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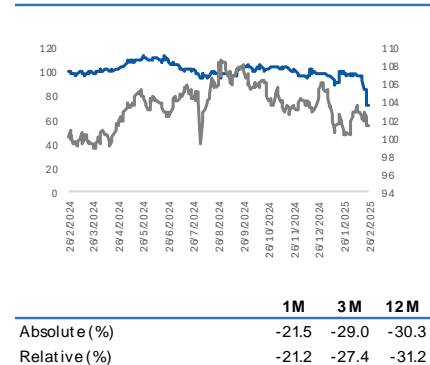
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Recommendation:	BUY
Current Price:	RM 1.61
Previous Target Price:	RM 2.09
Target Price:	RM 1.78
Capital Upside/ Downside:	10.6%
Dividend Yield (%):	6.2%
Total Upside/ Downside:	16.8%

Stock information

Board	MAIN
Sector	Consumer
Bursa/ Bloomberg Code	7052/ PADMK
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	986.9
Market Cap (RM' m)	1,588.9
52-Week Price Range (RM)	2.636-1.6
Beta (x)	0.6
Free float (%)	43.9
3M Average Volume (m)	0.4
3M Average Value (RM' m)	0.8

Top 3 Shareholders	(%)
Yong Pang Chaun Holdings Sdn Bhd	43.7
Kumpulan Wang Persaraan Diperbadan	10.2
Employees Provident Fund Board	7.6

Share Price Performance

Padini Holdings Berhad

Better quarter but flattish growth

Executive Summary

- Padini's (PAD) 2QFY25 core net profit of RM58.6m (+7.7% yoy, +183.0% qoq), bringing 6MFY25 CNP to RM79.3m (-2.1% yoy) came above our but within market's expectations. Quarterly CNP was increased significantly in qoq but rose gradually at RM58.6m, bringing 1HFY25 CNP to RM79.3m.
- The Group declared a third interim of 1.8 sen/share in 2QFY25 (2QFY25: 2.5 sen/share), bringing the YTD DPS to 7.7 sen/share (1HFY24: 8.1 sen/share).
- Upgrade to BUY recommendation with a lower target price of RM1.78 (from RM2.09), pegged to 11.2x PE multiple on FY26F EPS of 15.8 sen, ascribed with three-star ESG rating.

Results above expectations. Padini's (PAD) 6MFY25 core net profit (CNP) reached RM79.3m (-2.1% yoy), was slightly exceeded our expectations, achieving 59.0%, but aligned with the market's expectations, with 55% of FY25F expectations.

Lower Dividend. The Group declared a third interim dividend of 1.8 sen in 2QFY25 (2QFY24: 2.5 sen), bringing the YTD DPS to 7.7 sen (2HFY24: 8.1 sen).

YoY. Excluding extraordinary items such as forex gains (RM5.7m) and fair value of unit trust gains (RM0.1m), 2QFY25 CNP experienced a slight growth at RM58.6m (+7.7% yoy). The growth was mainly driven by the improvement of gross profit margin from 38% to 40%.

YTD. For 6MFY25, CNP slipped 2.1% yoy to RM79.3m, due to higher OPEX occurring due to expansion in the number of outlets.

QoQ. CNP increased significantly by 183.0% qoq, lifted by improved sales volume from the year-end festive period.

Outlook. Looking ahead, higher personnel costs starting Feb 2025 will likely benefit PAD's sales. Some of the newly opened stores, such as PCS TRX, PCS Batu Pahat and BO Portofino Queensbay, will also start to mature.

Earnings Revision. There are no changes to FY25F earnings despite the results exceeding our expectations, as we expect 2HFY25 numbers to be seasonally weaker. However, we have trimmed FY26F earnings by 13.4% due to flat growth for PAD and higher OPEX and depreciation expenses, as we anticipate opening of three to four additional stores domestically in FY25F-FY26F (YTD: 142 stores).

Valuation. After accounting for the enlarged share base for a 1-for-2 bonus issue exercised on 17 Dec 2024 and following the recent share price underperformance, we upgrade our rating to **BUY** (from HOLD) with a revised target price of **RM1.78** (down from RM2.09). This target price is based on an 11.2x PE multiple applied to the FY26F EPS of 15.8 sen. It reflects a 0% ESG premium/discount, in line with the company's three-star ESG rating. The assigned PE multiple is set at -1 standard deviation of PAD's historical PE band. Despite the market's negative reaction and the significant sell-off following the 1QFY25 results miss, we believe the stock is slightly undervalued at current levels.

Risk. (i) Forex volatility may cause short term increases in material cost and freight charges.

