

30 May 2022

Consumer Cyclical | Retailing

## Padini (PAD MK)

**Buy** (from Neutral)

### Stronger Consumer Sentiment Ahead; U/G To BUY

- **U/G to BUY from Neutral, new DCF-derived MYR3.95 TP from MYR3.15, 23% upside, c.4% FY22F (Jun) yield.** 9MFY22 earnings beat expectations, with the higher footfall and consumer confidence post lockdown underpinning the strong sales performance. We continue to like Padini for its branding of value-for-money offerings, and look forward to possible expansion plans with the transition to endemicity. Trading below mean, its valuation is attractive, considering its positioning as a strong recovery proxy – poised to benefit from the potential market consolidation.
- **9MFY22 earnings above estimates.** Padini reported 3QFY22 earnings of MYR32.6m, bringing 9MFY22 earnings to MYR76.7m. In expectation of a robust 4QFY22 driven by *Aidil Fitri* festivities and stronger purchasing power, we deem the results to have exceeded expectations at 70% of our full-year estimates and 82% of consensus'.
- **Results review.** YoY, 3QFY22 revenue of MYR329.3m was up 25.3% from higher footfall and stronger sales performance, as all outlets were operating at full capacity in line with the country's high vaccination rates. Correspondingly, 3QFY22 earnings surged by 167.6%, supported by cost-optimisation efforts on the labour front, and subsidy wages received during the period. QoQ, 3QFY22 revenue and profit fell 22.9% and 46.5% from last quarter's peak, due to seasonal factors and waning pent-up demand, in our view. Despite the negative QoQ performance, 3QFY22 GPM was up 2.1ppts QoQ, at 39.5%. A dividend of 5 sen was declared for the quarter.
- **Outlook.** We look forward to Padini's strong near-term performance being underpinned by robust consumer sentiment given the *Aidil Fitri* festivities, mass return to office, and cash withdrawals. Looking beyond the near term, with Padini's close competitors phased out by the pandemic, the likelihood of market share gains should also bode well for the group, translating to better sales growth moving forward. Expansion plans may also start coming into play, in our view, with the nationwide transition to endemicity. However, we await further capex guidance from management at the analyst briefing on 1 Jun. While we maintain cognisance of inflationary pressures that may result in margin compression, we view positively management's efforts in possibly curating a more favourable product mix that translated to improved QoQ GPM in 3QFY22.
- **U/G BUY.** In expectation of a strong 4QFY22, we raise FY22F earnings by 20%. Immaterial changes were made to FY23F-24F earnings. Refreshing our CoE assumptions, our DCF-derived TP is raised to MYR3.95, implying 18x 2022F P/E (+0.5SD from its 5-year mean), and incorporating a 2% ESG premium, as its 3.1 ESG score is above the country median.
- **Risks** include a sharp rise in operating costs, and weaker-than-expected consumer sentiment.

Forecasts and Valuation	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Total turnover (MYRm)	1,355	1,029	1,303	1,510	1,564
Recurring net profit (MYRm)	75	54	132	144	149
Recurring net profit growth (%)	(53.1)	(28.1)	144.8	8.6	3.5
Recurring P/E (x)	27.97	38.90	15.89	14.63	14.13
P/B (x)	2.7	2.6	2.5	2.3	2.2
P/CF (x)	13.77	10.39	15.16	13.11	11.57
Dividend Yield (%)	2.3	0.8	3.8	4.8	5.0
EV/EBITDA (x)	5.97	7.21	7.33	6.67	6.37
Return on average equity (%)	10.0	6.9	16.0	16.4	16.2
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Target Price (Return):	MYR3.95 (+23%)
Price (Market Cap):	MYR3.20 (USD481m)
ESG score:	3.10 (out of 4)
Avg Daily Turnover (MYR/USD)	2.12m/0.49m

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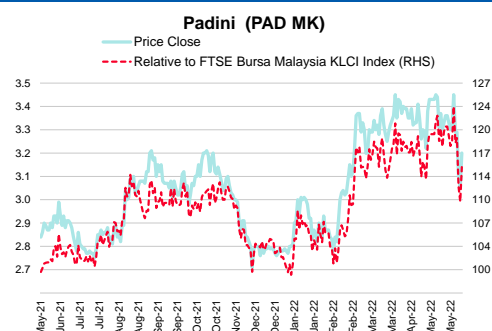


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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	14.3	(0.6)	(4.8)	14.3	8.1
Relative	15.6	1.9	(2.0)	12.0	11.1
52-wk Price low/high (MYR)	2.71 – 3.45				



Source: Bloomberg

#### Overall ESG Score: 3.10 (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 operations. The installation of solar systems for its office and warehouse buildings is a positive in our view, seeing a 36% YoY reduction in electricity cost in FY20.

