

## HLIB Research

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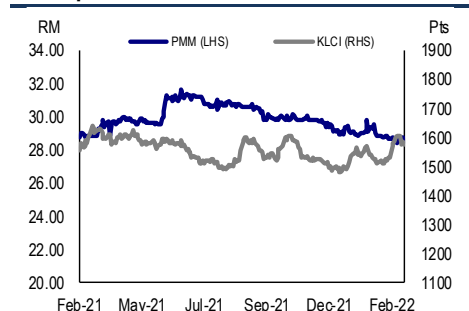
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**HOLD** (Maintain)**Target Price:** RM25.00**Previously:** RM25.70**Current Price:** RM28.52

Capital upside	-12.3%
Dividend yield	5.4%
Expected total return	-6.9%

**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	-0.7	-4.0	-5.0
Relative	-4.4	-7.8	-6.3

**Stock information**

Bloomberg ticker	PMM MK
Bursa code	3719
Issued shares (m)	61
Market capitalisation (RM m)	1,749
3-mth average volume ('000)	5
SC Shariah compliant	No
F4GBM Index member	No
ESG rating	N.A.

**Major shareholders**

Panasonic Corp	47.5%
EPF	13.4%
KWAP	5.7%

**Earnings summary**

FYE (Mar)	FY21	FY22f	FY23f
PAT - core (RM m)	122.3	71.7	95.2
EPS - core (sen)	201.3	118.0	156.7
P/E (x)	14.2	24.2	18.2

# Panasonic Manufacturing Malaysia

## Another grim record

PMM recorded core PAT of RM15.2m (6.2x QoQ, -58% YoY). This brought 9MFY22 sum to RM35.3m, a decrease of -55% YoY. This account for only 38%/41% of our and consensus forecasts. Overall, sales were affected due to the disruption in the manufacturing activities due to Covid-19 restrictions which was then made worse by the flood incidents that affected its plants. Elevated raw material prices expected to persist in the near future, crimping margin. We revise our FY22/23/24 earnings downward by -22%/ -22%/ -12%. After forecast changes and rolling over our valuation from FY22 (from March) to CY22, our TP decreases slightly to RM25.00 (from RM25.70) based on unchanged 17x PE multiple. Reiterate HOLD.

**Below expectations.** PMM recorded 3QFY22 results with revenue of RM264.6m (+87% QoQ, +1% YoY) and core PAT of RM15.2m (6.2x QoQ, -58% YoY). This brought 9MFY22 sum to RM35.3m, a decrease of -55% YoY. This account for only 38%/41% of our and consensus forecasts. The deviation was on the back of lower-than-expected revenue coupled with margin deterioration. 9MFY22 one-off adjustments include gain on derivatives (RM1.1m) and forex loss (RM649k)

**Dividend.** None declared. 9MFY22 DPS amounted to 15 sen (9MFY21: 15 sen).

**QoQ/YoY.** Revenue increased by +87% QoQ/+1% YoY attributable to recovery in backlog orders from 2QFY22 with Covid-19 restrictions. Export sales showed encouraging rebound in Heating & Ventilation A/C Company (HVAC). Increase in export sales more than offset the decline in domestic sales for both Living Appliances and Solutions Company (LASC) and HVAC. PMM chalked in core PAT of RM15.2m (-58% YoY) due to (i) decrease in revenue; (ii) elevated raw material prices; (iii) operating disruption during flood incident in Dec 2021; and (iv) lower contribution from associated company of RM1.7m vs RM3.8m in SPLY.

**YTD.** Top line eased by -7% on the back of lower sales in both domestic (-11%) and export markets (-4%). Bottom line tumbled by -55% to RM35.3m due to (i) lower revenue; and (ii) lower EBIT margin by 5.4ppt on the back of elevated raw material prices.

**Outlook.** We expect PMM to face margin squeeze on the back of elevated raw material prices. On top of that, the group also experienced operation disruptions during the flood incident in Dec 2021. We gather that machineries, parts, raw materials and finished goods were affected but the assets are adequately covered by insurance. Additionally, the group's suppliers were also affected hence adding up to the business interruptions for SA1 plant. Based on the current assessment, the full operation is expected to resume by March 2022. Additionally, with the shortage of labour due to restriction on the recruitment of foreign workers, we view that PMM would face additional cost from the increase in allowances for temporary and outsourced workers to mitigate this impact.

