Pharmaniaga Berhad

(7081 | PHRM MK) Health Care | Pharmaceuticals

SHARIAH Compliant | ESG 1 Star | FTSE4Good

BUY

Target Price: **RM0.32**

Corporate Update

Crucial Bets on Biopharma

Regularisation plan completed – what's next? As of Aug CY25, Pharmaniaga Bhd (Pharmaniaga) completed its capital reduction exercise, with all requirements complied in respect to the SCR. Post-regularisation plan, a total of 6.557b of shares are now issued for Pharmaniaga (pre-regularization plan: 1.441b), with 19 new investors onboard its private placement exercise. This resulted in a dilution of shares in substantial shareholders from 55% to 44%. Consequently, we are expecting the group to exit PN-17 by 1QCY26. We revised Pharmaniaga's valuation to include this update, as well as its long-term plans for its logistics & distribution, and manufacturing operations moving forward. A **BUY** call for Pharmaniaga, with a **target price of RM0.32**.

New update – Penang property acquisition. Recently, Pharmaniaga announced that its wholly owned unit Pharmaniaga Logistics Sdn Bhd (PLSB) had entered into a sale and purchase agreement (SPA) with NH Development Sdn Bhd (NHD) for the acquisition a freehold factory and office building property sitting on 10,919sqm of land in Seberang Perai Selatan, Penang, for RM30m. This is a part of its strategy to expand logistics and distribution capacity. The acquisition is in line with its obligations under the concession agreement with the Ministry of Health (MOH) of acquiring 4 new logistics & distribution capacities throughout the nation. Since the vacant possession of the asset is expected within 18 months, with the purchase funded from proceeds of the regularisation plan, we make no changes to our forecast on this basis.

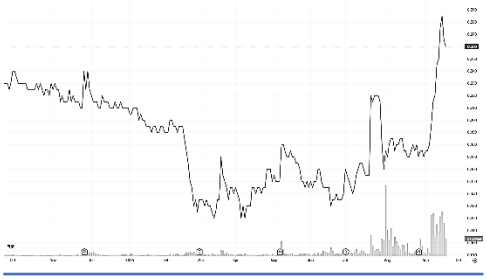
Additionally, we attended a meeting with Pharmaniaga's representatives to acquire insights into the group's future operations and trajectory. Below are key takeaways that are factored into our valuation:

Next frontier – Biopharmaceuticals. Pharmaniaga is expected to add over 91 new products in the next 5 years. In addition to this, we opine that biopharmaceuticals will provide additional margins to its existing generic drugs. The following are the products that are expected to reach the market by CY26-27:

Human insulin: Trading partners as well as 3 local teaching hospitals had procured and are set to receive the group's human insulin from Pharmaniaga. Meanwhile, the waiting game is on MoH's tender for human insulin, which could potentially contribute to approximately 60 million doses to the public market in the span of 3 years, valued at RM400m. We noted that the human insulin had recently received its green light for a halal certification from JAKIM, expected by the end of CY25. We believe the challenges for this product are penetration into the private sector (as of writing, only analogue insulins are sold to private hospitals and clinics) and the MoH tender. Nevertheless, human insulins produced by Pharmaniaga are expected to be the cheapest in the market but adequate to provide a significant profitability margin. With the government's initiatives for the localization of drugs, we anticipate that the uptake will surge, provided that the company wins the tender.

RETURN STATISTICS	
Price @ 22 Sept 2025 (RM)	0.26
Expected share price return (%)	+23.1
Expected dividend yield (%)	+0.0
Expected total return (%)	+23.1

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	19.1	16.0
3months	19.1	14.4
12 months	-12.5	-7.1

INVESTMENT STATISTICS

FYE Dec (RM m)	2025E	2026F	2027F
Revenue	3,959	4,063	4,070
Operating Profit	187	246	314
Profit Before Tax	139	193	254
Core PATAMI	110	158	211
Core EPS	1.7	2.4	3.2
DPS	0.0	0.0	0.0
Dividend Yield	0.0	0.0	0.0

