

Panasonic Manufacturing Malaysia Berhad

(3719 | PMM MK) | Consumer Products & Services | Household Goods

Maintain NEUTRAL

Revised Target Price: RM29.62
(Previously RM30.66)

Weaker demand anticipated

KEY INVESTMENT HIGHLIGHTS

- **FY20 earnings below expectation**
- **FY20 normalised net profit was marginally higher at RM111.2m**
- **4QFY20 normalised earnings dipped by 1.4%yoy to RM25.2m**
- **FY21F/FY22F earnings revised in anticipation of potentially weaker demand ahead**
- **Maintain NEUTRAL with a revised TP of RM29.62**

FY20 earnings below expectation as normalised net profit of RM111.2m made up 93% of our full year estimates but was largely within consensus' forecast at 104%. We have excluded foreign exchange gain from our normalised PAT. A dividend of 183.0sen was declared, falling short of the 230.0sen we had anticipated.

FY20 normalised net profit was marginally higher at RM111.2m as revenue fell by 6.7%yoy to RM1052.0m. Panasonic Manufacturing Malaysia Bhd (Panasonic)'s net profit was largely unchanged albeit a dip in revenue mainly due to lower raw material cost and lower advertising and promotional costs. For the full year fan products and others saw PBT dropped by 15.1%yoy to RM67.3m although home appliances PBT rose 12.0%yoy to RM67.1m. Sales in Malaysia declined by 11.0%yoy to RM426.6m while it improved in Asia ex Malaysia and Japan by 2.0%yoy to RM356.5m.

4QFY20 normalised earnings dipped by 1.4%yoy to RM25.2m as revenue fell by 28.9%yoy to RM204.7m. Revenue fell due to weaker demand from home appliances (-12.4%yoy) and fan products (-6.3%yoy). Geographically, local and exports to Asia ex Japan and Malaysia declined by 15.4% and 10.2% respectively. Net profit did not decline as sharply as revenue due to lower raw material cost and lower advertising and promotional expenses.

FY21F/FY22F earnings revised in anticipation of potentially weaker demand ahead. As we expect consumer sentiment to remain cautious amid the pandemic and in view of lockdowns that occurred in the various countries that Panasonic exports to, we think that sales may be sluggish in 1QFY21. Moreover, its factory has halted operations during the Movement Control Order (MCO). As such, we revise our FY21F and FY22F earnings forecasts downwards by -30.8% and -14.2% respectively. Cushioning the drop in sales will be lower raw material costs.

Target price. Our target price is revised to **RM29.62 (previously RM30.66)** which is based on pegging the FY22F EPS of RM2.11 per share to PER of 14.0x. The assigned PER multiple, which is the group's three year average historical PER, is unchanged.

RETURN STATISTICS

Price @ 29 th June 2020 (RM)	28.68
Expected share price return (%)	+3.3
Expected dividend yield (%)	+6.6
Expected total return (%)	+9.9

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-6.3	-7.7
3 months	6.7	-3.6
12 months	-27.2	-18.6

KEY STATISTICS

FBM KLCI	1,494.43
Syariah compliant	No
Issue shares (m)	60.75
Estimated free float (%)	32.06
Market Capitalisation (RM'm)	1,742.19
52-wk price range	RM22.8 - RM41.2
Beta vs FBM KLCI (x)	0.72
Monthly velocity (%)	0.00
Monthly volatility (%)	3.26
3-mth average daily volume (m)	0.01
3-mth average daily value (RM'm)	0.39
Top Shareholders (%)	
Panasonic Mgmt M'sia	47.45
EPF	14.45
Chinchoo Investment	2.07

ANALYST

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Maintain NEUTRAL. We maintain our **NEUTRAL** stance on the stock as we remain cautious on demand for Panasonic's electrical products as we think that consumers will focus their budget on necessities in face of the uncertainties brought about by the pandemic. Upside to our TP is expected to be limited in the near turn until we see demand for its products recovering strongly. On the flip side, we note that raw material costs have eased, potentially cushioning the impact of the likely drop in topline due to weaker sales. In addition, the relatively weaker Ringgit bodes well for the group as a significant of its revenue transaction is done in the USD. Dividend yield is estimated at 5.6%. 

