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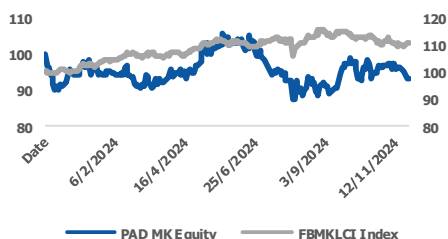
<b>Recommendation:</b>	<b>HOLD</b>
<b>Current Price:</b>	<b>RM 3.40</b>
<b>Previous Target Price:</b>	<b>RM 3.51</b>
<b>Target Price:</b>	<b>RM 3.13</b>
<b>Upside/Downside:</b>	<b>-7.9%</b>

**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)	2,236.9
52-Week Price Range (RM)	3.954-3.15
Beta (x)	0.5
Free float (%)	43.9
3M Average Volume (m)	0.2
3M Average Value (RM' m)	0.8

<b>Top 3 Shareholders</b>	<b>(%)</b>
Yong Pang Chaun Holdings Sdn Bhd	43.7
Kumpulan Wang Persaraan Diperbadan	10.2
Employees Provident Fund Board	7.3

**Share Price Performance**



	<b>1M</b>	<b>3M</b>	<b>12M</b>
Absolute (%)	-2.9	1.5	-9.0
Relative (%)	-2.3	6.8	-16.8

## Padini Holdings Berhad

### Dampened by seasonally weaker quarter

#### Summary

- **Padini reported a 1QFY25 core net profit of RM19.8m (-12.8% qoq, -27.3% yoy), which came below expectations, accounting to only 11.9%/11.0% of ours and consensus full-year expectations respectively with key deviation mainly due to higher-than-expected in admin and depreciation costs.**
- **Upcoming festive seasons (Christmas & CNY) along with salary hike in civil servants effective 1 Dec 2024 could boost retail spending and may invariably translate to better sales volume.**
- **Post earnings forecast revision for FY25F/26F (-19.9%/-10.7%) to RM133.1m/RM181.0m to account for the higher administrative expenses, we downgrade our recommendation to HOLD, with a lower target price of RM3.13 based on a P/E multiple of 11.4x pegged to FY26F EPS of 2.8 sen.**

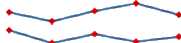








#### Results Review

- **Below expectations.** Padini's 3MFY24 core net profit (CNP) of RM19.8m accounted for 11.9% of our and 11.0% street's full-year CNP forecast of RM166.3m/RM173.0m, respectively. Despite missing earnings expectations, topline deemed within expectations, accounting for 19.3%/20.0% of both revenue forecasts of RM2.04bn/RM1.96bn, respectively. The weaker quarterly earnings were due to margin contraction, attributed to higher-than-expected staff and depreciation costs.
- **Proposed dividend.** Dividend on 2.5 sen per share, payable on 27 Dec 2024 was declared during the quarter.
- **QoQ.** 1QFY25 CNP declined by -12.8% qoq to RM19.8m (excluding net unrealised forex loss), with a -13.6% qoq decrease in revenue at RM388.2m. The weaker CNP was due to higher OPEX and depreciation expenses. Several larger scale PCS outlets, such as Sunway Pyramid, Sunway Velocity, and Aman Central Mall, underwent refurbishment and maintenance during this seasonally quieter quarter, resulting in higher construction-related depreciation expenses. The decline in topline revenue was attributed to high base effects from the Hari Raya and school holiday sales.
- **YoY.** 3MFY25 CNP declined -27.3% yoy to RM19.8m; weakness was due to a higher OPEX due to elevated depreciation charges. However, the top-line rose +1.3% yoy to RM388.2m due to higher sales volume.
- **Outlook.** Padini is highly affected by the seasonal shopping trend. This quarter is traditionally a quiet quarter for most retailers. Multiple major contribution outlets (such as PCS and Vincci in Sunway Pyramid, Sunway Velocity) are currently undergoing refurbishment. Most have reopened with promotions such as "11.11", "Black Friday", and grand reopening sales, which should lead to a boost in sales in the next quarter. According to MRA and MRCA estimations, Malaysia's retail sector is expected to grow 3.2% yoy in 4QCY24.
- Padini consistently collaborates with several well-known brands include X-Men, Joker, and Harley Quinn, and with future partnerships in the pipeline. Bintulu PCS

