Padini Holdings Berhad

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

Disappointing Start

***Downgrade* to NEUTRAL**

(Previously BUY)

***Revised* Target Price: RM3.28**

(Previously RM4.30)

KEY INVESTMENT HIGHLIGHTS

- **Below expectations**
- **Consistently proposed dividend as expected**
- **Lackluster revenue growth in the absence of festivities**
- **Rising costs take a bite out of profits**
- **Cut FY25-27F earnings forecast.**
- **Downgrade to NEUTRAL (from BUY) with a lower TP of RM3.28 (from RM4.30)**

Below expectations. Padini reported 1QFY25 revenue of RM393.1m (-13.6%qoq; +1.3%yoy) and core PATANCI of RM21.5m (-5.4%qoq, -21%yoy). The core PATANCI of RM21.5m (excluding one-off items of +RM10m) missed our and consensus forecast, at 11% and 12% of full year expectations respectively. This underperformance was mainly attributed to higher-than-expected operating expenses and declining margins

Consistently proposed dividend as expected. Despite the weaker earnings, Padini maintained its commitment to shareholder returns by declaring a second interim dividend of 2.5 sen per share, consistent with the prior year's payout.

Lackluster revenue growth in the absence of festivities. Padini's 1QFY25 revenue grew slightly by +1.3%yoy to RM393.1m, supported by stable demand for its affordable fashion products. However, revenue saw a sharp decline of -13.6%qoq. The sequential drop in revenue reflects the absence of major promotional events or festivities during the quarter, which typically drive higher consumer spending.

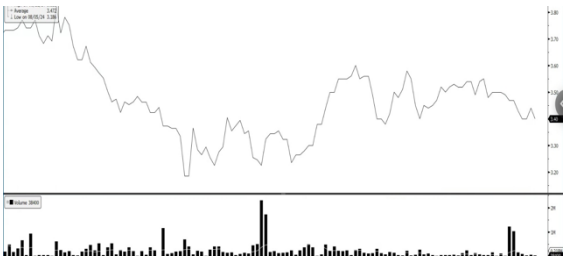
Rising costs take a bite out of profits. Padini's 1QFY25 core PATANCI plunged by -23.2%yoy to RM21.5m. The decline was primarily driven by higher selling and distribution expenses and administrative costs. These increases reflect higher staff-related costs, including salary increments, and additional promotional spending aimed at sustaining sales volumes. Despite these efforts, profitability was squeezed as rising operating expenses outweighed modest revenue growth.

Margins squeezed by cost pressures. Padini's gross profit margin contracted slightly by -0.5ppt to 35.6%, reflecting the group's strategy of offering competitively priced products to boost sales volumes. However, the operating profit margin experienced a sharper decline of -4.7ppt to 5.7%, weighed down by increased sales and administrative expenses.

Cut FY25-27F earnings forecast. In light of weaker-than-expected results, we cut our FY25-27F earnings projection by -23%/-27%/-28% respectively. This was after factoring in: (1) higher operating cost projections, factoring in elevated staff expenses and promotional spending, and (2) a more conservative outlook on gross margins, given Padini's volume-driven strategy and the rising cost environment.

RETURN STATISTICS	
Price @ 29th Nov 2024 (RM)	3.40
Expected share price return (%)	-3.4
Expected dividend yield (%)	+3.5
Expected total return (%)	**+0.1**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.4	-2.8
3 months	-4.5	6.8
12 months	-6.2	-14.3

INVESTMENT STATISTICS

FYE Jun	2025F	2026F	2027F
Revenue	1,987.1	2,069.4	2,154.3
EBITDA	324.2	337.4	351.0
Profit before tax (PBT)	198.7	209.9	221.4
Core PATANCI	150.0	158.5	167.2
Core EPS (sen)	22.8	24.1	25.4
DPS (sen)	12.0	12.0	12.0
Dividend Yield (%)	3.5	3.5	3.5

KEY STATISTICS	
FBM KLCI	1,594.29
Issue shares (m)	657.91
Estimated free float (%)	43.87
Market Capitalisation (RM'm)	2,23689
52-wk price range	RM3.15-RM3.95
3-mth average daily volume (m)	0.23
3-mth average daily value (RM'm)	0.79
Top Shareholders (%)	
Yong Pang Chaun Holdings Sdn	43.74
Kumpulan Wang Persaraan	10.16
Employees Provident Fund Board	7.31

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Downgraded to NEUTRAL (from BUY) with a lower TP of RM3.28 (from RM4.30). Post earnings revision, we lowered our **TP** to **RM3.28** (from RM4.30) based on revised FY25F core EPS of 22.8sen and an unchanged PER of 14.4x. Consequently, we downgraded our call to **NEUTRAL**, reflecting limited potential.

