Padini Holdings Berhad

Maintain BUY

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

Better Revenue Driven by Post-Reopening Progress

Unchanged Target Price: RM4.40

KEY INVESTMENT HIGHLIGHTS

- **Within expectations**
- **Better revenue and core PATANCI on yearly basis in 3QFY23**
- **Higher 9MFY23 revenue and core PATANCI**
- **Maintain BUY with an unchanged TP of RM4.40**

RETURN STATISTICS	
Price @ 29th May 2023 (RM)	3.75
Expected share price return (%)	+17.32
Expected dividend yield (%)	2.73
Expected total return (%)	**+20.05**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	21.1	17.7
3 months	11.3	26.6
12 months	78.7	70.1

Within expectations. Padini Holdings ("Padini") reported 9MFY23 core PATANCI of RM170m, after subtracting a one-time-off item of RM4.7m. The earnings came in within ours and consensus' full-year FY23 projection, accounting for 70.7% of ours and 74% of streets'. The group declared a 4th single-tier interim dividend of 2.5sen/share and a special dividend of 1.5sen/share. The total dividend for 9MFY23 is 9.0sen/share, up from 7.5sen/share in 9MFY22.

Better revenue and core PATANCI on yearly basis in 3QFY23. On yearly basis, revenue increased +38.8%yoy to RM457.2m. This was supported by the ongoing recovery from the pandemic, as businesses reopened and sales improved. As such, core PATANCI rose +36.8%yoy to RM44.8m. Sequentially, revenue declined -10.3%qoq to RM457.2 in 3QFY23, owing mostly to a high base in the prior quarter due to festive season sales. With the bonus payout and salary adjustment, the input prices increased, lowering the core PATANCI for 3QFY23 by -42.6%qoq to RM44.8m.

Higher 9MFY23 revenue and core PATANCI. Cumulatively, Padini's revenue increased +60.6%yoy to RM1.35b in 9MFY23 owing to all outlets running at full capacity and a low base in FY22 due to no revenue generated from outlets during the lockdown period. As such, the core PATANCI increased from RM78.9m in 9MFY22 to RM170m in 9MFY23.

Maintain BUY with an unchanged TP of RM4.40. We make adjustments to our forecast given that the earnings came in within expectation. Our **TP** of **RM4.40** is based on an unchanged 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 bullish about Padini's outlook underpinned by (1) its strong net cash position of RM627.5m (equivalent to 25% of market cap), which protects against downside risk, (2) its affordably priced product, which appeals to the B40 and M40 income groups, and (3) effective cost management, which mitigates the impact of elevated input costs. **Downside risk** is weaker-than-expected consumer sentiment.

INVESTMENT STATISTICS

FYE Jun	2023F	2024F	2025F
Revenue	1,771.2	1,894.8	1,998.6
EBITDA	303.6	328.7	351.0
Profit before tax (PBT)	274.6	298.6	320.1
Core PATANCI	206.3	224.4	240.5
Core EPS (sen)	31.4	34.1	36.5
DPS (sen)	10.7	10.2	10.2
Dividend Yield (%)	2.7	2.6	2.6

KEY STATISTICS	
FBM KLCI	1,404.93
Issue shares (m)	657.91
Estimated free float (%)	34.72
Market Capitalisation (RM'm)	2,467.16
52-wk price range	RM2.9 – RM4.2
3-mth average daily volume (m)	0.7
3-mth average daily value (RM'm)	2.5
Top Shareholders (%)	
Yong Pang Chaun Holdings Sdn	43.7
Kumpulan Wang Persaraan	7.7
Employees Provident Fund Board	5.0

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Padini Holdings Berhad: 3QFY23 Results Summary