KEY STATISTICS

FBM KLCI	1603.34
Issue shares (m)	6557.03
Estimated free float (%)	55.74
Market Capitalisation (RM'm)	1180.26
52-wk price range	RM0.12 - RM0.30
3-mth average daily volume (m)	20.91
3-mth average daily value (RM'm)	3.60
Top Shareholders (%)	
Boustead Holdings Bhd	47.12
Lembaga Tabung Angkatan Tentera	7.83
EAST NAVIGATORS CAP LTD	4.19

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GLP-1: Agreements for sale and distribution had been completed and are expected to commence in 2HCY26. However, Pharmaniaga noted a buffer time to ensure all regulations are met and complied with, hence we expect the actual distribution will begin in CY27. We noted that the drug will also be sold as a weight-loss solution, and, as the human insulin, is a cheaper alternative to the existing ones in the market by 40%.

Vaccines: Pharmaniaga is focusing on four major vaccines – influenza, hepatitis, PCV13 and hexavalent. PV13 is expected to be distributed only in CY27, while hexavalent (6-in-1 vaccine) is expected to do so in CY28-29. Hexavalent are currently going through clinical trials and patient tests.

Fast-pacing generic drugs. Pharmaniaga had noted that it has not been producing many generic drugs in comparison to its peers. As such, its manufacturing business is set to launch at least 10 products per year (as opposed to 2-3 products previously). We believe this is a sound decision, as NPRA and MOPI are now improving their efforts to fast-track certain drugs from manufacturer to market, while maintaining compliance and due diligence. We opine that market saturation will not pose a risk to Pharmaniaga, as demand growth, preference and different formulation could cushion the impact. However, market penetration into the private sector remains on the low side, and we noted that the group is doubling its efforts to increase sales in this sector.

New warehouses under concession agreement. Following the recent announcement of the acquisition of the Penang property, under the concession agreement with the government, Pharmaniaga is granted to build 4 new warehouses in 4 locations – namely Penang, Terengganu, Sabah and Sarawak. However, we noted that despite the additional warehouses, Pharmaniaga may forego its older ones to make way for these new facilities. Hence, we expect a one-off disposal gain from the older warehouses, once the new ones are fully established, targeted in CY27.

Reevaluating Indonesian operations. Pharmaniaga is expected to review its Indonesian operations moving forward. While profitability for its Indonesian operations, which includes both manufacturing and logistics, are positive, the logistics challenges and high interest rates had dampened the growth potential of this segment. We opine that this review may take time and is likely not to be immediate. As such, we maintain our valuations for this segment with an estimated yearly growth at +10-15%yoy at this juncture.

ESG compliance and considerations. While Pharmaniaga is expected to continue observing and reducing its internal carbon footprints (Scope 2 and Scope 3), the group may improve its ESG scores with the plan to consolidate at least 7 of its Klang Valley warehouses (3 owned and 4 leased) into one larger infrastructure and operation. We believe this could help Pharmaniaga reduce its carbon footprint, reduce utilities costs and improve streamlining its logistics segment. However, this plan is currently under feasibility studies and is expected to commence in CY29. In addition, Pharmaniaga is planning to offer a market expansion service, wherein the existing warehouses can be outsourced to third parties – notably APPL vendors – to ensure easy and efficient logistics and distribution operations. We expect this to commence in late-CY26 to early-CY27.

