

26 February 2025

Consumer Cyclical | Retailing

Padini (PAD MK)

Buy (from Neutral)

Value Has Emerged; Upgrade To BUY

- **U/G to BUY (from Neutral), MYR2.20 TP (adjusted post bonus issue), 37% upside, c.5% FY26F (Jun) yield.** Padini's 1HFY25 results met expectations, driven by a GPM rebound – the highest since the post-pandemic period. We believe the current valuation (-1SD below the mean) is attractive following an unwarranted sell-down (YTD: -27%), supported by its strong balance sheet (net cash: MYR0.79/share) and strong cash flow generation. Padini is well-positioned to capture resilient consumer spending and benefit from potential tailwinds from a stronger MYR (CNY/MYR 2024 average: 0.64 vs spot: 0.61).
- **Within expectations.** 1HFY25 core net profit of MYR79.6m (-1.9% YoY) was at 53% and 55% of our and Street's full-year estimates – in line with expectations. Note that we adjusted for unrealised FX gains of MYR5.7m, likely due to the revaluation of USD72.6m in cash holdings (as disclosed in its FY24 annual report). A third interim DPS of 1.8 sen was declared – within expectations – and will go ex on 13 Mar.
- **Results review.** YoY, 1HFY25 revenue rose 3.4% to MYR918.8m due to the earlier timing of the Lunar New Year (2024: 10 Feb vs 2025: 29 Jan), with sales captured in 2QFY25. 1HFY25 GPM expanded by 0.9ppts to 38.1%, supported by a GPM rebound in 2QFY25 (+4.4ppts to 40%), which was driven by lower inventory costs from favourable FX movements in 1QFY25 (average inventory turnover: 3.5 months) and lower promotional activity during the festive period. QoQ, 2QFY25 revenue rose 33.7% to MYR525.6m, driven by seasonal year-end factors. As a result, 2QFY25 core profit rose 1.8x QoQ to MYR58.6m.
- **Outlook.** 3QFY25 sales should hold up amidst a series of festivities, including the Lunar New Year and early *Aidil Fitri* celebrations (31 Mar). Padini should also benefit from resilient consumer spending, higher wages in 2025, and increased cash assistance for lower-income groups. A relatively stronger MYR should ease sourcing costs, as all of Padini's COGS are imported – we expect FY25F GPM to expand by 0.6ppts YoY to 36.8%. Management does not plan to aggressively expand its network of outlets, as Padini has reached a mature stage in its outlet presence. Management will instead focus on enhancing product quality and design offerings to sustain and strengthen its competitiveness.
- **Forecasts and rating.** Post results, we keep our FY25-27F earnings. Our DCF-derived TP of MYR2.20 (following the bonus issue) includes a 2% ESG premium. Our TP implies 13.8x CY25F P/E, which is close to its mean.
- **Risks:** Sharp rise in operating costs, weaker-than-expected consumer sentiment.

Target Price (Return): MYR2.20 (36.8%)
 Price (Market Cap): MYR1.61 (USD359m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (MYR/USD) 0.74m/0.17m

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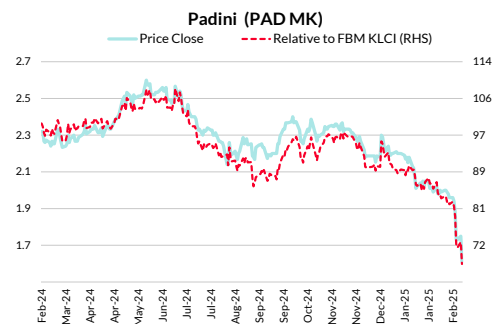


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(26.8)	(21.5)	(29.6)	(28.4)	(30.6)
Relative	(22.3)	(21.1)	(27.7)	(24.3)	(31.8)
52-wk Price low/high (MYR)	1.61 – 2.60				



