



Padini Holdings Berhad

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

Maintain NEUTRAL

Greater Stores but Lower SSSG

Unchanged Target Price: RM3.50

KEY INVESTMENT HIGHLIGHTS

- **Expect inflationary pressures ahead**
- **Price adjustment not on the table for now**
- **Expansion of Own-Managed Overseas Stores**
- **Store expansion partially offsets negative SSSG**
- **Maintain NEUTRAL with an unchanged TP of RM3.50**

Virtual Briefing. We attended Padini's virtual briefing and remain neutral on FY24 outlook for Padini. Some of the key highlights from briefing are as follows: -

Expect inflationary pressures ahead. The group recorded higher S&D expenses in 1HFY24, primarily due to increased salary contributions from 27% in 1HFY23 to 32% in 1HFY24. This was attributed to increased overtime pay, overtime commissions, average salary cost per headcount, and expanded headcount. Going forward, with the higher services tax of 8% effective from 1 March 2024, we anticipate higher indirect expenses due to some cost pass-through from logistics or telco provider.

Price adjustment not on the table for now. The group aims to maintain the gross profit margin at 37-39%. Padini will continue to closely monitor any cost changes and potential indirect impacts of the higher services tax in Malaysia. In the event of higher expenses, the group might consider a price hike. However, price adjustments will be a last resort as the group aims to balance sales volume and price. Note that gross profit margins depend on the sales mix of products, ranging from loss-making to double-digit margins.

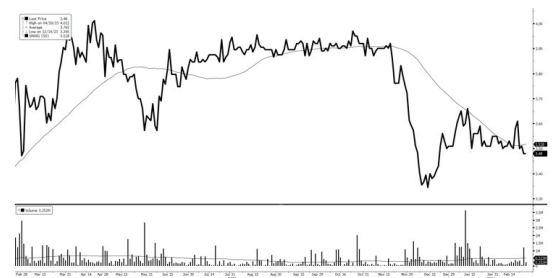
Expansion of Own-Managed Overseas Stores. Padini's floor space in Malaysia increased from 1,388m sq ft in 1HFY23 to 1,404m sq ft in 1HFY24, accompanied by the addition of 7 new stores, bringing the total to 140 stores in Malaysia as of 1HFY24. Additionally, the own-managed overseas stores expanded from 53k sq.ft to 78k sq.ft, with 2 new stores added, totaling 13 own-managed overseas stores as of 1HFY24.

Store expansion partially offsets negative SSSG. In 2QFY24, the group reported a SSSG of -5% in existing stores. This reflected cautious consumer spending amidst various inflationary pressures that eroded discretionary income. However, the opening of 8 new stores, including 2 BrandsOutlet stores, 3 Padini Concept stores, and 3 Freestanding stores, partially offset this decline. Overall, total store count increased to 154 in 2QFY24 from 147 in 1QFY24 despite closure of Padini Jusco Cheras Selatan during this quarter.

RETURN STATISTICS

Price @ 1 ST Mar 2024 (RM)	3.41
Expected share price return (%)	+2.6
Expected dividend yield (%)	+2.9
Expected total return (%)	+5.5

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-0.9	-3.6
3 months	-0.9	-13.9
12 months	-5.6	-11.2

INVESTMENT STATISTICS

FYE Jun	2024F	2025F	2026F
Revenue	1,886.0	1,958.5	2,039.0
EBITDA	334.3	371.5	399.3
Profit before tax (PBT)	210.6	245.8	271.6
Core PATANCI	160.0	186.8	206.4
Core EPS (sen)	24.3	28.4	31.4
DPS (sen)	10.0	10.0	10.0
Dividend Yield (%)	2.9	2.9	2.9


KEY STATISTICS

FBM KLCI	1,538.02
Issue shares (m)	657.91
Estimated free float (%)	28.37
Market Capitalisation (RM'm)	2,289.53
52-wk price range	RM3.33-RM4.16
3-mth average daily volume (m)	0.51
3-mth average daily value (RM'm)	1.80
Top Shareholders (%)	
Yong Pang Chaun Holdings Sdn	43.74
Kumpulan Wang Persaraan	8.54
Employees Provident Fund Board	6.84

Analyst**Genevieve Ng** Pei Fen
genevieve.ng@midf.com.my

Maintain NEUTRAL with an unchanged TP of RM3.50. Post analyst briefing, we make no changes to our FY24-26F earnings projections. Our **TP of RM3.50** is based on an unchanged PER of 12.3x (-0.5SD of sector's three year forward PE for consumer discretionary) pegging to Padini's FY24F EPS of 28.4sen/share

Outlook. Moving forward, we anticipate that the demand for Padini's products will remain resilient due to their relatively cheaper prices. We foresee that the various cash assistance introduced in Budget 2024 could also potentially boost consumer spending on Padini products in 2HFY24. However, we are aware of the inflationary pressure that could compress the profit margin, considering the higher services tax, as we expect other service providers are likely to pass on the higher services tax to the group. Hence, we maintain our **NEUTRAL** call on Padini.

