Pharmaniaga Berhad

(7081 | PHRM MK) Health Care | Pharmaceuticals

***Maintain* BUY**

Site Visit to Pharmaniaga Manufacturing Berhad

***Revised* Target Price: RM0.97**

(previously RM0.91)

KEY INVESTMENT HIGHLIGHTS

- **Visited Pharmaniaga Manufacturing Bhd (PMB)**
- **High demand for Cat I&II Covid-19 depleted drug supply but sufficient capacity for more production**
- **Materials and fuel cost have no large impact to production**
- **Revise FY22-23 earnings forecast up by 12% and 10%**
- **Maintain BUY with revised TP of RM0.97 per share**

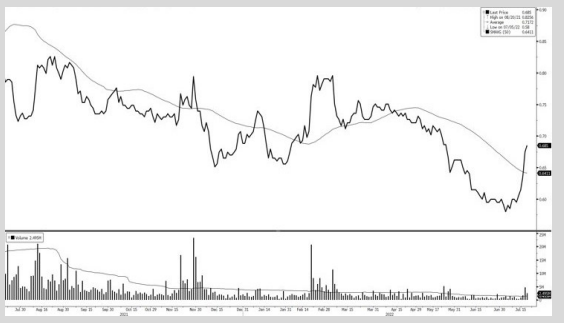
About Pharmaniaga Manufacturing Berhad. We recently visited Pharmaniaga Manufacturing Berhad (PMB), one of Pharmaniaga Berhad's (Pharmaniaga) manufacturing division. PMB was built in 1989 in Bandar Baru Bangi, Selangor. It consists of two main facilities – one for general pharma and the other for manufacturing cephalosporin. PMB produces general pharmaceuticals including anti-diabetics, cardiovascular and over the counter (OTC) products. PMB has the biggest oral solid dosage facility in Malaysia, equipped with the latest technology in encapsulation, compression, coating and blistering machines. We were fortunate to witness the facility's processes and machineries during the tour, with a little insight on anti-diabetic drugs and paracetamols.

Product shortage addressed. Before the tour, we were briefed on the current issues faced by local pharmaceutical companies. Recall that recently, the Ministry of Health had addressed on a shortage of drugs in the private sector. The shortage was not due to depleting raw material for the manufacturing process, but rather exhaustion of stockpiles since the spike of Covid-19 cases in March 2022. During that period, 98-99% of the cases were in Category I and II, which only gave mild symptoms that could be treated with generic OTC medication. The surge of buyers caused the stocks to decrease. Additionally, after the movement control order (MCO) was lifted, common illnesses such as influenza returned to the population.

High demand bears positive outlook. Despite having no problems with raw materials, PMB stated that the high demand has caused manufacturing to go beyond 100% capacity (as opposed to the optimum 70% with the remaining 30% set to make way for sudden order spikes). The group's paracetamol production had increased over two times the normal capacity. Liquid drugs are also facing the imbalance of demand and supply, as such the syrups were requested to be delivered from Pharmaniaga's Indonesian plants.

RETURN STATISTICS	
Price @ 20th July 2022	0.69
Expected share price return (%)	+41.61
Expected dividend yield (%)	+15.40
Expected total return (%)	**+57.01**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	12.3	13.9
3 months	15.1	3.0
12 months	-22.2	-17.9

KEY STATISTICS	
FBM KLCI	1,436.98
Syariah compliant	Yes
F4GBM Index	Yes
ESG Grading Band	☆
Issues shares (m)	1309.96
Estimated free float (%)	34.82
Market Capitalisation (RM'm)	897.32
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)	1.46
3-mth average daily value (RM'm)	0.98
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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Meanwhile, PMB is looking into purchasing new machineries to deliver on the demand growth, as well as replacements to its existing ones. It is also looking into investing in a new land for added warehouses, after the Government concession was confirmed. However, it remains cautious of purchasing too many assets as it is believed that the number of infection cases for both Covid-19 and Influenza A are expected to drop by August 2022.

