

# Pharmaniaga Bhd (BUY ↔, EPS ↑)

INDUSTRY: NEUTRAL

EARNINGS EVALUATION

24 February 2015

Price Target: RM6.00 (↑)

Share Price: RM5.28

## FY14 Results – Above Expectations

Results	<ul style="list-style-type: none"><li>FY14 turnover of RM2,122.9m was translated into higher-than-expected core net profit of RM111.8m, accounting for 121% and 134% of HLIB and consensus full year estimates, respectively.</li><li>One-off adjustments:<table><tr><th>RMk</th><th>Write-offs</th><th>Impairment</th><th>FOREX</th><th>Tax</th><th>Total</th></tr><tr><td>4Q13</td><td>4,580</td><td>5,000</td><td>776</td><td>-2,100</td><td>8,256</td></tr><tr><td>3Q14</td><td>5,501</td><td>0</td><td>379</td><td>0</td><td>5,880</td></tr><tr><td>4Q14</td><td>2,379</td><td>19</td><td>819</td><td>0</td><td>3,217</td></tr></table></li></ul>	RMk	Write-offs	Impairment	FOREX	Tax	Total	4Q13	4,580	5,000	776	-2,100	8,256	3Q14	5,501	0	379	0	5,880	4Q14	2,379	19	819	0	3,217
RMk	Write-offs	Impairment	FOREX	Tax	Total																				
4Q13	4,580	5,000	776	-2,100	8,256																				
3Q14	5,501	0	379	0	5,880																				
4Q14	2,379	19	819	0	3,217																				
Deviations	<ul style="list-style-type: none"><li>Marginally higher-than-expected revenue.</li><li>Lower-than-expected tax rate.</li></ul>																								
Dividends	<ul style="list-style-type: none"><li>Declared 4<sup>th</sup> interim dividend of 12.0 sen per share (4Q13: 6.2 sen) with ex-date on 9<sup>th</sup> March. This elevates YTD DPS to 28.0 sen per share.</li></ul>																								
Highlights	<ul style="list-style-type: none"><li>4Q14 revenue of RM627.1m (+10.4% yoy, +24.9% qoq) went against the traditional trend of being the seasonally weakest quarter with highest registered sales since FY11. This was mainly due to strong contributions from its core business operations.</li><li>FY14 sales ratio of concession: non-concession: Indonesia business was 58%: 22%: 20% which was relatively constant compared to FY13's breakdown of 57%: 22%: 21%.</li><li>Logistics and Distribution Division posted its strongest quarter performance in 2014 with PBT of RM18.9m, more than three-fold increase from 3Q14 mainly boosted by higher demand from government hospitals.</li><li>EBIT margin gained 1.1ppt yoy to 6.6% as it graduated from the amortization of novation agreement in Jan 2014 which amounted to ~RM2.3m per month.</li><li>Moving into the new financial year, Pharmaniaga remains optimistic as the pharmaceutical sector in Malaysia is showing potential growth opportunities.</li><li>The manufacturing plant in Indonesia is expected to contribute positively towards long term earnings, as it concentrates on exploring new viable business opportunities to broaden earnings base.</li></ul>																								
Catalysts	<ul style="list-style-type: none"><li>Gaining market share in non-concession and private sectors, synergistic benefits from acquisition, favorable FOREX, continuous effective operational strategy.</li></ul>																								
Risks	<ul style="list-style-type: none"><li>Political / regulatory / competitive / FOREX risks, failure / delay in drug delivery under CA, compliance to production standards / contamination and drug patent disputes.</li></ul>																								
Forecasts	<ul style="list-style-type: none"><li>Updated model with the latest pharmaceutical data and rolled over our model. In turn, FY15 and FY16 EPS were revised upward by 15% and 12%, respectively.</li></ul>																								
Rating	<b>BUY ↔, TP: RM6.00 ↑</b> <ul style="list-style-type: none"><li>Positives - Synergy from acquisitions, quarterly dividend, secured business outlook thanks to CA.</li><li>Negatives - FOREX, high level of stock and gearing.</li></ul>																								
Valuation	<ul style="list-style-type: none"><li>Reiterate BUY with higher fair value of RM6.00 (+13% from RM5.30 previously) as we rolled forward our valuation, based on FY16 P/E multiple of 14.5x, 20% discount to US peers (see Figure #6).</li></ul>																								

