Company Update | Friday, 29 July 2022

Panasonic Manufacturing Malaysia Berhad

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

***Maintain* SELL**

***Revised* Target Price: RM22.75**
(previously RM23.28)

Challenging outlook

KEY INVESTMENT HIGHLIGHTS

- **Recovered from the flood incident?**
- **Margin shrinkage remains.**
- **Port congestion mounting**
- **Termination of business**
- **Introduce forecast for FY25 and revised FY23-24F earnings**
- **Maintained SELL with a lower target price of RM22.75 (previously RM23.28)**

We had a virtual meeting with Panasonic Manufacturing Malaysia (PMM). Below are the salient highlights:

Recovered from the flood incident? PMM managed to obtain insurance claims of RM12.1m, nearly 49% of the total losses arising from the flood incident. The remaining RM12.6m is still under negotiation. Recall that the firm experienced a total loss of over RM24.7m, at 20.3% of its FY21 revenue. On a positive note, the company has fully resumed operations as of March 2022. The utilization rate for fan (85%), vacuum cleaner (90%), and SA1 plant (90%) has fully recovered. The firm are supporting the Shah Alam City Council (MBSA) in preventing the recurrence of the major floods. The Shah Alam Sustainable Urban Drainage Master Plan (SAsud) will be between 2022 and 2024.

Margin shrinkage remains. The commodity prices for PMM's core material have risen substantially since 2021 and are still trending high, namely ABS, copper, aluminum, and steel (Chart 1). The group raised the selling prices of a few models from the Heating, Ventilation, and Air conditioning division (HVAC) by roughly 5–10% to mitigate the impact of rising input costs. We project a slightly better core net profit margin of 7.8% for FY23F than FY22, but still -4.7ppt lower core net profit margin than FY21, as we believe the increased selling prices could only partially offset the rising costs. We opine the company is unable to increase its selling price substantially due to the intense competition in the electrical manufacturing industry.

Port congestion mounting. During the 2QCY22, the supply chain for PMM has been disrupted by the unanticipated COVID-19 outbreak in China. Particularly in the Shanghai region, where most of the parts were purchased and transported overseas. Management is anticipating material supply delays to persist in the near term, despite improved situation after the lifted of restrictions in Shang Hai. This is mainly due to increasing congestion in the port and vessel after the prolonged shutdown.

RETURN STATISTICS	
Price @ 28th July 2022 (RM)	26.10
Expected share price return (%)	-12.8
Expected dividend yield (%)	+2.4
Expected total return (%)	**-10.4**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.4	-3.8
3 months	-1.4	-0.7
12 months	-19.5	-18.2

KEY STATISTICS	
FBM KLCI	1,491.20
Syariah compliant	No
Issue shares (m)	60.75
F4BGM Index	NA
ESG Grading Band (Star rating)	NA
Estimated free float (%)	30.18
Market Capitalisation (RM'm)	1,598.83
52-wk price range	RM25.5 – RM32.8
Beta vs FBM KLCI (x)	0.54
Monthly velocity (%)	6.97
Monthly volatility (%)	3.99
3-mth average daily volume (m)	0.00
3-mth average daily value (RM'm)	0.12
Top Shareholders (%)	
Panasonic Holdings Corp	47.45
EPF	13.30
KWAP	5.70

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Upcoming new products. The company scheduled to launch Home Shower U series and Vacuum Cleaner CL600 series. Home Shower U series will replace current N series, cover mid-to-high range, and concentrate on the Asian market. The Vacuum cleaner CL600 series will supersede current CL5 and CL7 series, cater standard-, mid- and high- range, and will focus on the markets in Asia and the Middle East.

Closure of certain products. The group has discontinued offering rice cooker products since 1QCY22 and planned to terminate its kitchen appliances (for blender, food processor and slow cooker), with effect from 30 September 2022. We gather that a combined 13% of PMM's sales contributed by both rice cooker (6%) and kitchen appliances (7%). Rice cooker products were discontinued mostly because they had not been profitable in recent years due to rising material costs. Some of the kitchen appliances products will be terminated due to the realignment of global production for the Panasonic group. Management expects 50% increase restructuring capital expenditures in FY23F for the discontinued products divisions.

Looking forward, PMM intended to expand product lines-up for its existing core business, namely home shower, vacuum cleaner, and fan (ceiling fan, electric fan, and ventilating fan). The group are in discussion with Japan's business division about developing a new product line for water-based businesses. Yet, we opine that the new business line will not have a material impact on the group's mid-term earnings as it typically takes at least 3 years to be profitable after product launched.

Introduce forecast for FY25 and revised FY23-24F earnings. We raised our earnings estimates for FY23F by 24.4% and FY24F by 25.9%, after reducing our provision for restructuring costs to a 50% increase for the termination of rice cooker and kitchen appliances. We also excluded our provisions for flood-related damages to inventory and facilities for FY23-24F given that the losses had been fully written off in FY22.

