# Padini Holdings Berhad

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

***Maintain* BUY**

***Revised Target* Price: RM4.40**
*(from RM4.10)*

## Stronger SSSG

## KEY INVESTMENT HIGHLIGHTS

- **Virtual analyst briefing**
- **Higher revenue contribution from the ladies' category**
- **Same-store sales growth remained strong in 6MFY23**
- **Slightly lower operating profit margin ahead**
- **Number of stores for 2QFY23 remains unchanged**
- **Maintain BUY with a higher TP of RM4.40 (from RM4.10)**

**Virtual analyst briefing.** We attended Padini Holdings's (Padini) virtual briefing and remain upbeat about the company's near-term prospects. The key takeaways of the briefing are as follow: -

**Higher revenue contribution from the ladies' category,** which increased from 41% in 6MFY22 to 44% in 6MFY23. Meanwhile, contribution of men's category to total revenue decreased by -2ppt yoy to 41%. Similarly, contribution of kids' category to total revenue fell by -1ppt yoy to 15%. Overall, all three categories recorded higher sales in absolute terms due to the strong post-pandemic recovery in consumer spending and festive season celebration.

**Same-store sales growth remained strong in 6MFY23.** Same-store sales growth (SSSG) increased by +81%yoy in 2QFY23 vs 2QFY22. The SSSG turned positive from -9%yoy in 2QFY22 vs 2QFY21 as well as -34%yoy in 2QFY21 vs 2QFY20. The key drivers for the positive growth were strong recovery in consumer spending post-pandemic and festive season celebration.

**Slightly lower operating profit margin ahead.** Gross profit (GP) margin increased from 36.7% in 6MFY22 to 39.3% in 6MFY23. Looking ahead, management expects GP margin to stay at current level to make Padini remains competitive. However, the increased natural gas tariff could increase the electricity prices for outlets. That along with higher staff cost post-economy reopening may cause the operating profit margin to decline slightly in the near term.

**Number of stores for 2QFY23 remains unchanged**. Padini opened one freestanding store (FSS) at Aeon Mall Shah Alam to replace the FSS at BO star avenue. Hence, this resulted in a total number of stores remaining unchanged at 133 stores as of 2QFY22. Loong ahead, the group targets to open a new store in the city centre of Cambodia and 2-3 stores in the city centre of Thailand.

| RETURN STATISTICS | |
|---|---|
| Price @ 28th Feb 2023 (RM) | 3.90 |
| Expected share price return (%) | +12.8 |
| Expected dividend yield (%) | +2.7 |
| **Expected total return (%)** | **+13.8** |

**SHARE PRICE CHART**



| Share price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | 5.5 | 7.8 |
| 3 months | 14.9 | 14.6 |
| 12 months | 14.2 | 26.3 |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1,454.19 |
| 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) | 2,532.95 |
| 52-wk price range | RM2.87 - RM4 |
| Beta vs FBM KLCI (x) | 0.77 |
| 3-mth average daily volume (m) | 0.49 |
| 3-mth average daily value (RM'm) | 1.74 |
| Top Shareholders (%) | |
| Yong Pang Chaun Holdings Sdn Bhd | 43.74 |
| KWAP | 6.76 |
| EPF | 5.47 |

**Analyst(s)**
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**Maintain BUY with a higher TP of RM4.40 (from RM4.10).** Post analyst briefing, we make no changes to our forecast as we have factored in the expectation of higher electricity cost and normalised staff expense in our FY23-25F earnings estimate. Our revised TP of RM4.40 is based on a revised PER of 12.9x which is the revised sector's average forward PE for consumer discretionary pegging to Padini's FY24F EPS of 34.7sen/share. We are optimistic on Padini's outlook underpinned by (1) its strong net cash position of RM738.4m (equivalent to 30.7% of market cap), which provides a 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 an 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*

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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