

2 December 2024

Consumer Cyclical | Retailing

Padini (PAD MK)

Neutral (Maintained)

Off To a Slow Start

Target Price (Return): MYR3.30 (-2.8%)
 Price (Market Cap): MYR3.40 (USD503m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (MYR/USD) 0.77m/0.18m

- **Still NEUTRAL, new MYR3.30 TP (from MYR3.50), 3% downside.** Padini's 1QFY25 (Jun) results fell short of expectations, impacted by weak GPM and elevated operating expenses. We maintain our cautious outlook, given its muted growth prospects (on limited expansion plans to drive revenue), and ongoing margin pressures from steep opex inflation. That said, its valuation is not overly demanding, underpinned by its strong position to capture resilient consumer spending and potential tailwinds from a stronger MYR.
- **1QFY25 below expectations.** Core net profit of MYR21m (-21.5% YoY) was at 13% of our and Street's full-year estimates, below the average of 18-20%. The negative deviation was due to softer-than-expected GPM and higher-than-expected operating costs. Note that we adjusted for unrealised FX losses of MYR9.5m, likely due to the revaluation of USD72.6m in cash holdings (as disclosed in its FY24 annual report). A second interim DPS of 2.5 sen was declared – within expectations – and will go ex on 16 Dec.
- **Results review.** YoY, 1QFY25 revenue rose slightly by 1.3% to MYR393.1m, which we believe was driven by five net new store additions that offset negative same-store sales growth (impacted by soft consumer sentiment). However, 1QFY25 EBIT margin contracted by 2.6ppts YoY to 6.8%, weighed down by a 0.5ppt decline in GPM to 35.6% from increased discounting, as well as a 10.6% YoY rise in selling and distribution costs due to higher staff expenses. QoQ, 1QFY25 sales and core profit fell 13.6% and 20.8% due to unfavourable seasonality, in the absence of a festive season or holidays to boost sales.
- **Outlook.** Immediate-term sales are anticipated to improve during the seasonally stronger year-end period, supported by the festive season, school holidays, and earlier Lunar New Year. Beyond the immediate term, we believe Padini will continue to maintain its conservative approach in store expansion, We were not made aware of plans to introduce or acquire new brands. Additionally, staff costs are expected to remain elevated, considering the competitive market conditions. Nonetheless, we foresee earnings improvement ahead, with sales expected to be lifted by higher wages in 2025F and upsized cash handouts to the lower-income groups. Meanwhile the stronger MYR should translate to lower sourcing costs – we forecast FY25F GPM of 36.8% vs 1QFY25's 35.6%.
- **Forecasts and ratings.** Post results, we cut FY25-27F earnings by 7%, 6% and 5% to account for our new GPM and opex assumptions. Correspondingly, we cut our DCF-derived TP to MYR3.30 (inclusive of a 2% ESG premium). Our TP implies 13.8x CY25F P/E, which is close to its mean.
- **Key risks:** Sharp rise in operating costs and weaker-than-expected consumer sentiment.

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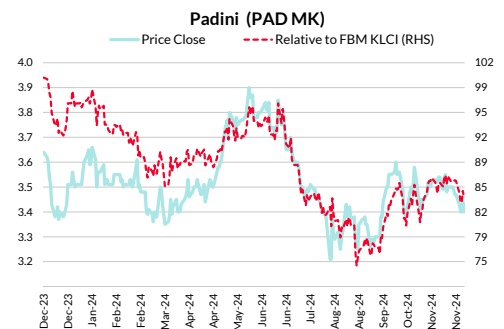


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.1)	(3.4)	4.6	(11.9)	(10.1)
Relative	(12.7)	(2.1)	8.2	(11.2)	(20.3)
52-wk Price low/high (MYR)	3.21 – 3.90				



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: 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: 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 nongovernmental organisations.

G: GOOD

The tenure of an independent director 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.

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)	10.04	15.26	14.95	13.58	12.37
P/B (x)	2.2	2.0	1.9	1.7	1.6
P/CF (x)	na	5.23	9.14	6.51	5.96
Dividend Yield (%)	3.4	3.4	3.0	3.3	3.6
EV/EBITDA (x)	3.92	4.18	3.64	2.99	2.38
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

