

# Pharmaniaga Berhad

(7081 | PHRM MK) Health Care | Pharmaceuticals

**Maintain BUY**

**Earnings underpinned by stronger sales order**

**Revised Target Price: RM3.16**

(Previously RM2.35)

## KEY INVESTMENT HIGHLIGHTS

- **Pharmaniaga's 1QFY20 earnings came in stronger at RM22.4m, which was above our expectations**
- **Stronger earning was attributable to higher sales order from the Malaysian and Indonesian government hospitals**
- **First interim dividend of 6.0sen declared**
- **FY20-21F earnings estimates raised by +74.6% and +61.3% respectively**
- **Maintain BUY with a revised TP of RM3.16 per share**

**1QFY20 earnings boosted by higher sales order.** Pharmaniaga's 1QFY20 earnings came in at RM22.4m which was above ours and consensus' FY20 earnings estimates at 49.4% and 51.2% respectively. The stronger earning was mainly attributable to higher sales order recorded from both the Malaysian and Indonesian government hospitals during the quarter following the all-out fight to curb the spread of novel coronavirus (Covid19) in both countries. When compared against 1QFY19, revenue increased by +4.3%yoy whilst earnings grew by +14.2%yoy respectively. On a quarterly basis, revenue grew by +14.6%qoq whilst earnings surged by +138.2%qoq in-line with higher sales recorded during the quarter and lower operating costs.

**Logistics & Distribution (L&D).** The segment revenue was flat year-over-year in 1QFY20 at RM579.9m whilst segment EBIT surged by +89.5%yoy which was primarily driven by: (i) the stronger contributions from the government hospitals and; (ii) lower operating costs. During the quarter, the segment's EBITDA margin also improved to 5.0% in 1QFY20 vs 4.5% in 1QFY19 attributable to the lower depreciation cost arising from the recently fully amortised Pharmacy Information System (PhIS).

**Manufacturing.** Segment revenue and EBIT contracted by -8.0%yoy and -51.2%yoy respectively despite the increase in order from the government hospitals and new product launches by the segment. We opine that the contraction was mainly caused by increased OPEX relating to its newly launched products as well as; the ongoing international expansion which has caused margins to decline.

**Indonesia division remains in loss-making position.** Pharmaniaga's Indonesian division registered a higher revenue of +20.2%yoy during the quarter attributable to increased sales order from both the Government and private hospitals in Indonesia. However, the division reported a marginal loss at the PBT level due to the delay in payment by government hospitals in Indonesia which is currently affecting the healthcare industry in that country.

### RETURN STATISTICS

|  |              |
|--|--------------|
| Price @ 19 <sup>th</sup> May 2020 (RM) | 1.88         |
| Expected share price return (%)        | +68.0        |
| Expected dividend yield (%)            | +9.2         |
| <b>Expected total return (%)</b>       | <b>+77.2</b> |

### SHARE PRICE CHART



| Share price performance (%) | Absolute | Relative |
|-----------------------------|----------|----------|
| 1 month                     | 9.9      | 9.1      |
| 3 months                    | 49.2     | -0.7     |
| 12 months                   | -24.5    | -14.9    |

### KEY STATISTICS

|                                  |                 |
|----------------------------------|-----------------|
| FBM KLCI                         | 1423.97         |
| Syariah compliant                | Yes             |
| Issue shares (m)                 | 261.23          |
| Estimated free float (%)         | 13.82           |
| Market Capitalisation (RM'm)     | 491.11          |
| 52-wk price range                | RM0.91 - RM2.88 |
| Beta vs FBM KLCI (x)             | 1.53            |
| Monthly velocity (%)             | 0.00            |
| Monthly volatility (%)           | 19.93           |
| 3-mth average daily volume (m)   | 0.99            |
| 3-mth average daily value (RM'm) | 1.52            |
| Top Shareholders (%)             |                 |
| Boustead Holdings Bhd            | 55.93           |
| Lembaga Tabung Angkatan Tentera  | 11.20           |
| Kamaruddin Lodin Bin Wok         | 4.79            |

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**First interim dividend of 6.0sen declared.** In-line with its stronger performance during the quarter, Pharmaniaga has declared a first interim dividend of 6.0sen for the quarter under review. The dividend declared represents a payout ratio of 69.7% of its 1QFY20 EPS of 8.6sen and translates to an annualised yield of 12.8% to yesterday's closing price of RM1.88.

**Impact to earnings.** Following the stronger-than-expected earnings recorded during the quarter, we are raising our FY20F and FY21F earnings forecast by +74.6% and +61.3% respectively as we take into account: (i) stronger sales momentum following the Covid19 pandemic situation; (ii) lower amortisation rate as PhIS costs has been fully amortised and; (iii) growing revenue contribution from the Indonesian division.