**Forecast.** We revise our FY22/23/24 earnings downward by -22%/ -22%/ -12% to account for lower revenue and crimping margin.

**Maintain HOLD.** After earnings revision and rolling over our valuation from FY22 (from March) to CY22, our TP decreases slightly to **RM25.00** (from RM25.70) based on unchanged 17x PE multiple. Despite the uncertainties, we reckon PMM can weather thru this storm supported by its balance sheet strength of a net cash position of RM412.7m (or RM6.80 per share) as end of Dec 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	867.4	968.8	1,114.2
EBITDA	151.9	128.2	100.4	120.0	151.0
EBIT	121.4	104.6	65.5	81.9	109.5
Finance (cost)/ Income	20.1	10.3	15.7	16.4	16.4
Associates & JV	-0.3	20.3	9.5	16.5	20.1
PBT	141.2	135.2	90.7	114.7	145.9
Tax	-24.2	-18.7	-19.1	-19.5	-24.8
PAT	117.0	116.5	71.7	95.2	121.1
Exceptionals	-5.8	5.8	0.0	0.0	0.0
<b>Core PAT</b>	<b>111.2</b>	<b>122.3</b>	<b>71.7</b>	<b>95.2</b>	<b>121.1</b>
HLIB/ Consensus			83%	80%	87%

### Balance sheet

FYE Mar	FY20	FY21	FY22f	FY23f	FY24f
Cash	577.7	523.9	545.6	546.0	556.4
Receivables	74.9	104.2	73.7	82.3	94.6
Inventories	73.2	69.6	51.8	56.6	65.1
PPE	127.3	138.2	159.9	176.7	190.3
Others	123.6	136.6	136.6	136.6	136.6
<b>Assets</b>	<b>976.7</b>	<b>972.6</b>	<b>967.7</b>	<b>998.2</b>	<b>1,043.0</b>
Payables	-136.7	-148.6	-125.6	-137.1	-157.7
Debt	-11.6	-5.5	-5.5	-5.5	-5.5
Others	-11.9	-5.7	-5.6	-5.6	-5.6
<b>Liabilities</b>	<b>-160.2</b>	<b>-159.9</b>	<b>-136.8</b>	<b>-148.3</b>	<b>-168.9</b>
Shareholder's equity	60.7	60.7	60.7	60.7	60.7
Retained earnings	755.8	752.0	770.1	789.2	813.4
<b>Equity</b>	<b>816.5</b>	<b>812.7</b>	<b>830.9</b>	<b>849.9</b>	<b>874.1</b>

### Cash Flow Statement

FYE Mar	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	141.2	135.2	90.7	114.7	145.9
D&A	30.5	23.6	34.9	38.2	41.5
Working capital	-19.5	-13.9	25.4	-1.9	-0.3
Taxation	-23.6	-22.9	-16.9	-19.5	-24.8
Others	10.1	-16.1	0.0	0.0	0.0
<b>CFO</b>	<b>118.6</b>	<b>95.6</b>	<b>118.3</b>	<b>115.2</b>	<b>145.9</b>
Capex	-45.2	42.5	-55.0	-55.0	-55.0
Others	18.4	-71.5	15.7	16.4	16.4
<b>CFI</b>	<b>-26.8</b>	<b>-29.0</b>	<b>-39.3</b>	<b>-38.6</b>	<b>-38.6</b>
Dividends	-137.3	-120.3	-57.4	-76.2	-96.9
<b>CFF</b>	<b>-137.4</b>	<b>-120.4</b>	<b>-57.4</b>	<b>-76.2</b>	<b>-96.9</b>
<b>Net cash flow</b>	<b>-45.6</b>	<b>-53.8</b>	<b>21.7</b>	<b>0.4</b>	<b>10.4</b>
Beginning cash	623.3	577.7	523.9	545.6	546.0
Ending cash	577.7	523.9	545.6	546.0	556.4

### Quarterly financial summary

FYE Mar	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22
Revenue	261.0	265.6	253.7	141.7	264.6
EBITDA	40.4	45.5	27.9	1.0	21.0
EBIT	32.4	37.6	20.6	-6.8	13.1
Finance (cost)/ Income	-230.6	-228.1	-235.0	-150.4	-253.2
Derivative gain (loss)	0.6	-1.5	0.5	0.5	0.1
Associates & JV	3.8	13.3	-0.5	3.5	1.7
PBT	38.3	53.0	22.2	-1.1	16.7
Tax	-4.9	-7.4	-4.4	3.7	-1.5
PAT	33.4	45.6	17.9	2.7	15.2
Exceptionals	2.6	-1.4	-0.1	-0.2	-0.1
<b>Core PAT</b>	<b>36.0</b>	<b>44.2</b>	<b>17.7</b>	<b>2.5</b>	<b>15.1</b>

### Valuation Ratios

FYE Mar	FY20	FY21	FY22f	FY23f	FY24f
Core EPS (sen)	183.0	201.3	151.2	202.2	227.8
P/E (x)	16.3	14.9	19.8	14.8	13.1
EV/EBITDA (x)	8.2	10.1	11.5	8.9	7.7
DPS (sen)	198.0	163.0	120.9	161.7	182.2
Dividend yield (%)	6.6	5.5	4.0	5.4	6.1
BVPS (RM)	13.4	13.4	13.7	14.1	14.6
P/B (x)	2.2	2.2	2.2	2.1	2.0
EBITDA margin (%)	14.4	13.2	11.0	12.9	13.6
EBIT margin (%)	11.5	10.7	7.6	9.4	10.1
PBT margin (%)	13.4	13.9	11.6	13.4	14.0
Core PAT margin (%)	10.6	12.5	9.2	11.2	11.6
ROE (%)	13.6	15.0	11.0	14.3	15.6
ROA (%)	11.4	12.6	9.3	12.0	13.0
Net gearing (%)	Cash	Cash	Cash	Cash	Cash

**Figure #1 Quarterly results comparison**

FYE 31 Mar (RMm)	3QFY21	2QFY22	3QFY22	QoQ	YoY	9MFY21	9MFY22	YoY
<b>Revenue</b>	261.0	141.7	264.6	86.7%	1.4%	709.0	660.0	-6.9%
Operating Expenses	(230.6)	(150.4)	(253.2)	-68.3%	-9.8%	(648.2)	(638.6)	-1.5%
Other Operating Income	1.5	1.4	1.6	11.7%	7.4%	4.6	4.5	-3.1%
Other derivative gain (loss)	0.6	0.5	0.1	-74.0%	-79.7%	1.7	1.1	-37.7%
<b>Profit from operations</b>	32.4	(6.8)	13.1	-292.6%	-59.5%	67.0	26.9	-59.9%
Share of results of associated company (net of tax)	3.8	3.5	1.7	-51.2%	-55.1%	7.0	4.7	-31.9%
PBT	38.3	(1.1)	16.7	-1665.2%	-56.4%	82.2	37.9	-53.9%
Tax	(4.9)	3.7	(1.5)	-140.1%	-69.4%	(11.3)	(2.1)	-81.0%
Effective tax rate	-12.8%	-349.3%	-9.0%	340.3%	3.8%	-13.7%	-5.7%	8.1%
<b>PAT</b>	33.4	2.7	15.2	471.7%	-54.5%	70.9	35.7	-49.6%
<b>EPS (sen)</b>	36.0	2.5	15.1	512.5%	-57.9%	78.1	35.3	-54.8%
<b>Core PAT</b>	55.0	4.4	25.0	471.7%	-54.5%	116.7	58.8	-49.6%
<b>Core EPS (sen)</b>	59.2	4.1	24.9	512.5%	-57.9%	128.5	58.1	-54.8%
<b>Geographical Sales Breakdown</b>								
Malaysia	101.5	50.7	89.0	75.6%	-12.3%	256.3	227.3	-11.3%
Japan	9.7	5.5	10.2	84.0%	4.4%	30.3	25.2	-16.7%
Asia (Ex-Malaysia)	99.0	55.7	84.3	51.3%	-14.8%	254.5	235.4	-7.5%
Europe	2.4	0.4	1.8	306.9%	-25.9%	5.4	3.6	-32.5%
Middle East	41.9	26.1	55.5	112.5%	32.4%	145.8	135.5	-7.1%
Others	6.5	3.2	5.8	81.3%	-10.0%	16.8	15.0	-10.5%
				<i>ppt</i>	<i>ppt</i>			<i>ppt</i>
Operating Profit margin	12.4%	-4.8%	5.0%	9.8	(7.4)	9.5%	4.1%	(5.4)
PBT margin	14.7%	-0.8%	6.3%	7.1	(8.4)	11.6%	5.7%	(5.8)
PAT margin	12.8%	1.9%	5.7%	3.9	(7.1)	10.0%	5.4%	(4.6)

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

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

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