+7.1% yoy) on gradual improvement in SSSG.**
- **Downgrade our recommendation to HOLD, with lower target price of RM3.51, based on lower P/E multiple of 11.4x for the FY26F EPS of 31.0 sen.**

Results Review










- **Results review.** 4QFY24 core net profit fell -60.8% yoy and -50.3% qoq to RM22.8m, mainly due to higher depreciation and staff costs along with decline in gross profit margin from 39% to 36%. Revenue for the quarter declined -4.4% yoy and -20.9% qoq to RM455.2m. A first interim dividend of 2.5 sen per share, payable on 13 September 2024, was declared.
- **Below expectations.** 12MFY24 core net profit of RM153.4m came below expectations, accounting to 89% and 91% of ours and consensus expectations. Key deviation is mainly due to higher-than-expected depreciation charges.
- **Operations Highlights.** During this quarter, the decrease in the top line was mainly dragged by decline in the Same Store Sales Growth (SSSG), which fell by -10.7% yoy, which is seasonal effect. The decline in the bottom line was primarily due to a lower GP margin and higher staff costs, stemmed from higher recruitment.
- **Industry Highlights.** The 2Q24 report on Malaysia's GDP shows that retail sales grew by +7.9% yoy in June 2024, moderating from the +8.7% yoy growth in May 2024. Hence, we reckon retail sales to remain lukewarm in the coming months. Nevertheless, the normalisation of retail sales growth is expected to be mitigated by the Malaysian government announcement on 16 August 2024 over a phased salary adjustment for civil servants: 15% for those in professional roles and 7% for top management, starting 1 December 2024.
- **Outlook.** Amid rising geopolitical tensions, material costs and freight charges may continue to remain elevated. Although reported topline met our expectations, we anticipate that retail sales might soften in the upcoming quarter, as it is expected to be another quiet quarter for the Group. However, we foresee that the activewear and loungewear categories could see a elevate in sales.
- **Valuation.** We are keeping our earnings forecast unchanged for FY25F, as the reported results met expectations. We are introducing a FY26F earnings forecast of RM202.7m. However, we are downgrading our recommendation on **PADINI** to **HOLD** from BUY and reducing the target price to RM3.51. This is based on a lower P/E multiple of 11.4x for the FY26F EPS of 31.0 sen. We applied a 20% discount to

PADINI's valuation compared to the peer average P/E of 14.2 due to retail sales challenges.

- **Risk.** Exposed to foreign exchange risk with potential short-term increases in material costs and freight charges.

Wednesday, August 28, 2024

Company Results

FYE Jun (RM m)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)	12MFY23	12MFY24	YoY (%)	5 Quarters Trend	Comments
Revenue	455.2	476.3	(4.4)	575.4	(20.9)	1,822.1	1,918.8	5.3		Declined due to lower SSSG
EBITDA	92.7	115.9	(20.0)	71.6	29.5	416.8	332.5	(20.2)		
Pre-tax profit	36.2	76.4	(52.7)	54.7	(33.8)	295.9	196.7	(33.5)		Impacted by higher depreciation and staff costs
Net profit	26.3	57.3	(54.1)	40.5	(35.1)	222.7	146.6	(34.2)		
Core net profit	22.8	58.0	(60.8)	45.8	(50.3)	227.8	153.4	(32.6)		
Core EPS (sen)	0.7	1.7	(60.8)	1.3	(50.3)	6.6	4.5	(32.6)		
EBITDA margin (%)	20.4	24.3		12.4		22.9	17.3			
PBT margin (%)	7.9	16.0		9.5		16.2	10.3			
Core PATMI margin (%)	5.0	12.2		8.0		12.5	8.0			

Source: Company, Apex Securities

Financial Highlights
Income Statement

FYE Jun (RM m)	FY22	FY23	FY24	FY25F	FY26F
Revenue	1319.1	1822.1	1851.8	1965.9	2084.5
Gross Profit	507.5	717.8	666.7	707.7	750.4
EBITDA	330.0	416.8	370.4	393.2	416.9
Depreciation & Amortisation	-116.5	-116.1	-123.9	-131.6	-139.7
EBIT	213.5	300.8	246.4	261.6	277.2
Net Finance Income/ (Cost)	-8.4	-4.9	-8.5	-9.3	-6.9
Associates & JV	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	205.1	295.9	237.9	252.3	270.3
Tax	-20.1	-51.0	-73.2	-59.5	-63.1
Profit After Tax	154.1	222.7	178.4	189.2	202.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	154.1	222.7	178.4	189.2	202.7
Exceptionals	1.9	-5.1	-6.8	0.0	0.0
Core Net Profit	156.0	217.6	171.6	189.2	202.7