FYE Jun (RM'm)	Quarterly results					Cumulative results		
	3QFY23	2QFY23	3QFY22	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue	457.2	509.5	329.3	38.8	(10.3)	1,345.8	837.9	60.6
Cost of sales	(274.8)	(308.8)	(199.4)	37.8	(11.0)	(814.1)	(521.5)	56.1
Gross profit	**182.5**	**200.7**	**130.0**	**40.4**	**(9.1)**	**531.7**	**316.4**	**68.1**
Other income	4.8	1.5	5.3	(9.4)	227.1	13.7	28.1	(51.5)
Administrative expenses	(30.7)	(18.7)	(21.2)	44.6	64.0	(66.0)	(46.6)	41.7
Selling and distribution costs	(94.2)	(81.8)	(66.9)	40.9	15.2	(246.4)	(180.9)	36.2
Operating profit (EBIT)	**62.3**	**101.7**	**47.2**	**32.2**	**(38.7)**	**232.9**	**117.0**	**99.0**
Net finance income/(cost)	(4.3)	(4.5)	(5.3)	(18.6)	(3.7)	(13.4)	(14.1)	(4.8)
Profit before tax (PBT)	**58.1**	**97.2**	**41.9**	**38.6**	**(40.3)**	**219.5**	**102.9**	**113.3**
Income tax expense	(14.7)	(24.1)	(9.3)	58.4	(39.1)	(54.1)	(26.3)	105.9
Profit After tax (PAT)	**43.4**	**73.1**	**32.6**	**33.0**	**(40.7)**	**165.4**	**76.6**	**115.8**
PATANCI	43.4	73.1	32.6	33.0	(40.7)	165.4	76.6	115.8
Core PATANCI	**44.8**	**78.0**	**32.7**	**36.8**	**(42.6)**	**170.0**	**78.9**	**115.6**
Core EPS (sen)	6.8	11.9	5.0	36.8	(42.6)	25.8	12.0	115.6
DPS (sen)	4.0	2.5	5.0	(20.0)	60.0	9.0	7.5	20.0
Growth & Margin (%)				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Operating Profit Margin	13.6	20.0	14.3	(0.7)	(6.3)	17.3	14.0	3.3
PBT Margin	12.7	19.1	12.7	(0.0)	(6.4)	16.3	12.3	4.0
Core PATANCI Margin	9.8	15.3	9.9	(0.1)	(5.5)	12.6	9.4	3.2
Ratios & Valuation				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Effective tax rate (%)	25.3	24.8	22.1	3.2	0.5	24.6	25.5	(0.9)
Net cash/market cap (%)	25.4	29.9	29.3	(3.8)	(4.5)	25.4	29.3	(3.8)

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023F	2024F	2025F
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**
Profit After tax (PAT)	54.1	154.1	206.3	224.4	240.5
Core PATANCI	**53.0**	**156.0**	**206.3**	**224.4**	**240.5**
Core EPS (sen)	8.1	23.7	31.4	34.1	36.5
DPS (sen)	2.5	10.0	10.7	10.2	10.2

Balance Sheet (RM'm)	2021A	2022A	2023F	2024F	2025F
Property, plant and equipment	79.5	76.1	79.5	82.9	86.3
Intangible assets	3.8	3.3	3.3	3.4	3.4
Total Non-current assets	**474.1**	**490.1**	**513.5**	**525.1**	**536.1**
Inventories	218.6	137.3	263.3	280.3	294.2
ST - Trade and other receivables	47.6	56.5	73.4	78.5	82.8
Cash and cash equivalents	523.8	808.9	748.3	775.9	798.0
Total current assets	**800.4**	**1,003.9**	**1,086.8**	**1,136.6**	**1,177.0**
Total Assets	**1,274.5**	**1,494.0**	**1,600.2**	**1,661.7**	**1,713.0**
Total Equity	**801.8**	**891.1**	**987.6**	**1,046.7**	**1,099.2**
LT Loans and borrowings	0.0	0.0	0.0	0.0	0.0
Total Non-current liabilities	**324.4**	**325.9**	**323.8**	**319.7**	**315.4**
ST Trade and other payables	61.7	178.3	169.5	180.4	189.3
ST Loans and borrowings	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	**148.3**	**277.1**	**288.9**	**295.3**	**298.4**
Total Liabilities	**472.7**	**603.0**	**612.7**	**615.0**	**613.9**

Cash Flow Statement (RM'm)	2021A	2022A	2023F	2024F	2025F
Pretax profit	74.1	205.1	274.6	298.6	320.1
Cash flow from operations	186.0	474.0	57.0	125.2	119.7
Cash flow from investing	2.2	(35.4)	(19.0)	(20.7)	(22.2)
Cash flow from financing	(106.2)	(156.6)	(98.6)	(76.8)	(75.5)
Net cash flow	**82.0**	**282.0**	**(60.6)**	**27.6**	**22.0**
(+/-) Adjustments	0.3	3.1	0.0	0.0	0.0
Net cash/(debt) b/f	**441.5**	**523.8**	**808.9**	**748.3**	**775.9**
Net cash/(debt) c/f	**523.8**	**808.9**	**748.3**	**775.9**	**798.0**

Key Metrics	2021A	2022A	2023F	2024F	2025F
Effective tax rate (%)	27.1	24.9	24.9	24.9	24.9
Net Cash/Market Capitalisation (%)	21.2	32.8	30.3	31.5	32.3
Cash per share (RM)	0.3	0.7	0.1	0.2	0.2

Profitability Margins	2021A	2022A	2023F	2024F	2025F
Gross Profit Margin (%)	37.8	38.5	38.4	38.7	39.0
EBITDA Margin (%)	20.6	25.0	17.1	17.3	17.6
EBIT Margin (%)	8.5	16.2	15.8	16.0	16.2
Core PATANCI Margin (%)	5.1	11.8	11.6	11.8	12.0

Source: Bloomberg, 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