##### 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 program as well as their engagement with Malaysia Federation of the Deaf in providing Sign Language training for its employees shows inclusivity. This is in addition to MYR1.1m donated in FY20, benefitting a total of 16 NGOs.

##### G: GOOD

The tenure of an independent director does not exceed a cumulative term limit of nine years. Currently with three women on the Board, representing more than 30% of Board Members. The Board establishes a Code of Conduct and Ethics for the company.

#### Note:

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

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Jun-20</b>	<b>Jun-21</b>	<b>Jun-22F</b>	<b>Jun-23F</b>	<b>Jun-24F</b>
Malaysia	Recurring EPS	0.11	0.08	0.20	0.22	0.23
Consumer Cyclical	DPS	0.08	0.03	0.12	0.15	0.16
<b>Padini</b>	BVPS	1.17	1.22	1.30	1.37	1.44
PAD MK	Return on average equity (%)	10.0	6.9	16.0	16.4	16.2
Buy						
	<b>Valuation metrics</b>	<b>Jun-20</b>	<b>Jun-21</b>	<b>Jun-22F</b>	<b>Jun-23F</b>	<b>Jun-24F</b>
<b>Valuation basis</b>	Recurring P/E (x)	27.97	38.90	15.89	14.63	14.13
Discounted Cash Flow	P/B (x)	2.7	2.6	2.5	2.3	2.2
	FCF Yield (%)	6.7	9.4	4.2	5.2	5.6
<b>Key drivers</b>	Dividend Yield (%)	2.3	0.8	3.8	4.8	5.0
i. Buoyant consumer sentiment;	EV/EBITDA (x)	5.97	7.21	7.33	6.67	6.37
ii. Market share gains.	EV/EBIT (x)	12.42	16.52	8.61	7.88	7.55
<b>Key risks</b>	<b>Income statement (MYRm)</b>	<b>Jun-20</b>	<b>Jun-21</b>	<b>Jun-22F</b>	<b>Jun-23F</b>	<b>Jun-24F</b>
i. Sharp rise in operating costs;	Total turnover	1,355	1,029	1,303	1,510	1,564
ii. Intense competition.	Gross profit	538	389	541	604	626
	EBITDA	278	218	213	233	242
<b>Company Profile</b>	Depreciation and amortisation	(144)	(123)	(32)	(36)	(38)
Padini manufactures and retails garments, shoes, ancillary products, and accessories.	Operating profit	133	95	182	197	204
	Net interest	(26)	(21)	0	0	0
	Pre-tax profit	107	74	182	197	204
	Taxation	(32)	(20)	(49)	(53)	(55)
	Reported net profit	75	54	132	144	149
	Recurring net profit	75	54	132	144	149
	<b>Cash flow (MYRm)</b>	<b>Jun-20</b>	<b>Jun-21</b>	<b>Jun-22F</b>	<b>Jun-23F</b>	<b>Jun-24F</b>
	Change in working capital	(83)	30	(26)	(19)	(5)
	Cash flow from operations	153	202	139	160	182
	Capex	(12)	(6)	(50)	(50)	(65)
	Cash flow from investing activities	(1)	2	(50)	(50)	(65)
	Cash flow from financing activities	(183)	(123)	(79)	(101)	(104)
	Cash at beginning of period	472	441	524	534	543
	Net change in cash	(31)	82	10	10	13
	Ending balance cash	441	523	534	543	556
	<b>Balance sheet (MYRm)</b>	<b>Jun-20</b>	<b>Jun-21</b>	<b>Jun-22F</b>	<b>Jun-23F</b>	<b>Jun-24F</b>
	Total cash and equivalents	441	524	534	543	556
	Tangible fixed assets	103	79	98	112	139
	Total investments	5	5	5	5	5
	Total assets	1,398	1,273	1,353	1,416	1,466
	Short-term debt	2	0	0	0	0
	Total liabilities	632	471	498	517	523
	Total equity	766	802	855	898	943
	Total liabilities & equity	1,398	1,273	1,353	1,416	1,466
	<b>Key metrics</b>	<b>Jun-20</b>	<b>Jun-21</b>	<b>Jun-22F</b>	<b>Jun-23F</b>	<b>Jun-24F</b>
	Revenue growth (%)	(24.0)	(24.0)	26.6	15.9	3.5
	Recurrent EPS growth (%)	(53.1)	(28.1)	144.8	8.6	3.5
	Gross margin (%)	39.7	37.8	41.5	40.0	40.0
	Operating EBITDA margin (%)	20.5	21.2	16.4	15.4	15.5
	Net profit margin (%)	5.5	5.3	10.2	9.5	9.5
	Dividend payout ratio (%)	65.6	30.4	59.6	70.0	70.0
	Capex/sales (%)	0.9	0.5	3.8	3.3	4.2
	Interest cover (x)	5.11	4.51			

