Padini Holdings Berhad

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

***Maintain* NEUTRAL**

***Revised Target* Price: RM3.50**
(previously RM3.00)

Cautious outlook

KEY INVESTMENT HIGHLIGHTS

- **Above expectations**
- **Core PATANCI for 1QFY23 turned positive at RM46.9m in 1QFY23, compared to a net loss of -RM17.5m in 1QFY22.**
- **Revised earnings upward by +40.1%/+42.4% for FY23F-FY24F and introduced earnings projection for FY25F.**
- **Maintain NEUTRAL with a revised TP of RM3.50 (previously RM3.00)**

Above estimations. Padini Holdings (Padini) reported a core PATANCI of RM46.9m, which exceeded both our and the consensus' expectations. After excluding a one-time-off item of -RM1.9m, it represented 41.4% of our and 31.7% of streets' full-year FY23 estimates. The positive variation resulted from higher-than-expected sales, with demand remains stable despite rising interest rates and inflationary environment. The group declared a second-interim dividend of 2.5sen for FY23 (payable on 30 December 2022), bringing the total dividend for the year to 5sen.

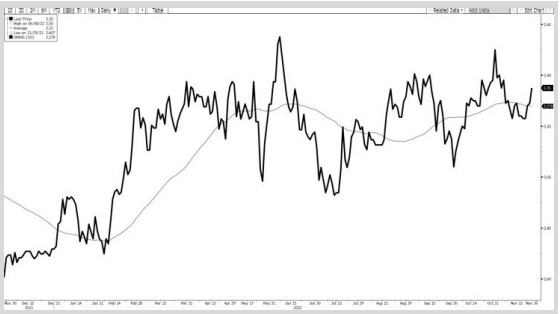
Core PATANCI for 1QFY23 turned positive at RM46.9m in 1QFY23, compared to a net loss of -RM17.5m in 1QFY22. This was due to all outlets operating at full capacity after the reopening of the economy. On a yearly basis, the group's revenue increased by more than tripled to RM379.1 million due to the low base in 1QFY22 as most outlets closed for lockdown. PBT margin improved by +42.5ppt YoY to 16.9%, supported by the higher sales. On a quarterly basis, the group reported a reduced revenue from RM481.2m in 4QFY22 to RM379.1m mainly due to fewer festive celebrations for this quarter as compared to the festive Hari Raya sales and mid-year school holidays in 4QFY22. Core PATANCI for 1QFY23 decreased by -39%qoq to RM46.9m due to higher cost of sales and administrative expenses. On a positive note, the selling and distribution expenses decreased by -10.5%qoq to RM70.5m.

Revised earnings upward by +40.1%/+42.4% for FY23F-FY24F and introduced earnings projection for FY25F. We increased our earnings projections as earnings exceeded expectations. This is after accounting for Padini Corporation's increased sales.

Maintain NEUTRAL with a higher TP of RM3.50 (previously RM3.00). Our TP is based on a revised PER of 14.5x (pre-pandemic historical mean PE) peg to Padini's FY23F EPS of 17.2sen/share. We remain cautious about Padini's FY23 outlook, owing to its discretionary nature, which makes it vulnerable to the current rising interest rate and inflationary environment as low-to-middle income consumers may turn cautious in spending on non-essential items. Nevertheless, we believe that Padini's effective cost management through employee right-sizing will able to partially mitigate the impact of higher input costs. **Upside risks** are: (i) lower-than-expected input cost, backed by normalized material prices and supply chain (ii) better-than-expected consumer sentiment.

RETURN STATISTICS	
Price @ 29th Nov 2022 (RM)	3.26
Expected share price return (%)	+4.7
Expected dividend yield (%)	+3.0
Expected total return (%)	**+7.7**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.0	-1.6
3 months	7.0	3.5
12 months	24.4	27.8

KEY STATISTICS	
FBM KLCI	1,476.96
Syariah compliant	Yes
Issue shares (m)	657.91
F4BGM Index	No
ESG Grading Band (Star rating)	☆☆☆
Estimated free float (%)	34.97
Market Capitalisation (RM'm)	2,217.16
52-wk price range	RM2.63 - RM3.79
Beta vs FBM KLCI (x)	0.68
3-mth average daily volume (m)	0.44
3-mth average daily value (RM'm)	1.46
Top Shareholders (%)	
Yong Pang Chaun Holdings Sdn Bhd	43.74
KWAP	6.93
EPF	5.51