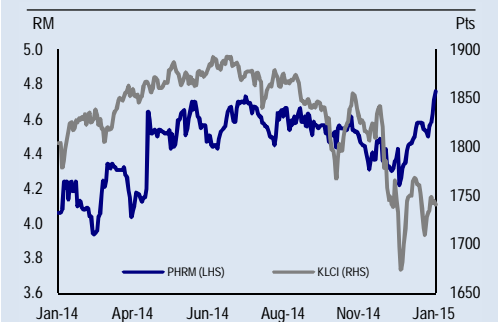
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KLCI	1809.4
Expected share price return	13.6%
Expected dividend return	3.9%
Expected total return	17.6%

### Share price



### Information

Bloomberg ticker	PHRM MK
Bursa code	7081
Issued shares (m)	259
Market cap (RM m)	1,367
3-mth avg. volume ('000)	143
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	8.9	18.7	22.8
Relative	5.5	19.6	24.2

### Major Shareholders

Boustead Holdings	56.4%
LTAT	12.4%
Valuecap SB	5.4%

### Summary Earnings Table

FYE 31 Dec (RMm)	2014A	2015E	2016E	2017E
Revenue	2,123	2,138	2,206	2,279
EBITDA	190	229	232	234
Pre-tax Profit	126	166	163	162
PATAMI	94	109	107	107
Adj. PATAMI	112	109	107	107
Rep. EPS sen	36.2	42.1	41.4	41.2
Adj. EPS sen	43.2	42.1	41.4	41.2
Net DPS sen	28.0	21.1	20.7	20.6
Net DY (%)	5.3	4.0	3.9	3.9
P/E (x)	14.6	12.5	12.7	12.8
P/BV (x)	2.6	2.4	2.2	2.0
EV/EBITDA (x)	8.2	6.8	6.7	6.5
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	0.1

HLIB

Figure #1 Pharmaniaga's 4Q14 Results

RMm	4Q13	3Q14	4Q14	YoY (%)	QoQ (%)	Comments
Revenue	567.9	502.1	627.1	10.4%	24.9%	Higher largely due to favourable contribution from core business operations.
EBITDA	53.2	41.4	57.5	8.1%	38.8%	Filtered down from sales, distorted by one-offs.
EBITDA Margin %	9.4%	8.3%	9.2%			
EBIT	36.3	28.9	42.8	18.0%	47.9%	YoY: Improvement due to the end of novation agreement amortization in Jan 2014 which amounted to RM2.3m per month.
PBT	33.0	24.9	37.9	14.7%	51.7%	Filtered down from EBIT.
Reported PAT	21.3	15.0	36.6	72.2%	144.1%	Filtered down from PBT along with lower tax rate.
PATAMI	20.8	15.0	36.7	76.3%	145.4%	
Normalized PATAMI	29.1	20.8	39.9	37.3%	91.6%	After adjustments of one-off losses / provisions.
Reported EPS (sen)	8.0	5.8	14.2	76.3%	145.4%	
Normalized EPS (sen)	11.2	8.0	15.4	37.3%	91.6%	Filtered down from normalized PATAMI.

