

Pharmaniaga Bhd (BUY ↔, EPS ↑)

INDUSTRY: NEUTRAL

COMPANY INSIGHT

25 March 2015

Price Target: RM6.58 (↑)

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).

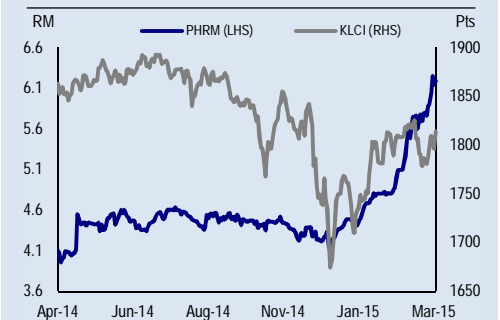
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KLCI	1814.0
Expected share price return	6.3%
Expected dividend return	5.0%
Expected total return	11.3%

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 (RMm)	2014A	2015E	2016E	2017E
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

Figure #1 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 5.78	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

Bloomberg, HLIB

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

Income Statement

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
Revenue	1,947	2,123	2,394	2,513	2,641
COGS	-1,776	-1,933	-2,166	-2,274	-2,388
EBITDA	170	190	228	240	253
D&A	-65	-50	-49	-55	-60
EBIT	106	140	179	185	193
Net Interest Income	-13	-15	-15	-15	-15
Associates	0	0	0	0	0
Exceptionals	0	0	0	0	0
PBT	93	126	164	170	177
Tax	-36	-31	-54	-56	-59
PAT	57	94	110	114	119
Minority Interests	-2	0	0	0	0
PATAMI	55	94	110	114	118
Adj PATAMI	77	112	110	114	118
Basic Shares (m)	259	259	259	259	259
Rep. EPS sen	21	36	42	44	46
Adj. EPS sen	30	43	42	44	46
Adj. FD EPS sen	30	43	42	44	46

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
EBITDA	53.2	53.5	38.3	41.4	57.5
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
PBT	33.0	38.2	24.6	24.9	37.9
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
PATAMI	20.8	26.2	16.0	15.0	36.7
Adj PATAMI	29.1	28.0	23.0	20.8	39.9
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	28	15	17
Receivables	169	155	166	175	176
Inventories	411	427	451	474	491
Investments	0	0	0	0	0
Fixed Assets	353	370	382	381	382
Intangibles	126	236	282	326	367
Other Assets	22	23	23	23	23
Ttl Assets	1,113	1,243	1,333	1,393	1,456
Payables	388	451	508	533	560
Short Term Debt	200	200	200	200	200
Long Term Debt	0	1	1	1	1
Other Liabilities	21	39	39	39	39
Ttl Liab	610	691	748	773	800
Shareholders' Funds	488	527	559	594	629
Minority Interests	16	26	26	26	27
Total S/H Equity	503	552	585	620	656
Ttl Liab&S/H Funds	1,113	1,243	1,333	1,393	1,456

Valuation Ratios

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
PER (x)	29.0	17.1	14.6	14.1	13.5
Adj. PER (x)	20.9	14.3	14.6	14.1	13.5
FD PER (x)	20.9	14.3	14.6	14.1	13.5
Net DPS (sen)	16.0	28.0	29.7	30.7	32.0
Net DY (%)	2.6	4.5	4.8	5.0	5.2
Book/share (sen)	188.4	203.4	216.1	229.3	243.0
P/Book (x)	3.3	3.0	2.9	2.7	2.5
FCF/share (sen)	74.0	22.5	28.1	25.5	32.8
FCF yield (%)	12.0	3.6	4.5	4.1	5.3
Mkt Cap	1,602	1,602	1,602	1,603	1,602
Net Cash(Debt)	-167	-169	-173	-187	-184
EV	1,769	1,772	1,776	1,790	1,787
EV/EBITDA (x)	10.4	9.3	7.8	7.5	7.1
ROE (%)	15.3	20.2	18.7	18.3	18.0
Current Ratio (x)	1.1	0.9	0.9	0.9	0.9
Quick Ratio (x)	0.4	0.3	0.3	0.3	0.3
Interest Cover (x)	7.2	8.4	10.7	11.0	11.5

Cashflow Analysis

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
EBITDA	106	140	179	185	193
Tax Paid	-34	-21	-54	-56	-59
Working Capital Chgs	185	58	22	-5	8
Other	-7	36	34	40	45
Operating CF	250	213	180	164	187
FCF	192	58	73	66	85
CAPEX	-59	-86	-108	-97	-102
Asset Sales	0	1	0	0	0
Acquisitions	0	-69	0	0	0
Other	-21	0	0	0	0
Investing CF	-80	-155	-108	-97	-102
Dividends	-37	-57	-77	-79	-83
Debt Chgs	-141	1	0	0	0
Other	7	-4	0	0	0
Financing CF	-171	-60	-77	-79	-83
Net Cashflow	0	-1	-4	-13	2

Other Ratios

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
Sales Growth (%)	7.4	9.1	12.7	5.0	5.1
EBITDA Growth (%)	-0.2	11.5	19.8	5.4	5.4
EBIT Growth (%)	-9.4	32.5	27.7	3.3	4.1
PBT Growth (%)	-10.0	35.0	31.0	3.5	4.2
Net Profit Growth (%)	-10.5	70.0	16.9	3.5	4.2
EBITDA Margin (%)	8.8	8.9	9.5	9.5	9.6
EBIT Margin (%)	5.4	6.6	7.5	7.4	7.3
PBT Margin (%)	4.8	5.9	6.9	6.8	6.7
Net Profit Margin (%)	3.9	5.3	4.6	4.5	4.5
Net Debt/Equity (%)	39.7	36.4	34.4	32.4	30.7
CAPEX/Sales (%)	3.0	4.1	4.5	3.9	3.9

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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.
NEUTRAL	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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NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
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