

Panasonic Manufacturing Malaysia Berhad

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

Maintain NEUTRAL

Cost management helped to deliver positive earnings

Revised Target Price: RM30.66
(Previously RM31.92)

KEY INVESTMENT HIGHLIGHTS

- **3QFY20 earnings rose by +21.6%yoy to RM47.0m in view of the reduction in operating and tax costs**
- **However, earnings was partially impacted by lower sales from domestic and export market**
- **We expect that the group's continuous effort in controlling cost will sustain earnings growth in the near term**
- **Maintain NEUTRAL with a revised TP of RM30.66**

3QFY20 normalised earnings rose by +21.6%yoy. Panasonic Manufacturing Malaysia Bhd (Panasonic)'s 3QFY20 normalised earnings rose by +21.6%yoy to RM47.0m. This bring its cumulative 9MFY20 earnings to RM86.0m (-0.7%yoy) which met ours but below consensus expectations accounting for 70.0% and 67.9% of full year FY20 earnings forecasts respectively. The significant improvement in earnings was attributable to the reduction in operating and tax costs.

Lower domestic and export sales. In 3QFY20, overall sales dropped by -7.1%yoy. This was attributable to the domestic sales dropped of -15.3%yoy driven by the lower sales for both home appliances and fan products. Furthermore, export sales were lower due to a slowdown in demand, especially for home shower products stemming from the Thailand market. This resulted in the declined of -2.7%yoy from the Asian (excluding Japan) market.

Reduction in operating expenses and effective tax rate. Despite a reduction in sales, the group managed to reduce operating expenses by -8.7% or RM 23.3m. This was mainly attributed to lower cost of materials and other fixed costs. In addition, the 3QFY20's effective tax rate was much lower at 10.4% (vs 3QFY19 of 20.5%) mainly due to the effect of capital allowance claim for certain new software development costs and adjustments to an overprovision of tax charge in prior period. These aforementioned factors have resulted in improved 3QFY20 earnings.

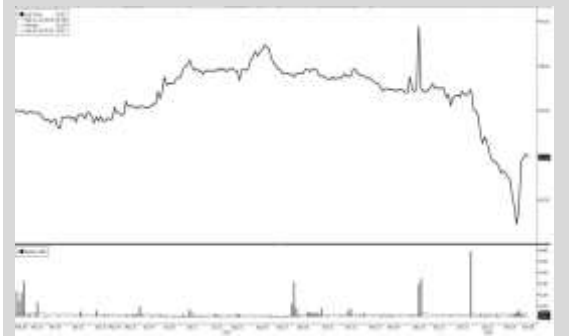
Impact to earnings. We are revising our FY20F, FY21F and FY22F earnings forecasts downwards by -4.0%, -3.8% and -3.6% respectively to take into account the prolonged drop in domestic demand and lower export sales from Thailand market.

Target price. Our target price is revised to **RM30.66** which is based on pegging the FY21 EPS of RM2.19 per share to PER of 14.0x. The assigned PER multiple is the group's three year average historical PER.

RETURN STATISTICS

Price @ 26 th February 2020 (RM)	33.90
Expected share price return (%)	-9.6
Expected dividend yield (%)	+6.9
Expected total return (%)	-2.7

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-1.7	-3.1
3 months	-1.7	-7.3
12 months	-2.8	3.6

KEY STATISTICS

FBM KLCI	1,495.19
Syariah compliant	No
Issue shares (m)	60.75
Estimated free float (%)	32.05
Market Capitalisation (RM'm)	2,059.28
52-wk price range	RM30.7 - RM41.2
Beta vs FBM KLCI (x)	0.48
Monthly velocity (%)	12.19
Monthly volatility (%)	3.92
3-mth average daily volume (m)	0.03
3-mth average daily value (RM'm)	0.99
Top Shareholders (%)	
Panasonic Mgmt M'sia	47.45
EPF	14.47
Chinchoo Investment	2.07

ANALYST

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Maintain NEUTRAL. We are maintaining our **NEUTRAL** recommendation on the stock as we remain cautious on the expectation of a slowdown in sales from the domestic market in the near term. Nonetheless, we expect that the group's continuous effort in controlling cost will sustain earnings growth into the future. In addition, the relatively weaker Ringgit bodes well for the group as a significant of its revenue transaction is done in the USD. Also, the group is targeting to improve sales and profit margins to sustain its earnings growth in the long term via: (i) strengthening manufacturing capabilities through the completion of its new buildings; (ii) strengthening design capabilities with the incorporation of new R&D companies and; (iii) implement automation in reducing reliance on labour. In addition, with 3QFY20 cash reserve of RM551.6m as at 3QFY20, we believe that the company is able to continue giving out good dividend payout. 

