Pharmaniaga Berhad

(7081 | PHRM MK) Health Care | Pharmaceuticals

***Maintain* BUY**

Another downslide in earnings over high finance cost

***Revised* Target Price: RM0.77**

(previously RM0.87)

KEY INVESTMENT HIGHLIGHTS

- **Pharmaniaga's net earnings slipped -83%yoy; below yearly earnings forecast**
- **Lower earnings due to higher borrowings**
- **Revenue down -57%yoy due to lower sales from MOH, offset by non-concession and Indonesia segment**
- **Revise FY23-24 earnings forecast down -13% and 27%**
- **Maintain BUY with revised TP of RM0.77 per share**

Earnings down -83%yoy. Pharmaniaga Berhad (Pharmaniaga) announced another sharp decline in earnings by -82.7%yoy to RM8.6m but gained >100%qoq from RM722,000. Cumulatively for 9 months, earnings declined by -57.2%yoy to RM37.1m; which came in **below** our expectations at 48% of our yearly earnings estimates, and at 53% of consensus'. Profitability continued to be impacted by higher finance cost on the back of higher borrowings.

Revenue down by -57%yoy. The group's revenue declined -56.6%yoy but gained +21.5%qoq to RM924.7m. For the cumulative 9 months, revenue slipped -35.5%yoy to RM2.65b. Lower sales from its concession segment due to the timing of orders from the Ministry of Health (MOH) contributed to the lower revenue; offset by the higher revenue from other segments including non-concession and Indonesia businesses.

Logistics and Distribution. This segment's revenue rose by +8.5%yoy and +24%qoq to RM662.9m, while earnings gained >100% to RM37m, from a loss of -RM10.5m in 2QFY22 and a profit of RM11.8m in 3QFY22. For the cumulative 9 months, revenue rose by +5%yoy to RM1.91b, while earnings gained +72%yoy to RM57.1m. Higher revenue and earnings were attributed to: (i) additional products were added into the concession list, (ii) higher demand of inhouse products by MoH, (iii) improved contribution from the private sector by 54.9% due to aggressive sales efforts, and (iv) new products launched to the market. The group continues to handle logistics and distribution services to healthcare facilities, including personal protective equipment and medicines, which were delivered efficiently across the nation and East Malaysia via air freight.

Manufacturing. This segment recorded a drop in revenue by -93.2%yoy but added +35.8%qoq to RM89.8m, while earnings fell -72%yoy to RM28.9m but improved >100%qoq from a loss of RM1.2m in 2QFY22. Cumulatively for 9MFY22, revenue fell -87.4%yoy to RM223.7m and earnings declined -65.7%yoy to RM41.9m.

RETURN STATISTICS	
Price @ 24th November 2022	0.55
Expected share price return (%)	+40.0
Expected dividend yield (%)	+6.5
Expected total return (%)	**+46.5**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.9	-1.9
3 months	6.8	-4.9
12 months	-34.5	-33.6

KEY STATISTICS	
FBM KLCI	1,501.88
Syariah compliant	Yes
F4GBM Index	Yes
ESG Grading Band	☆
Issue shares (m)	1309.96
Estimated free float (%)	34.82
Market Capitalisation (RM'm)	720.48
52-wk price range	RM0.49 - RM0.88
Beta vs FBM KLCI (x)	1.01
Monthly velocity (%)	0.00
Monthly volatility (%)	19.93
3-mth average daily volume (m)	0.62
3-mth average daily value (RM'm)	0.34
Top Shareholders (%)	0
Boustead Holdings Bhd	51.85
Lembaga Tabung Angkatan Tentera	8.62
UBS AG	1.44

MIDF Research
research@midf.com.my

The ongoing expansion of the group's new product portfolio coupled with sustained demand will continue to impact the segment's performance. Nonetheless, the long-term prospects remain optimistic. The group will continue to improve this division's operational efficiency and build on its growing portfolio of products to broaden its global presence, as well as leverage on its increased capacity utilisation via its contract manufacturing business.

Indonesia. The group's Indonesian division recorded a rise in revenue by +1.5%yoy and +15.9%qoq to RM260m. Earnings rebounded >100% from a deficit of -RM5.1m in 2QFY22 and RM2.4m in 3QFY21 to RM18.9m. For the cumulative 9 months, revenue jumped +8.2%yoy to RM732m, and similarly earnings surged >100%yoy to RM22.7m from RM1.3m in 9MFY21. The improvement is due to its operational efficiency in stock optimisation, aggressive collection effort and digitalisation in its business processes.

Moving forward. The Indonesia segment remains as the group's key development growth, due it its excellent performance, primarily driven by improved operational efficiency, digitalization, continued stock optimization, aggressive collection operations, and an expanding product portfolio. On the domestic front, the group is emphasising the use of its portfolio in the private sector, which has seen revenue growth to more than RM120m. In addition, the group anticipates that its concession business will continue to develop by the end-year, with growth predicted at +8%, as a result of MoH adding more products to the Approved Products Purchase List (APPL).

Revised FY23-24 earnings estimates. In consideration of Pharmaniaga's 3QFY22 earnings coming in below our expectation, we revise our earnings estimates for FY23 and FY24 downwards by -13% and -27% respectively. As such, we reduce our **target price to RM0.77** (previously RM0.87) based on pegging a PER of 14x to the revised EPS23 of 5.4sen. We based our PER target on the group's 5-year average.

