Panasonic Manufacturing Malaysia Berhad

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

***Maintain* SELL**

***Revised* Target Price: RM17.60**
(From RM21.20)

Limited selection of products

KEY INVESTMENT HIGHLIGHTS

- **Within expectations**
- **2QFY23's core earnings surged +78%qoq to RM15.6m**
- **Better revenue and profitability in 1HFY23**
- **Maintained SELL with a lower target price of RM17.60 (from RM21.20)**

Within expectations. Panasonic Manufacturing Malaysia ("PMM") recorded a core PATANCI of RM24.3m in 1HFY23, which was within our expectations, but below consensus. It accounted for 50.7% of our forecast and 42.6% of the consensus full-year FY23 estimation. This was after adjusting a one-time off item of -RM29.7m (including the insurance claim received amounted to RM20.9m).

2QFY23 core earnings surged +78%qoq to RM15.6m, matching increased revenue from RM243.7m in 1QFY23 to RM292.8m in 2QFY23. The positive momentum was supported by: (1) completed backlog orders due to improved supply conditions, (2) increased sales of vacuum cleaners to the Middle East market, (3) higher sales for home showers due to seasonal effect, and (4) higher profit share from an associate company. On yearly basis, the group's topline increased by +106.6%yoy to RM292.8m. This was due to a lower base in 2QFY22, as well as completion of backlog orders fulfillment in this quarter. The core PATANCI increased from RM2.5m in 2QFY22 to RM15.6m in 2QFY23. The better performance was driven by higher sales and share of profit from the associate company, which more than offset the impact of higher raw materials and labor costs.

Better revenue and profitability in 1HFY23. 1HFY23 revenue increased by +35.7%yoy to RM536.5m, mostly due to higher sales of the Heating & Ventilation A/C Company ("HVAC") products. However, the revenue for Living Appliances and Solutions Company ("LASC") products fell -27.6%yoy to RM135.4m due to the discontinuation of some kitchen appliance products and rice cookers. Cumulatively, 1HFY23 core PATANCI rose +20.1%yoy to RM24.3m on the back of increased sales and higher share of profit from associate company that outweighed the higher input cost.

RETURN STATISTICS	
Price @ 30th Nov 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	0.3	-1.3
3 months	0.7	-10.5
12 months	-22.1	-19.9

KEY STATISTICS	
FBM KLCI	1,488.80
Syariah compliant	No
Issue shares (m)	60.75
F4BGM Index	NA
ESG Grading Band (Star rating)	NA
Estimated free float (%)	29.70
Market Capitalisation (RM'm)	1,395.94
52-wk price range	RM22.1 - RM29.8
Beta vs FBM KLCI (x)	0.53
3-mth average daily volume (m)	0.01
3-mth average daily value (RM'm)	0.13
Top Shareholders (%)	
Panasonic Holdings Corp	47.45
EPF	13.30
KWAP	5.70

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Maintained SELL with a lower target price of RM17.60 (from RM21.20). We make no changes to our earnings forecast. Meanwhile, we change our PER from 17.5x to 14.5x, which is in line with -1SD of its 2-year historical average PE. Hence, our **TP** is revised from RM21.20 to **RM17.60**, based on a PER of 14.5x that pegged to an unchanged FY24F EPS of 121sen. We remains cautious about Panasonic's FY23F outlook, mainly due to: (1) the intense competition in the industry, (2) limited product offering after the discontinuation of certain kitchen appliance products and rice cookers, and (3) softer demand for consumer electronic products ahead, as we think that consumer will turn cautious on buying major durables in view of tighter global financial conditions and high inflation. **Upside risks** are: (i) lower-than-expected input cost; (ii) quicker-than-expected rollout of a new product line; (iii) higher-than-expected sales due to improve consumer sentiment.

INVESTMENT STATISTICS

FYE MAR (RM'm)	FY2021	FY2022A	FY2023F	FY2024F	FY2025F
Revenue	**974.6**	**868.8**	**931.1**	**996.6**	**1,105.8**
Cost of Sales	(792.4)	(774.0)	(833.7)	(865.5)	(922.0)
Gross Profit	**182.1**	**94.8**	**97.4**	**131.0**	**183.8**
Profit from Operation	104.6	31.3	19.1	47.2	90.8
Profit Before Tax (PBT)	**135.2**	**53.0**	**54.7**	**85.4**	**133.0**
Income Tax Expenses	(18.7)	(1.5)	(6.6)	(11.9)	(20.0)
PAT	**116.5**	**51.5**	**48.0**	**73.5**	**113.1**
Core PATANCI	**116.5**	**51.5**	**48.0**	**73.5**	**113.1**
EPS (sen)	191.7	84.8	79.0	121.0	186.1
Dividend per share (sen)	198.0	83.0	77.9	119.3	183.4
Dividend yield (%)	7.4	3.1	2.9	4.4	6.8
Growth & Valuation (%)					
Revenue Growth	(7.4)	(10.9)	7.2	7.0	11.0
Core PATANCI Growth	(0.5)	(55.8)	(6.8)	53.1	53.8
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 (%)	103.3	97.9	98.6	98.6	98.6
Cash/Mkt Cap (x)	32.1	27.1	26.7	26.4	26.1

