

HLIB Research
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Syifaa' Mahsuri Ismail
syifaa@hlib.hongleong.com.my
 (603) 2083 1710

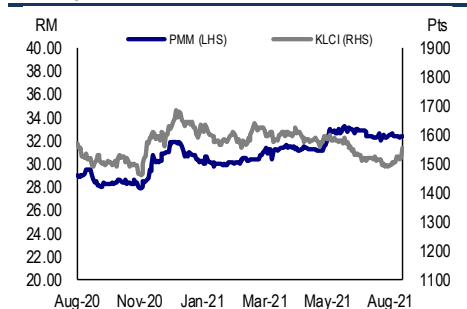
HOLD (Maintain)

Target Price: **RM33.44**
Previously: **RM34.71**
Current Price: **RM32.36**

Capital upside	3.3%
Dividend yield	4.9%
Expected total return	8.2%

Sector coverage: Manufacturing

Company description: PMM manufactures and sells electrical consumer products, home appliances, batteries, and related components.

Share price


Historical return (%)	1M	3M	12M
Absolute	-0.6	3.4	2.3
Relative	-0.2	7.5	6.4

Stock information

Bloomberg ticker	PMM MK
Bursa code	3719
Issued shares (m)	61
Market capitalisation (RM m)	1,958
3-mth average volume ('000)	8
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	N.A.

Major shareholders

Panasonic Corp	47.5%
EPF	14.0%
KWAP	5.7%

Earnings summary

FYE (Mar)	FY21	FY22f	FY23f
PAT - core (RM m)	122.3	119.5	136.0
EPS - core (sen)	201.3	196.7	223.8
P/E (x)	16.1	16.5	14.5

Panasonic Manufacturing Malaysia

Hit by capacity constraint

PMM chalked in 1QFY22 results with revenue of RM253.7m (QoQ: -4.5%; YoY: +64.6%) and core PAT of RM17.7m (QoQ: -59.9%, 1QFY20: -RM1.7). This came in below expectations at 14% our and consensus full year forecasts. The disappointment was due to margin deterioration on the back of lower operating capacity coupled with higher raw material prices. With the ramping up of capacity to 100% following the successful vaccination of the group's workforce, we expect further improvement in its sales moving forward. On the flipside, we note the increased prices in key commodities might pose a risk of shrinking margin. We revise FY22 earnings downward by -4%. After earnings adjustment our TP decreases from RM34.71 to RM33.44 based on an unchanged 17x PE of FY22 EPS. Maintain HOLD.

Below expectations. PMM chalked in 1QFY22 results with revenue of RM253.7m (QoQ: -4.5%; YoY: +64.6%) and core PAT of RM17.7m (QoQ: -59.9%, 1QFY20: -RM1.7). This came in below expectations at 14% our and consensus full year forecasts. The disappointment was due to margin deterioration on the back of lower operating capacity coupled with higher raw material prices. Core PAT was arrived after minor adjustments for forex loss (RM343k) and derivative gain (RM489k).

Dividend. None (1QFY21: None). PMM typically declares dividend twice a year, in 2Q and 4Q.

QoQ. Top line moderated by -4.5% to RM253.7m as the operations were disrupted from the imposition of MCO3.0 and Phase 1 restriction. Bottom line plunged by -59.9% to RM17.7m on the back of (i) lower revenue; (ii) EBITDA margin contraction by 8.6ppt due to rising cost of raw materials; and (iii) losses from associated company of -RM500k vs +RM13.3m in 4QFY21 as sales were confined to only online channel.

YoY. Revenue leaped by 64.6% attributable to low base effect from SPLY as group's sales were impacted by closure of factory from mid-March 2020 (MCO1.0). Domestic market and export sales for fan products and home appliances products grew by 53% and 81%, respectively. Core PAT grew encouragingly to RM17.7m vs losses of -RM1.7m attributable to (i) higher revenue; and (ii) lower losses from associated company from -RM2.9m to -RM500k thanks to the group's prudent cost management with lower admin and marketing expenditures.