Company Data

Figure #2 Pharmaniaga's FY14 Results

RMm	FY13	FY14	YoY (%)	Comments
Revenue	1,946.6	2,122.9	9.1%	Higher on the back of stronger contributions from the entire core businesses.
EBITDA	171.0	190.8	11.5%	Filtered down from sales.
EBITDA Margin %	8.8%	9.0%		
EBIT	106.4	141.1	32.6%	Improvement due to the end of novation agreement amortization in Jan 2014 which amounted to RM2.3m per month.
PBT	93.0	125.6	35.0%	Filtered down from EBIT.
Reported PAT	56.8	94.2	66.0%	
PATAMI	55.2	93.8	70.0%	
Normalized PATAMI	76.8	111.8	45.6%	After adjustments of one-off losses / provisions.
Reported EPS (sen)	21.3	36.2	70.0%	
Normalized EPS (sen)	29.6	43.2	45.6%	Filtered down from normalized PATAMI.

Company Data

Figure #3 FY14 Results vs. HLIB and Consensus FY14 Estimates

RMm	FY14	HLIB FY14 Est.	Actual vs HLIB (%)	Consensus FY14	Actual vs Consensus (%)	Comments
Revenue	2,122.9	2,023.7	105%	2,084.3	102%	
EBITDA	190.8	209.9	91%	197.0	97%	
EBITDA Margin %	9.0%	10.4%		9.5%		
EBIT	141.1	169.0	83%	146.3	96%	
PBT	125.6	156.1	80%	131.7	95%	
Reported PAT	94.2	95.3	99%	83.5	113%	
PATAMI	93.8	92.7	101%	83.5	112%	In line but ahead of consensus.
Normalized PATAMI	111.8	92.7	121%	83.5	134%	Above expectations.
Reported EPS (sen)	36.2	35.8	101%	32.3	112%	
Adjusted EPS (sen)	43.2	35.8	121%	32.3	134%	Above expectations.

Company Data, HLIB, Bloomberg

Figure #4 HLIB Forecasts vs. Consensus

RMm	FY15E			FY16E		
	HLIB	Consensus	%	HLIB	Consensus	%
Net Profit	109.0	89.9	+21.2	107.3	99.7	+7.6
EPS (sen)	42.1	35.0	+20.3	41.4	38.3	+8.2

Bloomberg, HLIB

Figure #5 Pharmaniaga's Performance by Divisions

RMm	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
<b>Logistics and distribution</b>								
Total revenue	501.4	438.3	440.9	568.2	468.9	521.4	496.4	622.3
PBT	12.6	1.5	-3.4	10.7	14.8	1.5	4.9	18.9
<b>Manufacturing</b>								
Total revenue	66.8	84.4	75.2	95.2	90.8	95.6	90.0	93.7
PBT	5.9	14.9	14.9	24.7	25.4	28.6	22.7	17.0
Company Data								

Figure #6 Regional Peers Comparison

Company	FYE	Price	Market Cap (m)		P/E (x)		P/B (x)		Gross DY (%)	
			(Local)	(USD)	2015	2016	2015	2016	2015	
Malaysia										
Pharmaniaga (PHRM)	Dec	MYR	5.28	1,366.9	375.8	15.1	13.8	2.4	2.3	3.7
Apex Healthcare	Dec	MYR	3.50	410.0	112.7	10.0	10.0	1.3	1.5	3.4
YSP Southeast Asia	Dec	MYR	1.50	199.6	54.9	N/A	N/A	N/A	N/A	N/A
Average (excl PHRM)						10.0	10.0	1.3	1.5	3.4
US										
Teva Pharmaceutical	Dec	USD	56.55	48,180.6	48,180.6	11.0	11.2	1.9	1.7	2.6
Mylan	Dec	USD	57.87	21,659.2	21,659.2	16.2	13.7	6.5	2.5	-
Perrigo	Jun	USD	151.37	21,312.1	21,312.1	20.6	17.8	1.9	1.9	0.3
Hospira	Dec	USD	87.54	14,977.3	14,977.3	36.1	29.5	3.9	3.4	-
Average						21.0	18.1	3.5	2.4	0.7

Bloomberg, HLIB

## Pharmaniaga Bhd (BUY, TP: RM6.00, CP: RM5.28)

## Income Statement

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
Revenue	1,947	2,123	2,138	2,206	2,279
COGS	-1,776	-1,933	-1,909	-1,974	-2,044
<b>EBITDA</b>	<b>170</b>	<b>190</b>	<b>229</b>	<b>232</b>	<b>234</b>
D&A	-65	-50	-49	-54	-58
EBIT	106	140	181	177	176
Net Interest Income	-13	-15	-15	-14	-14
Associates	0	0	0	0	0
Exceptionals	0	0	0	0	0
<b>PBT</b>	<b>93</b>	<b>126</b>	<b>166</b>	<b>163</b>	<b>162</b>
Tax	-36	-31	-56	-55	-55
PAT	57	94	109	108	107
Minority Interests	-2	0	0	0	0
<b>PATAMI</b>	<b>55</b>	<b>94</b>	<b>109</b>	<b>107</b>	<b>107</b>
<b>Adj PATAMI</b>	<b>77</b>	<b>112</b>	<b>109</b>	<b>107</b>	<b>107</b>
Basic Shares (m)	259	259	259	259	259
Rep. EPS sen	21	36	42	41	41
Adj. EPS sen	30	43	42	41	41
Adj. FD EPS sen	30	43	42	41	41

## Quarterly Financial Summary

FYE 31 Dec (RMm)	4Q13	1Q14	2Q14	3Q14	4Q14
Revenue	567.9	468.7	525.1	502.1	627.1
COGS	-514.6	-415.2	-486.7	-460.6	-569.6
<b>EBITDA</b>	<b>53.2</b>	<b>53.5</b>	<b>38.3</b>	<b>41.4</b>	<b>57.5</b>
D&A	-16.9	-12.0	-10.5	-12.5	-14.7
EBIT	36.3	41.5	27.8	28.9	42.8
Net Interest Income	-3.3	-3.3	-3.2	-4.0	-5.0
Associates	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>33.0</b>	<b>38.2</b>	<b>24.6</b>	<b>24.9</b>	<b>37.9</b>
Tax	-11.7	-11.5	-8.7	-9.9	-1.2
PAT	21.3	26.6	16.0	15.0	36.6
Minority Interests	0.5	0.4	0.0	0.0	-0.1
<b>PATAMI</b>	<b>20.8</b>	<b>26.2</b>	<b>16.0</b>	<b>15.0</b>	<b>36.7</b>
<b>Adj PATAMI</b>	<b>29.1</b>	<b>28.0</b>	<b>23.0</b>	<b>20.8</b>	<b>39.9</b>
Basic Shares (m)	258.9	258.9	258.9	258.9	258.9
Rep. EPS sen	8.0	10.1	6.2	5.8	14.2
Adj. EPS sen	11.2	10.8	8.9	8.0	15.4
Adj. FD EPS sen	11.2	10.8	8.9	8.0	15.4

## Balance Sheet

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
Cash	33	32	41	54	68
Receivables	169	155	156	161	166
Inventories	411	427	422	436	452
Investments	0	0	0	0	0
Fixed Assets	353	370	383	381	381
Intangibles	126	236	276	313	348
Other Assets	22	23	23	23	23
<b>Ttl Assets</b>	<b>1,113</b>	<b>1,243</b>	<b>1,301</b>	<b>1,369</b>	<b>1,438</b>
Payables	388	451	454	468	483
Short Term Debt	200	200	200	200	200
Long Term Debt	0	1	1	1	1
Other Liabilities	21	39	39	39	39
<b>Ttl Liab</b>	<b>610</b>	<b>691</b>	<b>694</b>	<b>708</b>	<b>724</b>
Shareholders' Funds	488	527	581	635	688
Minority Interests	16	26	26	26	27
Total S/H Equity	503	552	607	661	715
<b>Ttl Liab&amp;S/H Funds</b>	<b>1,113</b>	<b>1,243</b>	<b>1,301</b>	<b>1,369</b>	<b>1,438</b>

## Valuation Ratios

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
PER (x)	24.8	14.6	12.5	12.7	12.8
Adj. PER (x)	17.8	12.2	12.5	12.7	12.8
FD PER (x)	17.8	12.2	12.5	12.7	12.8
Net DPS sen	16.0	28.0	21.1	20.7	20.6
Net DY (%)	3.0	5.3	4.0	3.9	3.9
Book/share sen	188.4	203.4	224.4	245.1	265.7
P/Book (x)	2.8	2.6	2.4	2.2	2.0
FCF/share sen	74.0	22.5	24.4	25.8	25.9
FCF yield (%)	14.0	4.3	4.6	4.9	4.9
Mkt Cap	1,367	1,367	1,367	1,368	1,367
Net Cash(Debt)	-167	-169	-160	-147	-133
EV	1,534	1,536	1,527	1,515	1,500
EV/EBITDA (x)	9.0	8.1	6.7	6.5	6.4
ROE (%)	15.3	20.2	18.0	16.2	14.9
Current Ratio (x)	1.1	0.9	0.9	1.0	1.0
Quick Ratio (x)	0.4	0.3	0.3	0.3	0.3
Interest Cover (x)	7.2	8.4	10.8	10.6	10.5

## Cashflow Analysis

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
EBITDA	106	140	181	177	176
Tax Paid	-34	-21	-56	-55	-55
Working Capital Chgs	185	58	7	-5	-5
Other	-7	36	34	40	45
<b>Operating CF</b>	<b>250</b>	<b>213</b>	<b>165</b>	<b>157</b>	<b>160</b>
<b>FCF</b>	<b>192</b>	<b>58</b>	<b>63</b>	<b>67</b>	<b>67</b>
CAPEX	-59	-86	-102	-90	-93
Asset Sales	0	1	0	0	0
Acquisitions	0	-69	0	0	0
Other	-21	0	0	0	0
<b>Investing CF</b>	<b>-80</b>	<b>-155</b>	<b>-102</b>	<b>-90</b>	<b>-93</b>
Dividends	-37	-57	-55	-54	-53
Debt Chgs	-141	1	0	0	0
Other	7	-4	0	0	0
<b>Financing CF</b>	<b>-171</b>	<b>-60</b>	<b>-55</b>	<b>-54</b>	<b>-53</b>
<b>Net Cashflow</b>	<b>0</b>	<b>-1</b>	<b>9</b>	<b>13</b>	<b>14</b>

## Other Ratios

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
Sales Growth (%)	7.4	9.1	0.7	3.2	3.3
EBITDA Growth (%)	-0.2	11.5	20.6	1.1	1.2
EBIT Growth (%)	-9.4	32.5	28.7	-1.7	-0.9
PBT Growth (%)	-10.0	35.0	32.0	-1.6	-0.7
Net Profit Growth (%)	-10.5	70.0	16.2	-1.6	-0.7
EBITDA Margin (%)	8.8	8.9	10.7	10.5	10.3
EBIT Margin (%)	5.4	6.6	8.4	8.0	7.7
PBT Margin (%)	4.8	5.9	7.8	7.4	7.1
Net Profit Margin (%)	3.9	5.3	5.1	4.9	4.7
Net Debt/Equity (%)	39.7	36.4	33.1	30.4	28.1
CAPEX/Sales (%)	3.0	4.1	4.8	4.1	4.1

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## Equity rating definitions

<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
<b>TRADING BUY</b>	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
<b>NEUTRAL</b>	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
<b>TRADING SELL</b>	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
<b>SELL</b>	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
<b>NOT RATED</b>	No research coverage, and report is intended purely for informational purposes.

## Industry rating definitions

<b>OVERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
<b>NEUTRAL</b>	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
<b>UNDERWEIGHT</b>	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.