

22 May 2018 | 4QFY18 Results Review

## Panasonic Manufacturing Malaysia Berhad

*FY18 performance slightly slower than estimated*

### INVESTMENT HIGHLIGHTS

- **4QFY18 earnings declined by -6.0%yoy to RM25.1m**
- **Home appliance segment recorded strong performance**
- **Final and special dividend declared totalling to 233sen**
- **Downgrade to NEUTRAL as prospect of better earnings has been factored into current valuation**

**Slightly lower than estimated.** Panasonic Manufacturing Malaysia Bhd (Panasonic) 4QFY18 earnings declined by -6.0%yoy to RM25.1m. This brings its full year FY18 earnings to RM131.0m. This translates into an increase of +3.1%yoy. The recorded earnings is slightly lower than ours and consensus expectations, accounting for 93.2% and 94.9% of full year FY18 earnings forecasts respectively.

**Home appliance segment recovered.** The commendable FY18 performance was due to the strong growth of the home appliance segment which recorded a profit before tax (PBT) growth of +54.2%yoy. This is mainly attributed to the; (i) higher sales from Vacuum Cleaner products primarily from the Middle East markets as the economic environment in the Gulf improves; and (ii) cooler weather in this region also contributed to higher sales of home shower products especially in the Vietnam and Malaysia markets.

**Final and special dividend declared.** A final dividend of 133 sen per ordinary share and special dividend of 100 sen per ordinary share has been proposed by the board of directors for FY18. This is subjected to the shareholders' approval at the forthcoming Annual General Meeting. This brings the cumulative dividend for FY18 to 248 sen.

**Prospects.** We believe that earnings will improve going forward driven by the; (i) completion of two new plants in 2018 and early 2020 respectively which is expected to increase production capacity by +25% as well as (iii) decrease in effective tax rate by 4%-5% from FY19 as a result of additional tax incentive in regards to research and development expenditure.


## Downgrade to NEUTRAL

*(Previously BUY)*

**Unchanged Target Price (TP): RM38.15**

RETURN STATS	
Price (21 May 2018)	RM38.30
Target Price	RM38.15
Expected Share Price Return	-0.4%
Expected Dividend Yield	+4.2%
<b>Expected Total Return</b>	<b>+3.8%</b>

STOCK INFO	
KLCI	1,853.58
Bursa / Bloomberg	3719/PMM MK
Board / Sector	Main/Consumer
Syariah Compliant	No
Issued shares (mil)	60.75
Market cap. (RM'm)	2,326.56
Price over NA	2.64x
52-wk price Range	RM33-RM40.8
Beta (against KLCI)	0.33
3-mth Avg Daily Vol	0.01m
3-mth Avg Daily Value	RM0.64m
Major Shareholders (%)	
Panasonic Mgmt M'sia	47.45
EPF	10.80
Standard Life Aberdeen	6.05

**Downgrade our recommendation to NEUTRAL with an unchanged TP of RM38.15.** Share price had risen +13.6 since our BUY recommendation on the 28<sup>th</sup> February 2018, and we believe at the current price better earnings prospect has factored in. Therefore, we downgrade our recommendation to **NEUTRAL** with an unchanged target price of **RM38.15**. This is based on pegging the FY19 EPS of 276.5sen per share to PER of 13.8x. 

## INVESTMENT STATISTICS

FYE March (RM'm)	FY2016	FY2017	FY2018	FY2019F	FY2020F
Revenue	1,086.7	1,123.0	1,199.1	1,225.3	1,276.4
Profit before tax	185.2	158.1	166.3	203.6	228.7
Net Profit	<b>146.9</b>	<b>127.1</b>	<b>131.0</b>	<b>167.9</b>	<b>189.8</b>
Normalised Net Profit	144.9	129.6	131.0	167.9	189.8
Pre-tax Profit margin (%)	17.0	14.1	13.9	16.6	17.9
Net Profit margin (%)	<b>13.3</b>	<b>11.5</b>	<b>10.9</b>	<b>13.7</b>	<b>14.9</b>
Normalised EPS (sen)	238.6	213.4	216.0	276.5	312.4
EPS Growth (%)	45.6	(10.5)	1.2	28.0	13.0
PER (x)	16.1	17.9	17.7	13.9	12.3
Net Dividend (sen)	139.0	117.0	248.0	160.0	161.0
Dividend yield (%)	3.6	3.1	6.5	4.2	4.2

Source: Company, Forecasts by MIDFR

## DAILY PRICE CHART



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## 4QFY18 RESULTS SUMMARY

FYE March (RM'm)	Quarterly results					Cumulative results		
	4QFY18	3QFY18	4QFY17	YoY (%)	QoQ (%)	FY18	FY17	YoY (%)
Revenue	276.7	317.1	247.3	11.9	(12.7)	1199.1	1123.0	6.8
Operating expenses	(252.9)	(277.4)	(238.3)	6.1	(8.8)	(1070.6)	(1002.6)	6.8
Other operating income	5.6	3.6	7.7	(26.6)	55.4	24.3	29.6	(17.7)
Other derivative gain / (loss)	1.4	5.6	5.0	(71.6)	(74.7)	7.7	(4.8)	(259.5)
<b>Profit from operations</b>	<b>30.9</b>	<b>48.9</b>	<b>21.7</b>	42.3	(36.8)	<b>160.5</b>	<b>145.1</b>	10.6
Share of results of associated company	2.8	2.0	4.7	(40.9)	37.8	5.8	13.0	(55.6)
<b>PBT</b>	<b>33.6</b>	<b>50.9</b>	<b>26.4</b>	27.6	(33.9)	<b>166.3</b>	<b>158.1</b>	5.2
Taxation	(8.5)	(8.2)	0.4	(2192.3)	3.2	(35.3)	(31.0)	13.9
<b>PAT</b>	<b>25.1</b>	<b>42.6</b>	<b>26.8</b>	(6.0)	(41.0)	<b>131.0</b>	<b>127.1</b>	3.1
Basic EPS (sen)	42.0	70.0	44.0	(4.5)	(40.0)	216.0	209.0	3.3
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Operating margin (%)	11.2	15.4	8.8	2.4	(4.3)	13.4	12.9	0.5
PBT margin (%)	12.2	16.0	10.7	1.5	(3.9)	13.9	14.1	(0.2)
PAT margin (%)	9.1	13.5	10.8	(1.7)	(4.4)	10.9	11.3	(0.4)
Tax rate (%)	25.2	16.1	(1.5)	26.7	9.1	21.2	19.6	1.6
<b>Segments</b>								
<i>Revenue</i>								
Home Appliance products	126.0	190.4	108.8	15.8	(33.8)	614.9	537.9	14.3
Fan products and Others	150.7	126.6	138.5	8.8	19.0	584.2	585.1	(0.1)
<i>PBT</i>								
Home Appliance products	16.5	32.4	4.5	269.0	(49.0)	101.0	65.5	54.2
Fan products and Others	21.5	13.9	18.1	18.8	(54.3)	90.3	94.7	(4.6)
<i>PBT margin (%)</i>								
Home Appliance products	13.1	17.0	4.1	9.0	(3.9)	16.4	12.2	4.2
Fan products and Others	14.2	11.0	13.0	1.2	3.3	15.5	16.2	-0.7

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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.