MIDF RESEARCH
research@midf.com.my

INVESTMENT STATISTICS

FYE JUN (RM'm)	FY2021	FY2022	FY2023F	FY2024F	FY2025F
Revenue	1,029.4	1,319.1	1,523.4	1,591.8	1,708.6
COGS	(639.9)	(811.6)	(940.2)	(970.2)	(1,021.4)
Gross profit	389.5	507.5	583.2	621.6	687.2
Other income	39.7	38.4	23.4	24.5	26.3
Selling and Distribution expenses	(266.0)	(259.6)	(302.8)	(325.9)	(360.3)
Administrative expenses	(67.9)	(61.8)	(73.5)	(79.2)	(87.5)
Operating profit	**95.2**	**224.5**	**230.2**	**240.9**	**265.6**
PBT	74.1	205.1	208.8	217.4	241.9
Income Taxes	(20.1)	(51.0)	(50.1)	(52.2)	(58.1)
PATANCI	**54.1**	**154.1**	**158.7**	**165.2**	**183.9**
Core PATANCI	**36.6**	**137.9**	**158.7**	**165.2**	**183.9**
EPS	8.2	23.4	24.1	25.1	27.9
Net Dividend (sen)	2.5	10.0	11.6	12.1	13.5
Ratios & Valuation					
Gross profit margin (%)	37.8	38.5	38.3	39.0	40.2
Operating Profit margin (%)	9.3	17.0	15.1	15.1	15.5
PBT margin (%)	7.2	15.5	13.7	13.7	14.2
Core PATANCI margin (%)	3.6	10.5	10.4	10.4	10.8
Dividend yield (%)	0.7	3.0	3.5	3.6	4.0
PER (x)	40.7	14.3	13.8	13.3	12.0
Effective tax rate	27.1	24.9	24.0	24.0	24.0
Cash/Mkt Cap (x)	5.6	18.7	24.3	26.1	29.2

Source: Company, MIDFR

PADINI BERHAD: 1QFY23 RESULTS SUMMARY

FYE June (RM'm)	Quarterly results					Cumulative results		
	1QFY23	4QFY22	1QFY22	YoY (%)	QoQ (%)	3MFY23	3MFY22	YoY (%)
Revenue	379.1	481.2	81.4	365.8	(21.2)	379.1	81.4	365.8
Cost of sales	(230.6)	(290.0)	(54.6)	322.3	(20.5)	(230.6)	(54.6)	322.3
Gross profit	**148.5**	**191.2**	**26.8**	**454.5**	**(22.3)**	**148.5**	**26.8**	**454.5**
Other income	7.4	10.3	13.1	(43.6)	(28.0)	7.4	13.1	(43.6)
Administrative expenses	(16.6)	(15.2)	(11.7)	42.1	8.8	(16.6)	(11.7)	42.1
Selling and distribution expenses	(70.5)	(78.8)	(44.5)	58.4	(10.5)	(70.5)	(44.5)	58.4
Profit from operations	**68.8**	**107.4**	**(16.3)**	**(523.4)**	**(35.9)**	**68.8**	**(16.3)**	**(523.4)**
Finance costs	(4.7)	(5.2)	(4.6)	3.2	(10.0)	(4.7)	(4.6)	3.2
PBT	64.1	102.2	(20.8)	(408.2)	(37.2)	64.1	(20.8)	**(408.2)**
Taxation	(15.3)	(24.8)	4.0	(486.6)	(38.3)	(15.3)	4.0	(486.6)
PATANCI	**48.9**	**77.5**	**(16.9)**	**(389.8)**	**(36.9)**	**48.9**	**(16.9)**	**(389.8)**
Core PATANCI	**46.9**	**77.0**	**(17.5)**	**(367.8)**	**(39.0)**	**46.9**	**(17.5)**	**(367.8)**
Basic EPS (sen)	7.4	11.8	(2.6)	(390.2)	(36.9)	7.4	(2.6)	(390.2)
Ratios & Valuation				***+/(-) ppts***	***+/(-) ppts***			***+/(-) ppts***
Gross profit margin (%)	39.2	39.7	32.9	6.3	(0.6)	39.2	32.9	6.3
PBT margin (%)	16.9	21.2	(25.6)	42.5	(4.3)	16.9	(25.6)	42.5
PAT margin (%)	12.9	16.1	(20.7)	33.6	(3.2)	12.9	(20.7)	33.6
Core PATANCI Margin (%)	12.4	16.0	(21.5)	33.9	(3.6)	12.4	(21.5)	33.9
Effective Tax rate (%)	23.8	24.2	19.0	4.8	(0.4)	23.8	19.0	4.8
Cash/Mkt Cap (x)	15.6	15.6	6.8	8.9	0.0	15.6	6.8	8.9

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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