

HLIB Research

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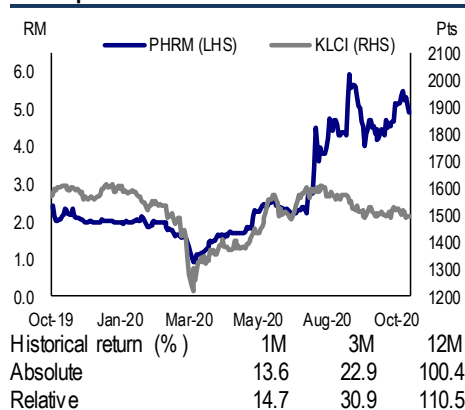
BUY (Maintain)

Target Price: **RM5.94**
Previously: **RM5.94**
Current Price: **RM4.93**

Capital upside	20.5%
Dividend yield	3.5%
Expected total return	24.0%

Sector coverage: Healthcare

Company description: Pharmaniaga is the sole drug and medical supplies distributor concessionaire to the MoH of Malaysia.

Share price

Stock information

Bloomberg ticker	PHRM MK
Bursa code	7081
Issued shares (m)	262
Market capitalisation (RM m)	1,290
3-mth average volume ('000)	4,178
SC Shariah compliant	Yes

Major shareholders

Boustead Holdings Bhd	55.8%
LTAT	11.2%
Kamaruddin Lodin Wok	4.8%

Earnings summary

FYE (Dec)	FY19A	FY20f	FY21f
PATMI – core	51.6	68.5	74.7
EPS – core (sen)	19.8	26.4	28.8
P/E (x)	24.9	18.6	17.1

Pharmaniaga

First step on fill and finish

Pharmaniaga has entered into a MOU with SERUM to purchase Pneumococcal Vaccine and will perform the filling and finishing process as well. The product will be marketed, distributed and sold exclusively in Malaysia by Pharmaniaga. We are positive on the news as we feel this is a good start for its fill and finish business as well as enhancing Pharmaniaga's vaccine operations. Furthermore, we expect the collaboration to contribute positively to Pharmaniaga's profitability in the future. We maintain our forecasts, pending more update on the start of the process of fill and finish business. Maintain BUY with unchanged TP of RM5.94 (PE multiple of 21.5x of mid FY21 EPS).

NEWSBREAK

Pharmaniaga has entered into a Memorandum of Understanding (MOU) with Serum Institute of India Private Limited (SERUM).

SERUM is a leading pharmaceutical company, ranked as India's No. 1 biotechnology company, manufacturing highly specialized vaccines using cutting edge genetic and cell-based technologies, antisera and other medical specialties.

The MOU enables Pharmaniaga to purchase Pneumococcal Vaccine from SERUM and subsequently, by using the technology and knowhow licensed by SERUM for filling and finishing. The fill & finish product will be marketed, distributed and sold exclusively in Malaysia by Pharmaniaga.

Pharmaniaga is expected to produce the product once license has been granted by SERUM, following some technological transfer from SERUM.

HLIB's VIEW

Positive. We are positive on the news; we feel the MOU and collaboration with SERUM will serve as a good first step on Pharmaniaga's fill and finish business and acts as a platform for the latter to further strengthen its vaccine operations. The long-term partnership which includes the technological transfer that would aid to grow the sector in Malaysia. Moreover, we expect the collaboration to contribute positively to Pharmaniaga's future profitability.

Pneumococcal vaccine. In Malaysia, pneumococcal disease is one of the most widespread vaccine preventable diseases. As we understand, each child needs to be given 3 doses; with 500k new birth in Malaysia, the estimated requirement will be c. 1.5m per year. To recap, Budget 2020 has included RM60m to kick start the Pneumococcal vaccination for children. This shows that the government is taking seriously the usage of this vaccine, hence we can expect the usage of this vaccine to increase in the coming years.

No clear timeline. While management did not indicate when the fill and finish process for the Pneumococcal Vaccine can begin, we optimistically expect it to commence sometime in 2022.

Forecast. We keep our forecasts at this juncture, pending further updates on the actual start date for the fill and finish process.