INVESTMENT STATISTICS

Financial year ending 31st Mac (in RM'm, unless otherwise stated)	FY2018	FY2019	FY2020E	FY2021F	FY2022F
Revenue	1,199.1	1,127.9	1,052.0	1,098.2	1,158.6
Profit before tax	166.3	131.3	141.2	113.8	158.7
Net Profit	131.0	105.8	117.0	92.0	128.5
Normalised Net Profit	124.9	110.6	111.2	92.0	128.5
Normalised Net Profit margin (%)	10.9	9.8	10.6	8.4	11.1
Normalised EPS (sen)	205.6	182.1	183.0	151.5	211.6
EPS Growth (%)	(3.7)	(11.4)	0.5	(17.2)	39.7
PER (x)	19.3	15.8	15.7	18.9	13.6
DPS (sen)	248.0	226.0	183.0	160.0	190.0
Dividend yield (%)	6.0	7.9	6.4	5.6	6.6

Source: Company, MIDFR

PANASONIC MANUFACTURING BERHAD: 4QFY20 RESULTS SUMMARY

FYE March (RM'm)	Quarterly results			Cumulative results		
	4QFY20	YoY (%)	QoQ (%)	FY20	FY19	YoY (%)
Revenue	204.7	(28.9)	(9.3)	1052.0	1127.9	(6.7)
Operating expenses	(185.8)	(30.1)	(11.6)	(942.9)	(1023.5)	(7.9)
Other operating income	10.0	527.3	526.1	14.1	8.5	65.3
Other derivative gain / (loss)	(3.3)	(220.8)	(689.3)	(1.9)	(7.1)	(73.9)
Profit from operations	25.6	(3.7)	44.0	121.3	105.9	14.6
Interest income	4.4	(22.3)	(23.1)	20.2	23.8	(15.1)
Share of results of associated company	4.1	(312.0)	216.4	(0.3)	1.6	(118.8)
PBT	34.0	12.4	37.5	141.2	131.3	7.6
Taxation	(3.6)	(41.6)	61.9	(24.2)	(25.6)	(5.3)
PAT	30.3	26.3	35.1	117.0	105.7	10.7
Normalised PAT	25.2	(1.4)	10.0	111.2	110.6	0.5
Normalised EPS (sen)	47.0	11.7	0.0	143.0	137.0	4.4
		<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Operating margin (%)	12.5	3.3	4.6	11.5	9.4	2.1
PBT margin (%)	16.6	6.1	5.6	13.4	11.6	1.8
Normalised PAT margin (%)	14.8	6.5	4.9	11.1	9.4	1.8
Effective tax rate (%)	10.6	(9.8)	1.6	17.1	19.5	(2.3)
Segments						
<i>Revenue</i>						
Home Appliance products	83.0	(12.4)	(46.4)	509.1	560.0	(9.1)
Fan products and Others	122.7	(6.3)	9.0	543.9	567.9	(4.2)
<i>PBT</i>						
Home Appliance products	9.5	1.6	(60.0)	67.1	60.0	12.0
Fan products and Others	16.2	(28.5)	(56.1)	67.3	79.3	(15.1)
<i>PBT margin (%)</i>						
Home Appliance products	11.5	1.6	(3.9)	13.2	10.7	2.5
Fan products and Others	13.2	(4.1)	4.0	12.4	14.0	-1.6

Source: Company, MIDFR

BREAKDOWN BY GEOGRAPHICAL LOCATION

Country	4QFY20	YoY (%)	QoQ (%)	FY20	FY19	YoY (%)
Malaysia	164.5	(15.4)	(15.4)	426.6	479.1	(11.0)
Asia (excluding Malaysia and Japan)	170.3	(10.2)	(10.2)	356.5	349.7	2.0
Middle East	101.0	8.5	8.5	198.1	227.2	(12.8)
Japan	19.3	(11.6)	(11.6)	39.9	44.1	(9.5)
North America	0.0	(100.0)	(100.0)	0.0	1.7	(100.0)
Europe	3.3	217.5	217.5	3.8	3.1	21.4
Others	13.5	10.4	10.4	27.2	23.0	18.2
Total	472.0	(8.1)	(8.1)	1052.0	1127.8	(6.7)

Source: Company, 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.