Progressive delivery and branding. Pharmaniaga provided 750 pharmaceutical products under concession with the Government. To ensure that hospitals receive the medication needed within 7 days, the group forward purchase from suppliers within 3 to 6 months. Additionally, Pharmaniaga is on a mission to establish its own brand of pharmaceuticals as household names, such as for Actimol, Baraka and Citrex. Meanwhile, Pharmaniaga is also in the middle of distributing its products via vending machines. Currently, there are 20 cashless vending machines distributed at petrol stations and universities in the Klang Valley, and 80 more are expected in 2022-23. The vending machines would add into Pharmaniaga's performance once the remaining machines are distributed.

Impact of high cost. Recall that Active Pharmaceutical Ingredient (API) prices had increased in tandem with the inflationary pressures plaguing the world. For Pharmaniaga's API transaction, most of its suppliers are locals. API price consist of 30% of PMB's drug manufacturing cost. Despite the increasing cost, Pharmaniaga managed to maintain its retail prices to continuously capture the pharma market and retain its customers. Fuel cost for its logistics segment have no direct implications as it consists of only 0.1% of the total transportation and distribution cost. In addition, Pharmaniaga's expenses are balanced with its in-house manpower (with only a marginal percentage being expatriates) and wholly-owned warehouses.

Halal as added value. All manufacturing plants in Pharmaniaga had established itself as halal facilities since 2012. Since then, the group had been tapping into producing halal insulin and vaccine, with recent news on its effort to manufacture halal ovine-based anti-coagulant *("MoC for halal anti-coagulant to meet rising demand", 16 July 2022).* Its primary halal plant in Puchong is expecting completion by 2024, with a normal target growth in Malaysia and an expected surge in growth for Middle East countries, once registration with the region's regulators is completed.

Positive prospects. We have a positive stance on Pharmaniaga's prospects. We gather that the group has increase its profitability in the last few months as demand for pharmaceutical products continue to increase well into the second half of the year. Its logistics segment will renew its concession agreement with the government in 4QCY22; assuring a steady order of drugs for public hospitals in the near term. Additionally, Pharmaniaga's effort to push its brands to be household names could reset the public sentiment that only certain brands of drugs would give out the same effect, hence increase its future income. We are also optimistic on its vending machine venture which is part of the sector's solution to accessibility and digital healthcare.

Revised FY22-23 earnings estimates. In consideration of the above, we revise our earnings estimates for FY22 and FY23 upwards by +12% and +10% respectively. As such, we increase **our target price to RM0.97** (previously RM0.91), based on pegging a PER of 6.0x, which is its 5-year mean PER, to the revised EPS23 of 16.2sen.

Maintain BUY. All in all, we maintain our **BUY** call on Pharmaniaga with the **revised target price of RM0.97.** We like the group for its robust portfolio and resilient operations in maintaining a sufficient stockpile of pharmaceutical products for the public and private sectors. We opine that demand for pharmaceutical products would not flatten any time soon, given that: (i) Covid-19 is still ongoing with the risk of a new variant emerging remain to be high, (ii) infectious diseases caused by crowd after MCOs and volatile weather, and (iii) halal OTC and specialised drugs are sought after, especially in Muslim-majority countries**.** We are also expecting a significant increase profitability once all vending machines are online, its concession agreement with the Government (expected to be signed in 4QCY22) and its halal products manufactured and commercialised in 2024.

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	5,778.0	6,644.7	7,475.3
Cost of sales	(2,726.5)	(4,185.0)	(4,911.3)	(5,747.7)	(6,466.1)
Gross profit	(1.5)	630.0	866.7	897.0	1,009.2
Profit after tax	**(270.4)**	**172.2**	**197.2**	**223.2**	**246.7**
Normalised PATAMI	**(81.5)**	**172.2**	**187.32**	**212.06**	**234.35**
Normalised EPS (sen)	2.1	13.1	14.3	16.2	17.9
EPS growth (%)	-86.0	526.0	74.4	121.7	117.8
PAT margin (%)	-9.9	3.6	3.4	3.4	3.3
Normalised PATAMI margin (%)	-3.0	3.6	3.2	3.2	3.1
PER (x)	46.3	7.8	6.8	6.0	5.4
Dividend per share (sen)	0.0	5.0	12.9	14.9	17.0
Dividend yield (%)	0.0	4.9	13.3	15.4	17.5

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