

27 November 2018 | 2QFY19 Results Review

Panasonic Manufacturing Malaysia Berhad

Slowdown in export demand

INVESTMENT HIGHLIGHTS

- **1HFY19 earnings grew marginally by 4.4%yoy to RM103.0m, which is below our and consensus expectations**
- **Declined in export revenue from home appliance segment**
- **Short term prospect remain challenging in light of lower export and local demands**
- **Dividend yield remain attractive at approximately four percent, in-line with its historical dividend payout ratio**
- **Maintain NEUTRAL with a revised target price of RM38.08**

Below expectations. Panasonic Manufacturing Malaysia Bhd (Panasonic) 1HFY19 grew marginally by +4.4%yoy to RM103.0m. Nonetheless, this is below ours and consensus' expectations accounting for 37.3% and 42.3% of full year FY19 earnings forecasts respectively. Initially we are expecting a stronger 1HFY19 earnings driven by the tax holiday spending. The lower than expected earnings contribution was mainly attributable to the lower export sales for its home appliance products.

Declined in export contribution. In 1HFY19, the home appliance products segments' profit before tax (PBT) fell by -22.6%yoy. This was mainly attributed to (i) lower sales of home appliance products from the Middle East and Vietnam due to slowdown in demand; (ii) rising cost of raw material; and (iii) unfavourable product sales mix. However, these was mitigated the strong 1HFY19 PBT growth in the fan products segment of +9.8%yoy driven by the higher sales in the domestic market. Overall, domestic market grew by +16.7%yoy while export, accounting for about about 60.0% sales, dropped by -8.8%yoy.

Prospect. Due to the slowdown in export demand from overseas market such as the Middle Eastern market which contributed historically about 24.0% to total revenue, we expect that the outlook for the group will be challenging, In addition, the demand in the domestic market is expected to slow down post tax holiday period. Nonetheless, this will be partially mitigated by the; (i) higher translation gain for export revenue as Ringgit is now weaker against the USD; (ii) prudent cost management; and (iii) estimated annual tax savings of RM8.5m as a result of double tax deduction in regards to research and development expenditure.

Maintain NEUTRAL

Revised Target Price (TP): RM38.08
(Previously RM43.12)

RETURN STATS


Price (26 th November 2018)	RM38.20
Target Price	RM38.08
Expected Share Price Return	-0.3%
Expected Dividend Yield	+4.3%
Expected Total Return	+4.0%

STOCK INFO

KLCI	1,701.99
Bursa / Bloomberg	3719/PMM MK
Board / Sector	Main/Consumer
Syariah Compliant	No
Issued shares (mil)	60.75
Market cap. (RM'm)	2,320.49
Price over NA	2.56x
52-wk price Range	RM33-RM40.80
Beta (against KLCI)	0.37
3-mth Avg Daily Vol	0.04m
3-mth Avg Daily Value	RM1.60m
Major Shareholders (%)	
Panasonic Mgmt M'sia	47.45
EPF	9.16
KWAP	4.99

Impact to earnings. We are revising our FY18F and FY19F earnings downwards by -17.1%yoy and -11.7%yoy respectively in order to take into account the lower export contribution going forward.

Target price. We are revising our target price to **RM38.08** (previously RM43.12). This is based on pegging the FY20 EPS of 276.0sen per share to PER of 13.8x. The assigned PER multiple is the group's two year average historical PER.