Downside risks include: (1) weaker-than-expected consumer sentiment, (2) greater-than-expected sales mix of low-margin products to boost sales and consumer spending, and (3) greater-than-expected operating costs. 

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	1,319.1	1,822.1	1,886.0	1,958.5	2,039.0
Cost of sales	(811.6)	(1,104.4)	(1,188.8)	(1,197.5)	(1,221.7)
Gross Profit	507.5	717.8	697.2	761.0	817.2
Other Income	27.4	9.8	10.1	10.5	10.9
Selling and distribution costs	(259.6)	(344.4)	(399.4)	(423.8)	(449.6)
Administrative expenses	(61.8)	(82.3)	(93.7)	(99.4)	(105.5)
EBITDA	330.0	416.8	334.3	371.5	399.3
EBIT	213.5	300.8	214.2	248.4	273.1
Net finance (expenses)/income	(8.4)	(4.9)	(3.6)	(2.6)	(1.5)
Profit before tax (PBT)	205.1	295.9	210.6	245.8	271.6
Profit After tax (PAT)	154.1	222.7	160.0	186.8	206.4
Core PATANCI	156.0	225.1	160.0	186.8	206.4
Core EPS (sen)	23.7	34.2	24.3	28.4	31.4
DPS (sen)	10.0	11.5	10.0	10.0	10.0

Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Property, plant and equipment	76.1	86.3	108.0	130.3	153.2
Intangible assets	3.3	3.9	4.8	5.7	6.9
Total non-current assets	490.1	561.6	633.1	708.7	789.1
Inventories	137.3	433.2	390.8	393.7	401.7
ST - Trade and other receivables	56.5	66.0	77.5	80.5	83.8
Cash and cash equivalents	808.9	605.3	632.8	650.6	670.5
Total current assets	1,003.9	1,104.5	1,101.1	1,124.7	1,156.0
Total Assets	1,494.0	1,666.1	1,734.2	1,833.4	1,945.0
Total Equity	891.1	1,040.1	1,084.0	1,194.4	1,314.3
LT Loans and borrowings	0.0	0.0	0.0	0.0	0.0
Total non-current liabilities	325.9	379.0	373.7	368.5	363.4
ST Trade and other payables	178.3	125.2	162.9	164.0	167.4
ST Loans and borrowings	0.0	3.2	3.2	3.2	3.2
Total Current Liabilities	277.1	247.0	276.5	270.5	267.3
Total Liabilities	603.0	626.0	650.2	639.0	630.7

Cash Flow Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Pretax profit	205.1	295.9	210.6	245.8	271.6
Cash flow from operations	474.0	(19.2)	240.5	236.6	245.0
Cash flow from investing	(131.4)	(109.8)	(137.8)	(143.3)	(149.4)
Cash flow from financing	(156.6)	(180.3)	(75.2)	(75.5)	(75.6)
Net cash flow	186.0	(309.4)	27.5	17.8	20.0
(+/-) Adjustments	3.1	4.6	0.0	0.0	0.0
Net cash/(debt) b/f	523.8	808.9	605.3	632.8	650.6
Net cash/(debt) c/f	808.9	605.3	632.8	650.6	670.5

Key Metrics	2022A	2023A	2024F	2025F	2026F
Effective tax rate (%)	24.9	24.7	24.0	24.0	24.0
PER (x)	14.6	10.1	14.0	12.0	10.9
Net Cash/Market Capitalisation (%)	36.1	26.8	28.1	28.9	29.7

Profitability Margins	2022A	2023A	2024F	2025F	2026F
Gross Profit Margin (%)	38.5	39.4	37.0	38.9	40.1
EBITDA Margin (%)	25.0	22.9	17.7	19.0	19.6
EBIT Margin (%)	16.2	16.5	11.4	12.7	13.4
Core PATANCI Margin (%)	11.8	12.4	8.5	9.5	10.1

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 <i>rise</i> 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 <i>fall</i> 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