Maintain BUY, TP: RM5.94. Maintain BUY with unchanged TP of RM5.94. Our TP is based on mid FY21 earnings pegged to P/E multiple of 21.5x (+2SD of 5 year mean).

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Cash	35.7	29.6	(0.1)	(3.3)	(2.4)
Receivables	222.8	204.1	304.2	324.1	337.5
Inventories	693.0	617.9	634.3	667.3	695.3
PPE	406.4	382.3	301.6	289.7	279.8
Others	549.9	358.4	383.7	402.5	422.7
Assets	1,907.7	1,592.3	1,623.6	1,680.3	1,732.8
Payables	572.3	549.0	563.3	593.5	618.0
Debt	642.8	565.3	644.1	644.1	644.1
Others	164.0	121.1	42.3	42.3	42.3
Liabilities	1,379.1	1,235.4	1,249.7	1,279.9	1,304.4
Shareholder's equity	509.3	337.9	354.6	380.8	408.4
Minority interest	19.3	19.1	19.4	19.7	20.0
Equity	528.7	356.9	374.0	400.4	428.4

Cash Flow Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
EBIT	88.4	-153.0	124.7	134.2	139.8
Working capital	-200.4	96.6	-39.2	-22.6	-16.9
Taxation	-27.0	42.4	-22.9	-25.0	-26.4
Others	57.1	203.7	18.6	15.1	14.9
CFO	-81.8	189.8	81.2	101.7	111.5
Capex	-75.9	-77.5	-74.3	-77.2	-80.4
Others	-0.7	4.8	8.5	12.0	14.0
CFI	-76.6	-72.7	-65.8	-65.2	-66.4
Changes in debt	198.5	1.2	0.0	0.0	0.0
Shares issued	0.0	0.0	0.0	0.0	0.0
Dividends	-39.2	-40.7	-44.5	-48.6	-51.2
Others					
CFF	161.9	-125.3	-41.0	-42.1	-46.7
Net cash flow	3.4	-8.2	-25.6	-5.6	-1.7
Forex	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	28.0	28.0	29.6	-0.1	-3.3
Ending cash	35.7	29.6	-0.1	-3.3	-2.4

Income Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Revenue	2,385.0	2,820.5	2,703.7	2,811.3	2,927.5
EBITDA	153.5	130.6	166.3	171.5	177.0
EBIT	105.4	-153.0	124.7	134.2	139.8
Finance cost	-36.1	-37.6	-33.0	-34.2	-34.3
Associates & JV	0.0	0.0	0.0	0.0	0.0
Profit before tax	70.2	-190.6	91.7	100.0	105.5
Zakat & Tax	-27.0	42.4	-22.9	-25.0	-26.4
Net profit	43.2	-147.2	68.8	75.0	79.2
Minority interest	-0.8	-0.2	-0.3	-0.3	-0.3
Core PATMI	59.5	51.6	68.5	74.7	78.8

Valuation & Ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Core EPS (sen)	22.9	19.8	26.4	28.8	30.4
P/E (x)	21.5	24.9	18.6	17.1	16.2
EV/EBITDA (x)	12.3	14.5	11.6	11.3	10.9
DPS (sen)	16.0	8.5	17.2	18.7	19.8
Dividend yield (%)	3.2	1.7	3.5	3.8	4.0
BVPS (RM)	2.0	1.3	1.4	1.5	1.6
P/B (x)	2.5	3.9	3.6	3.4	3.1
EBITDA margin	6.4%	4.6%	6.2%	6.1%	6.0%
EBIT margin	4.4%	-5.4%	4.6%	4.8%	4.8%
PBT margin	2.9%	-6.8%	3.4%	3.6%	3.6%
Net margin	1.8%	-5.2%	2.5%	2.7%	2.7%
ROE	0.0%	0.0%	0.0%	0.0%	0.0%
ROA	0.0%	0.0%	0.0%	0.0%	0.0%
Net gearing	1.2	1.8	1.7	1.6	1.5

Assumptions

FYE Dec	FY20f	FY21f	FY21f
M'sia pharma market size	6,457.0	6,586.1	6,717.8
MoH market size	0.53	0.53	0.53

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Stock rating guide

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.

Sector rating guide

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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