

Pharmaniaga Berhad

(7081 | PHRM MK) Health Care | Pharmaceuticals

Maintain NEUTRAL

Fill and Finish Deal Inked with Sinovac

Unchanged Target Price: RM4.74

KEY INVESTMENT HIGHLIGHTS

- **Pharmaniaga has entered into a binding term sheet agreement with Sinovac Life Sciences Co. Ltd**
- **The agreement signed is for the purchase of 14.0m doses of Covid-19 vaccine to inoculate 22% of Malaysian population**
- **Pharmaniaga will undertake the fill-and-finish as well as; the end-distribution process of the Covid-19 vaccine**
- **Locally manufactured vaccine will be part of agreement**
- **FY20-21F earnings maintained**
- **Maintain NEUTRAL with unchanged TP of RM4.74/share**

Vaccine deal signed and sealed with Sinovac. Pharmaniaga Bhd (Pharmaniaga) announced yesterday that its wholly owned subsidiary Pharmaniaga Lifescience Sdn Bhd (PLS) has entered into a binding term sheet agreement with Sinovac Life Sciences Co. Ltd (Sinovac) for the purchase of ready-to-fill bulk product of Covid-19 vaccine and the licensing of Sinovac's technology and know-how for the purpose of manufacturing the Covid-19 vaccine by PLS in Malaysia. As a result, the procurement and bottling of Covid-19 vaccine from Sinovac by Pharmaniaga is expected to begin in the immediate future whilst the distribution is expected to take place at the end of March 2021.

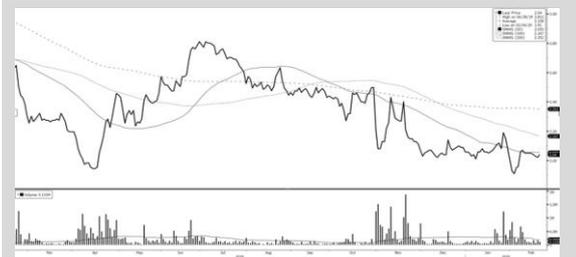
Vaccine procurement to inoculate 22% of Malaysian population. The signing of the agreement with Sinovac will effectively translate to the procurement of 14.0m doses of Covid-19 vaccine which is expected to inoculate 22% of the total Malaysian population. In addition to being a more economical alternative to its peers, we opine that the Sinovac vaccine was chosen given that it requires only 4°C of cold storage which is within Pharmaniaga's current capacity of 2°C to 8°C. Refer to Table 1. The fact that it does not require an ultra-cooler-box for storage and transportation will ultimately reduce the overall cost of the vaccine. Meanwhile, the final bottling process and end-distribution will be handled by Pharmaniaga via its small volume injectable (SVI) plant located in Puchong, Selangor. The plant, which will undergo a month of retrofitting exercise at the cost of RM2.0m; will have the capacity to produce 2.0m doses per month.

Locally manufactured vaccine, the way forward. In-line with its growth strategy going forward, Pharmaniaga is also expected to enter into two other agreements with Sinovac for a locally manufactured Covid-19 vaccine in the near future. What the agreements would entail among others is, the right to manufacture and distribute Sinovac's Covid-19 vaccine in Malaysia. Furthermore, the subsequent agreements would also include technology and know-how license agreements which would allow the aforementioned activities to be conducted by PLS in Malaysia. We view this development positively given that not only it will contribute positively to Pharmaniaga's bottomline but as the vaccine's technology (i.e: inactivated virus) is a proven method and with a reliable history which we opine that it will bode well as part of the Pharmaniaga's future product mix.