Earnings Summary

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	48.6	133.0	277.3	373.4	539.4
EBITDA	416.8	294.7	325.9	367.2	381.4
Pre-tax profit	295.9	196.7	167.5	208.1	221.7
Net profit	222.7	146.6	125.6	156.1	166.3
Core net profit	227.8	153.4	134.0	156.1	166.3
Core EPS (sen)	23.1	15.5	13.6	15.8	16.9
P/E (x)	7.0	10.4	11.9	10.2	9.6
P/B (x)	1.5	1.4	1.4	1.3	1.3
EV/EBITDA (x)	2.1	3.0	3.0	2.7	2.8
Dividend Yield (%)	4.8%	4.8%	6.2%	6.2%	6.2%
Net Gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Source: Company, Apex Securities

Graph 1: PAD's 2-years PE band



Source: Bloomberg, Apex Securities

Results Note

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Results Comparison

FYE Jun (RM m)	2QFY25	2QFY24	yoy (%)	1QFY25	qoq (%)	6MFY25	6MFY24	yoy (%)	Comments
Revenue	525.6	500.1	5.1	393.1	33.7	918.8	888.3	3.4	
EBITDA	127.4	106.6	19.4	58.4	118.0	185.8	176.8	5.1	stronger sales volume
Pre-tax profit	85.9	70.9	21.1	16.3	426.2	102.3	105.9	(3.4)	
Net profit	64.4	53.1	21.3	11.5	459.0	75.9	79.8	(4.8)	
Core net profit	58.6	54.4	7.7	20.7	183.0	79.3	81.1	(2.1)	
Core EPS (sen)	5.9	5.5	7.7	2.1	183.0	8.0	8.2	(2.1)	improvement in GP margin from 38% to 40%
EBITDA margin (%)	24.2	21.3		14.9		20.2	19.9		
PBT margin (%)	16.4	14.2		4.2		11.1	11.9		
Core PATMI margin (%)	11.2	10.9		5.3		8.6	9.1		

Source: Company, Apex Securities

Results Note

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Financial Highlights

Income Statement

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	1822.1	1918.8	2037.1	2160.0	2243.5
Gross Profit	717.8	695.1	733.3	777.6	807.7
EBITDA	416.8	294.7	325.9	367.2	381.4
Depreciation & Amortisation	-116.1	-92.3	-150.0	-148.2	-148.9
EBIT	300.8	202.4	176.0	219.0	232.5
Net Finance Income/ (Cost)	-4.9	-5.7	-8.4	-10.9	-10.7
Associates & JV	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	295.9	196.7	167.5	208.1	221.7
Tax	-73.2	-50.1	-41.9	-52.0	-55.4
Profit After Tax	222.7	146.6	125.6	156.1	166.3
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	222.7	146.6	125.6	156.1	166.3
Exceptionals	-5.1	-6.8	-8.4	0.0	0.0
Core Net Profit	227.8	153.4	134.0	156.1	166.3

Key Ratios

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
P/E (x)	7.0	10.4	11.9	10.2	9.6
EPS	23.1	15.5	13.6	15.8	16.9
P/B (x)	1.5	1.4	1.4	1.3	1.3
EV/EBITDA (x)	2.1	3.0	3.0	2.7	2.8
DPS (sen)	7.7	7.7	10.0	10.0	10.0
Dividend Yield (%)	0.0	0.0	0.1	0.1	0.1
EBITDA margin	22.9%	15.4%	16.0%	17.0%	17.0%
EBIT margin	16.5%	10.5%	8.6%	10.1%	10.4%
PBT margin	16.2%	10.3%	8.2%	9.6%	9.9%
PAT margin	12.2%	7.6%	6.2%	7.2%	7.4%
NP margin	12.2%	7.6%	6.2%	7.2%	7.4%
Core NP margin	12.5%	8.0%	6.6%	7.2%	7.4%
ROE	21.4%	13.2%	11.0%	13.1%	13.2%
ROA	13.4%	8.0%	6.8%	8.0%	8.1%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

Key Assumptions

FYE Jun (RM m)	FY25F	FY26F	FY27F
Total no. of stores (Malaysia only)	145	150	152
Total Gross Floor Area (m sqft)	1.5	1.5	1.6
SSSG	2.5%	2.5%	2.5%
Average revenue/store (RM m)	14.0	14.4	14.8

Valuations	FY26F
Core EPS (RM)	0.16
P/E multiple (x)	11.2
Equity Value (RM)	1.78
ESG premium/discount	0.0%
Fair Value	1.78