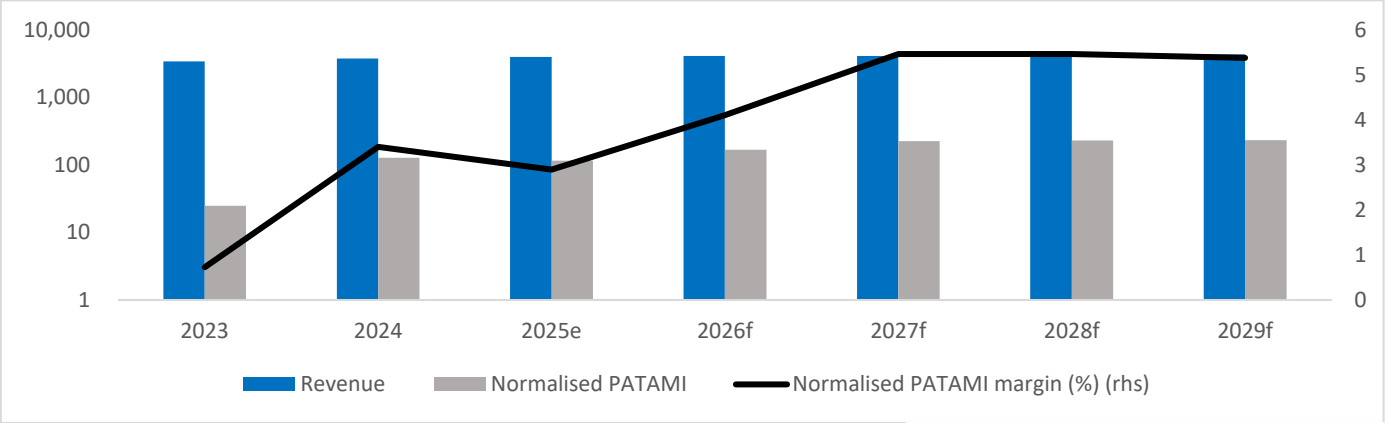
Challenges – policies and tenders. We identified two major challenges to Pharmaniaga's FY26-27 financial performance – policy changes in drug pricing and government tenders. Pharmaniaga has clinics and pharmacies as its buyers for generic drugs, however, profit margins from both buyers are different, with margins from clinics being higher. With MoH considering the consolidation in pricing of drugs in the future, this will impact these margins. Pharmaniaga may see reduced initial profits upon the implementation of this pricing policy changes, although we expect this impact to be minimal in the long run. Another downside risk is the tender to be awarded by MoH. This is more prevalent for the human insulin tender, as the company's future growth is dependent on this concession. Nevertheless, with the upcoming halal certification and the ongoing demand for insulins in the market, as well as the support of vaccine concessions, we opine that this risk is manageable.

Other growth driver – Consumables. Aside from the generic drugs and biopharmaceuticals, Pharmaniaga is also seeking to expand into consumables and small medical devices trading. These include dental consumables, wound care and orthopaedic support. While this segment is consolidated in the group's financial report, we noted that the revenue is significant (contributing approximately RM35m-45m per year). While its logistics and manufacturing arms are heading through solid growth and will remain Pharmaniaga's bread and butter, we believe consumables has a good potential for the group as well.

Strong financials in 1HFY25. To recap, Pharmaniaga's 1HFY25 revenue and core PATAMI added to RM1.98b (+10%yoy) and RM33.5m (+18%yoy) respectively. The improved performance is driven by: (i) higher demand in the concession segment, attributed to the higher volume of orders by government hospitals and the addition of new products to the APPL, and (ii) cost optimisation measures, which included reduced warehouse rental costs and lower advertising and promotional expenses. This is, however, offset by: (i) increased cost of sales from new pricing under the new concession agreement, and (ii) weakening of IDR against MYR.

FY25 forecasts. Pharmaniaga has guided that it is expecting SKU volume for its logistics & distribution business will be between +10-12%yoy for 2HFY25, subsequently guiding revenue for this segment to grow at +15-20%yoy. We input this in our revenue forecasts. However, for FY26 forecast and onwards, we expect improved performance under the basis of: (i) uninterrupted operations and expansion, (ii) strong cash flow post-regularisation plan, and (iii) continuous government support from regulations and concessions. We believe that ongoing concession with MOH, as well as the continuous expansion in the group's logistics & distribution, and manufacturing segments will continue to contribute to Pharmaniaga's growth potential. As governments and healthcare providers focus on reducing healthcare costs, Pharmaniaga's generic drug portfolio offers an attractive upside, being cheaper and readily available, while its biopharmaceutical products are expected to contribute significantly from 2HFY26 onwards.

