Panasonic Manufacturing Malaysia Berhad

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

***Maintain* SELL**

Continued headwinds

***Revised* Target Price: RM21.20**
(previously RM22.75)

KEY INVESTMENT HIGHLIGHTS

- **Missed expectations**
- **Notable margin compression**
- **Lower profitability across segments**
- **Revised earnings downward by -33.9%/-13.2%/-6.0% for FY23F/24F/25F**
- **Maintained SELL with a revised target price of RM21.20 (previously RM22.75)**

Missed expectations. Panasonic Manufacturing Malaysia (PMM)'s 3MFY22 core PATANCI of RM8.8m (after eliminating a one-time off item of RM2.7m) came in below both our and the consensus expectations. It accounted for only 12.1% of ours and 11.4% of the street's FY23 earnings projection. The negative deviation was mainly dragged by higher-than-expected raw material costs, and greater-than-expected production costs impacted by China's Covid-19 lockdown. No dividend was declared for this quarter.

Prolonged headwinds contributed to weak margin in 1QFY23. PMM reported a reduced revenue at RM243.7m in 1QFY23 on the back of (i) lower sales of some kitchen appliances that the group planned to stop supplying by the 1HFY23, (ii) cessation of the rice cooker business, and (iii) continued supply chain disruption due to China's Covid-19 lockdown. The PBT margin dropped to 5.0% which resulted in a substantial decline in the group's core PATANCI at RM8.8m (-50.7%yoy). Narrower profitability is caused by rising material costs, higher production costs, and higher labour costs. Quarterly, PMM's topline and profit from operation improved in 1QFY23 given that the flood accident had a substantial influence on the previous quarter's revenue. The PBT declined -by 19.5%qoq to RM12.2m driven by a lower share of profit from the associate company.

Lower profitability across segments. Living Appliances and Solutions Company (LASC) revealed a poorer topline and bottom line amid decreased sales and higher labour costs. The lower profitability of Heating & Ventilation A/C Company (HVAC) was driven by expanding material costs and an unfavourable product mix, which more than offset the better sales.

Revised earnings downward by -33.9%/-13.2%/-6.0% for FY23F/24F/25F. We cut our earnings projections in response to the headwinds PMM encountered as earnings came in below our expectations. This is after accounting for higher input costs, particularly the cost of energy and the price of copper and aluminum.

RETURN STATISTICS	
Price @ 23rd Aug 2022 (RM)	26.90
Expected share price return (%)	-21.2
Expected dividend yield (%)	+2.4
Expected total return (%)	**-18.6**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.1	-0.3
3 months	-0.7	-0.2
12 months	-17.0	-15.3

KEY STATISTICS	
FBM KLCI	1,487.37
Syariah compliant	No
Issue shares (m)	60.75
F4BGM Index	NA
ESG Grading Band (Star rating)	NA
Estimated free float (%)	29.69
Market Capitalisation (RM'm)	1,634.06
52-wk price range	RM25.5 – RM32.7
Beta vs FBM KLCI (x)	0.54
Monthly velocity (%)	6.97
Monthly volatility (%)	4.00
3-mth average daily volume (m)	0.00
3-mth average daily value (RM'm)	0.11
Top Shareholders (%)	
Panasonic Holdings Corp	47.45
EPF	13.30
KWAP	5.70

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Maintained SELL with a revised target price of RM21.20 (previously RM22.75). Our TP is based on a revised PER of 17.5x (at the 2-year historical average), pegged to a revised FY24F EPS of 121sen. We anticipate that earnings pressure will persist going forward back of continued margin erosion as increased selling prices for some goods won't be enough to offset the rising cost of materials, component components, and the discontinuation of some products. We turned cautious about lower sales volume in the upcoming quarter as consumers may be reluctant to buy consumer discretionary items due to the growing inflation has inevitably reduce the purchasing power of some consumers. Meanwhile, upside risks are: (i) lower-than-expected input cost; and (ii) quicker-than-expected rollout of a new product line.

INVESTMENT STATISTICS

FYE MAR (RM'm)	FY2021	FY2022A	FY2023F	FY2024F	FY2025F
Revenue	**974.6**	**868.8**	**931.1**	**996.2**	**1,104.7**
Cost of Sales	(792.4)	(774.0)	(833.7)	(865.2)	(921.1)
Gross Profit	**182.1**	**94.8**	**97.4**	**131.0**	**183.6**
Profit from Operation	104.6	31.3	18.9	47.0	90.5
Profit Before Tax (PBT)	**135.2**	**53.0**	**54.7**	**85.4**	**132.9**
Income Tax Expenses	(18.7)	(1.5)	(6.6)	(11.9)	(19.9)
PAT	**116.5**	**51.5**	**48.0**	**73.5**	**112.9**
Core PATANCI	**116.5**	**51.5**	**48.0**	**73.5**	**112.9**
EPS (sen)	191.7	84.8	79.0	121.0	185.9
Dividend per share (sen)	163.0	83.0	70.8	108.4	166.6
Dividend yield (%)	6.1	3.1	2.6	4.0	6.2
Growth & Valuation (%)					
Revenue Growth	(7.4)	(10.9)	7.2	7.0	10.9
Core PATANCI Growth	(0.5)	(55.8)	(6.8)	53.1	53.7
Gross Profit Margin	18.7	10.9	10.5	13.1	16.6
PBT Margin	13.9	6.1	5.9	8.6	12.0
Core PATANCI Margin	11.9	5.9	5.2	7.4	10.2
Effective tax rate	13.8	2.9	12.2	13.9	15.0
Ratios & Valuation					
PER (x)	14.0	31.7	34.0	22.2	14.5
Net debt/Total Equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Dividend payout (%)	85.0	97.9	89.6	89.6	89.6
Cash/Mkt Cap (x)	32.1	27.1	26.7	26.4	26.1