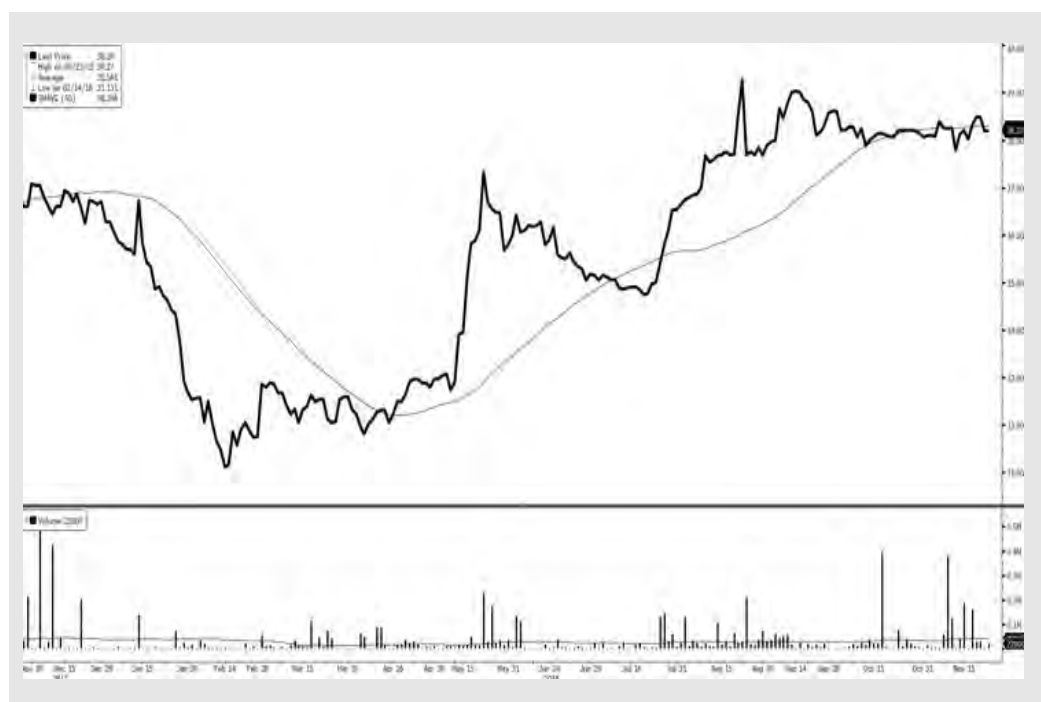
Maintain NEUTRAL. While the export market remains the main driver of the company's earning growth, the export demand is expected to remain volatile. Nevertheless, we believe that in the short term, earnings accretion will be driven by: (i) higher translation gain due to the relatively weaker Ringgit; and (iii) lower tax expense. In addition, dividend yield for the stock remain attractive at approximately 4%. With a strong cash position, we expect the group will be able to maintain its historical dividend payout policy of 60.0%. All in, we are reiterating our **NEUTRAL** recommendation on the stock. 

INVESTMENT STATISTICS

FYE March (RM'm)	FY2016	FY2017	FY2018	FY2019F	FY2020F
Revenue	1,086.7	1,123.0	1,199.1	1,203.0	1,234.4
Profit before tax	185.2	158.1	166.3	172.0	207.0
Net Profit	146.9	127.1	131.0	139.3	167.6
Normalised Net Profit	144.9	129.6	124.9	139.3	167.6
Normalised Net Profit margin (%)	13.3	11.5	10.9	11.6	13.6
Normalised EPS (sen)	238.6	213.4	205.6	229.3	276.0
EPS Growth (%)	47.2	(10.5)	(3.7)	11.5	20.3
PER (x)	16.0	17.9	19.3	16.7	13.8
Net Dividend (sen)	139.0	117.0	248.0	138.0	166.0
Dividend yield (%)	3.6	3.1	6.0	3.6	4.3

Source: Company, Forecasts by MIDFR

DAILY PRICE CHART



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PANASONIC MANUFACTURING MALAYSIA BHD: 2QFY19 RESULTS SUMMARY

FYE 31 st March (RM'm)	Quarterly results			Cumulative results		
	2QFY19	YoY (%)	QoQ (%)	1HFY19	1HFY18	YoY (%)
Revenue	308.8	11.3	1.1	614.4	605.4	1.5
Operating expenses	(274.3)	7.2	1.7	(552.6)	(540.3)	2.3
Other operating income	6.6	(27.0)	(14.3)	22.8	15.1	51.3
Other derivative gain / (loss)	1.0	n.m.	n.m.	(10.4)	0.7	n.m.
Profit from operations	42.1	38.8	31.1	74.2	80.8	(8.2)
Share of results of associated company	1.4	11.1	59.0	2.3	1.0	122.2
PBT	43.5	37.7	31.8	76.4	81.8	(6.6)
Taxation	(9.3)	17.8	19.2	(17.1)	(18.8)	(8.9)
PAT	34.1	44.3	35.8	59.3	63.0	(5.9)
Normalised PAT	34.6	73.1	23.6	62.6	59.9	4.4
Normalised EPS (sen)	56.9	73.1	23.6	103.0	98.7	4.4
		<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Operating margin (%)	13.6	2.7	3.1	12.1	13.3	(1.3)
PBT margin (%)	14.1	2.7	3.3	12.4	13.5	(1.1)
Normalised PAT margin (%)	11.1	2.5	2.8	9.6	10.4	(0.8)
Effective tax rate (%)	21.5	(3.6)	(2.3)	22.4	23.0	(0.6)
Segments						
<i>Revenue</i>						
Home Appliance products	155.5	2.6	11.6	294.9	298.5	(1.2)
Fan products and Others	153.3	21.7	(7.8)	319.5	306.9	4.1
<i>PBT</i>						
Home Appliance products	17.8	(44.8)	31.0	31.4	40.6	(22.6)
Fan products and Others	21.5	(14.3)	13.1	46.3	42.2	9.8
<i>PBT margin (%)</i>						
Home Appliance products	11.4	(9.8)	1.7	10.6	13.6	(2.9)
Fan products and Others	14.0	(5.9)	(0.9)	14.5	13.7	0.7

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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.