

01 March 2018 | 3QFY18 Results Review

## Panasonic Manufacturing Malaysia Berhad

Strong performance from the home appliance segment

### INVESTMENT HIGHLIGHTS

- **3QFY18 earnings grew by +36.4yoy RM42.6m**
- **This lifted 9MFY18 earnings to RM105.9m, in-line with ours and consensus expectations**
- **Home appliance segment continues its strong growth**
- **Fan and other products' performance dropped**
- **Upgrade to BUY with a revised TP of RM37.00**

**Seasonally strong quarter.** Panasonic Manufacturing Malaysia Berhad (Panasonic)'s 3QFY18 earnings grew by +36.4%yoy to RM42.6m. This brings its 9MFY18 earnings to RM105.9m. This is in-line with ours and consensus expectations, accounting for 77.2% and 76.7% of full year FY18 earnings forecasts respectively. The stonger 9MFY18 performance (+5.5%yoy) was due to the strong growth from the home appliance segment. However, this is partially mitigated by the subdued performance of fan and other products' segment.

**Home Appliance segment continues its strong growth.** The home Appliance segment continues its strong growth from the previous quarter. As of 9MFY18, its revenue grew by +13.9%yoy mainly contributed to the increase in export sales due to the: (i) higher sales from Vacuum Cleaner products primarily from the Middle East markets as the economic environment in the Gulf improves and; (ii) prolonged rainy season in Vietnam which resulted in cool weather boosted the sales for home shower products. Consequently, the profit before tax (PBT) increased by +38.4%yoy to RM84.5m.

**Fan and other products' segment performance dropped.** Revenue for The Fan and other products' segment dopped by -2.9%yoy which is mainly attributable to the: (i) declining demand from the domestic market and; (ii) a slowdown in government projects for installation of fans. Consequently, due to a tighter profit margin (a drop of -1.3ppts yoy to 15.9%), the Fan and other products' segment achieved a PBT of RM68.8m, which is lower by -10.2%yoy. The lower earnings was attributable to the rising costs of raw materials as well as a higher operation expenses incurred. As the domestic demand is expected to remain weak, the segment is increasingly reliant on export sales to drive performance.

## Upgrade to BUY

(Previously NEUTRAL)

Revised Target Price (TP): RM37.00

(Previously RM35.75)


### RETURN STATS

Price (28 <sup>th</sup> February 2017)	RM33.70
Target Price	RM37.00
Expected Share Price Return	+9.8%
Expected Dividend Yield	+4.1%
<b>Expected Total Return</b>	<b>+13.9%</b>

### STOCK INFO

KLCI	1,856.20
Bursa / Bloomberg	3719/PMM MK
Board / Sector	Main/Consumer
Syariah Compliant	Yes
Issued shares (mil)	60.75
Market cap. (RM'm)	2,047.13
Price over NA	2.49x
52-wk price Range	RM31.2-RM40.8
Beta (against KLCI)	0.30
3-mth Avg Daily Vol	0.02m
3-mth Avg Daily Value	RM1.08m
Major Shareholders (%)	
Panasonic Mgmt M'sia	47.45
EPF	11.11
Standard Life Aberdeen	9.40

**Impact to earnings.** We revising upwards FY18F and FY19F earnings estimates in view of the the stronger- than- expected export sales recorded for both segments.

**Upgrade to a BUY.** We upgrade our call to **BUY** (previously NEUTRAL) with a revised target price of **RM37.00** (previously RM35.75). This is based on pegging the FY19 EPS of 268.1sen per share to PER of 13.8x. We are sanguine on the stock prospect as we believe that earnings will improve going forward driven by the: (i) increasing demand from the Middle East and; (ii) completion of two new plants in 2018 and 2019 respectively which is expected to increase production capacity by 25% and improves economies of scale. In addition, the stock has a dividend yield of 4.1% at current price which is quite attractive. 

## INVESTMENT STATISTICS

FYE March (RM'm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue	931.0	1,086.7	1,123.0	1,177.1	1,225.3
Profit before tax	129.8	185.2	158.1	180.2	206.2
Net Profit	99.5	146.9	127.1	140.6	162.9
Normalised Net Profit	98.5	144.9	129.6	140.6	162.9
Pre-tax Profit margin (%)	13.9	17.0	14.1	15.3	16.8
Net Profit margin (%)	10.6	13.3	11.5	11.9	13.3
Normalised EPS (sen)	163.9	238.6	213.4	231.4	268.1
EPS Growth (%)	23.2	45.6	(10.5)	8.4	15.9
PER (x)	20.6	14.1	15.8	14.6	12.6
Net Dividend (sen)	142.0	139.0	117.0	139.0	160.0
Dividend yield (%)	4.2	4.1	3.5	4.1	4.7

Source: Company, MIDFR

## DAILY PRICE CHART



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## PANASONIC MANUFACTURING MALAYSIA BHD: 3QFY18 RESULTS SUMMARY

FYE March (RM'm)	Quarterly results				Cumulative results			
	3QFY18	2QFY18	3QFY17	YoY (%)	QoQ (%)	9MFY18	9MFY17	YoY (%)
Revenue	317.1	277.5	285.4	11.1	14.2	922.4	875.7	5.3
Operating expenses	(277.4)	(255.9)	(252.0)	10.1	8.4	(817.7)	(764.3)	7.0
Other operating income	3.6	9.0	7.1	(48.5)	(59.7)	18.7	21.9	(14.6)
Other derivative gain / (loss)	5.6	(0.4)	(3.2)	(272.1)	(1620.7)	6.3	(9.8)	(163.9)
<b>Profit from operations</b>	<b>48.9</b>	<b>30.3</b>	<b>37.2</b>	31.2	61.2	<b>129.7</b>	<b>123.4</b>	5.1
Share of results of associated company	2.0	1.2	2.5	(19.5)	61.0	3.0	8.3	(63.8)
<b>PBT</b>	<b>50.9</b>	<b>31.6</b>	<b>39.7</b>	28.0	61.2	<b>132.7</b>	<b>131.7</b>	0.7
Taxation	(8.2)	(7.9)	(8.5)	(3.0)	3.7	(26.8)	(31.4)	(14.6)
<b>PAT</b>	<b>42.6</b>	<b>23.6</b>	<b>31.3</b>	36.4	80.4	<b>105.9</b>	<b>100.4</b>	5.5
Basic EPS (sen)	70.0	39.0	51.0	37.3	79.5	174.0	165.0	5.5
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
Operating margin (%)	15.4	10.9	13.0	2.4	4.5	14.1	14.1	(0.0)
PBT margin (%)	16.0	11.4	13.9	2.1	4.7	14.4	15.0	(0.7)
PAT margin (%)	13.5	8.5	11.0	2.5	4.9	11.5	11.5	0.0
Tax rate (%)	16.1	25.1	21.3	(5.2)	(8.9)	20.2	23.8	(3.6)
<b>Segments</b>								
<i>Revenue</i>								
Home Appliance products	190.4	151.6	166.5	14.3	25.6	488.9	429.1	13.9
Fan products and Others	126.6	125.9	118.9	6.5	0.6	433.5	446.6	(2.9)
<i>PBT</i>								
Home Appliance products	52.2	12.4	25.4	105.7	319.7	84.5	61.0	38.4
Fan products and Others	43.7	(4.6)	16.6	162.4	1,042.1	68.8	76.6	(10.2)
<i>PBT margin (%)</i>								
Home Appliance products	27.4	8.2	15.3	12.2	19.2	17.3	14.2	3.1
Fan products and Others	34.5	(3.7)	14.0	20.5	38.2	15.9	17.2	-1.3

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.