Briefing Note| Thursday, 01 December 2022

Padini Holdings Berhad

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

***Maintain* NEUTRAL**

***Unchanged Target* Price: RM3.50**

Strong same-store sales growth

KEY INVESTMENT HIGHLIGHTS

- **Strong same-store sales growth in 1QFY23**
- **Unchanged number of stores in 1QFY23 as compared to 4QFY22**
- **Better inventory turnover ratio**
- **Maintain NEUTRAL with an unchanged TP of RM3.50**

RETURN STATISTICS	
Price @ 30th Nov 2022 (RM)	3.40
Expected share price return (%)	+2.9
Expected dividend yield (%)	+3.0
Expected total return (%)	**+5.9**

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	1,488.80
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

We attended Padini Holdings' (Padini) virtual briefing and remain neutral on its outlook in the near term. The key takeaway as follows:

Strong same-store sales growth in 1QFY23. The same-store sales growth (SSSG) surged +421%yoy in 1QFY23 vs. 1QFY22. The SSSG turned positive from -76%yoy in 1QFY22 vs. 1QFY21 and -8%yoy in 1QFY21 vs. 1QFY20. The strong SSSG is mainly due to the strong recovery of sales after the reopening of economy and borders.

Unchanged number of stores in 1QFY23 as compared to 4QFY22. Padini opened one freestanding store (FSS) at Ampang Point to replace the FSS at Sunway Carnival. Hence this leads to the total number of stores remaining at 133 stores as of 1QFY23. On yearly basis, the total number of stores increased from 130 stores in 1QFY22 to 133 stores, with two new brand outlet (BO) stores and one new freestanding store (FSS) contributing to the expansion in the overall number of sales.

Better inventory turnover ratio. Padini reported a higher inventory turnover ratio of 83 days in 1QFY23 from 81 days in 4QFY22. This was mainly due to lower sales amid lack of festive celebrations during the quarter. Moving forward, the group expects the inventory level to sustain at a level between 3 to 4 months. This is to ensure sufficient stocks to fulfill demand and prevent customers from switching to competitors due to a shortage of stocks.

Maintain NEUTRAL with an unchanged TP of RM3.50. Post briefing, we make no changes to our earnings forecast. Our **TP** is based on a 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.

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Upside risks are: (i) lower-than-expected input cost, backed by normalized material prices and supply chain (ii) better-than-expected consumer sentiment.

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

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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