CHART 1: Revenue and Core PATAMI (RM mil) (Forecast)



Source: Bloomberg, Company, MBSBR

Bright prospects ahead. Pharmaniaga is strategically focused on expanding its product portfolio and improving operational efficiency to drive growth. We noted that the main driver is the high-growth areas like biopharmaceuticals, with the successful launch of the group's first flu vaccine and entry into the insulin market. In addition, Pharmaniaga is diversifying its pharmaceutical manufacturing business by commercializing new products and engaging in international collaborations. These initiatives, along with the continued strength of its concession business, is expected to strengthen its core operations to achieve its growth targets for the next few years.

Diversification of portfolio in tandem with global trends. Pharmaniaga's strategic initiatives are well-aligned with the growth trends of the global pharmaceutical industry, projected to grow over USD3t by 2034. By manufacturing flu vaccine and insulins, the group is tapping into a market that is expected to reach over USD13b and USD44b by CY30 respectively, driven by increasing public health awareness, rising NCD prevalence and a rising geriatric population. Additionally, the global pharmaceutical contract development and manufacturing market itself is projected to see a CAGR of over 7% (from CY24 to CY34). These strategic moves collectively position Pharmaniaga to capitalize on key global market dynamics, which are characterized by innovation, diversification, and a strong push for operational efficiency.

Recommendation for Pharmaniaga. Considering all these factors, we have a **target price of RM0.32** for Pharmaniaga, pegging on a PER of 13.5x to the EPS26 of 2.6sen. The PER is derived from the group's 1-Y PER which is a discount by -1SD of the pharmaceutical's PER of 14x, but comparable to its peers PER of 10x to 17x. We believe this discount is fair, on several factors pertaining uncertainties on the group's Indonesian operations, tenders for human insulin and policy changes in drug pricing in the near term.

BUY. All in all, a **BUY** call for Pharmaniaga, with a **target price of RM0.32**. Despite the challenges, we noted that the main positive driver for the group lies in its continued collaboration with the government to distribute its products to government hospitals, although we expect that manufacturing biopharmaceuticals, consumables trading and improvements in its Indonesia segment will be the growth areas for the group moving forward. We also noted that Pharmaniaga has a potential to explore growth opportunities in digital healthcare solutions in supply chain automation and warehouse optimisation, as well as for R&D for more innovative drug discovery.

TABLE 1: Peer Comparison (Pharmaceuticals, Medical Devices and Consumables)

Companies	Share Price (RM)	PER (x)			EV/EBITDA (x)			PBV (x)	ROE (%)	Div Yield (%)	Market Cap (RM b)
		FY24	FY25	FY26	FY24	FY25	FY26				
Pharmaniaga	0.26	3.5	19.3	13.5	8.8	11.5	8.9	1.2	27.4	0.0	1.7
Duopharma Biotech	1.37	17.3	14.7	14.8	10.2	10.0	9.7	1.6	10.5	2.5	1.3
Apex Healthcare	0.88	19.8	18.3	18.7	13.2	12.0	11.6	1.9	9.0	3.7	1.7
Optimax	0.66	23.3	19.5	23.0	12.7	11.5	11.0	4.4	19.9	2.6	0.3
UMedic Group	0.43	24.9	20.4	18.0	10.2	9.7	9.3	1.8	11.2	0.0	0.2
Average		**17.8**	**18.4**	**17.6**	**11.0**	**10.9**	**10.1**	**2.2**	**15.6**	**1.8**	