Source: Company, MIDFR

Table 1: PANASONIC's 1QFY23 EARNINGS REVIEW

FYE MAR (RM'm)	Quarterly results					Cumulatively results		
	1QFY23	4QFY22	1QFY22	YoY (%)	QoQ (%)	3MFY23	3MFY22	YoY (%)
Revenue	243.7	208.8	253.7	(3.9)	16.7	243.7	253.7	(3.9)
Operating expenses	(244.3)	(219.1)	(235.0)	4.0	11.5	(244.3)	(235.0)	4.0
Other operating income	6.2	14.7	1.4	341.1	(58.1)	6.2	1.4	341.1
Other derivative gain / (loss)	(0.3)	(0.1)	0.5	(153.6)	325.4	(0.3)	0.5	(153.6)
Profit from operations	**5.2**	**4.3**	**20.6**	**(74.6)**	**20.5**	**5.2**	**20.6**	**(74.6)**
Interest income	2.1	1.7	2.2	(3.8)	21.9	2.1	2.2	(3.8)
Share of results of associated company	4.9	9.1	(0.5)	>100.0	(46.5)	4.9	(0.5)	>100.0
PBT	**12.2**	**15.2**	**22.2**	**(45.0)**	**(19.5)**	**12.2**	**22.2**	**(45.0)**
Taxation	(0.8)	0.6	(4.4)	(82.8)	(222.9)	(0.8)	(4.4)	(82.8)
PAT	**11.5**	**15.8**	**17.9**	**(36.0)**	**(27.4)**	**11.5**	**17.9**	**(36.0)**
Core PATANCI	**8.8**	**15.2**	**17.8**	**(50.7)**	**(42.3)**	**8.8**	**17.8**	**(50.7)**
Core EPS (sen)	14.4	24.9	29.4	(51.0)	(42.2)	14.4	29.4	(51.0)
				+/(-) ppts	*+/(-) ppts*			*+/(-) ppts*
Operating margin (%)	2.2	2.1	8.1	(5.9)	0.1	2.2	8.1	(5.9)
PBT margin (%)	5.0	7.3	8.8	(3.8)	(2.3)	5.0	8.8	(3.8)
Core PATANCI margin (%)	4.7	7.6	7.0	(2.3)	(2.9)	4.7	7.0	(2.3)
Effective tax rate (%)	6.2	(4.1)	19.7	(13.5)	10.3	6.2	19.7	(13.5)
Segments Breakdown								
Revenue								
LASC products	60.4	78.7	86.7	(30.3)	(23.2)	60.4	86.7	(30.3)
HVAC products	182.9	129.7	166.7	9.7	41.0	182.9	166.7	9.7
PBT								
LASC products	1.5	(0.8)	3.8	(60.0)	>100.0	1.5	3.8	(60.0)
HVAC products	1.0	5.1	16.6	(94.1)	(80.9)	1.0	16.6	(94.1)
PBT margin (%)				*+/(-) ppts*	*+/(-) ppts*			*+/(-) ppts*
LASC products	2.5	(1.0)	4.4	(1.9)	3.6	2.5	4.4	(1.9)
HVAC products	0.5	4.0	9.9	(9.4)	(3.4)	0.5	9.9	(9.4)

Source: Company, MIDFR

Table 1: PANASONIC's 1QFY23 REVENUE BREAKDOWN BY GEOGRAPHICAL

FYE MAR (RM'm)	Quarterly results					Cumulatively results		
	1QFY23	4QFY22	1QFY22	YoY (%)	QoQ (%)	3MFY23	3MFY22	YoY (%)
Revenue by geographical location:								
Malaysia	89.0	80.0	87.6	1.6	11.2	89.0	87.6	1.6
Asia (excluding Malaysia and Japan)	82.4	62.2	95.4	(13.6)	32.5	82.4	95.4	(13.6)
Middle East	58.3	52.7	53.9	8.1	10.7	58.3	53.9	8.1
Japan	5.6	9.6	9.5	(41.1)	(41.7)	5.6	9.5	(41.1)
Europe	1.9	0.4	1.4	35.1	321.4	1.9	1.4	35.1
Others	6.5	3.9	5.9	10.3	68.8	6.5	5.9	10.3
Total	**243.7**	**208.8**	**253.7**	**(3.9)**	**16.7**	**243.7**	**253.7**	**(3.9)**

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 *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