

28 February 2019 | 3QFY19 Results Review

Panasonic Manufacturing Malaysia Berhad

Continue slowdown in export sales

INVESTMENT HIGHLIGHTS

- **9MFY19 normalised earnings dropped significantly by -17.3%yoy to RM86.6m**
- **Declined in export revenue from home appliance segment**
- **Short term prospect remain challenging in light of lower export demand particularly from the Middle East**
- **Maintain NEUTRAL with a revised target price of RM35.28**

Below expectations. Panasonic Manufacturing Malaysia Bhd (Panasonic)'s 9MFY19 normalised earnings dropped significantly by -17.3%yoy to RM86.6m. This is below ours and consensus expectations accounting for 62.2% and 58.5% of full year FY19 earnings forecasts respectively. The poor performance was mainly attributable to the lower export sales for home appliance products.

Declined in export contribution. In the 9MFY19, the home appliance products segments' profit before tax (PBT) fell by -30.7%yoy. This was mainly attributed to: (i) slower oversea demand, primarily from the Middle East, (ii) rising cost of raw material and, (iii) unfavourable product sales mix. Note that the oversea market constitutes 60% of total sales. Of this, Middle East, which is the second largest key market for Panasonic recorded a significant dropped in export sales of RM24.9m or -12.2%yoy. Meanwhile, the domestic market grew by +7.2%yoy due to the higher demand during tax holiday period.

Prospect. Due to the slowdown in export demand from overseas market particularly the Middle Eastern market which contributed historically about 24.0% to total revenue historically, we expect that the outlook for the group will be challenging. This is compounded by the increasing trade sanctions imposed by the United States of America on certain Middle East countries and also the lack of liquidity in the market.

Impact to earnings. We are revising our FY19F and FY20F earnings downwards by -15.9%yoy and -19.1%yoy in order to take into account the lower export contribution.

Target price. We are revising our target price to **RM35.28** (previously RM38.08). This is based on pegging the FY20 EPS of 252 sen per share to PER of 14.0x. The assigned PER multiple is the group's three year average historical PER.

Maintain NEUTRAL


Revised Target Price (TP): RM35.28
(Previously RM38.08)

RETURN STATS

Price (27 th February 2019)	RM38.12
Target Price	RM35.28
Expected Share Price Return	-7.5%
Expected Dividend Yield	+3.7%
Expected Total Return	-3.8%

STOCK INFO

KLCI	1,713.45
Bursa / Bloomberg	3719/PMM MK
Board / Sector	Main/Consumer
Syariah Compliant	No
Issued shares (mil)	60.75
Market cap. (RM'm)	2,315.62
Price over NA	2.90x
52-wk price Range	RM33-RM40.80
Beta (against KLCI)	0.39
3-mth Avg Daily Vol	0.01m
3-mth Avg Daily Value	RM0.75m
Major Shareholders (%)	
Panasonic Mgmt M'sia	47.45
EPF	9.15
KWAP	5.52

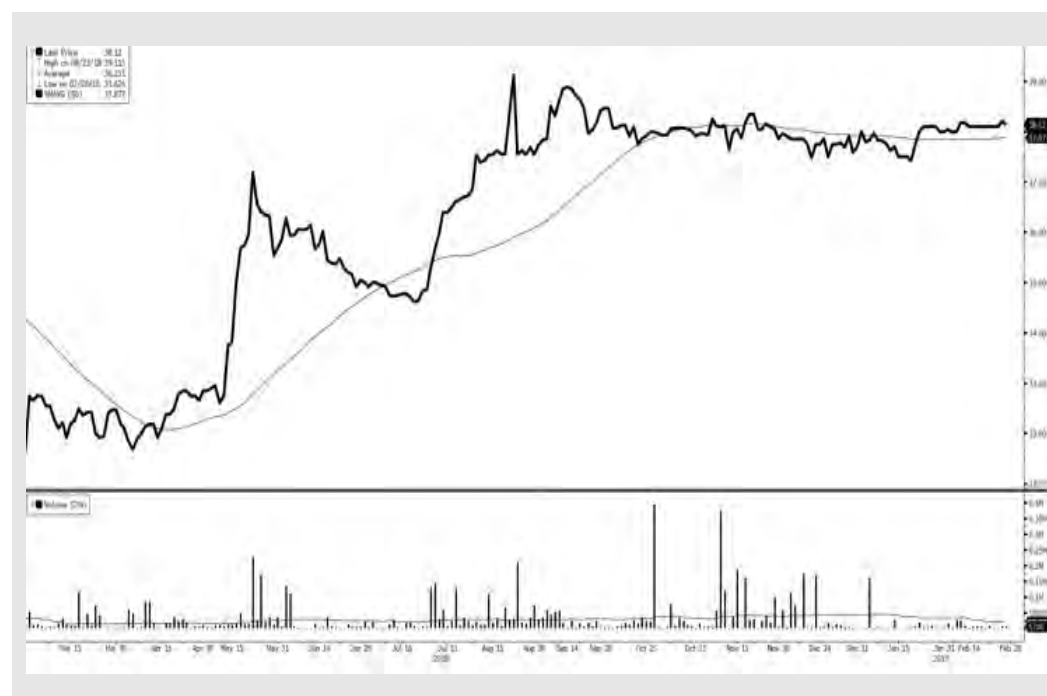
Maintain NEUTRAL. We maintain our **NEUTRAL** recommendation on the stock as we remain cautious on the expectation of a slowdown in the middle eastern market in the near to mid-term. Nonetheless, we expect that the domestic and Asian market will sustain earnings into the future. In addition, the group is undergoing operating efficiency initiatives such as bringing back outsourced activities in-house as well as increasing automation in its existing and new plant expansion. This is expected to improved profit margins once the new expansion is completed in FY20. 

INVESTMENT STATISTICS

FYE March (RM'm)	FY2016	FY2017	FY2018	FY2019F	FY2020F
Revenue	1,086.7	1,123.0	1,199.1	1,187.1	1,234.6
Profit before tax	185.2	158.1	166.3	148.4	191.4
Net Profit	146.9	127.1	131.0	117.2	153.1
Normalised Net Profit	144.9	129.6	124.9	117.2	153.1
Normalised Net Profit margin (%)	13.3	11.5	10.9	9.9	12.4
Normalised EPS (sen)	238.6	213.4	205.6	193.0	252.0
EPS Growth (%)	47.2	(10.5)	(3.7)	(6.1)	30.6
PER (x)	16.0	17.9	19.3	19.8	15.1
DPS (sen)	139.0	117.0	248.0	105.0	140.0
Dividend yield (%)	3.6	3.1	6.0	2.8	3.7

Source: Company, Forecasts by MIDFR

DAILY PRICE CHART



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PANASONIC MANUFACTURING MALAYSIA BERHAD: 3QFY19 RESULTS SUMMARY

FYE March (RM'm)	Quarterly results			Cumulative results	
	3QFY19	YoY (%)	QoQ (%)	9MFY19	YoY (%)
Revenue	287.9	(9.2)	(6.8)	902.2	(2.2)
Operating expenses	(265.7)	(4.2)	(3.1)	(818.3)	0.1
Other operating income	7.2	97.9	9.3	30.0	60.4
Other derivative gain / (loss)	2.7	(51.1)	179.5	(7.7)	(222.6)
Profit from operations	32.1	(34.3)	(23.6)	106.3	(18.0)
Share of results of associated company	(1.9)	(195.3)	(238.1)	0.3	(88.6)
PBT	30.2	(40.6)	(30.5)	106.6	(19.6)
Taxation	(6.2)	(24.7)	(33.7)	(23.3)	(13.0)
PAT	24.0	(43.7)	(29.6)	83.3	(21.3)
Normalised PAT	29.5	(26.7)	(14.7)	86.6	(17.3)
Normalised EPS (sen)	48.6	(26.7)	(14.7)	142.6	(17.3)
		<i>+ / (-) pts</i>			<i>+ / (-) pts</i>
Operating margin (%)	11.2	(4.3)	(2.5)	11.8	(2.3)
PBT margin (%)	10.5	(5.5)	(3.6)	11.8	(2.6)
Normalised PAT margin (%)	8.3	(5.1)	(2.7)	9.2	(2.2)
Effective tax rate (%)	20.5	4.3	(1.0)	21.9	1.7

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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.