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	1,178.0	1,219.3	1,292.4
Profit before tax	166.3	131.3	145.9	164.6	184.8
Net Profit	131.0	105.8	118.9	133.3	149.7
Normalised Net Profit	124.9	110.6	118.9	133.3	149.7
Normalised Net Profit margin (%)	10.9	9.8	10.1	10.9	11.6
Normalised EPS (sen)	205.6	182.1	195.7	219.4	246.4
EPS Growth (%)	(3.7)	(11.4)	7.5	12.1	12.3
PER (x)	19.3	18.6	17.3	15.5	13.8
DPS (sen)	248.0	226.0	230.0	235.0	250.0
Dividend yield (%)	6.0	6.7	6.8	6.9	7.4

Source: Company, MIDFR

PANASONIC MANUFACTURING BERHAD: 3QFY20 RESULTS SUMMARY

FYE March (RM'm)	Quarterly results			Cumulative results		
	3QFY20	YoY (%)	QoQ (%)	9MFY20	9MFY19	YoY (%)
Revenue	267.3	(7.1)	(7.4)	847.3	902.2	(6.1)
Operating expenses	(242.4)	(8.7)	(4.7)	(760.8)	(818.3)	(7.0)
Other operating income	1.6	0.2	(36.9)	7.9	11.8	(33.0)
Other derivative gain / (loss)	3.3	21.2	(450.7)	1.5	(7.7)	(119.2)
Profit from operations	29.8	12.4	(16.4)	95.9	88.1	8.9
Interest income	4.6	(18.4)	(17.8)	15.8	18.2	(13.3)
Share of results of associated company	(2.2)	17.0	99.0	(4.3)	0.3	(1365.0)
PBT	32.1	6.4	(19.8)	107.3	106.6	0.7
Taxation	(3.3)	(46.1)	(64.2)	(20.6)	(23.3)	(11.6)
PAT	28.8	19.9	(6.4)	86.7	83.3	4.1
Normalised PAT	29.3	21.6	(5.2)	86.0	86.6	(0.7)
Normalised EPS (sen)	47.0	18.7	(7.5)	143.0	137.0	4.4
		<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Operating margin (%)	11.1	1.9	(1.2)	11.3	9.8	1.6
PBT margin (%)	12.0	1.5	(1.9)	12.7	11.8	0.8
Normalised PAT margin (%)	10.8	2.4	0.1	10.2	9.2	1.0
Effective tax rate (%)	10.4	(10.1)	(12.8)	19.2	21.9	(2.7)
Segments						
<i>Revenue</i>						
Home Appliance products	154.8	(9.2)	0.4	426.1	465.3	(8.4)
Fan products and Others	112.6	(4.1)	(16.2)	421.2	436.9	(3.6)
<i>PBT</i>						
Home Appliance products	23.8	23.6	2.9	57.6	50.6	13.9
Fan products and Others	10.4	0.7	41.8	51.1	56.6	(9.7)
<i>PBT margin (%)</i>						
Home Appliance products	15.4	4.1	0.4	13.5	10.9	2.6
Fan products and Others	9.2	0.4	(4.0)	12.1	13.0	(0.8)

Source: Company, MIDFR

BREAKDOWN BY GEOGRAPHICAL LOCATION

Country	3QFY20	YoY (%)	QoQ (%)	9MFY20	9MFY19	YoY (%)
Malaysia	96.0	(15.3)	(19.7)	358.1	398.0	(10.0)
Asia (excluding Malaysia and Japan)	108.7	(2.7)	10.7	294.9	271.7	8.5
Middle East	45.1	1.7	(13.4)	142.1	178.4	(20.3)
Japan	9.8	(17.9)	(11.9)	30.4	34.2	(11.1)
North America	0.0	(100.0)	nm	0.0	1.3	(100.0)
Europe	0.9	48.6	128.9	1.3	2.6	(49.2)
Others	6.9	29.0	(4.8)	20.6	16.1	27.6
Total	267.3	(7.1)	(7.4)	847.3	902.2	(6.1)

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.