Source: Bloomberg, Company, MBSBR

FINANCIAL SUMMARY

Profit or Loss (RM'm)	2024A	2025E	2026F	2027F	2028F
Revenue	3,759.5	3,959.0	4,062.7	4,069.6	4,153.5
EBIT	263.9	186.7	246.1	313.6	316.8
PBT	194.2	139.0	192.8	253.8	255.1
Taxation	-60.4	-26.8	-32.4	-39.1	-38.2
PAT	133.8	110.7	158.7	212.8	214.8
MI	-2.0	-0.7	-0.7	-0.7	-0.8
PATAMI	131.8	110.0	158.0	212.1	214.1
Core PATAMI	127.8	110.0	157.7	210.9	212.1
EPS (sen)	9.2	1.7	2.4	3.2	3.3
PER (x)	3.5	19.3	13.5	10.1	10.0
DPS (sen)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Cash Flow (RM'm)	2024A	2025E	2026F	2027F	2028F
PBT	194.2	139.0	192.8	253.8	255.1
Depreciation	-6.3	17.2	17.5	16.5	16.0
OP pre-WC changes	142.4	147.1	152.6	159.6	162.4
Change in NWC	99.7	88.0	83.0	81.6	81.9
Operating cash flow	**42.7**	**59.1**	**69.6**	**78.0**	**80.4**
Capital expenditure	-39.6	-47.5	-50.8	-50.1	-49.7
Investing cash flow	**-39.5**	**-47.2**	**-50.5**	**-49.9**	**-49.4**
Debt raised/(repaid)	18.7	52.8	69.0	69.9	64.0
Dividends paid	-0.2	-45.3	-44.2	-40.0	-38.8
Financing cash flow	**22.1**	**-0.7**	**15.3**	**18.9**	**12.3**
Net cash flow	**25.3**	**11.1**	**34.4**	**47.0**	**43.3**
Beginning cash flow	**127.4**	**152.2**	**163.2**	**197.5**	**244.3**
Ending cash flow	**152.2**	**163.2**	**197.5**	**244.3**	**287.2**

Growth (%)	2024A	2025E	2026F	2027F	2028F
Revenue growth	10.4	5.3	2.6	0.2	2.1
PBT growth	-348.4	-28.4	38.7	31.7	0.5
PATAMI growth	-264.4	-16.5	43.6	34.2	0.9
Core PATAMI growth	415.9	-13.9	43.4	33.7	0.6

Profitability Ratios (%)	2024A	2025E	2026F	2027F	2028F
EBIT margin	7.0	4.7	6.1	7.7	7.6
PBT margin	5.2	3.5	4.7	6.2	6.1
PATAMI margin	3.5	2.8	3.9	5.2	5.2
Core PATAMI margin	3.4	2.8	3.9	5.2	5.1
ROA	6.4	5.4	7.5	9.7	9.5
ROE	-87.6	73.8	68.0	87.6	94.1

Balance Sheet (RM'm)	2024A	2025E	2026F	2027F	2028F
PPE	520.9	526.1	522.5	519.4	518.1
ROU assets	151.3	197.2	215.9	219.1	213.5
Non-current assets	**788.0**	**822.0**	**831.3**	**830.0**	**823.9**
Trade receivables	407.5	370.4	355.3	350.5	354.2
Cash & bank balances	152.2	163.2	197.5	244.3	287.2
Current assets	**1,204.3**	**1,212.0**	**1,264.0**	**1,334.0**	**1,410.8**
Long-term debt	130.1	108.8	101.5	101.8	106.7
Non-current liabilities	**185.2**	**155.9**	**150.9**	**152.4**	**157.3**
Short-term debt	1,055.1	933.1	918.4	964.4	1,022.2
Trade payables	801.0	768.1	764.5	775.1	796.0
Current liabilities	**1,953.1**	**1,729.2**	**1,712.7**	**1,771.5**	**1,853.0**
Share capital	200.0	200.0	200.0	200.0	200.0
Reserves	-371.3	-73.9	9.1	18.8	4.2
Equity	**-145.9**	**149.0**	**231.8**	**240.7**	**225.5**

Liquidity Ratios (x)	2024A	2025E	2026F	2027F	2028F
Current ratio	0.6	0.7	0.7	0.8	0.8
Quick ratio	0.3	0.3	0.3	0.3	0.3

Leverage Ratios (x)	2024A	2025E	2026F	2027F	2028F
Debt-to-equity	-14.7	12.7	8.0	8.0	8.9
Interest coverage	3.7	3.8	4.5	5.1	5.0

Efficiency Ratios (days)	2024A	2025E	2026F	2027F	2028F
Cash conversion cycle	61	45	39	37	36
DIO	-69	-69	-71	-75	-77
DSO	40	34	32	31	31
DPO	-91	-80	-79	-81	-82

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STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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