Key Ratios

FYE Jun (RM m)	FY22	FY23	FY24	FY25F	FY26F
EBITDA margin	25.0%	22.9%	20.0%	20.0%	20.0%
EBIT margin	16.2%	16.5%	13.3%	13.3%	13.3%
PBT margin	15.5%	16.2%	12.8%	12.8%	13.0%
PAT margin	11.7%	12.2%	9.6%	9.6%	9.7%
NP margin	11.7%	12.2%	9.6%	9.6%	9.7%
Core NP margin	11.7%	12.2%	9.6%	9.6%	9.7%
ROE	17.3%	21.4%	15.5%	14.8%	14.3%
ROA	10.3%	13.4%	10.0%	9.7%	9.6%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Key Assumptions

FYE Jun (RM m)	FY22	FY23	FY24	FY25F	FY26F
Total no. of stores	133.0	135.0	140.0	145.0	150.0
Total Gross Floor Area (m sqft)	14	15	15	15	16
Average revenue/store (RM m)	9.9	13.5	13.2	13.6	13.9

Valuations

	FY26F
Core EPS (RM)	0.308
P/E multiple (x)	11.4
Fair Value (RM)	3.51

Source: Company, Apex Securities

Balance Sheet

FYE Jun (RM m)	FY22	FY23	FY24	FY25F	FY26F
Cash	808.9	605.3	621.9	767.4	932.6
Receivables	56.5	66.0	71.0	75.4	80.0
Inventories	137.3	433.2	521.5	528.2	523.0
Other current assets	13	0.0	0.0	0.0	0.0
Total Current Assets	1003.9	1104.5	1214.5	1371.0	1535.5
Fixed Assets	816	918	97.5	103.5	109.7
Intangibles	3.3	3.9	3.9	3.9	3.9
Other non-current assets	405.3	465.9	465.9	465.9	465.9
Total Non-current assets	490.1	561.6	567.3	573.3	579.5
Short-term Debt	73.7	94.5	99.2	104.2	109.4
Payables	178.3	125.2	105.2	120.0	128.4
Other Current Liabilities	25.0	27.3	27.3	27.3	27.3
Total Current Liabilities	277.1	247.0	231.7	251.4	265.1
Long-term Debt	317.5	366.9	385.3	404.5	424.8
Other non-current liabilities	8.4	12.1	12.1	12.1	12.1
Total Non-current Liabilities	325.9	379.0	397.4	416.7	436.9
Shareholder's equity	891.1	1040.1	1152.7	1276.2	1413.1
Minority interest	0.0	0.0	0.0	0.0	0.0
Equity	891.1	1040.1	1152.7	1276.2	1413.1

Cash Flow

FYE Jun (RM m)	FY22	FY23	FY24	FY25F	FY26F
Pre-tax profit	205.1	295.9	237.9	252.3	270.3
Depreciation & amortisation	116.5	116.1	123.9	131.6	139.7
Changes in working capital	187.6	-367.4	-113.4	3.8	9.1
Others	-35.3	-63.8	-59.5	-63.1	-67.6
Operating cash flow	474.0	-19.2	188.9	324.6	351.5
Net capex	-16.3	-28.6	-129.6	-137.6	-145.9
Others	-19.0	16.8	0.0	0.0	0.0
Investing cash flow	-35.4	-11.7	-129.6	-137.6	-145.9
Dividends paid	-65.8	-75.7	-65.8	-65.8	-65.8
Others	-90.8	-104.7	23.1	24.2	25.4
Financing cash flow	-156.6	-180.3	-42.7	-41.6	-40.4
Net cash flow	282.0	-211.3	16.6	145.5	165.2
Forex	3.1	4.6	0.0	0.0	0.0
Others	0.0	-3.2	0.0	0.0	0.0
Beginning cash	523.8	808.9	605.3	621.9	767.4
Ending cash	808.9	605.3	621.9	767.4	932.6

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
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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

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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