Source: Company, MIDFR

Table 1: PANASONIC's 2QFY23 EARNINGS REVIEW

FYE MAR (RM'm)	Quarterly results					Cumulatively results		
	2QFY23	1QFY23	2QFY22	YoY (%)	QoQ (%)	1HFY23	1HFY22	YoY (%)
Revenue	292.8	243.7	141.7	106.6	20.2	536.5	395.4	35.7
Operating expenses	(279.2)	(244.3)	(150.4)	85.6	14.3	(523.6)	(385.4)	35.8
Other operating income	28.2	6.2	1.4	1,865.1	356.3	34.4	2.8	1,112.3
Other derivative gain / (loss)	0.1	(0.3)	0.5	(74.9)	(142.2)	(0.2)	1.0	(116.3)
Profit from operations	**41.9**	**5.2**	**(6.8)**	**(715.1)**	**699.9**	**47.2**	**13.8**	**242.2**
Interest income	2.8	2.1	2.2	25.1	30.8	4.9	4.4	10.7
Share of results of associated company	5.7	4.9	3.5	61.1	17.4	10.6	3.0	247.4
PBT	**50.4**	**12.2**	**(1.1)**	**(4,827.4)**	**312.7**	**62.6**	**21.2**	**194.8**
Taxation	(7.8)	(0.8)	3.7	(309.1)	929.3	(8.5)	(0.7)	1,170.3
PAT	**42.6**	**11.5**	**2.7**	**1,501.0**	**271.9**	**54.1**	**20.6**	**162.9**
Core PATANCI	**36.5**	**8.8**	**2.5**	**1,350.9**	**316.7**	**45.2**	**20.3**	**123.2**
Basic EPS (sen)	70.0	14.4	4.1	1,590.9	385.6	74.5	33.4	123.2
Margin				***+/(-) ppts***	***+/(-) ppts***			***+/(-) ppts***
Operating margin (%)	14.3	2.2	(4.8)	19.1	12.2	8.8	3.5	5.3
PBT margin (%)	17.2	5.0	(0.8)	18.0	12.2	11.7	5.4	6.3
Core PATANCI margin (%)	14.5	3.6	1.8	12.8	11.0	8.4	5.1	3.3
Effective tax rate (%)	15.5	6.2	349.6	(334.2)	9.3	13.7	3.2	10.5
Segments Breakdown								
Revenue								
LASC products	74.9	60.4	100.2	(25.2)	23.9	135.4	186.9	(27.6)
HVAC products	217.7	182.9	41.1	430.3	19.0	400.6	207.8	92.8
Total	292.6	243.4	141.2	107.2	20.2	536.0	394.7	35.8
PBT								
LASC products	1.2	1.5	8.0	(85.0)	(21.7)	2.7	11.8	(76.9)
HVAC products	35.8	1.0	(12.6)	(383.9)	3,557.9	36.8	4.0	824.8
Total	37.0	2.5	(4.6)	(896.2)	1,377.5	39.5	15.7	150.7
PBT margin (%)				***+/(-) ppts***	***+/(-) ppts***			***+/(-) ppts***
LASC products	1.6	2.5	7.9	(6.4)	(0.9)	4.1	12.3	(8.2)
HVAC products	16.4	0.5	(30.7)	47.1	15.9	17.0	(20.8)	37.7
Total	18.0	3.1	(22.8)	40.8	15.0	21.1	(8.4)	29.5

Source: Company, MIDFR

Table 1: PANASONIC's 2QFY23 REVENUE BREAKDOWN BY GEOGRAPHICAL

FYE MAR (RM'm)	Quarterly results					Cumulatively results		
	2QFY23	1QFY23	2QFY22	YoY (%)	QoQ (%)	1HFY23	1HFY22	YoY (%)
Revenue:								
Malaysia	110.8	89.0	50.7	118.7	24.5	199.8	138.3	44.5
Asia (excluding Malaysia and Japan)	99.9	82.4	55.7	79.4	21.2	182.3	151.1	20.7
Middle East	64.4	58.3	26.1	146.9	10.5	122.7	80.0	53.4
Japan	5.2	5.6	5.5	(6.7)	(7.6)	10.8	15.0	(28.4)
Europe	2.1	1.9	0.4	371.3	11.1	4.0	1.8	116.4
Others	10.4	6.5	3.3	219.7	60.0	16.9	9.2	84.8
Total	**292.6**	**243.4**	**141.2**	**107.2**	**20.2**	**536.0**	**394.7**	**35.8**

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