Financial Exhibits

Asia	Financial summary (MYR)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Malaysia	Recurring EPS	0.34	0.22	0.23	0.25	0.27
Consumer Cyclical	DPS	0.12	0.12	0.10	0.11	0.12
Padini	BVPS	1.58	1.69	1.81	1.95	2.10
PAD MK	Return on average equity (%)	23.1	13.6	13.0	13.3	13.6
Neutral						
Valuation basis	Valuation metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
DCF	Recurring P/E (x)	10.04	15.26	14.95	13.58	12.37
	P/B (x)	2.2	2.0	1.9	1.7	1.6
	FCF Yield (%)	(2.1)	16.6	8.7	13.1	14.5
Key drivers	Dividend Yield (%)	3.4	3.4	3.0	3.3	3.6
i. Buoyant consumer sentiment;	EV/EBITDA (x)	3.92	4.18	3.64	2.99	2.38
ii. Market share gains.	EV/EBIT (x)	5.43	7.14	6.13	5.01	3.98
Key risks	Income statement (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
i. Sharp rise in operating costs;	Total turnover	1,822	1,919	1,975	2,106	2,244
ii. Weaker-than-expected consumer sentiment.	Gross profit	718	695	727	780	838
	EBITDA	417	346	382	418	455
	Depreciation and amortisation	(116)	(144)	(155)	(169)	(183)
	Operating profit	301	202	227	249	273
	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
Company Profile	Cash flow (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Padini manufactures and retails garments, shoes, ancillary products, and accessories.	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)	1Q24	4Q24	1Q25	QoQ (%)	YoY (%)	Comments
Revenue	388.2	455.2	393.1	(13.6)	1.3	YoY: Flattish sales volume growth QoQ: Lower revenue on unfavorable seasonality.
Gross Profit	140.2	161.2	140.1	(13.1)	(0.1)	
<i>GP margin (%)</i>	36.1	35.4	35.6			GPM contracted on more aggressive promotional initiatives
Adjusted EBITDA	66.1	92.9	62.6	(32.6)	(5.3)	
<i>Adjusted EBITDA margin (%)</i>	17.0	20.4	15.9			
Depreciation	(29.7)	(52.6)	(36.0)	(31.6)	20.9	
Adjusted EBIT	36.4	40.3	26.7	(33.9)	(26.7)	
<i>EBIT margin (%)</i>	9.4	8.9	6.8			EBIT margin narrowed due to an increase in staff costs
Interest Income	4.1	5.6	5.3	(6.4)	27.3	
Interest Expense	(5.5)	(9.6)	(6.1)	(36.1)	11.0	
El/Others	(0.0)	(0.2)	(9.5)	N.m.	N.m.	Unrealized FX losses likely due to the revaluation of USD72.6m in cash holdings (as disclosed in the FY24 annual report)
Reported PBT	34.9	36.2	16.3	(54.9)	(53.2)	
Tax	(8.3)	(9.9)	(4.8)	(51.3)	(41.8)	
<i>Effective tax rate (%)</i>	23.7	27.3	29.5			
Net Profit	26.7	26.3	11.5	(56.2)	(56.8)	
Core Profit	26.7	26.5	21.0	(20.8)	(21.5)	Below expectations
<i>Core net margin (%)</i>	6.9	5.8	5.3			

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	3.30									
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

Emissions And ESG

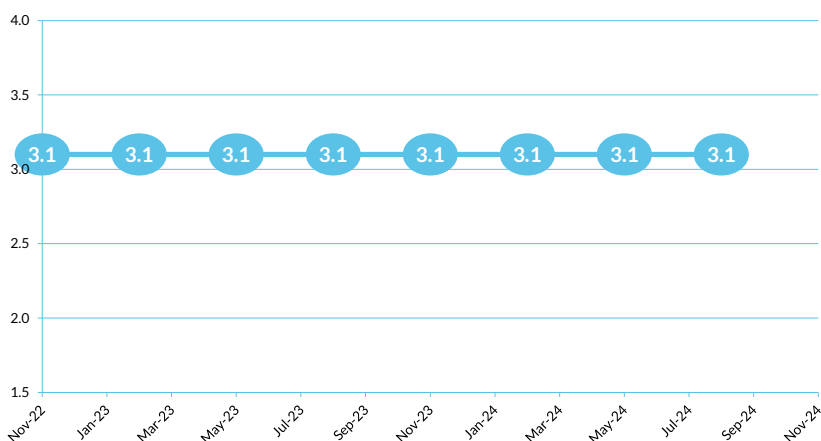
Trend analysis	Emissions (tCO2e)	Jun-22	Jun-23	Jun-24
na	Scope 1	-	-	-
	Scope 2	-	-	-
	Scope 3	-	-	-
	Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

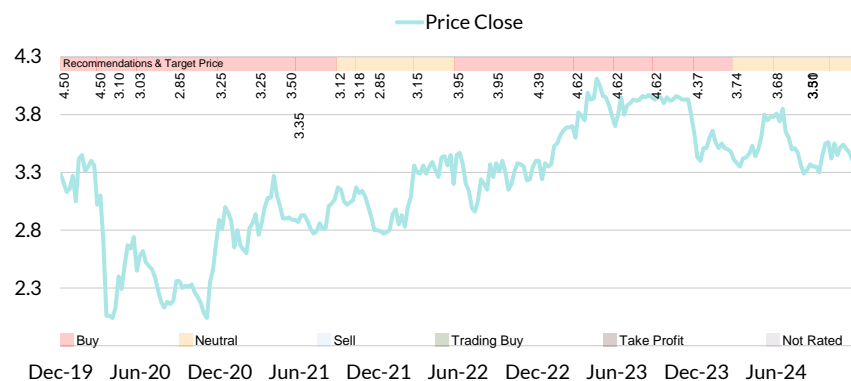
- Padini has significantly reduced greenhouse gas emissions by installing solar systems, using eco-friendly products and packaging, promoting recycling campaigns, and outsourcing logistics for efficiency.
- Additionally, the company is actively pursuing comprehensive data collection on GHG emissions to quantify its environmental impact and set realistic sustainability targets.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-10-07	Neutral	3.50	3.49
2024-08-27	Neutral	3.31	3.28
2024-05-31	Neutral	3.68	3.78
2024-02-28	Neutral	3.74	3.40
2023-12-01	Buy	4.37	3.64
2023-08-28	Buy	4.62	3.95
2023-05-30	Buy	4.62	3.66
2023-02-27	Buy	4.62	3.88
2022-11-30	Buy	4.39	3.44
2022-08-29	Buy	3.95	3.32
2022-05-30	Buy	3.95	3.28
2022-02-24	Neutral	3.15	3.22
2021-11-29	Neutral	2.85	2.71
2021-10-13	Neutral	3.18	3.15
2021-08-30	Neutral	3.12	3.12

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
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Not Rated:	Stock is not within regular research coverage

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