Outlook. Despite near-term challenges, we maintain a cautiously optimistic view of Padini's long-term prospects. Its strategic focus on affordable fashion aligns well with consumer preferences amid inflationary pressures. Additionally, stable employment trends, progressive wage policies, and EPF Account 3 withdrawals could support demand in the value-for-money segment.

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

Padini Holdings Berhad: 1QFY25 Results Summary

FYE Jun (RM'm)	Quarterly results					Cumulative results		
	1QFY25	4QFY24	1QFY24	YoY (%)	QoQ (%)	3MFY25	3MFY24	YoY (%)
Revenue	393.1	455.2	388.2	1.3	(13.6)	393.1	388.2	1.3
Cost of sales	(253.1)	(294.0)	(248.0)	2.1	(13.9)	(253.1)	(248.0)	2.1
Gross profit	**140.1**	**161.2**	**140.2**	**(0.1)**	**(13.1)**	**140.1**	**140.2**	**(0.1)**
Other income	6.9	17.4	4.5	50.9	(60.6)	6.9	4.5	50.9
Administrative expenses	(29.6)	(20.7)	(18.6)	59.2	43.3	(29.6)	(18.6)	59.2
Selling and distribution costs	(94.8)	(112.2)	(85.7)	10.6	(15.4)	(94.8)	(85.7)	10.6
Operating profit (EBIT)	**22.5**	**45.8**	**40.5**	**(44.5)**	**(50.9)**	**22.5**	**40.5**	**(44.5)**
Net finance income/(cost)	(6.1)	(9.6)	(5.5)	11.0	(36.1)	(6.1)	(5.5)	11.0
Profit before tax (PBT)	**16.3**	**36.2**	**34.9**	**(53.2)**	**(54.9)**	**16.3**	**34.9**	**(53.2)**
Income tax expense	(4.8)	(9.9)	(8.3)	(41.8)	(51.3)	(4.8)	(8.3)	(41.8)
Profit After tax (PAT)	**11.5**	**26.3**	**26.7**	**(56.8)**	**(56.2)**	**11.5**	**26.7**	**(56.8)**
PATANCI	11.5	26.3	26.7	(56.8)	(56.2)	11.5	26.7	(56.8)
Core PATANCI	**21.5**	**22.8**	**27.3**	**(21.0)**	**(5.4)**	**21.5**	**27.3**	**(21.0)**
Core EPS (sen)	3.3	3.5	4.1	(21.0)	(5.4)	3.3	4.1	(21.0)
DPS (sen)	2.5	4.0	2.5	0.0	(37.5)	2.5	2.5	0.0
Growth & Margin (%)				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Gross Profit Margin	35.6	35.4	36.1	(0.5)	0.2	35.6	36.1	(0.5)
Operating Profit Margin	5.7	10.1	10.4	(4.7)	(4.3)	5.7	10.4	(4.7)
PBT Margin	4.2	7.9	9.0	(4.8)	(3.8)	4.2	9.0	(4.8)
Core PATANCI Margin	5.5	5.0	7.0	(1.5)	0.5	5.5	7.0	(1.5)
Ratios & Valuation				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
Net cash/market cap (%)	34.2	35.4	28.0	6.3	(1.1)	34.2	28.0	6.3
Effective tax rate (%)	29.5	27.3	23.7	5.8	2.2	29.5	23.7	5.8