and Penang 's PCS on Portofino brand are coming online in the next quarter could strengthen online presence. Meanwhile, we reckon Christmas and CNY should boost sales in upcoming quarters ahead. Additionally, the first phase of civil servant pay raise taking effect 1 Dec 2024, followed by 7% raise in the second phase in Jan 2025 could boost retail spending and may invariably translate to better sales volume. Therefore, we are optimistic on potential improved sales volumes over the next two quarters.

- **Earnings revision.** For FY25F, we raised OPEX cost by 4.0%. As a result, OPEX will constitute up to 20% of topline to account for higher-than-expected staff cost. Meanwhile, new stores require time to ramp up sales and breakeven. We believe higher personnel costs will weigh onto OPEX in 2025, due to higher headcount from an increased number of operational brick-and-mortar outlets and hike on minimum wage. We have also revised FY26F earnings, inputting (i) a c.1% in GP margin improvement on expectations of a better product mix and (ii) Higher OPEX charges due to higher minimum wage.
- **Valuation.** Downgrade to **HOLD** recommendation with a lower TP of **RM3.13** (from RM3.51). This is based on a P/E multiple of 11.4x pegged to FY26F EPS of 2.8 sen. The ascribe P/E is at 6.0% discount to Padini's 2-year historical average. Although the retail industry's outlook is challenging, we think Padini will see stronger results in the next couple of quarters due to seasonal effects combined with an increased number of brick-and-mortar outlets in operation.
- **Risks.** Forex volatility may cause short term increases in material cost and freight charges.

Figure 1: Results Comparison

FYE Jun (RM m)	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)	3MFY24	3MFY25	YoY (%)	5 Quarters Trend	Comments
Revenue	393.1	388.2	1.3	455.2	(13.6)	388.2	393.1	1.3		Declined due to lower sales during the quiet quarter
EBITDA	52.9	66.0	(19.9)	92.7	(42.9)	66.0	52.9	(19.9)		
Pre-tax profit	16.3	34.9	(53.2)	36.2	(54.9)	34.9	16.3	(53.2)		Impacted by higher opex & depreciation
Net profit	11.5	26.7	(56.8)	26.3	(56.2)	26.7	11.5	(56.8)		
Core net profit	19.8	27.3	(27.3)	22.8	(12.8)	27.3	19.8	(27.3)		
Core EPS (sen)	0.6	0.8	(27.3)	0.7	(12.8)	0.8	0.6	(27.3)		
EBITDA margin (%)	13.5	17.0		20.4		17.0	13.5			
PBT margin (%)	4.2	9.0		7.9		9.0	4.2			
Core PATMI margin (%)	5.0	7.0		5.0		7.0	5.0			

