

# Pharmaniaga Berhad

(7081 | PHRM MK) Health Care | Pharmaceuticals

**Maintain NEUTRAL**

## Vaccine Supply Agreement Inked with Putrajaya

**Unchanged Target Price: RM4.74**

### KEY INVESTMENT HIGHLIGHTS

- **Pharmaniaga has entered into a term sheet agreement with Malaysia's Ministry of Health (MOH)**
- **The agreement signed is for the supply of 12.0m doses of Sinovac Covid-19 vaccine to inoculate circa 20% of Malaysian population**
- **Pharmaniaga will undertake the fill-and-finish as well as; the end-distribution process of the Covid-19 vaccine**
- **Agreement expected to have minimal impact on FY20-21F earnings**
- **Maintain NEUTRAL with unchanged TP of RM4.74/share**

**Vaccine supply deal inked with MOH.** Pharmaniaga Bhd (Pharmaniaga) announced yesterday that its wholly owned subsidiary Pharmaniaga Lifescience Sdn Bhd (PLS) has entered into a term sheet agreement with the Government of Malaysia, represented by the Ministry of Health (MOH) for the purchase and distribution of Covid-19 vaccine. The agreed supply of Covid-19 vaccine will be the one developed by SINOVAC Life Sciences Co.Ltd (Sinovac). The agreement will enable PLS to supply 12.0m doses of finished Covid-19 vaccines; i.e: CORONAVAC, SARS-COV-2 Vaccine (Vero Cell) Inactivated developed by Sinovac. Meanwhile, as published in our recent report on Pharmaniaga dated 13<sup>th</sup> of January 2021 titled: [Fill and Finish Deal Inked with Sinovac](#), PLS will also be involved in the fill and finish process for the Sinovac vaccine – which is to be done here at PLS's plant and it will also be responsible for the distribution of the vaccine to hospitals, clinics and health facilities nationwide as instructed by the MOH. The agreement is valid for a period of one (1) year and is subjected to the approval from the National Pharmacy Regulatory Agency (NPRA) - which PLS has submitted for registration on 19<sup>th</sup> of January 2021. It is expected that vaccine will be available for nationwide distribution to MOH's facilities by end-March 2021.

Recall that, on the 12<sup>th</sup> of January 2021, 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.

**Pharmaniaga's vaccine procurement to inoculate 22% of Malaysian population.** Recall that, the agreement between PLS and Sinovac signed earlier this month 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.

### RETURN STATISTICS

Price @ 26 <sup>th</sup> January 2021 (RM)	4.98
Expected share price return (%)	-4.95
Expected dividend yield (%)	+3.50
<b>Expected total return (%)</b>	<b>-1.46</b>

### 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	1,575.31
Syariah compliant	Yes
Issue shares (m)	260.51
Estimated free float (%)	13.82
Market Capitalisation (RM'm)	1,297.34
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

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 is both NPRA and European Union Good Manufacturing Practice (EU GMP) certified will undergo a month of retrofitting exercise at the cost of RM2.0m; will have the capacity to produce 2.0m doses per month.

**Earnings impact.** We are making no changes to our FY20-21F earnings estimate at this juncture given that as disclosed in its announcement on Bursa Malaysia yesterday, the agreement will not result in material change to Pharmaniaga's earnings and earnings per share (EPS) for FY21. This is in-line with our view that we have published in our earlier reports dated 17<sup>th</sup> November 2020 titled: [Up In The Clouds Over Covid-19 Vaccine](#) and 13<sup>th</sup> January 2021 titled: [Fill and Finish Deal Inked with Sinovac](#) 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. 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 as we await for Management's disclosure on the potential earnings impact from this agreement.

**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 unchanged 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.** The signing of the agreement between MOH and PLS has finally put a rest to months of ongoing talks with regards to the supply of the Covid-19 vaccine in Malaysia. The agreement has also provided some form of clarity in terms of the trajectory of the nation's Covid-19 immunisation plan which include among others the number of doses procured as well as the timeline of the expected immunisation. Hence, we are maintaining our **NEUTRAL** recommendation on Pharmaniaga with a **POSITIVE BIAS** at this juncture given that, 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 both MOH and 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,

On another note, we reiterate our view that while the stock remains attractive in terms of sentiment to accumulate on any weakness given its positive industry-wide growth prospect and; it is currently trading at forward PER of 17.4x (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 3.5%. 

## 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)
<b>Gross profit</b>	<b>322.1</b>	<b>94.0</b>	<b>318.0</b>	<b>425.5</b>	<b>441.6</b>
Finance cost	(36.1)	(40.3)	(43.4)	(48.4)	(49.8)
<b>Profit before tax and zakat</b>	<b>70.2</b>	<b>(191.9)</b>	<b>86.7</b>	<b>128.9</b>	<b>132.8</b>
Income tax	(25.9)	42.4	(30.9)	(46.4)	(47.8)
<b>Profit after tax</b>	<b>43.2</b>	<b>(149.4)</b>	<b>55.8</b>	<b>82.5</b>	<b>85.0</b>
PATAMI	42.5	(149.2)	55.3	81.7	84.1
<b>Normalised PATAMI</b>	<b>42.5</b>	<b>38.7</b>	<b>55.3</b>	<b>81.7</b>	<b>84.1</b>
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)	30.5	33.3	23.3	15.8	15.3
Dividend per share (sen)	16.0	8.5	11.7	17.4	17.9
Dividend yield (%)	3.2	1.7	2.4	3.5	3.6

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.