Source: Company, Apex Securities

Balance Sheet

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Cash	602.1	791.0	749.8	814.3	850.8
Receivables	66.0	70.4	78.1	82.8	86.1
Inventories	433.2	288.2	391.2	421.9	475.3
Other current assets	0.0	33.1	0.0	0.0	0.0
Total Current Assets	1101.3	1182.8	1219.1	1319.0	1412.2
Fixed Assets	91.8	624.9	617.5	620.5	628.6
Intangibles	3.9	3.2	3.2	3.2	3.2
Other non-current assets	465.9	18.3	18.3	18.3	18.3
Total Non-current assets	561.6	646.5	639.1	642.1	650.2
Short-term Debt	91.3	110.3	115.8	121.6	127.7
Payables	125.2	151.6	131.6	148.1	151.5
Other Current Liabilities	27.3	7.9	2.4	2.4	2.4
Total Current Liabilities	243.8	269.8	249.8	272.2	281.6
Long-term Debt	366.9	440.1	462.1	485.2	509.5
Other non-current liabilities	12.1	8.2	8.2	8.2	8.2
Total Non-current Liabilities	379.0	448.4	470.4	493.5	517.7
Shareholder's equity	1040.1	1111.1	1138.1	1195.5	1263.1
Minority interest	0.0	0.0	0.0	0.0	0.0
Equity	1040.1	1111.1	1138.1	1195.5	1263.1

Cash Flow

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Pre-tax profit	295.9	196.7	167.5	208.1	221.7
Depreciation & amortisation	116.1	92.3	150.0	148.2	148.9
Changes in working capital	-367.4	148.4	-103.1	-18.8	-53.3
Others	-63.8	-9.5	-41.9	-52.0	-55.4
Operating cash flow	-19.2	427.8	172.5	285.5	261.9
Net capex	-28.6	-55.5	-142.6	-151.2	-157.0
Others	16.8	20.1	0.0	0.0	0.0
Investing cash flow	-11.7	-35.3	-142.6	-151.2	-157.0
Dividends paid	-75.7	-75.7	-98.7	-98.7	-98.7
Others	-104.7	-128.5	27.5	28.9	30.3
Financing cash flow	-180.3	-204.1	-71.2	-69.8	-68.3
Net cash flow	-211.3	188.4	-41.3	64.5	36.5
Forex	4.6	0.5	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	808.9	602.1	791.0	749.8	814.3
Ending cash	602.1	791.0	749.8	814.3	850.8

Results Note

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ESG Matrix Framework:

Environment

Parameters	Rating	Comments
Climate	★★★★	Sorona fabric is 37% plant-based, reducing reliance on fossil fuels and lowering GHG emissions. Around 14,600 apparel units were made with 100% Sorona.
Waste & Effluent	★★★★	In FY2024, about 18,400kg of apparel and footwear were collected from recycle bins at 25 outlets in Malaysia.
Energy	★★★★	Since the solar system installation, 4.2 GWh of clean energy has been produced, offsetting an estimated 3,276 tonnes of CO2 emissions.
Water	★★★	In FY2024, 10.72 megalitres of water were used, supported by eco-friendly products made from organic cotton, recycled cotton, sustainable cotton, and recycled polyester. Since there's no data for FY2023, it is not comparable, but we consider it average as sustainable products were launched that year.
Compliance	★	RM10,000 penalty to PAD Malaysia due to renovation at outlets without permit in FY2024.

Social

Diversity	★★★	The gender distribution of employees in Malaysia is 59% female and 41% male. There is room for improvement towards gender parity in Thailand, where female employees make up 93% and male employees 7% in FY2024.
Human Rights	★★★★	Zero number of substantiated complaints concerning human rights violations.
Occupational Safety and Health	★★★	In FY2024, PAD recorded 16 minor injuries in Malaysia, 2 in Thailand, and none in Cambodia. Most incidents occurred while organising stock in stores. To reduce accidents, PAS provided better equipment, conducted training, and issued a safety memo to staff.
Labour Practices	★★★	0.41% of employees that are contractors or temporary staff.

Governance

CSR Strategy	★★★	In FY2024, PAD made a positive impact through various philanthropic initiatives, donating around 1,900 cartons (29,000 pieces) of merchandise. Nineteen (19) NGOs benefited from the donations of products, cash, and in-kind support.
Management	★★	The Board currently has eleven (11) members, including five (5) Independent Non-Executive Directors and six (6) Non-Independent Executive Directors. 35% Female and 64% Male in the Board.
Stakeholders	★★★★	1x AGM per annum and 4/4 analyst briefings.

Overall ESG Scoring: ★★★

Recommendation Framework:

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.

ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.