Source: Company, Apex Securities

## Financial Highlights

### Income Statement

FYE Jun (RM m)	FY22	FY23	FY24	FY25F	FY26F
<b>Revenue</b>	<b>1319.1</b>	<b>1822.1</b>	<b>1918.8</b>	<b>2037.1</b>	<b>2160.0</b>
<b>Gross Profit</b>	<b>507.5</b>	<b>717.8</b>	<b>695.1</b>	<b>733.3</b>	<b>799.2</b>
<b>EBITDA</b>	<b>330.0</b>	<b>416.8</b>	<b>294.7</b>	<b>325.9</b>	<b>399.6</b>
Depreciation & Amortisation	-116.5	-116.1	-92.3	-150.0	-148.2
<b>EBIT</b>	<b>213.5</b>	<b>300.8</b>	<b>202.4</b>	<b>176.0</b>	<b>251.4</b>
Net Finance Income/ (Cost)	-8.4	-4.9	-5.7	-8.4	-10.1
Associates & JV	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>205.1</b>	<b>295.9</b>	<b>196.7</b>	<b>167.5</b>	<b>241.3</b>
Tax	-20.1	-51.0	-73.2	-50.1	-41.9
<b>Profit After Tax</b>	<b>154.1</b>	<b>222.7</b>	<b>146.6</b>	<b>125.6</b>	<b>181.0</b>
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>154.1</b>	<b>222.7</b>	<b>146.6</b>	<b>125.6</b>	<b>181.0</b>
Exceptionals	1.9	-5.1	-6.8	-7.5	0.0
<b>Core Net Profit</b>	<b>152.2</b>	<b>227.8</b>	<b>153.4</b>	<b>133.1</b>	<b>181.0</b>

### Key Ratios

FYE Jun (RM m)	FY22	FY23	FY24	FY25F	FY26F
EBITDA margin	25.0%	22.9%	15.4%	16.0%	18.5%
EBIT margin	16.2%	16.5%	10.5%	8.6%	11.6%
PBT margin	15.5%	16.2%	10.3%	8.2%	11.2%
PAT margin	11.7%	12.2%	7.6%	6.2%	8.4%
NP margin	11.7%	12.2%	7.6%	6.2%	8.4%
Core NP margin	11.7%	12.2%	7.6%	6.2%	8.4%
ROE	17.3%	21.4%	13.2%	10.7%	14.1%
ROA	10.3%	13.4%	8.0%	6.6%	8.8%
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 (Malaysia only)	133.0	135.0	140.0	145.0	150.0
Total Gross Floor Area (m sqft)	1.4	1.5	1.5	1.5	1.5
Average revenue/store (RM m)	9.9	13.5	13.7	14.0	14.4

### Valuations

	FY26F
Core EPS (RM)	0.28
P/E multiple (x)	11.4
<b>Fair Value (RM)</b>	<b>3.13</b>