Outlook. With the ramping up of capacity back to 100% following the successful vaccination of the group's workforce we expect further improvement in its sales moving forward. For export market, we expect sales to the Middle East to see sustainable recovery on the back of easing trade sanctions under President Biden. Note that the sales to this region grew 17% YoY and the products sold are of higher margin (vacuum cleaners and home showers). On the flipside, we note the increase prices in key commodities might pose a risk of shrinking margin.

Forecast. We revise our FY22 earnings downward by -4% after baking in lower EBITDA margin and associate's contribution.

Maintain **HOLD**; TP of **RM33.44**. After earnings adjustment our TP decreases from RM34.71 to **RM33.44** based on an unchanged 17x PE of FY22 EPS. We reckon PMM can weather thru the near term uncertainties supported by its balance sheet strength of a net cash position of RM517.3m (or RM8.50 per share) as end of June 2021.

Financial Forecast

All items in (RM m) unless otherwise stated

Income statement

FYE Mar	FY20	FY21	FY22f	FY23f	FY24f
Revenue	1,052.0	974.6	1,100.2	1,192.1	1,287.5
EBITDA	151.9	128.2	137.2	157.4	173.2
EBIT	121.4	104.6	102.3	119.2	131.7
Finance (cost)/ Income	20.1	10.3	15.7	16.6	16.8
Associates & JV	-0.3	20.3	27.5	29.8	32.2
PBT	141.2	135.2	145.5	165.6	180.8
Tax	-24.2	-18.7	-26.1	-29.6	-32.4
PAT	117.0	116.5	119.5	136.0	148.4
Exceptionals	-5.8	5.8	0.0	0.0	0.0
Core PAT	111.2	122.3	119.5	136.0	148.4
HLIB/ Consensus			96%	100%	101%

Balance sheet

FYE Mar	FY20	FY21	FY22f	FY23f	FY24f
Cash	577.7	523.9	553.3	561.4	578.0
Receivables	74.9	104.2	93.4	101.3	109.4
Inventories	73.2	69.6	64.4	68.3	74.3
PPE	127.3	138.2	159.9	176.7	190.3
Others	123.6	136.6	136.6	136.6	136.6
Assets	976.7	972.6	1,007.6	1,044.3	1,088.5
Payables	-136.7	-148.6	-156.0	-165.5	-180.0
Debt	-11.6	-5.5	-5.5	-5.5	-5.5
Others	-11.9	-5.7	-5.6	-5.6	-5.6
Liabilities	-160.2	-159.9	-167.2	-176.7	-191.2
Shareholder's equity	60.7	60.7	60.7	60.7	60.7
Retained earnings	755.8	752.0	779.7	806.9	836.6
Equity	816.5	812.7	840.4	867.6	897.3

Cash Flow Statement

FYE Mar	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	141.2	135.2	145.5	165.6	180.8
D&A	30.5	23.6	34.9	38.2	41.5
Working capital	-19.5	-13.9	23.4	-2.2	0.4
Taxation	-23.6	-22.9	-23.9	-29.6	-32.4
Others	10.1	-16.1	0.0	0.0	0.0
CFO	118.6	95.6	164.2	155.3	173.4
Capex	-45.2	42.5	-55.0	-55.0	-55.0
Others	18.4	-71.5	15.7	16.6	16.8
CFI	-26.8	-29.0	-39.3	-38.4	-38.2
Dividends	-137.3	-120.3	-95.6	-108.8	-118.7
CFF	-137.4	-120.4	-95.6	-108.8	-118.7
Net cash flow	-45.6	-53.8	29.3	8.2	16.6
Beginning cash	623.3	577.7	523.9	553.3	561.4
Ending cash	577.7	523.9	553.3	561.4	578.0

Quarterly financial summary

FYE Mar	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Revenue	154.1	294.0	261.0	265.6	253.7
EBITDA	3.7	47.0	40.4	45.5	27.9
EBIT	-4.3	38.9	32.4	37.6	20.6
Finance (cost)/ Income	-161.2	-256.4	-230.6	-228.1	-235.0
Associates & JV	-2.9	6.0	3.8	13.3	-0.5
PBT	-3.8	47.6	38.3	53.0	22.2
Tax	-1.2	-5.2	-4.9	-7.4	-4.4
PAT	-2.6	42.4	33.4	45.6	17.9
Exceptionals	0.8	3.8	2.6	-1.4	-0.1
Core PAT	-1.7	46.2	36.0	44.2	17.7