Source: Company data, RHB

## Results at a Glance

Figure 1: Padini's results review

FYE Jun (MYRm)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)	Comments
<b>Revenue</b>	<b>262.9</b>	<b>427.2</b>	<b>329.3</b>	<b>(22.9)</b>	<b>25.3</b>	<b>819.6</b>	<b>837.9</b>	<b>2.2</b>	Higher YoY from improving footfall and stronger consumer sentiment post lockdown
<b>Gross Profit</b>	<b>96.7</b>	<b>159.6</b>	<b>130.0</b>	<b>(18.6)</b>	<b>34.5</b>	<b>308.3</b>	<b>316.4</b>	<b>2.6</b>	
<i>Gross margin (%)</i>	36.8	37.4	39.5	2.1	2.7	37.6	37.8	0.1	9MFY22 gross margin inched up 0.2ppts, likely due to better product mix
<b>EBIT</b>	<b>21.7</b>	<b>86.1</b>	<b>47.2</b>	<b>(45.3)</b>	<b>117.5</b>	<b>76.9</b>	<b>117.0</b>	<b>52.1</b>	Higher YoY, supported by wage subsidies
<i>EBIT margin (%)</i>	8.2	20.2	14.3	(5.8)	6.1	9.4	14.0	4.6	
<b>PBT</b>	<b>16.8</b>	<b>81.8</b>	<b>41.9</b>	<b>(48.8)</b>	<b>149.2</b>	<b>60.9</b>	<b>102.9</b>	<b>69.0</b>	
<i>PBT margin (%)</i>	6.4	19.2	12.7	(6.4)	6.3	7.4	12.3	4.8	
Tax	(4.6)	(20.9)	(9.3)	(55.7)	100.9	(17.3)	(26.3)	51.4	
Effective tax rate (%)	(27.5)	(25.6)	(22.1)	3.5	5.3	(28.5)	(25.5)	3.0	
<b>Net Profit</b>	<b>12.2</b>	<b>61.0</b>	<b>32.6</b>	<b>(46.5)</b>	<b>167.6</b>	<b>43.6</b>	<b>76.7</b>	<b>76.1</b>	At 70% of our estimates
<i>Net margin (%)</i>	4.6	14.3	9.9	(4.4)	5.3	5.3	9.2	3.8	Third interim dividend of 5 sen was declared.

Source: Company data, RHB

## Recommendation Chart

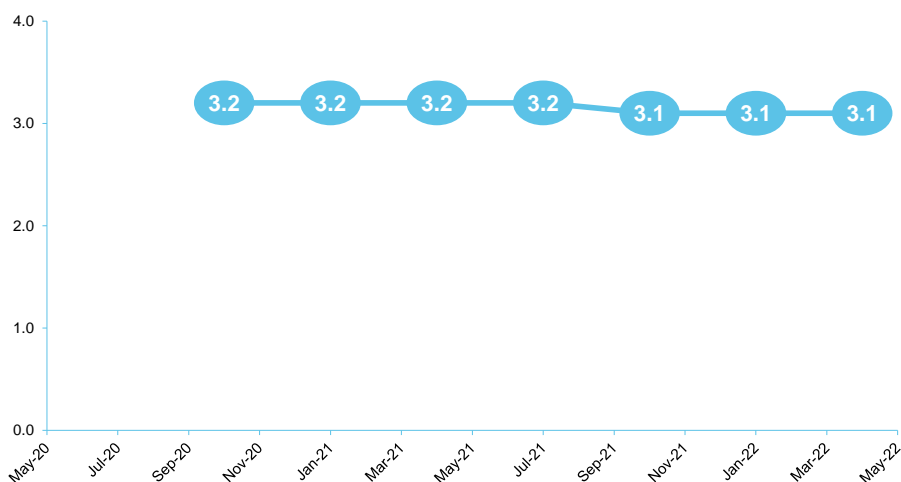


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-05-27	Buy	3.35	2.96
2021-05-10	Buy	3.50	2.96
2020-11-29	Buy	3.25	2.68
2020-08-27	Buy	2.85	2.36
2020-05-28	Buy	3.03	2.57
2020-04-09	Buy	3.10	2.18
2019-05-29	Buy	4.50	3.63

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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