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RESULTS – 1QFY11

23 Aug 2010

For period Apr-Jun 2010

Panasonic Manufacturing Malaysia		***Market Price:***	*RM19.50*
		Market Capitalisation:	*RM1184.5m*
		Board:	*Main Board*
Stock Code/Name:	*3719 / PANAMY*	***FBM Index:***	*EMAS Shariah/Small Cap*
Recommendation:	*HOLD*	***Sector:***	*Consumer Products*

Analyst: *Edmund Tham*

Key Stock Statistics	**2011E**
EPS (sen)	122.2
P/E (x)	16.0
Dividend/Share (sen)	120.0
NTA/Share (RM)	10.52
Book Value/Share (RM)	10.52
Issued Capital (mil shares)	60.7
52- weeks share price (RM)	11.98 – 19.70
Major Shareholders:	%
Panasonic Management (M) SB	47.5
Aberdeen Assets Mgmt Plc	7.5
Employees' Provident Fund	5.9

Per Share Data	**2008**	**2009**	**2010**	**2011E**
Book Value (RM)	9.96	9.92	10.20	10.52
Earnings (sen)	86.6	81.9	106.8	122.2
Dividend (sen)	120.3	105.0	120.0	120.0
Payout Ratio (%)	103.9	96.1	84.3	73.7
PER (x)	22.5	23.8	18.3	16.0
P/Book Value (x)	2.0	2.0	1.9	1.9
Dividend Yield (%)	6.2	5.4	6.2	6.2
ROE (%)	8.7	8.3	10.5	11.6
Net Gearing (cash) (x)	(0.76)	(0.77)	(0.80)	(0.77)

P&L Analysis (RM mil)	**2008**	**2009**	**2010**	**2011E**
Year end: Mar 31				
Revenue	562.5	600.9	679.8	747.6
Operating Profit	58.4	51.9	72.5	82.2
Depreciation	(14.2)	(15.2)	(16.3)	(17.3)
Interest Expenses	0.0	0.0	0.0	0.0
Pre-tax Profit	64.9	60.8	79.3	93.3
Effective Tax Rate (%)	18.9	18.2	18.3	20.4
Net Profit	52.6	49.8	64.8	74.2
Operating Margin (%)	10.4	8.6	10.7	11.0
Pre-tax Margin (%)	11.5	10.1	11.7	12.5
Net Margin (%)	9.4	8.3	9.5	9.9

** RM1.00 par value*

1Q/ 30 Jun	**1Q11**	**4Q10**	**yoy %**	**4Q10**	**qoq%**
Rev (RMm)	205.5	155.9	31.8	153.8	33.6
EBIT (RMm)	17.1	10.8	58.1	11.1	54.4
NPAT (RMm)	19.3	11.9	62.1	15.4	25.7
EPS (sen)	31.8	19.6	62.1	25.3	25.7

PERFORMANCE

Panasonic Manufacturing Malaysia's (PMM) annualized 1Q/FY11 **revenue was 15.4% above our earlier forecast while its net profit after tax (NPAT) came in on the upper-end of** our earlier estimates.

"Surprisingly strong Q1"

PMM recorded multi-year record-high quarterly revenue of RM205.5 million for 1Q/FY11 ended 30th June 2010, an increase of 31.8% or RM49.6 million as compared with the revenue of RM155.9 million registered in the previous year's corresponding 1Q/FY10.

"Increase in export sales"

The significant increase is mainly contributed by increased sales to the Middle East region and the transfer of manufacture and sales of some models of food processor and juicer from Japan to Malaysia of which the full impact will be reflected during PMM's FY11.

Meanwhile, PMM's combined profit before tax (PBT) of RM24.6 million for 1Q/FY11 had increased by 65.1% or RM9.7 million as compared to the previous year's 1Q/FY10 combined profit before tax of RM14.9 million. The company's combined PBT comprises the share of results of an associated company which includes a derivative gain amounting to RM1.9 million.

PMM's 1Q/FY11 revenue of RM205.5 million was an increase of 33.6% or RM51.7 million over the revenue of RM153.8 million recorded in the preceding 4Q/FY10. This was mainly due to the strong sales demand especially in the domestic market. In line with the increase in revenue, the company achieved a combined profit before tax for 1Q/FY11 of RM24.6 million, which was higher by 37.4% or RM6.7 million compared to the combined profit before tax of RM17.9 million reported in the preceding 4Q/FY09.

OUTLOOK/CORP. UPDATES

There has been overall stabilization and gradual economic recovery seen in most regions around the world. Malaysia's general economy has bottomed out in 2009 and it is now well set in the recovery stage. This augurs well for PMM's prospects and outlook. PMM had managed to record a strong FY10 performance in 2009 despite of the tough economic environment then.

"2010: period of economic recovery"

Malaysia had reported a solid 2Q/2010 **GDP growth** of +8.9%. Meanwhile in July 2010, Bank Negara Malaysia (BNM) had increased its **overnight policy rate** (OPR) to 2.75%, given that domestic economic conditions have improved. This move is meant to stifle inflationary pressures and to correct other imbalances in the economy. The latest available **CPI** of +1.9% y-o-y was reported for the month of July 2010. Economic recovery would also lead to better consumer optimism and hence assist to raise domestic consumption, including spending on retail products such as household electrical and electronic products.

PMM would be pursuing better operational performance at lower costs by using its well-developed resources and strong fundamentals. The company is committed to improve its earnings growth and manufacturing capabilities under its mid-term plan that focuses on sales expansion of its existing products to the equatorial zone countries and the continued increase of sales derived from the transfer of certain product models to PMM, which are currently produced by other manufacturing companies in Japan and China (for instance – food processor and juicer).

