

26 April 2018 | Visit Note

Panasonic Manufacturing Malaysia Berhad

Strategising to improve its profit margin

Maintain BUY

Revised Target Price (TP): RM38.16
(Previously RM37.00)

INVESTMENT HIGHLIGHTS


- **Completion of plants expansion within stipulated timeline**
- **Bringing back outsourced activities in-house**
- **Entitled to additional tax incentive in FY19**
- **Maintain our BUY recommendation with a revised TP of RM38.16**

Completion of plants expansion within stipulated timeline. The expansion of Panasonic Manufacturing's existing SA1 plant is expected to be completed by the end of 2018. Along with the expansion of SA2 plant by 2020, total production capacity is expected to increase by 25%. This is within the group's stipulated timeline.

Bringing back outsourced activities in-house. While management reiterated that a solid strategy to utilise the additional production space is yet to be finalised, the management explained that another option to utilise the additional space is to transfer back some of the previously outsourced manufacturing in-house. Currently, about 15%-20% of manufacturing activities such as plastic injection for smaller parts are being outsourced as existing plants utilisation rate is close to full capacity. Either way, this will lead to further improvement in the group's profit margin.

Entitled to additional tax incentive in FY19. Currently, the group is enjoying tax incentives from promotion of exports which entitled them to a double deduction on qualify expenses. Going forward, the qualifying expenses for the double deduction will be expanded as the engineering unit will be transferred in-house and hence, the group is able to enjoy double deduction from the research and development activities that will be undertaken by this unit. As guided by the management, this new incentive will lower the effective tax rate by 4%-5% from FY19.

Impact to earnings. Due to the lower effective tax rate expected in FY19, we revised our forecast for FY19 higher by +4.4%.

Maintain our BUY recommendation with a revised TP of RM38.15. We maintain our **BUY** recommendation with a revised target price of **RM38.16** (previously RM37.00). This is based on pegging the FY19 EPS of 276.5sen per share to PER of 13.8x. 

RETURN STATS	
Price (25 April 2018)	RM34.90
Target Price	RM38.16
Expected Share Price Return	+9.3%
Expected Dividend Yield	+4.6%
Expected Total Return	+13.9%

STOCK INFO	
KLCI	1,851.93
Bursa / Bloomberg	3719/PMM MK
Board / Sector	Main/Consumer
Syariah Compliant	No
Issued shares (mil)	60.75
Market cap. (RM'm)	2,120.03
Price over NA	2.45x
52-wk price Range	RM33-RM40.8
Beta (against KLCI)	0.30
3-mth Avg Daily Vol	0.01m
3-mth Avg Daily Value	RM0.63m
Major Shareholders (%)	
Panasonic Mgmt M'sia	47.45
EPF	10.80
Standard Life Aberdeen	6.05

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	203.6
Net Profit	99.5	146.9	127.1	140.6	167.9
Normalised Net Profit	98.5	144.9	129.6	140.6	167.9
Pre-tax Profit margin (%)	13.9	17.0	14.1	15.3	16.6
Net Profit margin (%)	10.6	13.3	11.5	11.9	13.7
Normalised EPS (sen)	163.9	238.6	213.4	231.4	276.5
EPS Growth (%)	23.2	45.6	(10.5)	8.4	19.5
PER (x)	21.3	14.6	16.4	15.1	12.6
Net Dividend (sen)	142.0	139.0	117.0	139.0	160.0
Dividend yield (%)	4.1	4.0	3.4	4.0	4.6

Source: Company, MIDFR

DAILY PRICE CHART



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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.