Maintain BUY. All in all, we maintain our **BUY** call on Pharmaniaga with **revised target price of RM0.77.** Pharmaniaga continues to cater for its marketing plans. We expect its marketing strategies and employee recruitments to continue for 3 to 5 more years, as earnings gradually return higher on the back of more demand for its products regionally and locally. With the reign of a new government, Pharmaniaga is expected to leverage based on the increased allocations by +5% of GDP to the Healthcare sector, in addition to new demands expected for specialty drugs to treat mental health illnesses and NCDs. We also reiterate our positive stance that its wager on its long-term marketing plans would benefit the group in the long run. Nevertheless, we opine that Pharmaniaga will face challenges as well, including the increased cost of raw materials for manufacturing drugs and changes in governmental policies regarding the manufacture and distribution of pharmaceutical products to the local and regional clients.

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	3,848.5	4,419.1	5,182.0
Cost of sales	(2,726.5)	(4,185.0)	(3,425.2)	(3,955.1)	(4,637.9)
Gross profit	(1.5)	630.0	**423.3**	**464.0**	**544.1**
Profit after tax	**(270.4)**	**172.2**	**56.7**	**67.9**	**87.7**
Normalised PATAMI	**(81.5)**	**172.2**	**58.43**	**71.32**	**92.08**
Normalised EPS (sen)	2.1	13.1	4.5	5.4	7.0
EPS growth (%)	-86.0	526.0	23.2	157.3	158.2
PAT margin (%)	-9.9	3.6	1.5	1.5	1.7
Normalised PATAMI margin (%)	-3.0	3.6	1.5	1.6	1.8
PER (x)	46.3	7.8	17.3	14.1	11.0
Dividend per share (sen)	0.0	5.0	4.0	5.0	6.7
Dividend yield (%)	0.0	4.9	5.2	6.5	8.7

Source: Company, MIDFR

Table 1: Pharmaniaga's quarterly earnings review

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly results					Cumulative results		
	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Revenue	2,132.7	761.1	924.7	21.5	(56.6)	4,103.3	2,648.0	(35.5)
Cost of sales	(1,848.3)	(676.3)	(825.6)	22.1	(55.3)	(3,630.4)	(2,348.2)	(35.3)
Gross Profit	**284.4**	**84.8**	**99.1**	16.8	(65.2)	**472.9**	**299.7**	(36.6)
Other income	0.1	0.1	0.1	94.0	41.3	0.6	0.4	(38.5)
Operating expenses	(175.2)	(71.0)	(74.0)	4.2	(57.8)	(297.1)	(215.7)	(27.4)
EBIT	**109.2**	**13.9**	**25.2**	81.5	(76.9)	**176.5**	**84.4**	(52.2)
Finance cost	(11.6)	(9.6)	(9.7)	1.6	(16.1)	(25.4)	(27.5)	8.2
Interest income	0.6	0.2	0.1	(42.7)	(78.6)	1.0	0.7	(30.0)
Profit Before Tax and Zakat	**98.2**	**4.5**	**15.6**	244.8	(84.1)	**152.0**	**57.5**	(62.1)
Zakat	(10.6)	(0.6)	(10.6)	1,666.7	0.0	(11.8)	(1.8)	(84.7)
Income tax	(37.3)	(3.0)	(5.6)	86.6	(85.0)	(53.1)	(16.6)	(68.8)
Profit After Tax	**50.3**	**0.9**	**9.4**	925.9	(81.4)	**87.0**	**39.1**	(55.0)
Minority interest	0.5	0.2	0.8	295.8	55.4	0.4	2.1	468.2
PATAMI	**49.8**	**0.7**	**8.6**	1,093.5	(82.7)	**86.7**	**37.1**	(57.2)
Normalised PATAMI	**49.8**	**0.7**	**8.6**	1,093.5	(82.7)	**86.7**	**37.1**	(57.2)
Basic EPS (sen)	3.8	0.1	0.7	1,000.0	(82.7)	13.7	0.7	(95.2)
Diluted EPS (sen)	3.8	0.1	0.7	1,000.0	(82.7)	201.7	0.7	(99.7)
DPS (sen)	2.2	9.3	9.3	0.0	322.7	7.7	9.3	20.8
				+/-ppts				*+/-ppts*
GP margin (%)	13.3%	11.1%	10.7%	(0.0)	(0.0)	11.5%	11.3%	(0.0)
PBT margin (%)	4.6%	0.6%	1.7%	0.0	(0.0)	3.7%	2.2%	(0.0)
PATAMI margin (%)	2.3%	0.1%	0.9%	0.0	(0.0)	2.1%	1.4%	(0.0)
Normalised PATAMI margin (%)	2.3%	0.1%	0.9%	0.0	(0.0)	2.1%	1.4%	(0.0)
Effective tax rate (%)	38.0%	66.5%	36.0%	(0.3)	(0.0)	35.0%	28.8%	(0.1)
Segmental								
Revenue								
Logistics & Distribution	611.1	534.6	662.9	24.0	8.5	1,814.1	1,905.0	5.0
Manufacturing	1,320.9	66.1	89.8	35.8	(93.2)	1,777.7	223.7	(87.4)
Indonesia	256.2	224.4	260.0	15.9	1.5	676.2	732.0	8.2
Net Profit								
Logistics & Distribution	11.8	(10.5)	37.0	(451.1)	213.2	33.2	57.1	72.0
Manufacturing	103.3	(1.2)	28.9	(2,552.6)	(72.0)	122.1	41.9	(65.7)
Indonesia	2.4	(5.1)	18.9	(468.5)	694.4	1.3	22.7	1,704.3
EBIT margin (%)				*+/-ppts*				*+/-ppts*
Logistics & Distribution	1.9	(2.0)	5.6	7.6	3.6	1.8	3.0	1.2
Manufacturing	7.8	(1.8)	32.2	34.0	24.4	6.9	18.7	11.9
Indonesia	0.9	(2.3)	7.3	9.6	6.3	0.2	3.1	2.9

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)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

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 MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment 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. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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.
HOLD	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