RETURN STATISTICS

Price @ 12 th January 2021 (RM)	5.16
Expected share price return (%)	-8.1
Expected dividend yield (%)	+3.4
Expected total return (%)	-4.7

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.4	2.0
3 months	-1.0	-3.7
12 months	-25.2	-16.3

KEY STATISTICS

FBM KLCI	1,612.04
Syariah compliant	Yes
Issue shares (m)	260.51
Estimated free float (%)	13.82
Market Capitalisation (RM'm)	1,344.23
52-wk price range	RM1.83 – RM5.75
Beta vs FBM KLCI (x)	0.87
Monthly velocity (%)	10.84
Monthly volatility (%)	19.42
3-mth average daily volume (m)	0.25
3-mth average daily value (RM'm)	0.53
Top Shareholders (%)	
Boustead Holdings Bhd	55.93
Lembaga Tabung Angkatan Tentera	11.20
Kamaruddin Lodin Bin Wok	4.79

ANALYST

Noor **ATHILA** Mohd Razali

noor.athila@midf.com.my

03 -2772 1679

However, manufacturing locally could take a while.... We understand that these subsequent agreements and the execution of the terms of the agreements could be in effect as early as March 2021 – due to the urgent nature of the pandemic. This however, will be subjected to the Phase Three trial results which are currently taking place in Brazil (c.78% effective), Turkey (c.91% effective) and Indonesia (c.65% effective) as well as; the approval by National Pharmaceutical Regulatory Agency (NPRA) before the mass production of the vaccine can be done by PLS. We estimate that the registration and approval process could take about 90-120 days to be well-concluded from the point when the companies receive the positive trial results - bearing any unforeseen circumstances.

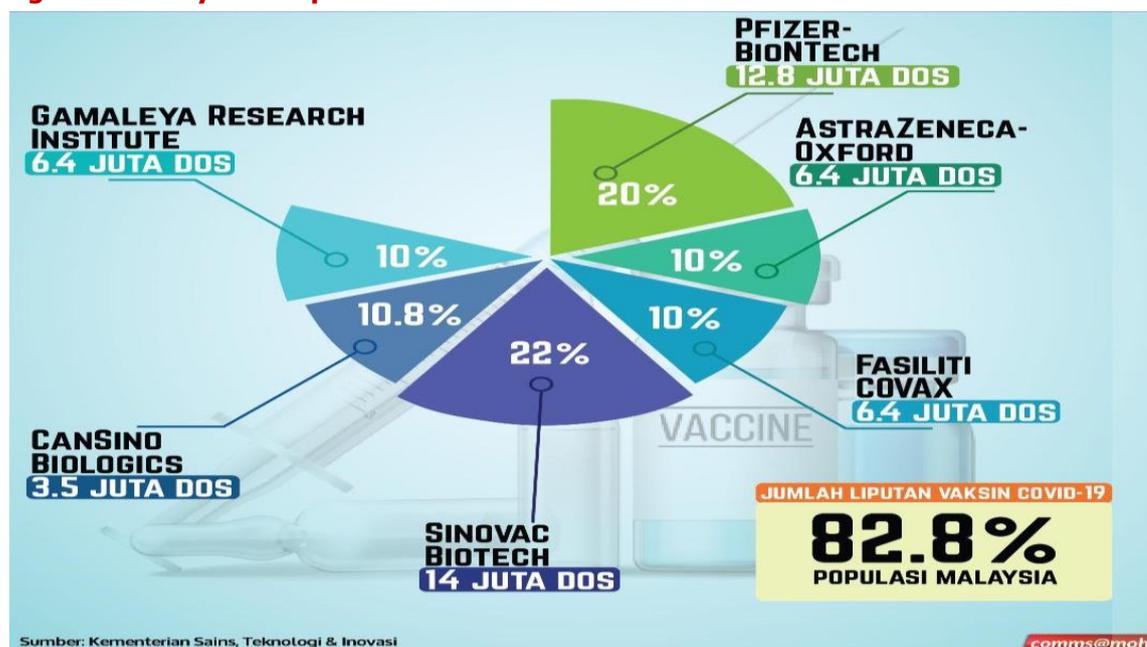
Table 1: Malaysia's shortlisted Covid-19 vaccine profiles

Company	Type of Vaccine	No. of doses required	Type of administration	Efficacy	Cold Storage
Pfizer-BioNTech	mRNA	2	Muscle Injection	95.0%	-70°C
AstraZeneca-Oxford	Adenovirus	2	Muscle Injection	62-90%	4°C
Sinovac Biotech	Inactivated Virus	2	Muscle Injection	>50.0%	4°C
CanSino Biologics	Adenovirus	1	Muscle Injection	n.a	4°C
Gamaleya Research Institute	Adenovirus	2	Muscle Injection	91.4%	4°C
Sinopham	Inactivated Virus	2	Muscle Injection	79.3%	4°C

Source: Ministry of Health (MOH), Ministry of Science, Technology and Innovation (MOSTI)

Earnings impact. We are making no changes to our FY20-21F earnings estimate at this juncture pending further disclosure from the management on the earnings impact resulting from the fill and finish agreement. That said, we are maintaining our view that we have published in our earlier report dated 17th November 2020 titled: [Up In The Clouds Over Covid-19 Vaccine](#) whereby, the potential upside from the fill-and-finish as well as; vaccine distribution will more or less be rather minimal on the company's earnings. This is given that so far, Pharmaniaga will be purchasing and distributing 14.0m doses of vaccines out of the total 49.5m doses required to immunise 82.8% of the Malaysian population as estimated by the Ministry of Science, Technology and Innovation (MOSTI) earlier this year. Refer to Figure 1. However, we have yet to input the potential contribution from both the fill and finish activity as well as; the local Covid-19 vaccine manufacturing into our earnings for FY21F and beyond.

Figure 1: Malaysia's Expected Covid-19 Vaccine Portfolio



Source: Ministry of Health (MOH), Ministry of Science, Technology and Innovation (MOSTI)

Target price maintained at RM4.74. We are maintaining our target price at **RM4.74** per share for now. Our TP is derived via pegging our FY21F EPS of 31.6sen to an unchanged target PER of 15.0x which is the average of its historical five-year rolling PER.

Maintain NEUTRAL with POSITIVE BIAS. All things considered, we are maintaining our **NEUTRAL** recommendation on Pharmaniaga with a **POSITIVE BIAS** at this juncture. Following the announcement yesterday, we are positive on the development of the agreement between Pharmaniaga and Sinovac – which we opine will provide an alternative revenue stream for Pharmaniaga and enhances its pharmaceutical product manufacturing capability going forward. However, as we have mentioned earlier, the information on the financial impact from this agreement remains scarce considering that the company is bound by its non-disclosure agreement (NDA) with Sinovac. We are also maintaining our view that, the fill-and-finish coupled with the end-distribution of the Covid-19 vaccine will contribute marginally to the group's earnings. That said, the announcement on the potential manufacturing of the Covid-19 vaccine has somehow or rather helped to partially alleviate the volatility in Pharmaniaga's earnings outlook.

On another note, we are of the opinion that while the stock remains attractive in terms of sentiment to accumulate given its positive industry-wide growth prospect and; it is currently trading at forward PER of 17.9x (lower than its similar-sized regional peers which typically averages at >20.0x forward PER); the stock price has overpriced the vaccine story – which will cap its share price appreciation going forward. That said, its FY21F dividend yield remains decent at 3.4%. 

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Revenue	2,385.0	2,820.5	2,891.0	3,223.5	3,320.2
Cost of sales	(2,062.8)	(2,726.5)	(2,573.0)	(2,798.0)	(2,878.6)
Gross profit	322.1	94.0	318.0	425.5	441.6
Finance cost	(36.1)	(40.3)	(43.4)	(48.4)	(49.8)
Profit before tax and zakat	70.2	(191.9)	86.7	128.9	132.8
Income tax	(25.9)	42.4	(30.9)	(46.4)	(47.8)
Profit after tax	43.2	(149.4)	55.8	82.5	85.0
PATAMI	42.5	(149.2)	55.3	81.7	84.1
Normalised PATAMI	42.5	38.7	55.3	81.7	84.1
Normalised EPS (sen)	16.3	15.0	21.3	31.6	32.5
EPS growth (%)	-21.5	-8.4	42.6	47.8	3.0
PAT margin (%)	1.8	NA	1.9	2.6	2.6
Normalised PATAMI margin (%)	1.8	1.4	1.9	2.5	2.5
PER (x)	31.7	34.4	24.2	16.3	15.9
Dividend per share (sen)	16.0	8.5	11.7	17.4	17.9
Dividend yield (%)	3.1	1.6	2.3	3.4	3.5

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

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

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.