Maintained SELL with a revised target price of RM22.75 (previously RM23.28) after rolling forward of valuation year. Despite upward revision in earnings, our TP is revised lower to RM22.75 from RM23.28 based on a revised PER of 16.3x (previously 24.4x), at the 2-year historical average, pegged to FY24F EPS of 139.6sen. We believe that the earnings will be pressured moving forward on the back of margin erosions, and the termination of products**.** Upside risks **are**: (i) lower-than-expected input cost; and (ii) quicker-than-expected rollout of a new product line.

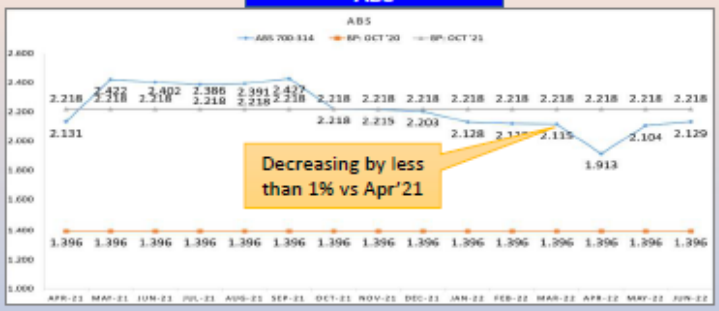
INVESTMENT STATISTICS

FYE March (in RM'm, unless otherwise stated)	FY2021	FY2022A	FY2023F	FY2024F	FY2025F
Revenue	974.6	868.8	931.1	987.2	1,095.4
Profit before tax	135.2	53.0	83.5	97.4	138.2
Net Profit	**116.5**	**51.6**	**72.6**	**84.7**	**120.2**
Core Net Profit	**121.7**	**51.6**	**72.6**	**84.7**	**120.2**
Core Net Profit margin (%)	12.5	5.9	7.8	8.6	11.0
Core EPS (sen)	200.4	85.0	119.7	139.6	198.0
EPS Growth (%)	9.4	(57.6)	40.8	16.7	41.9
PER (x)	13.0	30.7	21.8	18.7	13.2
DPS (sen)	148.0	62.4	83.5	98.5	138.4
Dividend yield (%)	5.7	2.4	3.2	3.8	5.3

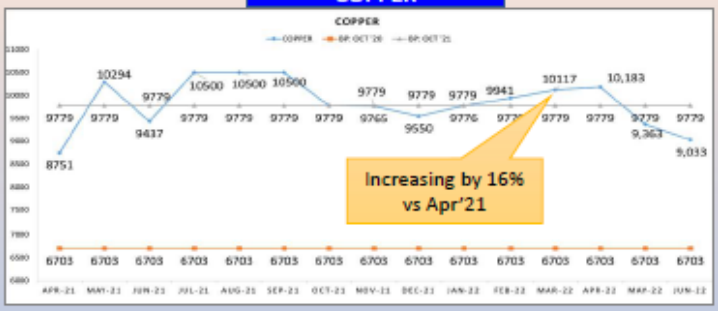
Source: Company, MIDFR

CHART 1: HISTORICAL RAW MATERIAL PRICE, UNTIL JUNE 2022

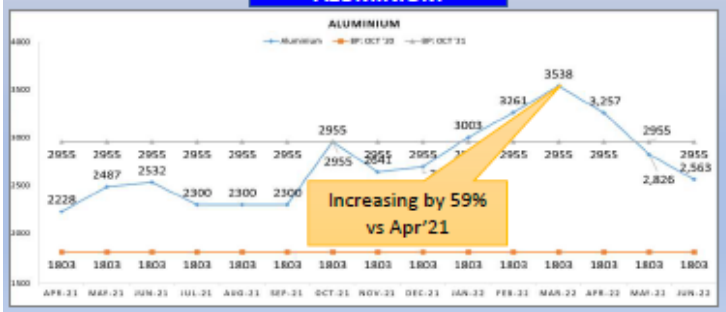
ABS



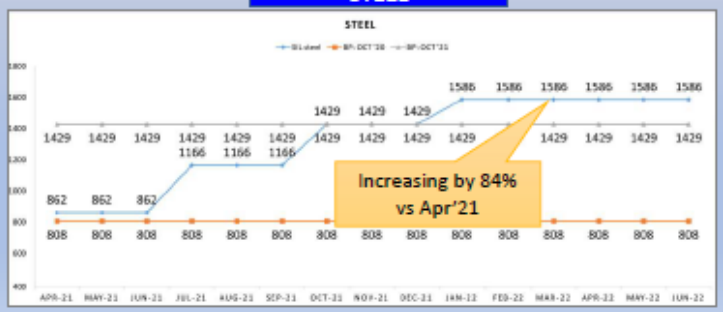
COPPER



ALUMINIUM



STEEL



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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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology