

29 February 2016 | 3QFY16 Results Review

Panasonic Manufacturing Malaysia Berhad

Earnings growth outpaced revenue growth

Maintain BUY

Revised Target Price (TP): RM35.26
(previously RM31.33)

INVESTMENT HIGHLIGHTS

- **Panasonic's 3QFY16 revenue increased by +15.1%yoy to RM289.1m**
- **Growth was led by stronger sales from both segments, namely home appliances and fan products**
- **Subsequently, 3QFY16 earnings surged by +46.5%yoy to RM38.6m supported by improved profit margins**
- **Maintain BUY with revised TP of RM35.26**

Exceeded expectations. Panasonic's net profit for 3QFY16 surged by +46.3%yoy to RM38.6m. The company's cumulative 9MFY16 net profit of RM110.7m accounted for +80.6% and +80.8% of ours and consensus full year earnings estimates respectively.

Revenue growth supported by stronger sales from both segments. Panasonic's 3QFY16 revenue increased by +15.1%yoy to RM289.1m led by stronger sales in the domestic and export market for both home appliances and fan products. Sales from home appliances and fan products segment increased by +23.7%yoy and +4.9%yoy. Fan sales volume grew by 18%yoy attributable to the project-related sales in export revenue that was mainly quoted in the US Dollar.

3QFY16 earnings outpaced revenue growth. Panasonic's 3QFY16 earnings outpaced revenue growth increasing by +46.5%yoy. The strong surge in earnings was mainly supported by the improved profit margins from both product segments. The home appliances segment's PBT margin expanded by +1.5ppts to 19.0%, while profit margin for fan products and others segment expanded by +3.1ppts to 15.1%.

Future prospects. Moving forward, the management expects FY16 to remain challenging. This is attributable to the stiff competition faced from other European brands in Russia and the depressed crude oil price which might impact the export sales to the Middle East market. Domestic demand is also expected to remain moderate in end-FY16 due to the increased costs of living which will impact private consumption.

Earnings forecasts. We increase our earnings forecasts for FY16 and FY17 by +9.1% and +15.5%. Our revision in earnings is to better reflect the expected stronger demand of Fans products from the Middle East, the strong USD against MYR, and the improving operating efficiency.

RETURN STATS	
Price (26 February 2016)	RM25.20
Target Price	RM35.26
Expected Share Price Return	+39.9%
Expected Dividend Yield	+7.2%
Expected Total Return	+47.1%

STOCK INFO	
KLCI	1,663.44
Bursa / Bloomberg	3719 / PMM MK
Board / Sector	Main / Consumer
Syariah Compliant	Yes
Issued shares (mil)	60.7
Par Value (RM)	1.00
Market cap. (RM'm)	1,530.8
Price over NA	1.85x
52-wk price Range	RM20.10– RM25.70
Beta (against KLCI)	0.39
3-mth Avg Daily Vol	0.02m
3-mth Avg Daily Value	RM0.37m
Major Shareholders (%)	
Panasonic Mgmt M'sia	47.45
Aberdeen Asset Mgmt	17.13
EPF	6.88
KWAP	6.04

Maintain BUY with revised TP of RM35.26. We are maintaining our **BUY** recommendation on Panasonic with a revised target price of **RM35.26** per share. Our target price is based on PER17 of 13x and EPS17 of 271.2sen per share. The assigned multiple is derived from Panasonic's average monthly historical PER for the past 12 months. In summary, we have strong conviction in Panasonic's long-term growth as a leading home appliance and fan product manufacturer.



INVESTMENT STATISTICS

FYE March (RM'm)	FY2013	FY2014	FY2015	FY2016F	FY2017F
Revenue	864.6	899.2	837.0	1,117.4	1,229.2
Profit before tax	94.9	105.2	146.9	192.2	215.1
Net Profit	75.1	80.8	110.69	147.225	164.772
Pre-tax Profit margin (%)	11.0	11.7	17.5	17.2	17.5
Net Profit margin (%)	8.7	9.0	13.2	13.2	13.4
EPS (sen)	123.6	133.0	182.0	242.4	271.2
EPS Growth (%)	12.6	7.6	36.8	33.2	11.9
PER (x)	18.3	17.0	12.4	9.3	8.3
Net Dividend (sen)	141.0	73.0	142.0	145.4	162.7
Dividend yield (%)	6.3	3.2	6.3	6.4	7.2

Source: MIDFR

DAILY PRICE CHART



Source: MIDFR, Company

PANASONIC MANUFACTURING MALAYSIA BERHAD: 3QFY16 RESULTS REVIEW

FYE March (RM'm)	Quarterly results			Cumulative results		
	3QFY16	YoY (%)	QoQ (%)	9MFY16	9MFY15	YoY (%)
Revenue	289.1	15.1	3.0	837.0	750.8	11.5
Operating expenses	(251.1)	13.6	5.7	(724.7)	(670.0)	8.2
Other operating income	9.0	47.4	29.4	22.6	17.4	29.9
Other derivative gain / (loss)	7.7	(278.7)	(240.8)	3.2	(6.0)	(152.2)
Profit from operations	54.8	70.8	22.8	138.0	92.2	49.7
Share of results of associated company	0.1	(94.8)	(98.5)	8.8	5.8	51.7
PBT	54.8	62.0	8.0	146.9	98.0	49.8
Taxation	(16.3)	117.6	55.3	(36.2)	(22.3)	61.9
PAT	38.6	46.3	(4.2)	110.7	75.7	46.3
Basic EPS (sen)	63.0	46.5	46.5	182.0	124.0	46.8
		<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Operating margin (%)	18.9	6.2	3.1	16.5	12.3	4.2
PBT margin (%)	19.0	5.5	0.9	17.5	13.1	4.5
PAT margin (%)	13.3	2.8	(1.0)	13.2	10.1	3.1
Tax rate (%)	29.6	7.6	9.0	24.6	22.8	1.8
Segments						
<i>Revenue</i>						
Home Appliance products	168.7	23.7	21.6	422.6	372.1	13.6
Fan products and Others	120.5	4.9	(15.1)	414.4	378.7	9.4
<i>PBT</i>						
Home Appliance products	32.0	34.1	17.0	77.1	58.2	32.6
Fan products and Others	18.2	32.0	(14.2)	62.0	48.2	28.8

Source: MIDFR, company

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.