Source: Company, Apex Securities

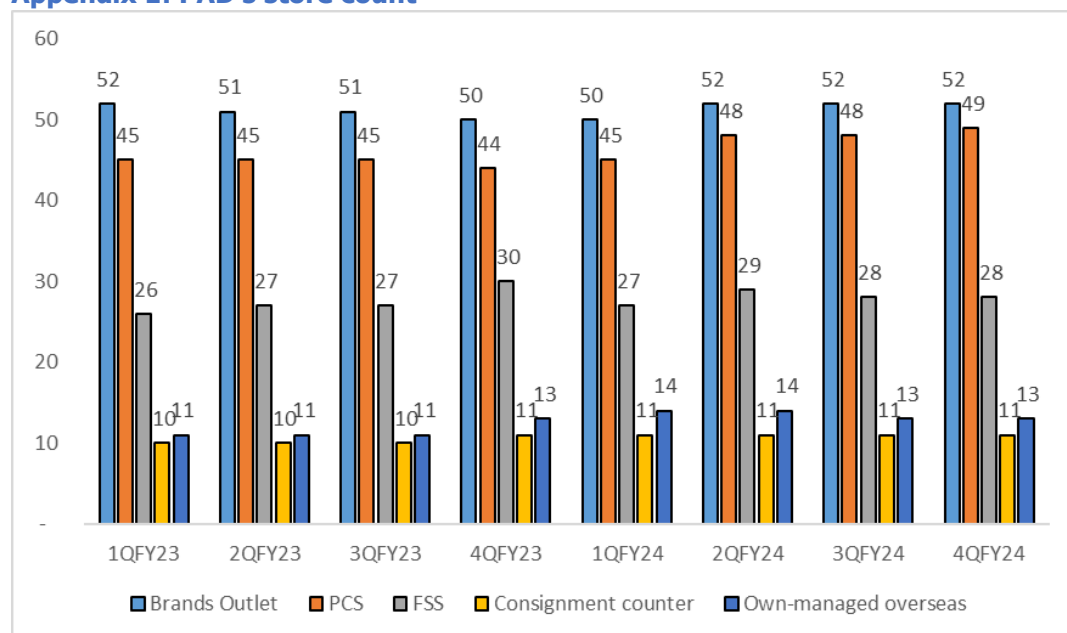
### Balance Sheet

FYE Jun (RM m)	FY22	FY23	FY24	FY25F	FY26F
Cash	808.9	602.1	791.0	782.7	926.6
Receivables	56.5	66.0	70.4	78.1	82.8
Inventories	137.3	433.2	288.2	391.2	400.3
Other current assets	1.3	0.0	33.1	0.0	0.0
<b>Total Current Assets</b>	<b>1003.9</b>	<b>1101.3</b>	<b>1182.8</b>	<b>1252.0</b>	<b>1409.7</b>
Fixed Assets	81.6	91.8	624.9	617.5	620.5
Intangibles	3.3	3.9	3.2	3.2	3.2
Other non-current assets	405.3	465.9	18.3	18.3	18.3
<b>Total Non-current assets</b>	<b>490.1</b>	<b>561.6</b>	<b>646.5</b>	<b>639.1</b>	<b>642.1</b>
Short-term Debt	73.7	91.3	110.3	115.8	121.6
Payables	178.3	125.2	151.6	131.6	148.1
Other Current Liabilities	25.0	27.3	7.9	2.4	2.4
<b>Total Current Liabilities</b>	<b>277.1</b>	<b>243.8</b>	<b>269.8</b>	<b>249.8</b>	<b>272.2</b>
Long-term Debt	317.5	366.9	440.1	462.1	485.2
Other non-current liabilities	8.4	12.1	8.2	8.2	8.2
<b>Total Non-current Liabilities</b>	<b>325.9</b>	<b>379.0</b>	<b>448.4</b>	<b>470.4</b>	<b>493.5</b>
Shareholder's equity	891.1	1040.1	1111.1	1171.0	1286.2
Minority interest	0.0	0.0	0.0	0.0	0.0
<b>Equity</b>	<b>891.1</b>	<b>1040.1</b>	<b>1111.1</b>	<b>1171.0</b>	<b>1286.2</b>

### Cash Flow

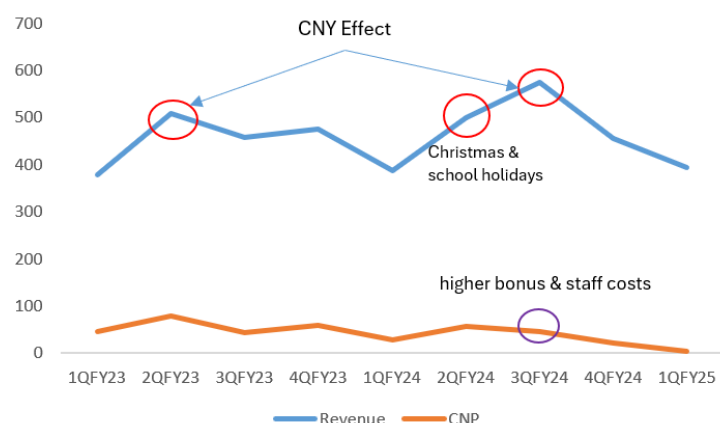
FYE Jun (RM m)	FY22	FY23	FY24	FY25F	FY26F
<b>Pre-tax profit</b>	<b>205.1</b>	<b>295.9</b>	<b>196.7</b>	<b>167.5</b>	<b>241.3</b>
Depreciation & amortisation	116.5	116.1	92.3	150.0	148.2
Changes in working capital	187.6	-367.4	148.4	-103.1	2.8
Others	-35.3	-63.8	-9.5	-41.9	-60.3
<b>Operating cash flow</b>	<b>474.0</b>	<b>-19.2</b>	<b>427.8</b>	<b>172.5</b>	<b>332.0</b>
Net capex	-16.3	-28.6	-55.5	-142.6	-151.2
Others	-19.0	16.8	20.1	0.0	0.0
<b>Investing cash flow</b>	<b>-35.4</b>	<b>-11.7</b>	<b>-35.3</b>	<b>-142.6</b>	<b>-151.2</b>
Dividends paid	-65.8	-75.7	-75.7	-65.8	-65.8
Others	-90.8	-104.7	-128.5	27.5	28.9
<b>Financing cash flow</b>	<b>-156.6</b>	<b>-180.3</b>	<b>-204.1</b>	<b>-38.3</b>	<b>-36.9</b>
<b>Net cash flow</b>	<b>282.0</b>	<b>-211.3</b>	<b>188.4</b>	<b>-8.4</b>	<b>143.9</b>
Forex	3.1	4.6	0.5	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	523.8	808.9	602.1	791.0	782.7
<b>Ending cash</b>	<b>808.9</b>	<b>602.1</b>	<b>791.0</b>	<b>782.7</b>	<b>926.6</b>