**Target price.** We are revising our target price to **RM3.16** (previously RM2.35) per share. This is derived via pegging our revised FY21F EPS of 31.6sen to a target PER of 10.0x which is the average of its historical five-year rolling PER.

**Maintain BUY.** We remain sanguine on Pharmaniaga's prospect going forward as it has showed significant improvement in its financial performance following: (i) the renewal of its L&D contract with the Malaysian government back in November 2019 as well as; (ii) the full amortisation of the Pharmacy Information System (PhIS) back in 4QFY19 which has significantly reduced its depreciation cost. Recall that, the government has extended Pharmaniaga's services for the provision of medicines and medical supplies to MOH facilities to the end of FY21 and provided them with a new contract to continue providing logistics and distribution services for MOH to over 148 government hospitals and 1,700 clinics nationwide until the end of FY24.

Moving forward, we opine that Pharmaniaga is at an advantage when compared to its peers in the L&D segment due to its extensive and well-established network of L&D nationwide with a close to 100% positive delivery track record to the Malaysian government's hospitals and clinics. This is especially critical during the current fight to curb the spread of Covid19 nationwide. L&D will continue to be Pharmaniaga's strong back bone whilst its Manufacturing segment will propel the company's growth going forward with a better product mix that will lift margin for the company. We are also positive on its Indonesia division's growing contribution as it continues to tap into the country's 252m strong populations' increasing need for quality healthcare products and services.

All things considered, we are maintaining our **BUY** recommendation on Pharmaniaga considering that the company's bright prospect especially during the current global Covid19 pandemic crisis which we opine will continue to affect nationwide healthcare service for the remainder of the year. Additionally, it is also an attractive stock to accumulate as it is currently trading at an attractive forward PER of <10.0x (-1.5SD below its three year historical PER average) with an attractive FY21F dividend yield of 9.2%. 

## INVESTMENT STATISTICS

| Financial year ending 31st December<br>(in RM'm, unless otherwise stated) | 2018A        | 2019A          | 2020E        | 2021F        | 2022F        |
|---|--------------|----------------|--------------|--------------|--------------|
| Revenue   | 2,385.0      | 2,820.5        | 3,102.6      | 3,226.7      | 3,323.5      |
| Cost of sales   | (2,062.8)    | (2,726.5)      | (2,699.2)    | (2,800.8)    | (2,881.5)    |
| <b>Gross profit</b>   | <b>322.1</b> | <b>94.0</b>    | <b>403.3</b> | <b>425.9</b> | <b>442.0</b> |
| Finance cost  | (36.1)       | (40.3)         | (46.5)       | (48.4)       | (49.9)       |
| <b>Profit before tax and zakat</b>  | <b>70.2</b>  | <b>(191.9)</b> | <b>124.1</b> | <b>129.1</b> | <b>132.9</b> |
| Income tax  | (25.9)       | 42.4           | (44.2)       | (46.5)       | (47.9)       |
| <b>Profit after tax</b>   | <b>43.2</b>  | <b>(149.4)</b> | <b>79.9</b>  | <b>82.6</b>  | <b>85.1</b>  |
| PATAMI  | 42.5         | (149.2)        | 79.1         | 81.8         | 84.2         |
| <b>Normalised PATAMI</b>  | <b>42.5</b>  | <b>38.7</b>    | <b>79.1</b>  | <b>81.8</b>  | <b>84.2</b>  |
| Normalised EPS (sen)  | 16.3         | 15.0           | 30.5         | 31.6         | 32.5         |
| EPS growth (%)  | -21.5        | -8.4           | 104.1        | 3.4          | 3.0          |
| PAT margin (%)  | 1.8          | NA             | 2.6          | 2.6          | 2.6          |
| Normalised PATAMI margin (%)  | 1.8          | 1.4            | 2.5          | 2.5          | 2.5          |
| PER (x)   | 11.5         | 12.6           | 6.2          | 6.0          | 5.8          |
| Dividend per share (sen)  | 16.0         | 8.5            | 16.8         | 17.4         | 17.9         |
| Dividend yield (%)  | 8.5          | 4.5            | 8.9          | 9.2          | 9.5          |

Source: Company, MIDFR

**PHARMANIAGA BHD: 1QFY20 RESULTS SUMMARY**

| Financial year ending 31st December (in RM'm unless otherwise stated) | Quarterly results |                |             |                |         |
|---|-------------------|----------------|-------------|----------------|---------|
|   | 1QFY19            | 4QFY19         | 1QFY20      | QoQ (%)        | YoY (%) |
| Revenue   | 786.1             | 715.7          | 819.9       | 14.6           | 4.3     |
| Cost of sales   | (687.8)           | (869.6)        | (721.6)     | (17.0)         | 4.9     |
| <b>Gross Profit</b>   | <b>98.3</b>       | <b>(153.9)</b> | <b>98.3</b> | >100           | 0.0     |
| Other income  | 0.4               | 0.2            | 0.3         | 56.9           | (18.5)  |
| Operating expenses  | (59.0)            | (76.1)         | (58.3)      | (23.4)         | (1.2)   |
| <b>EBIT</b>   | <b>39.7</b>       | <b>(229.8)</b> | <b>40.3</b> | >100           | 1.6     |
| Finance cost  | (9.6)             | (9.2)          | (9.6)       | 4.9            | (0.3)   |
| Interest income   | 0.2               | 0.5            | 0.2         | (62.4)         | (19.7)  |
| <b>Profit Before Tax and Zakat</b>                                    | <b>30.2</b>       | <b>(238.5)</b> | <b>30.9</b> | >100           | 2.1     |
| Zakat   | (0.0)             | 0.2            | (0.0)       | >100           | 0.0     |
| Income tax  | (10.6)            | 59.6           | (8.5)       | >100           | (19.9)  |
| <b>Profit After Tax</b>   | <b>19.6</b>       | <b>(178.7)</b> | <b>22.4</b> | >100           | 14.1    |
| Minority interest   | 0.0               | (0.1)          | 0.0         | >100           | (48.4)  |
| <b>PATAMI</b>   | <b>19.6</b>       | <b>(178.6)</b> | <b>22.4</b> | >100           | 14.2    |
| <b>Normalised PATAMI</b>  | <b>19.6</b>       | <b>9.4</b>     | <b>22.4</b> | 138.2          | 14.2    |
| Basic EPS (sen)   | 7.5               | (68.5)         | 8.6         | >100           | 13.9    |
| Diluted EPS (sen)   | 7.5               | (68.2)         | 8.6         | >100           | 13.9    |
| DPS (sen)   | 6.0               | 0.0            | 6.0         | nm             | 0.0     |
|   |                   |                |             | <i>+/-ppts</i> |         |
| GP margin (%)   | 12.5%             | -21.5%         | 12.0%       | 0.3            | (0.0)   |
| PBT margin (%)  | 3.8%              | -33.3%         | 3.8%        | 0.4            | (0.0)   |
| PATAMI margin (%)   | 2.5%              | -25.0%         | 2.7%        | 0.3            | 0.0     |
| Normalised PATAMI margin (%)  | 2.5%              | 1.3%           | 2.7%        | 0.3            | 0.0     |
| Effective tax rate (%)  | 34.9%             | 25.0%          | 27.4%       | 0.0            | (0.1)   |
|   |                   |                |             |                |         |
| <b>Segmental</b>  |                   |                |             |                |         |
| <b>Revenue</b>  |                   |                |             |                |         |
| Logistics & Distribution  | 582.6             | 508.2          | 579.9       | 14.1           | (0.5)   |
| Manufacturing   | 74.1              | 69.9           | 68.2        | (2.5)          | (8.0)   |
| Indonesia   | 198.9             | 206.7          | 239.2       | 15.7           | 20.2    |
|   |                   |                |             |                |         |
| <b>EBIT</b>   |                   |                |             |                |         |
| Logistics & Distribution  | 14.1              | 28.0           | 26.8        | (4.2)          | 89.5    |
| Manufacturing   | 20.0              | 64.5           | 9.7         | (84.9)         | (51.2)  |
| Indonesia   | 2.1               | 15.8           | 5.0         | (68.6)         | 139.1   |
|   |                   |                |             |                |         |
| <b>EBIT margin (%)</b>  |                   |                |             | <i>+/-ppts</i> |         |
| Logistics & Distribution  | 2.4               | 5.5            | 4.6         | (0.9)          | 2.2     |
| Manufacturing   | 26.9              | 92.3           | 14.3        | (78.0)         | (12.6)  |
| Indonesia   | 1.0               | 7.6            | 2.1         | (5.6)          | 1.0     |

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

|                     |  |
|---------------------|--|
| <b>BUY</b>          | Total return is expected to be >10% over the next 12 months.   |
| <b>TRADING BUY</b>  | 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.  |
| <b>NEUTRAL</b>      | Total return is expected to be between -10% and +10% over the next 12 months.  |
| <b>SELL</b>         | Total return is expected to be <10% over the next 12 months.   |
| <b>TRADING SELL</b> | 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

|                 |  |
|-----------------|--|
| <b>POSITIVE</b> | The sector is expected to outperform the overall market over the next 12 months.   |
| <b>NEUTRAL</b>  | The sector is to perform in line with the overall market over the next 12 months.  |
| <b>NEGATIVE</b> | The sector is expected to underperform the overall market over the next 12 months. |