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2023A	2024A	2025F	2026F	2027F
Revenue	**1,822.1**	**1,918.8**	**1,987.1**	**2,069.4**	**2,154.3**
Cost of sales	(1,104.4)	(1,223.7)	(1,269.8)	(1,322.4)	(1,369.8)
Gross Profit	**717.8**	**695.1**	**717.3**	**746.9**	**784.4**
Other Income	9.8	15.9	10.7	11.1	11.6
Selling and distribution costs	(344.4)	(416.8)	(433.8)	(449.5)	(472.7)
Administrative expenses	(82.3)	(91.7)	(93.1)	(97.3)	(101.7)
EBITDA	**416.8**	**346.1**	**324.2**	**337.4**	**351.0**
EBIT	**300.8**	**202.4**	**201.1**	**211.2**	**221.6**
Net finance (expenses)/income	(4.9)	(5.7)	(2.4)	(1.3)	(0.2)
Profit before tax (PBT)	**295.9**	**196.7**	**198.7**	**209.9**	**221.4**
Profit After tax (PAT)	222.7	146.6	150.0	158.5	167.2
Core PATANCI	**225.1**	**150.0**	**150.0**	**158.5**	**167.2**
Core EPS (sen)	34.2	22.8	22.8	24.1	25.4
DPS (sen)	11.5	11.5	12.0	12.0	12.0

Balance Sheet (RM'm)	2023A	2024A	2025F	2026F	2027F
Property, plant and equipment	86.3	115.1	130.4	153.5	177.2
Intangible assets	3.9	3.2	5.7	6.9	8.3
Total Non-current assets	**561.6**	**646.5**	**714.5**	**797.4**	**885.4**
Inventories	433.2	288.2	417.5	434.8	450.3
ST - Trade and other receivables	66.0	70.4	81.7	85.0	88.5
Cash and cash equivalents	605.3	791.0	660.0	680.5	701.3
Total current assets	**1,104.5**	**1,182.8**	**1,159.2**	**1,200.3**	**1,240.2**
Total Assets	**1,666.1**	**1,829.2**	**1,873.6**	**1,997.7**	**2,125.6**
Total Equity	**1,040.1**	**1,111.1**	**1,223.1**	**1,351.6**	**1,484.2**
LT Loans and borrowings	0.0	0.0	0.0	0.0	0.0
Total Non-current liabilities	**379.0**	**448.4**	**368.7**	**363.6**	**358.6**
ST Trade and other payables	125.2	151.5	173.9	181.2	187.6
ST Loans and borrowings	3.2	0.0	3.2	3.2	3.2
Total Current Liabilities	**247.0**	**269.7**	**281.9**	**282.5**	**282.8**
Total Liabilities	**626.0**	**718.1**	**650.6**	**646.1**	**641.4**

Cash Flow Statement (RM'm)	2023A	2024A	2025F	2026F	2027F
Pretax profit	295.9	196.7	198.7	209.9	221.4
Cash flow from operations	(19.2)	427.8	(2.9)	260.9	267.6
Cash flow from investing	(109.8)	(35.3)	(145.4)	(151.6)	(158.0)
Cash flow from financing	(180.3)	(204.1)	17.3	(88.8)	(88.7)
Net cash flow	**(309.4)**	**188.4**	**(131.0)**	**20.5**	**20.8**
(+/-) Adjustments	4.6	0.5	0.0	0.0	0.0
Net cash/(debt) b/f	**808.9**	**602.1**	**791.0**	**660.0**	**680.5**
Net cash/(debt) c/f	**602.1**	**791.0**	**660.0**	**680.5**	**701.3**

Key Metrics	2023A	2024A	2025F	2026F	2027F
Effective tax rate (%)	24.7	25.5	24.5	24.5	24.5
PER (x)	10.0	15.3	14.9	14.1	13.4
Net Cash/Market Capitalisation (%)	26.9	35.2	29.4	30.3	31.2

Profitability Margins	2022A	2023A	2024F	2025F	2026F
Gross Profit Margin (%)	39.4	36.2	36.1	36.1	36.4
EBITDA Margin (%)	22.9	18.0	16.3	16.3	16.3
EBIT Margin (%)	16.5	10.5	10.1	10.2	10.3
Core PATANCI Margin (%)	12.4	7.8	7.6	7.7	7.8

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