### Appendix 1: PAD's store count



Source: Padini, Apex Securities

### Appendix 2: Seasonal impact on PAD's revenue and CNP



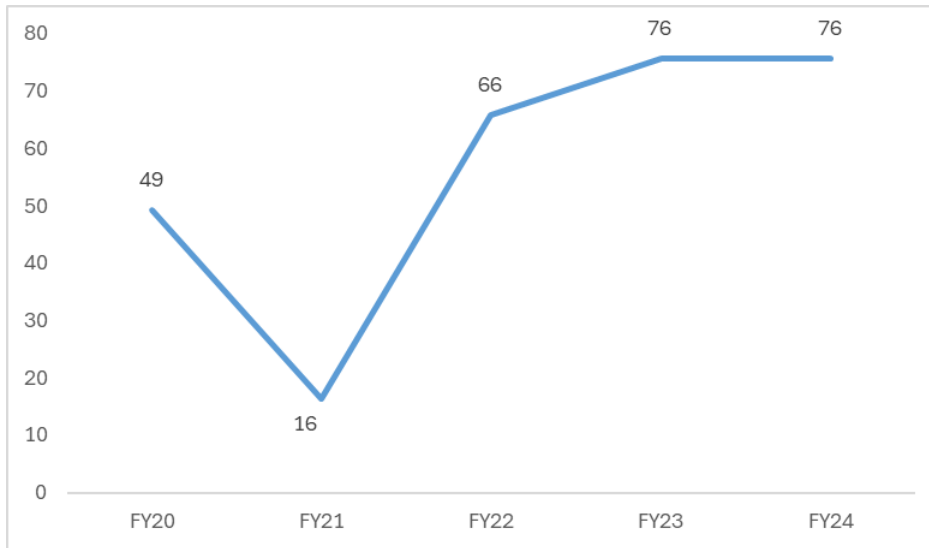
Source: Padini, Apex Securities

### Appendix 3: Historical growth vs 1Q

	FY23				FY24			
	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
<b>Revenue</b>	379	509	457	476	388	500	575	455
Quarterly growth vs 1Q		▲ 34%	▲ 21%	▲ 26%		▲ 29%	▲ 48%	▲ 17%
<b>CNP</b>	47	78	45	58	27	58	46	23
Quarterly growth vs 1Q		▲ 66%	▼ -5%	▲ 24%		▲ 111%	▲ 68%	▼ -17%

Source: Padini, Apex Securities

**Appendix 4: Historical dividend payout**



Source: Padini, Apex Securities

\*Note: Historically, Padini has paid dividends even in low-earnings situation.

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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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