

# Panasonic Manufacturing Malaysia Berhad

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

## Better days ahead

### KEY INVESTMENT HIGHLIGHTS

- **Further recovery in demand expected**
- **Focus on strategic products and markets**
- **Higher operating costs may be offset by improving operating efficiency**
- **Upgrade to BUY (from NEUTRAL) with a higher TP of RM35.45**

**Further recovery in demand expected.** Panasonic Manufacturing Malaysia Bhd's (PMM) held a briefing with analysts and investors yesterday. Updating on the Covid-19 cases in the company, management shared that the affected workers have resumed their duties. Utilisation rate now averages at 70% to 80%. Recall that 116 of its 2,137 employees have been tested positive for Covid-19 in December. The plant was closed for about a week for deep sanitization, thus losing production time. Meanwhile, the latest Movement Order Control (MCO) is expected to have minimal impact as it is allowed to be fully operational while online distribution channels established earlier will enable continuous sales. The only concern is another outbreak in its factory, which will lead to loss production time. Management has since further tightened standard operating procedures to limit risks.

**Focus on strategic products and markets.** Going forward, PMM plans to focus more on selling its main product categories, which are: fan, home shower and vacuum cleaner to their respective stronghold markets. For instance, it plans to export more products to Vietnam, as the economy is unscathed from the pandemic. This could cushion any potential shortfall from other markets such as Thailand. Locally, it will continue to defend its market leadership in the ceiling fan segment.

**Higher operating costs may be offset by improving operating efficiency.** We expect margins to come under pressure in the coming quarter owing to higher raw material costs and operating costs due to the more stringent SOPs. We will exclude one-off expenses related to the Covid-19 outbreak in its factory from our core net income. Meanwhile, we noticed that some of its prices for some of its main raw material such as plastic resins, copper and aluminium have been on an upward trend compared to the preceding quarter by 4% to 13%. However, we are not overly concerned as we think that some of these can be mitigated by Panasonic Malaysia's on-going cost optimisation activities. On top of that, its associate, which has returned to profitability is expected to record sustainable profits in the future.

**New factory building at SA2 expected to start commercial production in October.** The additional capacity is for the injection moulding parts of the fan segment. This will help to reduce the company's reliance on external contractors for this particular segment by close to 50% as it increases its internal capacity, thus helping it to improve its profitability in the long run. It is also planning to increase the number of its plastic injection machines for this purpose.

## Upgrade to BUY

(previously Neutral)

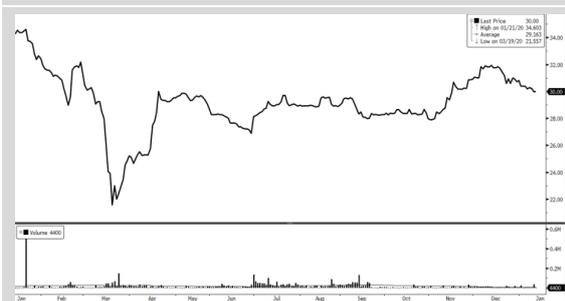
**Adjusted Target Price: RM35.45**

(previously RM29.19)

### RETURN STATISTICS

Price @ 13 <sup>th</sup> January 2021 (RM)	30.00
Expected share price return (%)	+18.2
Expected dividend yield (%)	+6.0
<b>Expected total return (%)</b>	<b>+24.2</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-6.5	-3.7
3 months	-2.6	-2.0
12 months	-18.3	-20.9

### KEY STATISTICS

FBM KLCI	1,636.69
Syariah compliant	No
Issue shares (m)	60.75
Estimated free float (%)	30.71
Market Capitalisation (RM'm)	1,822.37
52-wk price range	RM22.8 - RM36.9
Beta vs FBM KLCI (x)	0.78
Monthly velocity (%)	NA
Monthly volatility (%)	3.26
3-mth average daily volume (m)	0.01
3-mth average daily value (RM'm)	0.31
Top Shareholders (%)	
Panasonic Mgmt M'sia	47.45
EPF	14.15
KWAP	5.17

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**Upgrade to BUY with an adjusted TP of RM35.45 (previously RM29.19).** Our new TP is derived from a higher PER of 17.0x (previously 14.0x) premised on unchanged FY22F EPS of 208.5 sen. Our PER of 17.0x is based on its long-term average as we believe that PMM's prospects and earnings are expected to recover in-line with the broader macro-economic recovery and demand. This is backed by PMM's solid balance sheet, which consists of a cashpile of RM620.0m and an attractive dividend yield of 6.0%. 

## INVESTMENT STATISTICS

Financial year ending 31st Mac (in RM'm, unless otherwise stated)	FY2019	FY2020	FY2021F	FY2022F	FY2023F
Revenue	1,127.9	1,052.0	1,026.9	1,122.8	1,166.0
Profit before tax	131.3	141.2	111.3	156.3	161.6
Net Profit	105.8	117.0	89.9	126.6	130.9
Normalised Net Profit	110.6	111.2	89.9	126.6	130.9
Normalised Net Profit margin (%)	9.8	10.6	8.8	11.3	11.2
Normalised EPS (sen)	182.1	183.0	148.1	208.5	215.4
EPS Growth (%)	(11.4)	0.5	(19.1)	40.8	3.3
PER (x)	16.5	16.4	20.3	14.4	13.9
DPS (sen)	226.0	183.0	140.0	180.0	210.0
Dividend yield (%)	7.5	6.1	4.7	6.0	7.0

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.