Company Update| Friday, 02 September 2022

Padini Holdings Berhad

(7052 | PAD MK) | Consumer Products & Services| Retailers

***Maintain* NEUTRAL**

***Unchanged Target* Price: RM3.00**

Limited new store opening ahead

KEY INVESTMENT HIGHLIGHTS

- **Two stores opened in 4QFY22**
- **Moderate sales in the upcoming quarter**
- **FY22's inventory turnover days dropped by -43.4% to 81 days**
- **Maintain NEUTRAL with an unchanged TP of RM3.00**

RETURN STATISTICS	
Price @ 1st Sept 2022 (RM)	3.40
Expected share price return (%)	-11.9
Expected dividend yield (%)	+2.9
Expected total return (%)	**-9.0**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	7.8	7.7
3 months	8.1	8.3
12 months	8.1	16.0

KEY STATISTICS	
FBM KLCI	1,491.95
Syariah compliant	Yes
Issue shares (m)	657.91
F4BGM Index	No
ESG Grading Band (Star rating)	☆☆☆
Estimated free float (%)	32.26
Market Capitalisation (RM'm)	2,276.37
52-wk price range	RM2.63 - RM3.79
Beta vs FBM KLCI (x)	0.88
Monthly velocity (%)	9.33
Monthly volatility (%)	16.04
3-mth average daily volume (m)	0.53
3-mth average daily value (RM'm)	1.72
Top Shareholders (%)	
Yong Pang Chaun Holdings Sdn Bhd	43.74
KWAP	6.85
EPF	5.56

We attended Padini Holdings' (Padini) virtual briefing and remain neutral on its outlook for 2HFY22. The key takeaway as follows:

Two stores opened in 4QFY22. In 4QFY22, Padini opened two stores at Sunway Carnival: the Padini Concept Store (PCS) and the Brand's Outlet (BO). With 10 consignment counters, there were a total of 133 stores in 4QFY22 (compared to 130 stores in 4QFY21). However, this is well below 4QFY20 of 151 outlets. The composition is BO/PCS/Freestanding stores (FSS)/Consignment counter at 52/45/26/10 in 4QFY22 (vs. 49/46/25/10 in 4QFY21 and 65/48/28/10 in 4QFY20). Looking forward, the group is anticipating fewer than 5 new stores to open in FY23 as management remains cautious about the difficult business environment. This is consistent with our forecast of 3 new stores in FY23/24F, increasing the total number of outlets to 136/139.

Moderate sales in the upcoming quarter. In FY22, 93.9% of the revenue was contributed from Malaysia's outlets as compared to 93.5% in FY21, followed by overseas' outlets, eCommerce and export franchises. Meanwhile, the reopening of the economy and borders is anticipated to continue to support Padini's topline going forward, at least through the end of CY22. However, we think the upward momentum is constrained as recovery is likely to be fueled by the increase in traffic at its current outlet given limited new store opening, and new brand introduction. We also expect that weaker consumer sentiment will impact negatively on the sales recovery as some consumers may become more cautious about spending on non-essentials given the current rising interest rate and inflationary climate.

FY22's inventory turnover days dropped by -43.4% to 81 days. This is primarily attributable to shipping delays caused by China's COVID-19 lockdown, which disrupted the supply chain. Recall that most of Padini's items are imported from China. Moving forward, management targets to increase inventory turnover days to an average of 3.5 months, or 105 days, by FY23. This is to prevent the shortage of stocks, which, in turn, discourages customers from switching to competitors.

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Maintain NEUTRAL with an unchanged TP of RM3.00. Post analyst briefing, we maintain our earnings estimation for FY23/24F. Our **TP** remain unchanged at **RM3.00**, based on a PER valuation of 17.43x which is at its latest 2-year historical mean to Padini's FY23F EPS of 17.2sen/share. Despite the strong earnings in FY22, we remain cautious about Padini's FY23 outlook primarily due to its: (i) discretionary nature, which makes it susceptible to the current inflationary environment as consumers may cut back on spending on non-essential items thereby reducing the sales and (ii) COGS inflation, which will remain flat in the near term despite some relaxation in the raw material prices but is still higher than pre-pandemic levels. This has more than offset Padini's ability to control costs through employee right-sizing. Upside risks are: (i) lower-than-expected input cost, backed by normalized material prices (ii) better-than-expected consumer sentiment.

INVESTMENT STATISTICS

Financial year ending 30th June (in RM'm, unless otherwise stated)	FY2020	FY2021	FY2022A	FY2023F	FY2024F
Revenue	1,354.7	1,029.4	1,319.1	1,473.2	1,542.8
COGS	(817.1)	(639.9)	(811.6)	(925.2)	(957.4)
Gross profit	537.6	389.5	507.5	548.0	585.4
Other income	28.5	39.7	38.4	22.6	23.7
Selling and Distribution expenses	(353.7)	(266.0)	(259.6)	(321.9)	(347.2)
Administrative expenses	(79.0)	(67.9)	(61.8)	(72.5)	(78.2)
Operating profit	133.4	95.2	224.5	176.3	183.7
PBT	107.3	74.1	205.1	154.9	160.2
Income Taxes	(32.1)	(20.1)	(51.0)	(41.8)	(43.2)
PATANCI	75.2	54.1	154.1	113.1	116.9
Core PATANCI	75.3	56.4	153.4	113.1	116.9
EPS	11.4	8.2	23.4	17.2	17.8
Net Dividend (sen)	7.5	2.5	10.0	8.3	8.6
Ratios & Valuation					
Gross profit margin (%)	39.7	37.8	38.5	37.2	37.9
Operating Profit margin (%)	9.8	9.3	17.0	12.0	11.9
PBT margin (%)	7.9	7.2	15.5	10.5	10.4
PAT margin (%)	9.0	5.5	5.3	11.7	7.7
EPS growth (%)	(53.1)	(28.1)	185.1	(26.6)	3.4
Dividend yield (%)	2.2	0.7	2.9	2.4	2.5
PER (x)	29.8	41.4	14.5	19.8	19.1
Effective tax rate	30.0	27.1	24.9	27.0	27.0
Net debt/Total Equity (%)	10.6	NET CASH	NET CASH	NET CASH	NET CASH
Cash/Mkt Cap (x)	(3.6)	5.8	18.3	22.5	24.3

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology