Pharmaniaga Berhad

(7081 | PHRM MK) Health Care | Pharmaceuticals

***Maintain* BUY**

MoC for halal anti-coagulant to meet rising demand

***Maintain* Target Price: RM0.91**

KEY INVESTMENT HIGHLIGHTS

- **MoC signed with Ronnsi Pharma to commercialise halal ovine-based anti-coagulant**
- **NPRA approval for the anti-coagulant to complete by 2024**
- **Hiking demand for halal drugs due to increase demand for NCD treatments, in line with rising aging population**
- **Maintain BUY with unchanged TP of RM0.91 per share**

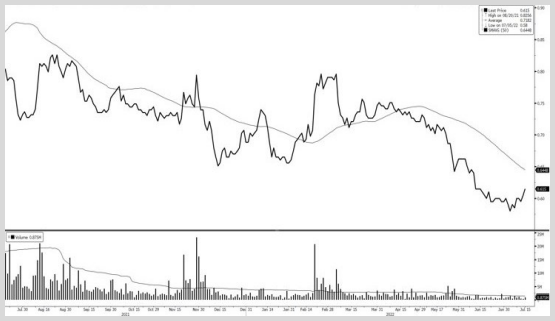
MoC inked for halal anti-coagulants. Pharmaniaga Bhd (Pharmaniaga) recently collaborated with China-based Suzhou Ronnsi Pharma Co Ltd (Ronnsi) to commercialise a halal ovine-based anti-coagulant blood clot thinner. A memorandum of collaboration (MoC) was signed between Pharmaniaga's wholly-owned subsidiary Pharmaniaga LifeScience Sdn Bhd (PLSB) and Ronnsi. The agreement will open up trade routes between the two parties' pharmaceutical products, research and development, and ultimately perform fill and finish production of the halal ovine anti-coagulant. In line with the collaboration, Pharmaniaga will be submitting relevant documents to the National Pharmaceutical Regulatory Agency (NPRA) for approval, as part of the process of procuring the required raw materials and manufacturing of the drug. The registration process is expected to complete by 2024.

Increasing demand for anti-coagulants. Covid-19 had added to the need for anti-coagulants in a bid to prevent severe complications from thromboembolism. Additionally, ischaemic heart diseases had seen a significant increase by +24% from 2015 to 2020, adding to the need for anti-blood clot agent to ease heart surgery and minimise complications. also added that the anti-coagulant market is expected to reach 8 million dosages by 2026.

Big opportunity in halal market. Anti-coagulants have a major usage for invasive surgeries, as well as in preventive treatment for cardiovascular and cerebrovascular diseases. As most anti-coagulants in the market currently is derived from swine, the demand for halal anti-coagulants is expected to rise. The MoC will position Pharmaniaga as the exclusive registration holder, distributor and manufacturer, with Ronnsi as the patent owner and developer. The MoC will also contribute to Malaysia's potential as the first distributor and manufacturer of halal blood anti-coagulants.

RETURN STATISTICS	
Price @ 15th July 2022	0.62
Expected share price return (%)	+46.8
Expected dividend yield (%)	+8.1
Expected total return (%)	**+54.9**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.7	4.4
3 months	3.4	-7.4
12 months	-31.3	-26.2

KEY STATISTICS	
FBM KLCI	1,418.44
Syariah compliant	Yes
F4GBM Index	Yes
ESG Grading Band	☆
Issues shares (m)	1309.96
Estimated free float (%)	34.82
Market Capitalisation (RM'm)	805.62
52-wk price range	RM0.57 - RM0.94
Beta vs FBM KLCI (x)	0.62
Monthly velocity (%)	0.00
Monthly volatility (%)	19.93
3-mth average daily volume (m)	1.41
3-mth average daily value (RM'm)	0.96
Top Shareholders (%)	0
Boustead Holdings Bhd	51.85
Lembaga Tabung Angkatan Tentera	8.62
Oversea-Chinese Banking Corp Ltd	1.44

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Ronnsi an expert in heparin development. Founded in 2012, Ronnsi is a pharma company focusing on complex drug R&D, with its main products being Heparin, Enoxaparin and Dalteparin salts. Ronnsi is the first developer of non-porcine based enoxaparin, which had passed all approvals and is currently commercialised globally as an ovine-based anti-coagulant. Through this expertise, the group had collaborated with various international companies, including from Indonesia, Pakistan, US and Italy. The risk analysis to the partnership are as below:

	Strengths	Weakness
INTERNAL	• Ronnsi is a well-established anti-coagulant developer with an expertise in ovine-based product • Ronnsi has other specialty drugs under clinical trial, opening more opportunities for halal drugs • Pharmaniaga has the distribution network in the halal market which could push the commercialisation of a halal anti-coagulant further	• Limited Pharmaniaga resources in terms of workforce and facilities for the fill-finish • Limited recognition and cautious sentiments on Ronnsi's operations
	Opportunities	**Threats**
EXTERNAL	• More halal pharmaceutical products can be explored in the partnership to meet demand • Rise in demand for anti-coagulant as demand for invasive surgeries and treatments for NCDs increases within the aging population	• Increase in anti-coagulant market competition from other halal sources (e.g. sea mollusc) • Unpredictable purchasing behaviour • Pricing pressures and supply chain disruptions • Change in politics causing renewed and/or additional policies

Demand to overcome drug shortages. The pharmaceutical industry had been facing shortages of feedstock and products since before the pandemic, and had worsened as prices of API and other chemical catalysts needed for the manufacturing of drugs increased. Some products were also reportedly increased 4.0-6.0x, compared to consumption before the pandemic, which also contributed to the shortage. Nevertheless, Pharmaniaga is confident that the market will return to normal in the second half of the year, on the back of a significant rise in demand for pharmaceutical products to continue pushing for a higher supply output. In consideration of the aging population projected to increase by +56% in 2030, subsequently increasing the onset of non-communicable diseases, we believe the demand for pharmaceutical products will remain elevated. Additionally, Covid-19 is still in the decks, and we opine that there is a possibility of a second booster dose to keep the infection under control in the near term. On this note, Pharmaniaga has sufficient stock of Sinovac vaccines that could last until the end of 2023.

No changes to earnings estimates. In all considerations, we make no changes to our earnings estimates for FY22-23, thus maintaining our target price at RM0.91 for Pharmaniaga. The development of the halal anti-coagulant would not be finalised until approval by NPRA 2024, with the risk of a fallout is still an immediate possibility.

Maintain BUY. All in, we maintain our **BUY** call with a maintained **target price of RM0.91 per share.** We are positive of Pharmaniaga's endeavour in the production of halal medicines and the distribution opportunities that the market presents. Nonetheless, the feasibility of the partnership and strategies would not be visible until at least next year. Meanwhile, we maintain our positive of the group's strength in its robust portfolio, despite the ongoing risk of the increasing inflationary pressure on raw materials used in pharmaceutical production.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	2020A	2021A	2022E	2023F	2024F
Revenue	2,725.1	4,815.0	5,055.8	5,434.9	5,978.4
Cost of sales	(2,726.5)	(4,185.0)	(4,449.1)	(4,701.2)	(5,171.4)
Gross profit	(1.5)	630.0	606.7	733.7	807.1
Profit after tax	**(270.4)**	**172.2**	**176.6**	**174.1**	**197.3**
Normalised PATAMI	**(81.5)**	**172.2**	**167.8**	**193.4**	**219.2**
Normalised EPS (sen)	2.1	13.1	12.8	14.8	16.7
EPS growth (%)	-86.0	526.0	105.5	125.0	121.6
PAT margin (%)	-9.9	3.6	3.5	3.2	3.3
Normalised PATAMI margin (%)	-3.0	3.6	3.3	3.6	3.7
PER (x)	46.3	7.8	7.1	6.2	5.4
Dividend per share (sen)	0.0	5.0	5.8	7.4	9.2
Dividend yield (%)	0.0	4.9	6.3	8.1	10.1

Source: Company, MIDFR

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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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology