HLIB Research

PP 9484/12/2012 (031413)

Pharmaniaga Bhd (BUY ←→, EPS ↑)

INDUSTRY: **NEUTRAL** COMPANY INSIGHT

25 March 2015 Price Target: RM6.58 (小) Share Price: RM6.19

En Route to Expansion

Highlights

From the information gathered in our recent company visit, we remain positive on its business strategy and industry outlook, for both its domestic and regional division. Below are the key takeaways from the meeting.

- 2014 highlights. In the process of obtaining the Halal and ISO certification for three of its manufacturing plants. Also plans to attain European Union Good Manufacturing certification for its Bangi and Sri Iskandar plant. We believe this should provide the company with a stronger footing in the European market.
- Teaching Hospitals. As stated in our previous reports, Pharmaniaga entered into an agreement with three teaching hospitals (Hospital University Sains Malaysia, Hospital University Kebangsaan Malaysia and University Malaya Medical Centre) to supply about 600 pharmaceutical products to MoHE. We estimate that the supply agreement with the teaching hospitals should contribute circa RM240m or 13% addition to Pharmaniaga's revenue. Although margin is lesser when compared to Government Concessions, volume growth should be sufficient to offset the lower margin for the concession from institutions.
- Pharmacy Information Systems (PhIS). Full impact of the higher costs from PhIS implementation could be seen from FY2016 onwards.
- PT Errita Pharma. After housekeeping, Pharmaniaga's Indonesian arm, PT Errita Pharma is expected to breakeven in FY2015 (recorded a loss of RM2.9m in FY14). We believe the group would be able to benefit from the Indonesian market as it represents one of the most populated countries in the world.
- The JV in Kingdom of Saudi Arabia (KSA) with Modern to develop a greenfield manufacturing plant is on track, with capex of circa RM60m over 5 years. Targeting to commercialize in year 2019.

Catalysts

 Gaining market share in non-concession and private sectors, synergistic benefits from acquisition, favorable FOREX, continuous effective operational strategy.

Risks

 Political / regulatory / competitive / FOREX risks, failure / delay in drug delivery under CA, compliance to production standards / contamination and drug patent disputes.

Forecasts

Updated model with the latest pharmaceutical data and the contribution from MoHE. As a result, FY15, FY16 and FY17 EPS were raised upwards by 1%-13%.

Rating

BUY ←→, TP: RM6.58 ↑

- Positives Synergy from acquisition, quarterly dividend, secured business outlook thanks to CA as well as defensive and growing business.
- Negatives FOREX, high level of stock and gearing.

Valuation

Maintain BUY with higher TP of RM6.58 (from RM6.21 previously) based on unchanged FY16 P/E multiple of 15x, 15% discount to US peers (see Figure #1).

Mardhiah Omar mardhiah@hlib.hongleong.com.my

(603) 2168 1155

KLCI	1814.0
Expected share price return	6.3%
Expected dividend return	5.0%
Expected total return	11.3%

Share price



Information

Bloomberg ticker	PHRM MK
Bursa code	7081
Issued shares (m)	259
Market cap (RM m)	1,602
3-mth avg. volume ('000)	232
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	15.1	38.8	38.2
Relative	15.4	33.9	39.7

Major Shareholders

Boustead Holdings	56.4%
LTAT	12.4%
Valuecap SB	5.4%

Summary Earnings Table

FYE 31 Dec	31 Dec						
(RMm)							
Revenue	2,123	2,394	2,513	2,641			
EBITDA	190	228	240	253			
Pre-tax Profit	126	164	170	177			
PATAMI	94	110	114	118			
Adj. PATAMI	112	110	114	118			
Rep. EPS sen	36.2	42.4	43.9	45.7			
Adj. EPS sen	43.2	42.4	43.9	45.7			
Net DPS sen	28.0	29.7	30.7	32.0			
Net DY (%)	4.5	4.8	5.0	5.2			
P/E (x)	17.1	14.6	14.1	13.5			
P/BV (x)	3.0	2.9	2.7	2.5			
EV/EBITDA (x)	9.5	7.9	7.6	7.2			
Net D/E %	0.4	0.3	0.3	0.3			
ROA %	0.1	0.1	0.1	0.1			
ROE %	0.2	0.2	0.2	0.2			
HLIB							

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Figure #1 Regional Peers Comparison

Commonii	FVF	Drice	Market Cap (m)		P/E (x)		P/B (x)		Gross DY (%)	
Company	FYE	FYE Price		(USD)	2015	2016	2015	2016	2015	
Malaysia										
Pharmaniaga (PHRM)	Dec	MYR 5.78	1,496.3	404.0	13.7	14.0	2.6	2.4	3.6	
Apex Healthcare	Dec	MYR 3.90	456.9	125.2	11.1	11.8	N/A	N/A	2.6	
YSP Southeast Asia	Dec	MYR 1.59	211.5	58.0	N/A	N/A	N/A	N/A	N/A	
Average (excl PHRM)					11.1	11.8	N/A	N/A	2.6	
US										
Teva Pharmaceutical	Dec	USD 62.65	53,377.8	53,377.8	12.2	12.2	2.2	2.0	2.3	
Mylan	Dec	USD 63.28	30,905.2	30,905.2	15.3	13.6	3.4	2.9	-	
Perrigo	Jun	USD 166.37	23,424.1	23,424.1	22.7	19.6	2.1	2.1	0.3	
Hospira	Dec	USD 87.88	15,148.8	15,148.8	35.8	29.2	4.0	3.5	-	
Average					21.5	18.7	2.9	2.6	0.6	

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Financing CF

Net Cashflow

Dividends

Debt Chgs

Other

-57

1

-4

-60

-1

-77

0

0

-77

-4

-79

0

0

-79

-13

-83

0

0

2

-83

-37

-141

-171

0

Pharmaniaga Bhd (BUY, TP: RM6.58, CP: RM6.19)

Income Stateme	ent					Quarterly Finan	cial Sun	nmary			
FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E	FYE 31 Dec (RMm)	4Q13	1Q14	2Q14	3Q14	4Q14
Revenue	1,947	2,123	2,394	2,513	2,641	Revenue	567.9	468.7	525.1	502.1	627.1
COGS	-1,776	-1,933	-2,166	-2,274	-2,388	COGS	-514.6	-415.2	-486.7	-460.6	-569.6
EBITDA	170	190	228	240	253	EBITDA	53.2	53.5	38.3	41.4	57.5
D&A	-65	-50	-49	-55	-60	D&A	-16.9	-12.0	-10.5	-12.5	-14.7
EBIT	106	140	179	185	193	EBIT	36.3	41.5	27.8	28.9	42.8
Net Interest Income	-13	-15	-15	-15	-15	Net Interest Income	-3.3	-3.3	-3.2	-4.0	-5.0
Associates	0	0	0	0	0	Associates	0.0	0.0	0.0	0.0	0.0
Exceptionals	0	0	0	0	0	Exceptionals	0.0	0.0	0.0	0.0	0.0
PBT	93	126	164	170	177	PBT	33.0	38.2	24.6	24.9	37.9
Tax	-36	-31	-54	-56	-59	Tax	-11.7	-11.5	-8.7	-9.9	-1.2
PAT	57	94	110	114	119	PAT	21.3	26.6	16.0	15.0	36.6
Minority Interests	-2	0	0	0	0	Minority Interests	0.5	0.4	0.0	0.0	-0.1
PATAMI	55	94	110	114	118	PATAMI	20.8	26.2	16.0	15.0	36.7
Adj PATAMI	77	112	110	114	118	Adj PATAMI	29.1	28.0	23.0	20.8	39.9
Basic Shares (m)	259	259	259	259	259	Basic Shares (m)	258.9	258.9	258.9	258.9	258.9
Rep. EPS sen	21	36	42	44	46	Rep. EPS sen	8.0	10.1	6.2	5.8	14.2
Adj. EPS sen	30	43	42	44	46	Adj. EPS sen	11.2	10.8	8.9	8.0	15.4
Adj. FD EPS sen	30	43	42	44	46	Adj. FD EPS sen	11.2	10.8	8.9	8.0	15.4
Balance Sheet						Valuation Ratio	e				
	2013A	2014A	2015E	2016E	2017E		2013A	2014A	2015E	2016E	2017E
FYE 31 Dec (RMm)						FYE 31 Dec (RMm)					
Cash	33	32	28	15	17	PER (x)	29.0	17.1	14.6	14.1	13.5
Receivables	169	155	166	175	176	Adj. PER (x)	20.9	14.3	14.6	14.1	13.5
Inventories	411	427	451	474	491	FD PER (x)	20.9	14.3	14.6	14.1	13.5
Investments	0	0	0	0	0	Net DPS (sen)	16.0	28.0	29.7	30.7	32.0
Fixed Assets	353	370	382	381	382	Net DY (%)	2.6	4.5	4.8	5.0	5.2
Intangibles	126	236	282	326	367	Book/share (sen)	188.4	203.4	216.1	229.3	243.0
Other Assets	22	23	23	23	23	P/Book (x)	3.3	3.0	2.9	2.7	2.5
Ttl Assets	1,113	1,243	1,333	1,393	1,456	FCF/share (sen)	74.0	22.5	28.1	25.5	32.8
Payables	388	451	508	533	560	FCF yield (%)	12.0	3.6	4.5	4.1	5.3
Short Term Debt	200	200	200	200	200	Mkt Čap	1,602	1,602	1,602	1,603	1,602
Long Term Debt	0	1	1	1	1	Net Cash(Debt)	-167	-169	-173	-187	-184
Other Liabilities	21	39	39	39	39	EV	1,769	1,772	1,776	1,790	1,787
Ttl Liab	610	691	748	773	800	EV/EBITDA (x)	10.4	9.3	7.8	7.5	7.1
Shareholders' Funds	488	527	559	594	629	ROE (%)	15.3	20.2	18.7	18.3	18.0
	16	26	26	26	27	Current Ratio (x)	13.3	0.9	0.9	0.9	0.9
Minority Interests		552	585		656		0.4	0.3			0.3
Total S/H Equity Ttl Liab&S/H Funds	503 1,113	1, 243	1,333	620 1,393	1, 456	Quick Ratio (x) Interest Cover (x)	7.2	0.3 8.4	0.3 10.7	0.3 11.0	11.5
		-	-	-		OII - Dalla					
Cashflow Analy FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E	Other Ratios FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
EBITDA	2013A 106	2014A 140	2013E 179	201 6E 185		Sales Growth (%)		2014A 9.1	2013E 12.7	2016E 5.0	
			-54		193		7.4 -0.2				5.1 5.4
Tax Paid	-34	-21		-56	-59	EBITDA Growth (%)		11.5	19.8	5.4	
Working Capital Chgs	185	58	22	-5	8	EBIT Growth (%)	-9.4	32.5	27.7	3.3	4.1
Other	-7	36	34	40	45	PBT Growth (%)	-10.0	35.0	31.0	3.5	4.2
Operating CF	250	213	180	164	187	Net Profit Growth (%)	-10.5	70.0	16.9	3.5	4.2
FCF	192	58	73	66	85	EBITDA Margin (%)	8.8	8.9	9.5	9.5	9.6
CAPEX	-59	-86	-108	-97	-102	EBIT Margin (%)	5.4	6.6	7.5	7.4	7.3
Asset Sales	0	1	0	0	0	PBT Margin (%)	4.8	5.9	6.9	6.8	6.7
Acquisitions	0	-69	0	0	0	Net Profit Margin (%)	3.9	5.3	4.6	4.5	4.5
Other	-21	0	0	0	0	Net Debt/Equity (%)	39.7	36.4	34.4	32.4	30.7
Investing CF	-80	-155	-108	- 9 7	-102	CAPEX/Sales (%)	3.0	4.1	4.5	3.9	3.9
Dividends	-37	-1 55 -57	-100 -77	-77 -79	-83	3/11 E/1/3dic3 (/0)	3.0	7.1	7.0	5.7	5.7

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Level 23, Menara HLA No. 3, Jalan Kia Peng 50450 Kuala Lumpur Tel 603 2168 1168 / 603 2710 1168 Fax 603 2161 3880

Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
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OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.

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