Source: Bloomberg

Forecasts and Valuation	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Total turnover (MYRm)	1,822	1,919	1,975	2,106	2,244
Recurring net profit (MYRm)	223	147	150	165	181
Recurring net profit growth (%)	44.5	(34.2)	2.0	10.1	9.8
Recurring P/E (x)	7.13	10.84	10.62	9.65	8.79
P/B (x)	1.5	1.4	1.3	1.2	1.1
P/CF (x)	na	3.72	6.50	4.62	4.23
Dividend Yield (%)	4.8	4.8	4.2	4.7	5.1
EV/EBITDA (x)	2.37	2.31	1.94	1.44	0.96
Return on average equity (%)	23.1	13.6	13.0	13.3	13.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 3.1 (out of 4)

E Score: 3.0 (GOOD)

S Score: 3.7 (EXCELLENT)

G Score: 2.7 (GOOD)

Please refer to the ESG analysis on the next page

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Emissions And ESG

Trend analysis	Emissions (tCO2e)	Jun-22	Jun-23	Jun-24	Jun-25
na	Scope 1	-	-	-	-
	Scope 2	-	-	-	-
	Scope 3	-	-	-	-
	Total emissions	na	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

Padini has significantly reduced greenhouse gas emissions by installing solar systems, using eco-friendly products and packaging, promoting recycling campaigns, and outsourcing logistics for efficiency.

The company is actively pursuing comprehensive data collection on GHG emissions to quantify its environmental impact and set realistic sustainability targets.

ESG Unbundled

Overall ESG Score: 3.1 (out of 4)

Last Updated: 31 Aug 2024

E Score: 3.0 (GOOD)

Padini’s efforts within the environmental sphere are commendable, with good practices implemented to reduce energy consumption across its business operation. The installation of solar systems for its office and warehouse buildings is a positive in our view, seeing a 14% YoY reduction in electricity cost in FY22.

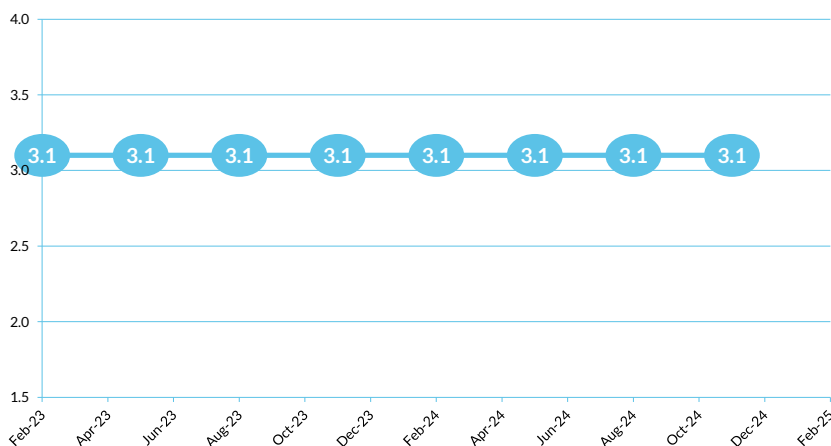
S Score: 3.7 (EXCELLENT)

Padini upholds human rights and does periodic visits to suppliers’ factories to ensure that materials procurement is done responsibly. An internal Mesra OKU training programme as well as the engagement with Malaysia Federation of the Deaf in providing sign language training for its employees shows inclusivity. This is in addition to MYR574k donated in FY22, benefitting a total of 14 NGOs.

G Score: 2.7 (GOOD)

The tenure of independent directors does not exceed a cumulative term limit of nine years. There are currently five women directors on the board, representing more than 30% of its board members. The board has also established a code of conduct and ethics for the company.