"Risks from FX and raw material cost fluctuations"

After PMM's strong 1Q/FY11 performance, we have tweaked upwards our estimates for PMM's full-year FY11 revenue and earnings. We believe this performance would be supported by strong sales both domestically and in export markets. Nevertheless, PMM will face challenges from the escalating price of some raw materials and also the strengthening of the Ringgit against other major currencies (USD and Yen) of which export sales are denominated in.

"PMM's rising profile"

Panasonic Malaysia SB's (PMM's associate company) managing director Jeff Lee had announced that Panasonic Malaysia has become the sixth largest contributor to the Panasonic global sales after the US, China, UK, Germany and Canada. Despite of the soft economic conditions, Panasonic Malaysia expects to record sales of RM2 billion for its current financial year compared with last year's RM1.75 billion and RM1.54 billion in 2008. Jeff Lee attributed this to the wide range of products sold in Malaysia as well as the strength of the brand.

In Malaysia, Panasonic is No.1 for a number of products, including air-conditioners (selling between 30,000 and 35,000 units a month). Panasonic is also very strong in the audio-visual products. In the last several months, Panasonic sold an average of 12,000 plasma TVs a month because of the World Cup as well as due to the advent of the flat screen. Panasonic is also the market leading brand for various other home appliances segments such as microwave ovens, fridges and washing machines.

"Transfer of more product manufacturing to PMM"

PMM plans to bring more of its China-made products to its manufacturing facilities in Malaysia to bring down costs. The group plans to locally produce "heavy" products such as washing machines, televisions and refrigerators that are now being manufactured in China. After taking into account the high freight and shipping charges, the group has decided to explore the possibility of increasing the number of products to be manufactured in Malaysia. The new products to be produced at the Malaysian factories may also be exported to countries in Southeast Asia. At present, PMM's two factories in Shah Alam, Selangor, are manufacturing "light" products such as rice cookers, electric irons, microwave ovens, blenders, vacuum cleaners, electric shavers, home showers and electric fans.

"Export contributions"

In FY10, approximately 1/3 of PMM's revenues were derived from exports to foreign markets. In March 2010, the Equator Volume Zone project was launched. This was a collaboration project between Panasonic companies in Asia and Oceania region, the Middle East, Africa and Latin America to spread the horizontal expansion of volume zone products in the equatorial belt zone. PMM plans to develop and produce regional-based products with emphasis on sales to the Asian/Middle East region. Meanwhile, PMM's collaboration activities with marketing arms in Malaysia, Singapore and Hong Kong to capture a wider consumer market in the Asian region have proven to be successful.

Besides this, PMM also organised various sales promotional, marketing and advertising activities this year including sales conventions, road shows and dealers' workshops. PMM had doubled up its efforts in strengthening frontline capabilities, product competitiveness and customer service infrastructure. PMM's management also plans to strengthen its competitive edge through continuous productivity and quality improvement initiatives and cost control measures.

PMM's domestic revenue growth basically comes from the Panashops and chain dealers like Tesco and Giant. Currently, it has 148 Panashops nationwide. Panasonic Malaysia is in the midst of enhancing its logistics capabilities. Its existing distribution centre in Shah Alam will move to a new, bigger site in the vicinity, in October 2010.

The Panasonic group in Malaysia collectively fulfils its **corporate social responsibility (CSR)** aligned with its late founder's management philosophy of "contributing to society through its business activities". Its CSR efforts include those for the environment (emission levels, town clean-up, waste management, marine conservation), human capital (OSH, internships) and the community (the needy, sports, scholarships).

VALUATION

For FY10 ended 31st March 2010, a final dividend of 35 sen per share (DPS) and a special dividend of 70 sen per share (both less tax), were proposed by PMM on 20th May 2010. The final and special dividends would be payable to shareholders on 13th October 2010. The shares entitled for these dividends would be shares deposited before 12.30pm on 20th September 2010 in respect of shares which are exempted from mandatory deposit, and shares transferred before 4pm on 22nd September 2010 in respect of ordinary transfers. On a dividend payout ratio basis, PMM appears to be allowing the payout ratio to drop y-o-y.

PMM has substantially outperformed the KLCI this year (+55.87% vs. +10.1% YTD). It has a relatively weak adjusted beta of 0.43 to the KLCI. Based on our revised forecast of PMM's FY11 EPS and an estimated P/E of 17 times, we derive a FY11-end **target price (TP) of RM20.77**, which is an upside of 6.5% from its current market price.

"Maintain Hold Call"

During its strong market prices surge this year, PMM had easily breached our earlier TPs of RM15.24 and RM17.73. Given PMM's strong price surge year-to-date (YTD), we thus **maintain our Hold Call on PMM.** This view does not reflect any pessimism in PMM's financials and outlook, but merely the price attractiveness of the stock.

PMM is a suitable stock for fundamental, long-term investors seeking a reputable, resilient, solid dividend yielding, sizeable market-cap stock with relatively steady earnings. As PMM is a dominant market leader in the local household electrical durable goods sector, we continue to view its earnings prospects and outlook favourably. PMM's P/E and P/BV is higher than the domestic durable consumer goods sector's average P/E of 15.6 times and P/BV of 0.9 times. Nevertheless, as PMM is a dominant market leader in the sector, this is not surprising to us. In the future, the strength of the economic recovery and consumer demand would continue to guide our view on PMM.

Panasonic: 6-month Share Price

Source: NextView