Pharmaniaga Berhad

(7081 | PHRM MK) Health Care | Pharmaceuticals

***Maintain* BUY**

MoU inked to penetrate China market via JDMAS

***Unchanged* Target Price: RM0.87**

KEY INVESTMENT HIGHLIGHTS

- **MoU signed with JDMAS Commerce to distribute and market Pharmaniaga's products into China market**
- **JDMAS is well established with B2C platform**
- **Revenue of OTC products expected to reach USD30m by 2025**
- **No changes to earnings estimates**
- **Maintain BUY with unchanged TP of RM0.87 per share**

MoU signed for OTC products to China. Pharmaniaga Berhad (Pharmaniaga) announced that it had entered into a Memorandum of Understanding (MoU) with JDMAS Commerce Sdn Bhd (JDMAS), to establish a collaboration in the registration, import, distribution and marketing of Pharmaniaga's over-the-counter (OTC) and generic pharmaceutical products into Mainland China's market via JDMAS's digital e-commerce platform. The MoU comes into effect immediately and will remain in force for a period of 1 year, subject to earlier termination of the MoU or upon entering a definitive agreement, whichever earlier.

Strategic business cooperation. JDMAS will be supporting Pharmaniaga on the regulation, commercial trade and supply chain operations for China's healthcare consumers, including in nutraceuticals, generic drugs and medical devices market. The support will also include facilities and applications where necessary. Pharmaniaga's niche products with the least competition in the Chinese market will be identified as part of the collective's marketing strategy. New scope of collaboration may also be discussed in the future, as the MoU is not fully binding.

Well-established B2C platform. JDMAS's parent company, JD.com, is China's second biggest e-commerce company by goods sold with over 500 million active users and roughly 30% of business-to-consumer (B2C) in the Chinese market. JD.com prides itself as the most trusted platform for high-quality goods, with an extensive logistics chain that includes delivery using drone technologies. JDMAS is JD.com's Malaysian arm that was established in 2019 as a way for Malaysian companies to penetrate the global market, focusing mainly in China. JDMAS provides a platform for client merchants to leverage digital technology provided by JD.com and its affiliates, which wholly supports the ecosystem with tools, data, warehouse, freight and payment systems.

RETURN STATISTICS	
Price @ 31st October 2022	0.56
Expected share price return (%)	+55.4
Expected dividend yield (%)	+6.6
Expected total return (%)	**+62.0**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	8.7	3.8
3 months	8.7	-18.3
12 months	-30.4	-27.1

KEY STATISTICS	
FBM KLCI	1,460.38
Syariah compliant	Yes
F4GBM Index	Yes
ESG Grading Band	☆
Issues shares (m)	1309.96
Estimated free float (%)	34.82
Market Capitalisation (RM'm)	733.58
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)	0.96
3-mth average daily value (RM'm)	0.57
Top Shareholders (%)	
Boustead Holdings Bhd	51.85
Lembaga Tabung Angkatan Tentera	8.62
Oversea-Chinese Banking Corp Ltd	2.20

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Market study underway. Pharmaniaga reported that in order to take the first step into China's healthcare market, the group plans to list its OTC products including Citrex Vitamin C, Citrex Gummies, Baraka Habbatus Sauda and Sweet Royale in the Malaysian Pavilion on the platform by January 2023. The partnership is expected to increase the current revenue of the star OTC products by 100% to 150% in the first year, with expected revenue to reach USD30m by 2025 as other products are being introduced on the JD.com platform. Meanwhile, JDMAS indicated its support to assist Pharmaniaga enter its B2C platform, subsequently explore distribution methods and marketing strategies. JDMAS will be taking 6 months to understand the market data regarding Pharmaniaga's products.

Tapping into China's pharmaceutical demand. China had been importing pharmaceutical products from Malaysia at a 5 year-average CAGR of +25.9%. The collaboration to distribute its OTC and specialty pharmaceutical products to the 1.4 billion population in China is expected to be a positive move, considering the increase in demand for medicinal products. This is also likely in conjunction with China's increasing Covid-19 cases and the need for more OTC products to treat the symptoms of the infection. We believe that Pharmaniaga has well established itself with certifications recognised by international regulatory bodies. Hence, the collaboration to expand its OTC and other pharmaceutical products into China will have a huge potential to the group's financial performance and operational growth.

No changes to earnings estimates. Considering that the collaboration is in its preliminary stages, and that the MoU is expected to not affect the group's net assets and earnings for FY22, we make no changes to our earnings estimates.

Maintain BUY. All in, we maintain our **BUY** call with a maintained **target price of RM0.87 per share.** We are positive of Pharmaniaga's endeavour into China's demand for OTC products, while leveraging on the logistics chain and digital technologies that JDMAS can offer to further expansion into China's healthcare market in the future. Nonetheless, the feasibility of the partnership would not be visible until at least next year, in addition to the risk of: (i) availability of materials for the expansion, (ii) inflationary pressures, and (iii) execution and compliancy risks of the MoU. We maintain our positive stance on the group's strength in its robust portfolio and ability to mitigate execution risks.

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	4,574.3	4,803.0	5,283.3
Cost of sales	(2,726.5)	(4,185.0)	(4,116.8)	(4,298.7)	(4,596.4)
Gross profit	(1.5)	630.0	457.4	504.3	686.8
Profit after tax	**(270.4)**	**172.2**	**74.3**	**78.0**	**120.2**
Normalised PATAMI	**(81.5)**	**172.2**	**76.6**	**82.0**	**126.2**
Normalised EPS (sen)	2.1	13.1	5.8	6.3	9.6
EPS growth (%)	-86.0	526.0	30.4	129.1	183.3
PAT margin (%)	-9.9	3.6	1.6	1.6	2.3
Normalised PATAMI margin (%)	-3.0	3.6	1.7	1.7	2.4
PER (x)	46.3	7.8	14.9	13.9	9.0
Dividend per share (sen)	0.0	5.0	5.3	5.8	9.2
Dividend yield (%)	0.0	4.9	6.0	6.6	10.5

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