ESG Rating History



Source: RHB

Financial Exhibits

Asia	Financial summary (MYR)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Malaysia	Recurring EPS	0.23	0.15	0.15	0.17	0.18
Consumer Cyclical	DPS	0.08	0.08	0.07	0.08	0.08
Padini	BVPS	1.05	1.13	1.21	1.30	1.40
PAD MK	Return on average equity (%)	23.1	13.6	13.0	13.3	13.6
Buy						
	Valuation metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Valuation basis	Recurring P/E (x)	7.13	10.84	10.62	9.65	8.79
DCF	P/B (x)	1.5	1.4	1.3	1.2	1.1
	FCF Yield (%)	(3.0)	23.4	12.2	18.5	20.5
Key drivers	Dividend Yield (%)	4.8	4.8	4.2	4.7	5.1
i. Buoyant consumer sentiment;	EV/EBITDA (x)	2.37	2.31	1.94	1.44	0.96
ii. Market share gains.	EV/EBIT (x)	3.28	3.94	3.27	2.41	1.60
	Income statement (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Key risks	Total turnover	1,822	1,919	1,975	2,106	2,244
i. Sharp rise in operating costs;	Gross profit	718	695	727	780	838
ii. Weaker-than-expected consumer sentiment.	EBITDA	417	346	382	418	455
	Depreciation and amortisation	(116)	(144)	(155)	(169)	(183)
Company Profile	Operating profit	301	202	227	249	273
Padini manufactures and retails garments, shoes, ancillary products, and accessories.	Net interest	(5)	(6)	(26)	(28)	(30)
	Pre-tax profit	296	197	201	221	243
	Taxation	(73)	(50)	(51)	(56)	(62)
	Reported net profit	223	147	150	165	181
	Recurring net profit	223	147	150	165	181
	Cash flow (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Change in working capital	(367)	148	(86)	(18)	(18)
	Cash flow from operations	(19)	428	245	344	375
	Capex	(29)	(55)	(50)	(50)	(50)
	Cash flow from investing activities	(12)	(35)	(45)	(50)	(50)
	Dividends paid	(76)	(76)	(67)	(74)	(81)
	Cash flow from financing activities	(177)	(207)	(143)	(152)	(161)
	Cash at beginning of period	809	605	791	847	989
	Net change in cash	(208)	185	56	141	164
	Ending balance cash	601	791	847	989	1,152
	Balance sheet (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Total cash and equivalents	605	791	847	989	1,152
	Tangible fixed assets	512	628	573	504	421
	Total assets	1,666	1,829	1,906	2,006	2,116
	Short-term debt	3	0	0	0	0
	Total liabilities	626	718	713	722	733
	Total equity	1,040	1,111	1,193	1,284	1,383
	Total liabilities & equity	1,666	1,829	1,906	2,006	2,116
	Key metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Revenue growth (%)	38.1	5.3	2.9	6.7	6.5
	Recurrent EPS growth (%)	44.5	(34.2)	2.0	10.1	9.8
	Gross margin (%)	39.4	36.2	36.8	37.0	37.4
	Operating EBITDA margin (%)	22.9	18.0	19.4	19.8	20.3
	Net profit margin (%)	12.2	7.6	7.6	7.8	8.1
	Dividend payout ratio (%)	34.0	51.6	45.0	45.0	45.0
	Capex/sales (%)	1.6	2.9	2.5	2.4	2.2
	Interest cover (x)	13.8	8.0	8.7	8.9	9.1

Source: Company data, RHB

Results At a Glance

Figure 1: Earnings review

FYE Jun (MYRm)	2Q24	1Q25	2Q25	QoQ (%)	YoY (%)	1H24	1H25	YoY (%)	Comments
Revenue	500.1	393.1	525.6	33.7	5.1	888.3	918.8	3.4	YoY: Stronger sales thanks to earlier timing of Lunar New Year. QoQ: Higher revenue on favourable seasonality.
Gross Profit	190.5	140.1	210.4	50.2	10.5	330.7	350.5	6.0	
GP margin (%)	38.1	35.6	40.0			37.2	38.1		GPM rebound on favourable FX movement
Adjusted EBITDA	103.5	62.6	116.2	85.6	12.3	169.5	178.8	5.5	
Adjusted EBITDA margin (%)	20.7	15.9	22.1			19.1	19.5		
Depreciation	(30.5)	(36.0)	(35.8)	(0.5)	17.3	(60.2)	(71.7)	19.1	
Adjusted EBIT	73.0	26.7	80.4	201.8	10.2	109.3	107.1	(2.0)	
EBIT margin (%)	14.6	6.8	15.3			12.3	11.7		
Interest Income	4.5	5.3	5.5	4.0	21.2	8.7	10.8	24.1	
Interest Expense	(5.2)	(6.1)	(5.8)	(6.0)	10.4	(10.7)	(11.9)	10.7	
EI/Others	(1.3)	(9.5)	5.7	N.m.	N.m.	(1.4)	(3.8)	173.5	Unrealised FX gains likely due to the revaluation of USD72.6m in cash holdings (as disclosed in the FY24 annual report)
Reported PBT	70.9	16.3	85.9	425.6	21.0	105.9	102.2	(3.5)	
Tax	(17.8)	(4.8)	(21.5)	347.7	20.7	(26.1)	(26.4)	0.9	
Effective tax rate (%)	25.1	29.5	25.1			24.7	25.8		
Net Profit	53.1	11.5	64.3	458.2	21.1	79.8	75.8	(4.9)	
Core Profit	54.4	21.0	58.6	179.4	7.7	81.1	79.6	(1.9)	Within expectations
Core net margin (%)	10.9	5.3	11.2			9.1	8.7		

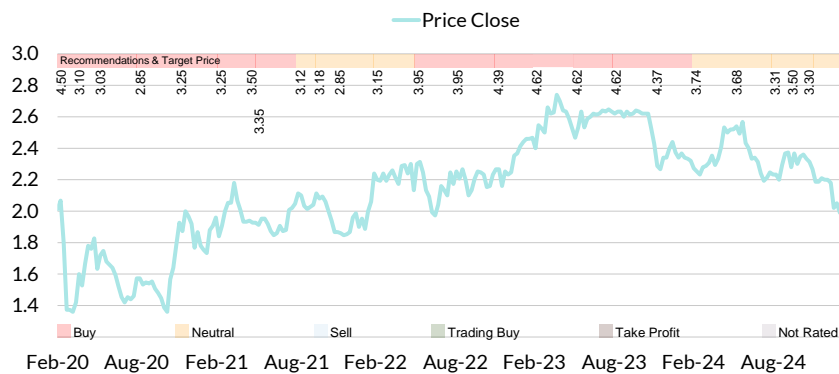
Source: Company, RHB

Figure 2: DCF valuation

FYE Jun	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	FY34F
EBIT	227	249	273	318	352	391	427	465	506	549
EBIT*(1-tax rate)	176	193	211	245	271	300	328	357	388	420
Add: D&A	-6	-6	-5	-5	-4	-4	-3	-3	-3	-2
Less: WC investments (WC Inv)	-86	-18	-18	-16	-21	-21	-23	-25	-26	-27
Less: Fixed investments (FC Inv)	-50	-50	-50	-50	-50	-50	-50	-50	-50	-50
FCFF	33	119	137	174	195	225	251	279	309	341
Disc. FCFF	29	90	90	100	97	98	94	91	88	85
Terminal value at T=10	2686									
PV of terminal value	666									
NPV	863									
Less Debt	602									
Less Minority Interest	0									
Equity Value of Firm	2131									
ESG premium/discount	2%									
Fair Value per share	2.20									
Implied CY25F P/E	13.8									
Rf	4.0%									
Beta	1.4									
Risk premium	7.7%									
Rm	11.7%									
TG (%)	2.0%									
CoE	15.0%									
CoD	4.0%									
WACC	15.0%									

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-12-02	Neutral	3.30	2.22
2024-10-07	Neutral	3.50	2.33
2024-08-27	Neutral	3.31	2.19
2024-05-31	Neutral	3.68	2.52
2024-02-28	Neutral	3.74	2.27
2023-12-01	Buy	4.37	2.43
2023-08-28	Buy	4.62	2.63
2023-05-30	Buy	4.62	2.44
2023-02-27	Buy	4.62	2.59
2022-11-30	Buy	4.39	2.29
2022-08-29	Buy	3.95	2.21
2022-05-30	Buy	3.95	2.19
2022-02-24	Neutral	3.15	2.15
2021-11-29	Neutral	2.85	1.81
2021-10-13	Neutral	3.18	2.10

Source: RHB, Bloomberg

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