Pharmaniaga Berhad

(7081 | PHRM MK) Health Care | Pharmaceuticals

***Maintain* BUY**

New distribution centre for new year demand

***Unchanged* Target Price: RM0.77**

KEY INVESTMENT HIGHLIGHTS

- **Pharmaniaga's subsidiary PLSB recently launched a new distribution in Penang to increase capacity coverage**
- **New centre boasts 3,500 pallets of warehouse space**
- **More expansion expected in the northern region**
- **No changes to earnings estimates**
- **Maintain BUY with TP of RM0.77 per share**

RETURN STATISTICS	
Price @ 6th January 2023	0.54
Expected share price return (%)	+43.93
Expected dividend yield (%)	+6.50
Expected total return (%)	**+50.43**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.9	0.7
3 months	-1.8	-1.3
12 months	-29.6	-26.6

KEY STATISTICS	
FBM KLCI	1,480.55
Syariah compliant	Yes
F4GBM Index	Yes
ESG Grading Band	☆
Issue shares (m)	1309.96
Estimated free float (%)	34.82
Market Capitalisation (RM'm)	700.83
52-wk price range	RM0.49 - RM0.86
Beta vs FBM KLCI (x)	1.08
3-mth average daily volume (m)	0.73
3-mth average daily value (RM'm)	0.40
Top Shareholders (%)	
Boustead Holdings Bhd	51.85
Lembaga Tabung Angkatan Tentera	8.62
UBS AG	1.44

New distribution centre in Penang. The wholly-owned subsidiary of Pharmaniaga Bhd (Pharmaniaga), Pharmaniaga Logistics Sdn Bhd (PLSB), has formally opened its new distribution facility in Penang. With the opening of the new centre, the group will be able to better serve its customers in the northern region of Peninsular Malaysia, especially the state health ministries in Perlis, Kedah, Penang, and Perak, as well as to increase its distribution capacity coverage and buffer its stock readiness. The new distribution centre, which is part of PLSB's management office relocation and warehouse expansion that started in April CY21, is situated in Phase 4 of the Prai Industrial Zone in Penang. The new distribution centre boasts a total of 3,500 pallets of warehouse space for controlled medicines and medical devices. PLSB is also currently adopting the Oracle Transport Management System (OTM) to manoeuvre the group's logistics services, which is also part of its strategic growth towards automation and digitalisation for continuous improvement in its operations. To date, the group has 5 distribution centres in Selangor, Penang, Sabah and Sarawak, with a fleet size of more than 200 transporters that deliver via air, water and land.

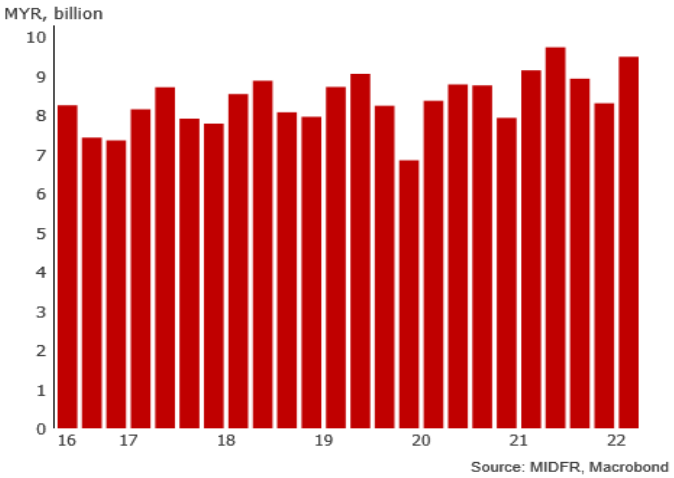
More expansion to the northern region. The group plans to expand storage capacity going forward in order to meet demand from more private hospitals and clinics, in addition to the government-run healthcare facilities in the northern part of the peninsula. Pharmaniaga is now doing a feasibility study to build its own warehouse in Sungai Petani, Kedah, with a larger capacity to meet the demands of the company's ongoing and potential future growth. The capacity of the group's northern region distribution centre for CY21 has expanded greatly to 180% compared to CY20 as a result of this development. In CY22, the growth increased by 32% over CY21 and by 270% over CY20.