Valuation Ratios

FYE Mar	FY20	FY21	FY22f	FY23f	FY24f
Core EPS (sen)	183.0	201.3	196.7	223.8	244.3
P/E (x)	17.7	16.1	16.5	14.5	13.2
EV/EBITDA (x)	9.1	11.2	10.3	8.9	8.0
DPS (sen)	198.0	163.0	157.4	179.1	195.4
Dividend yield	6.1%	5.0%	4.9%	5.5%	6.0%
BVPS (RM)	13.4	13.4	13.8	14.3	14.8
P/B (x)	2.4	2.4	2.3	2.3	2.2
EBITDA margin	14.4%	13.2%	12.5%	13.2%	13.5%
EBIT margin	11.5%	10.7%	9.3%	10.0%	10.2%
PBT margin	13.4%	13.9%	13.2%	13.9%	14.0%
Core PAT margin	10.6%	12.5%	10.9%	11.4%	11.5%
ROE	13.6%	15.0%	14.2%	15.7%	16.5%
ROA	11.4%	12.6%	11.9%	13.0%	13.6%
Net gearing	Cash	Cash	Cash	Cash	Cash

Figure #1 Quarterly results comparison

FYE 31 Mar (RMm)	1QFY21	4QFY21	1QFY22	QoQ	YoY
Revenue	154.1	265.6	253.7	-4.5%	64.6%
Home Appliances	63.5	119.6	114.8	-4.0%	80.6%
Fan Products	90.5	145.8	138.7	-4.9%	53.2%
Operating Expenses	(161.2)	(228.1)	(235.0)	-3.0%	-45.7%
Other Operating Income	1.5	1.6	1.4	-12.3%	-7.4%
Other derivative gain (loss)	1.4	(1.5)	0.5	N/M	-64.6%
Profit from operations	(4.3)	37.6	20.6	-45.1%	N/M
Home Appliances	(2.6)	24.5	10.3	-58.0%	N/M
Fan Products	4.1	16.1	10.1	-37.4%	144.2%
Reconciliation	(5.8)	(0.9)	2.4	N/M	141.1%
Share of results of associated company (net of tax)	(2.9)	13.3	(0.5)	N/M	-81.8%
PBT	(3.8)	53.0	22.2	-58.0%	N/M
Tax	(1.2)	(7.4)	(4.4)	-41.1%	264.8%
<i>Effective tax rate</i>	31.9%	-14.0%	-19.7%	-5.7%	-51.6%
PAT	(2.6)	45.6	17.9	-60.8%	N/M
Core PAT	(1.7)	44.2	17.7	-59.9%	N/M
EPS (sen)	(0.0)	75.0	29.4	-60.8%	N/M
Core EPS (sen)	(0.0)	72.7	29.2	-59.9%	N/M
Geographical Sales Breakdown					
Malaysia	32.3	87.7	87.6	-0.1%	171.4%
Japan	7.8	9.9	9.5	-4.2%	21.9%
Asia (Ex-Malaysia)	62.8	89.4	95.4	6.6%	51.8%
Europe	0.6	1.4	1.4	-0.1%	129.2%
Middle East	46.2	71.0	53.9	-24.2%	16.7%
Others	4.4	6.0	5.9	-1.9%	34.9%
Operating Profit margin				<i>ppt</i>	<i>ppt</i>
Home Appliances	-2.8%	14.1%	8.1%	(6.0)	10.9
Fan Products	-4.1%	20.5%	9.0%	(11.5)	13.1
PBT margin	4.6%	11.1%	7.3%	(3.8)	2.7
PAT margin	-2.4%	20.0%	8.8%	(11.2)	11.2

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Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,

No. 6, Jalan Damanela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

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OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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