Padini Holdings Berhad

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

***Upgrade to* BUY**

***Revised Target* Price: RM4.10**
(previously RM3.50)

Decent outlook

KEY INVESTMENT HIGHLIGHTS

- **Earnings above estimates**
- **Normalised 2QFY23's sales post-pandemic**
- **Higher 1HFY23's core PATANCI**
- **Revised earnings projections for FY23F-24F and introduce FY25F**
- **Upgrade to BUY (from NEUTRAL) with a higher TP of RM4.10 (previously RM3.50)**

Above estimates. Padini Holdings (Padini) reported a core PATANCI of RM125.3m in 1HFY23, after excluding a one-time expense of RM3.3m. Earnings came in above expectations as it represented 75.8% of our full-year FY23F forecast and 75.8% of consensus'. This was primarily due to higher-than-expected revenue driven by festive season. The group declared a third-interim dividend of 2.5sen/share for FY23 (payable on 31 Mar 2023), bringing total dividend for FY23 to 7.5sen.

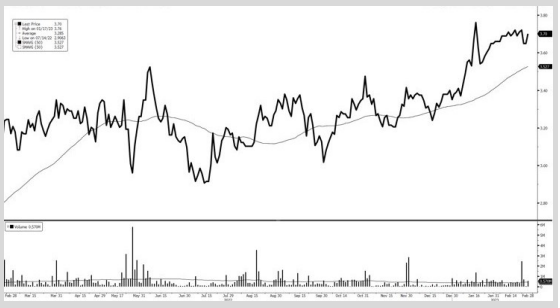
Normalised 2QFY23's sales post-pandemic. Sequentially, revenue increased by +34.4%qoq to RM509.5m, primarily due to the spending for festive season. The core PATANCI rose from RM47.2m in 1QFY23 to RM78m in 2QFY23 due to increased revenue. On yearly basis, Padini reported a higher revenue of RM509.5m in 2QFY23 as compared to RM427.2m in 2QFY22. The better performance was due to the ongoing recovery of consumer spending from pandemic, which nearly reached the pre-pandemic level of RM516.5m in 4QFY19. As such, core PATANCI increased by 29.3%yoy to RM78m during the quarter.

Higher 1HFY23's core PATANCI. Padini's revenue increased 74.7%yoy to RM888.6m in 1HFY23. This was primarily due to a lower base in 1HFY22, which was owing to most outlets being closed from 1-Jun-2021 to 18-Aug-2021 due to lockdown. With all outlets operating at full capacity, core PATANCI increased by +171.5%yoy to RM125.4m in 1HFY23.

Revised earnings projections for FY23F-24F and introduce FY25F. Given that earnings exceeded our expectation, we increased our forecast for FY23F by +23.5% and FY24F by +14%. This is after accounting for normalized sales post-pandemic.

RETURN STATISTICS	
Price @ 24th Feb 2023 (RM)	3.70
Expected share price return (%)	+10.9
Expected dividend yield (%)	+2.9
Expected total return (%)	**+13.8**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.4	6.2
3 months	10.4	12.7
12 months	10.1	20.3

KEY STATISTICS	
FBM KLCI	1,456.80
Syariah compliant	Yes
Issue shares (m)	657.91
F4BGM Index	No
ESG Grading Band (Star rating)	☆☆☆
Estimated free float (%)	35.16
Market Capitalisation (RM'm)	2,434.27
52-wk price range	RM2.87 - RM3.81
Beta vs FBM KLCI (x)	0.73
3-mth average daily volume (m)	0.45
3-mth average daily value (RM'm)	1.60
Top Shareholders (%)	
Yong Pang Chaun Holdings Sdn Bhd	43.74
KWAP	6.76
EPF	5.47

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Upgrade to BUY (from NEUTRAL) with a higher TP of RM4.10 (previously RM3.50). Our TP of RM4.10 is based on a revised PER of 12x which is in line with sector's average forward PE for consumer discretionary pegging to Padini's FY24F EPS of 34.7sen/share. We are positive about Padini's outlook underpinned by (1) its strong net cash position of RM738.4m (equivalent to 30.7% of market cap), which provides buffer against downside financial risk, (2) its affordably priced product, which attracts B40 and M40 income groups, and (3) effective cost management, which mitigates the impact of elevated input costs. Padini is currently trading at a FY24F PER of 13x, which is higher than its sector's average forward PE of 12x. **Downside risk** is weaker-than-expected consumer sentiment.

INVESTMENT STATISTICS

FYE JUN (RM'm)	2021A	2022A	2023E	2024E	2025E
Revenue	1,029.4	1,319.1	1,771.2	1,894.8	1,998.6
Cost of sales	(639.9)	(811.6)	(1,091.9)	(1,162.3)	(1,219.8)
Gross Profit	**389.5**	**507.5**	**679.3**	**732.5**	**778.8**
Other Income	31.8	27.4	27.3	29.3	31.2
Selling and distribution costs	(266.0)	(259.6)	(342.7)	(368.4)	(390.6)
Administrative expenses	(67.9)	(61.8)	(83.4)	(89.7)	(95.1)
EBITDA	211.7	330.0	303.6	328.7	351.0
EBIT	**87.4**	**213.5**	**280.4**	**303.7**	**324.4**
Net finance (expenses)/income	(13.3)	(8.4)	(5.9)	(5.1)	(4.3)
Profit before tax (PBT)	**74.1**	**205.1**	**274.6**	**298.6**	**320.1**
Income tax expense	(20.1)	(51.0)	(68.3)	(74.3)	(79.6)
Profit After tax (PAT)	**54.1**	**154.1**	**206.3**	**224.4**	**240.5**
PATANCI	54.1	154.1	206.3	224.4	240.5
Core PATANCI	**53.0**	**156.0**	**206.3**	**224.4**	**240.5**
Basic EPS (sen)	8.2	23.4	31.4	34.1	36.5
DPS (sen)	2.5	10.0	10.7	10.2	10.2
Growth & Margin					
Revenue Growth (%)	(24.0)	28.1	34.3	7.0	5.5
Gross Profit Growth (%)	(27.6)	30.3	33.8	7.8	6.3
Core PATANCI Growth (%)	(26.8)	194.3	32.2	8.8	7.2
Gross Profit Margin (%)	37.8	38.5	38.4	38.7	39.0
Core PATANCI Margin (%)	5.1	11.8	11.6	11.8	12.0
Ratios & Valuation					
Effective tax rate (%)	27.1	24.9	24.9	24.9	24.9
Dividend Yield (%)	0.7	2.7	2.9	2.8	2.8
PER (x)	45.0	15.8	11.8	10.8	10.1
Cash/Market Capitalisation (sen)	21.5	33.2	30.7	31.9	32.8
Cash/share (sen)	79.6	122.9	113.7	117.9	121.3
EV/EBITDA (x)	9.0	4.9	5.6	5.0	4.7

Source: Company, MIDFR

PADINI BERHAD: 2QFY23 RESULTS SUMMARY

FYE June (RM'm)	Quarterly results					Cumulative results		
	2QFY23	1QFY23	2QFY22	YoY (%)	QoQ (%)	1HFY23	1HFY22	YoY (%)
Revenue	509.5	379.1	427.2	19.3	34.4	888.6	508.6	74.7
Cost of sales	(308.8)	(230.6)	(267.6)	15.4	33.9	(539.3)	(322.2)	67.4
Gross profit	**200.7**	**148.5**	**159.6**	**25.8**	**35.2**	**349.2**	**186.4**	**87.3**
Other income	1.5	7.4	9.7	(84.9)	(80.2)	8.9	22.8	(61.2)
Administrative expenses	(18.7)	(16.6)	(13.7)	36.8	13.0	(35.3)	(25.4)	39.2
Selling and distribution costs	(81.8)	(70.5)	(69.5)	17.6	16.0	(152.2)	(114.0)	33.5
Operating profit (EBIT)	**101.7**	**68.8**	**86.1**	**18.1**	**47.7**	**170.5**	**69.9**	**144.1**
Net finance income/(cost)	(4.5)	(4.7)	(4.3)	3.6	(5.3)	(9.2)	(8.9)	3.4
Profit before tax (PBT)	**97.2**	**64.1**	**81.8**	**18.8**	**51.6**	**161.4**	**61.0**	**164.5**
Income tax expense	(24.1)	(15.3)	(20.9)	15.1	57.7	(39.4)	(17.0)	131.9
Profit After tax (PAT)	**73.1**	**48.9**	**60.9**	**20.1**	**49.7**	**122.0**	**44.0**	**177.1**
PATANCI	73.1	48.9	60.9	20.1	49.7	122.0	44.0	177.1
Core PATANCI	**78.0**	**47.2**	**60.4**	**29.3**	**65.2**	**125.3**	**46.1**	**171.5**
Core EPS (sen)	11.9	7.2	9.2	29.3	65.2	19.0	7.0	171.5
DPS (sen)	2.5	2.5	2.5	0.0	0.0	5.0	2.5	100.0
Growth & Margin (%)				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Revenue Growth	34.4	(21.2)	424.9	(390.5)	55.6	134.4	524.9	(390.5)
Operating Profit Growth	47.7	(35.9)	(629.7)	677.4	83.6	147.7	(529.7)	677.4
Core PATANCI Growth	65.2	(38.2)	(524.0)	589.2	103.4	165.2	(424.0)	589.2
Operating Profit Margin	20.0	18.2	20.2	(0.2)	1.8	19.2	13.7	5.5
PBT Margin	19.1	16.9	19.2	(0.1)	2.2	18.2	12.0	6.2
Core PATANCI Margin	15.3	12.5	14.1	1.2	2.9	14.1	9.1	5.0
Ratios & Valuation				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Effective tax rate (%)	24.8	23.8	25.6	(0.8)	1.0	24.4	27.8	(3.4)
Inventories (Days)	443.0	438.8	180.7	145.2	1.0	253.6	150.1	69.0
Account receivables (Days)	(13.4)	(16.0)	(11.7)	14.7	(15.9)	29.3	35.9	(18.2)
Account payable (Days)	290.0	332.4	184.3	57.3	(12.8)	166.0	153.1	8.4

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