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In time with extension of government concession. The launch of PLSB's new distribution centre was in line with the requirements of its recent extension of the interim period for the provision of medicines and medical supplies to the Ministry of Health's (MOH) facilities and government hospitals and clinics for an additional period of 6 months up to 30 June CY23, pending the finalisation of the new concession agreement. During this period, PLSB is required to implement the Pharmacy Information System (PhIS) and Clinic Pharmacy System (CPS) maintenance, license renewal, change request and system implementation at the new facilities based on existing operating cost rates.

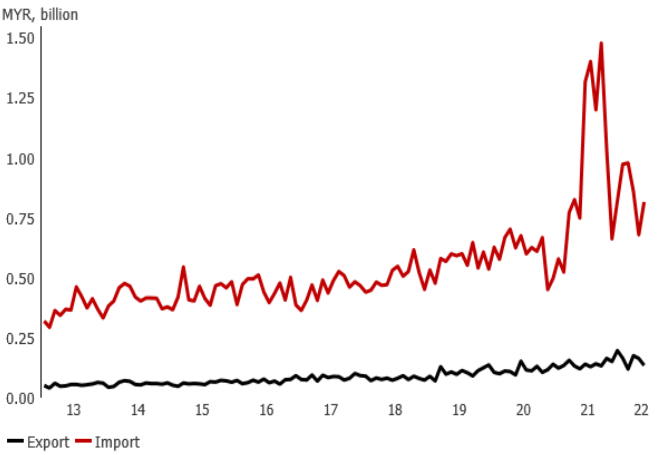
Pharmaceutical demand on the rise. Pharmaceutical producers and manufacturers worldwide are expected to increase their capital expenditure in specialty drugs including therapeutics, antibiotics and STEM memory T-cells for oncology, Alzheimer's and cardiovascular disease drugs, in addition to the over-the-counter treatments for respiratory illnesses and dermatitis. In CY23, overall global capex for the pharmaceutical market is expected to stand at USD1.5 trillion. However, the risks remain to be: (i) higher interest rates in line with macroeconomic headwinds, (ii) manufacturing barrier in raw material supply shortage, and (iii) fall through in research and merger activities among pharmaceutical players. Nevertheless, in our local front our production prices for manufacturing had been fairly consistent within RM7b to RM9b. With an expected increase in governmental support in the upcoming Budget 2023, we opine that local drug manufacturers, including Pharmaniaga, will maintain this pricing range, hence meeting local and regional demand while further reducing the dependency of imported products.

Chart 1: Malaysia's Pharmaceutical Production Prices



Source: MIDFR, Macrobond

Chart 2: Malaysia's Trade for Pharmaceutical Products



Source: MIDFR, Macrobond

No changes to earnings estimates. In consideration of the concession timeline, we make no changes to our earnings estimates. As such we maintain our target price at RM0.77, based on pegging a PER of 14x to the revised EPS23 of 5.4sen. We based our PER on the group's 5-year average.

Maintain BUY. All in all, we maintain our **BUY** call on Pharmaniaga with the **target price of RM0.77.** Pharmaniaga continues to provide an excellent service to the government's healthcare system, and is targeted to continue expanding in tandem with the growing demand for specialised medications to treat comorbid diseases and cancer, in relevancy of the growing aging population. Additionally, we opine the group will continue on with its marketing plans of new products in its portfolio and leverage on the expected re-tabling of Budget 2023 for the healthcare sector. We reiterate our positive stance on the group, based on its expansion plans, as well as its halal pharmaceutical and specialty drugs manufacturing, despite the risk of increased raw material prices and changes in governmental policies on pharmaceuticals in the near future.

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

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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