

24 August 2018 | 1QFY19 Results Review

## Panasonic Manufacturing Malaysia Berhad

*Earnings growth to accelerate in the coming quarters*

### INVESTMENT HIGHLIGHTS

- **1QFY19 earnings dropped by -36.5%yoy to RM25.1m**
- **Declined in export revenue from both home appliance and fan products segment**
- **However, expect stronger earnings in the coming quarters**
- **Maintain NEUTRAL with an adjusted target price of RM43.12**

**A weak 1QFY19 earnings.** Panasonic Manufacturing Malaysia Bhd (Panasonic) 1QFY19 normalised earnings dropped by -30.3%yoy to RM28.0m. The lower earnings was mainly attributable to the lower sales in the export market for both the home appliance and fan products segments. Compared to ours and consensus expectations, the normalised earnings accounted for 16.7% and 18.9% of full year FY19 earnings forecasts respectively. Nonetheless, this is broadly within expectation as we expect stronger earnings in the coming quarters.

**Declined in export contribution.** Both home appliance and fan products segments' profit before tax (PBT) for 1QFY19 were lower by -31.4%yoy and -16.7%yoy respectively. This was mainly attributable to slower demand of home appliance products from the Middle East market. However, it was partially mitigated by the higher sales of home shower products in Asean countries as well as domestic market.

**Earnings is expected to pick up in the coming quarters.** Despite the slowdown in demand from Middle Eastern market such as UAE and Saudi Arabia which, in aggregate, contributed approximately 24.0% to the group's total revenue, we believe that earnings will further improve going forward. This is driven by: (i) tax holiday spending in the domestic market and; iii) estimated annual tax savings of RM8.5m as a result of double tax deduction in regards to research and development.

**Target price.** We are rolling forward our valuation base year to FY20 and derive a new target price of **RM43.12** (previously RM38.15). This is based on pegging the FY20 EPS of 312.5 sen per share to PER of 13.8x. The assigned PER multiple is the group's two year average historical PER.


**Maintain NEUTRAL.** We expect the contribution from the export market to remain weak. We believe the uncertain political climate from the Middle Easter market could continue to impede consumer spending. On the contrary, the slowdown in export market will be partially supported by the anticipation of short term surge in domestic spending in view of tax holiday spending.

**Maintain NEUTRAL**

**Adjusted Target Price (TP): RM43.12**  
(Previously RM38.15)

RETURN STATS	
Price (23 August 2018)	RM41.68
Target Price	RM43.12
Expected Share Price Return	+3.5%
Expected Dividend Yield	+4.2%
<b>Expected Total Return</b>	<b>+7.7%</b>

STOCK INFO	
KLCI	1,810.87
Bursa / Bloomberg	3719/PMM MK
Board / Sector	Main/Consumer
Syariah Compliant	No
Issued shares (mil)	60.75
Market cap. (RM'm)	2531.88
Price over NA	2.64x
52-wk price Range	RM33-RM41.90
Beta (against KLCI)	0.38
3-mth Avg Daily Vol	0.02m
3-mth Avg Daily Value	RM1.15m
Major Shareholders (%)	
Panasonic Mgmt M'sia	47.45
EPF	9.05
Standard Life Aberdeen	5.65

In addition, we expect the group will continue to benefit from the weaker Ringgit and expected lower effective tax rate. At this juncture, dividend yield is rather attractive at more than four percent. All factors considered, we are maintaining our **NEUTRAL** recommendation on the stock. 

## INVESTMENT STATISTICS

FYE 31 <sup>st</sup> March (RM'm)	FY2016	FY2017	FY2018	FY2019F	FY2020F
Revenue	1,086.7	1,123.0	1,199.1	1,225.3	1,276.4
Profit before tax	185.2	158.1	166.3	203.6	228.7
Net Profit	<b>146.9</b>	<b>127.1</b>	<b>131.0</b>	<b>167.9</b>	<b>189.8</b>
Normalised Net Profit	144.9	129.6	131.0	167.9	189.8
Pre-tax Profit margin (%)	17.0	14.1	13.9	16.6	17.9
Net Profit margin (%)	<b>13.3</b>	<b>11.5</b>	<b>10.9</b>	<b>13.7</b>	<b>14.9</b>
Normalised EPS (sen)	238.6	213.4	216.0	276.5	312.4
EPS Growth (%)	45.6	(10.5)	1.2	28.0	13.0
PER (x)	16.1	17.9	17.7	13.9	12.3
Net Dividend (sen)	139.0	117.0	248.0	160.0	161.0
Dividend yield (%)	3.6	3.1	6.5	4.2	4.2

Source: Company, Forecasts by MIDFR

## DAILY PRICE CHART



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## PANASONIC MANUFACTURING MALAYSIA BERHAD: 1QFY19 RESULTS SUMMARY

FYE 31 <sup>st</sup> March (RM'm)	Quarterly results				
	1QFY19	4QFY18	1QFY18	YoY (%)	QoQ (%)
Revenue	305.6	276.7	327.8	(6.8)	10.4
Operating expenses	(280.6)	(252.9)	(284.4)	(1.4)	10.9
Other operating income	7.7	5.6	6.0	27.1	36.0
Other derivative gain / (loss)	(11.4)	1.4	1.0	(1193.7)	(904.4)
Profit from operations	32.1	30.9	50.5	(36.4)	4.0
Share of results of associated company	0.9	2.8	(0.2)	(476.6)	(68.5)
PBT	33.0	33.6	50.3	(34.4)	(2.0)
Taxation	(7.8)	(8.5)	(10.7)	(26.8)	(7.7)
PAT	25.1	25.1	39.6	(36.5)	(0.0)
Normalised PAT	28.0	20.5	40.2	(30.3)	36.3
Normalised EPS (sen)	46.1	42.0	66.1	(30.3)	9.7
				<i>+ / (-) ppts</i>	
Operating margin (%)	10.5	11.2	15.4	(4.9)	(0.7)
PBT margin (%)	10.8	12.2	15.3	(4.5)	(1.4)
Normalised PAT margin (%)	8.2	9.1	12.1	(3.8)	(0.9)
Effective tax rate (%)	23.7	25.2	21.3	2.5	(1.5)
<b>Segments</b>					
<i>Revenue</i>					
Home Appliance products	139.3	126.0	146.9	(5.1)	10.6
Fan products and Others	166.3	150.7	181.0	(8.1)	10.3
<i>PBT</i>					
Home Appliance products	13.6	16.5	19.8	(31.4)	(17.9)
Fan products and Others	24.8	21.5	29.8	(16.7)	(15.5)
<i>PBT margin (%)</i>					
Home Appliance products	9.8	13.1	13.5	(3.7)	(3.4)
Fan products and Others	14.9	14.2	16.4	(1.5)	0.7

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 <i>rise</i> 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 <i>fall</i> 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.