

Pharmaniaga Bhd (BUY ↑, EPS ↔)

INDUSTRY: NEUTRAL

EARNINGS EVALUATION

18 August 2015

Price Target: RM6.93 (↔)

Share Price: RM5.65

1HFY15 Results

Results	<ul style="list-style-type: none">1HFY15 turnover of RM984.7m was translated into core net profit of RM19.8m, making up 47% and 49% of ours and consensus full year estimates, respectively.We consider this as within expectations as 2Q is normally weaker compared to 1st quarter. Historically, 1H represents 45%-56% of full year earnings.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>2Q14</td><td>7,354</td><td>0</td><td>-218</td><td>0</td><td>5,539</td></tr><tr><td>1Q15</td><td>-62</td><td>0</td><td>428</td><td>0</td><td>366</td></tr><tr><td>2Q15</td><td>2,542</td><td>0</td><td>1,060</td><td>0</td><td>366</td></tr></table>	RMk	Write-offs	Impairment	FOREX	Tax	Total	2Q14	7,354	0	-218	0	5,539	1Q15	-62	0	428	0	366	2Q15	2,542	0	1,060	0	366
RMk	Write-offs	Impairment	FOREX	Tax	Total																				
2Q14	7,354	0	-218	0	5,539																				
1Q15	-62	0	428	0	366																				
2Q15	2,542	0	1,060	0	366																				
Deviations	<ul style="list-style-type: none">In line.																								
Dividends	<ul style="list-style-type: none">Declared second interim dividend of 7.0 sen per share (vs. 2Q14: 4.0 sen and 1Q15: 7.0 sen), YTD of 14 sen accounted for 47% of our DPS estimates. Ex-date on 1-Sept-15, payment on 15-Sept-2015.																								
Highlights	<ul style="list-style-type: none">1HFY15 sales decreased marginally by 0.9% yoy from RM993.7m to RM984.7m due to lower demand in the concession segment. Its PBT on the other hand, improved 1.4% to RM63.7m vs. RM62.8m in 1HFY14 attributed to higher profit margin from manufacturing segment.Logistics and distribution segment charted lower revenue of RM509m (-2.4% yoy) and suffered a loss before tax of RM1.3m caused by lower orders from the government coupled with higher expenses and amortization from PhIS.Thanks to its economies of scale which reduces its manufacturing costs as well as higher profit margins, Pharmaniaga's manufacturing division achieved higher PBT of 15% yoy.2QFY15 sales ratio of concession: non-concession: Indonesia business remains the same as 1QFY15 of 55%: 20%: 25%.We believe the group should benefit from the Indonesian market as well as the teaching hospitals and expect it to contribute positively towards the group's long term earnings. However, post FY15, earnings could be dragged down by the higher amortization costs from the PhIS implementation.In accordance with the general market, Pharmaniaga's share price has plummeted 19% to RM5.65. With potential upside of 23% excluding its dividend return of 5.3%, we upgrade the stock to BUY.																								
Catalysts	<ul style="list-style-type: none">Gaining market share in non-concession and private sectors, synergistic benefits from acquisition, favorable FOREX, continuous effective operational strategy.																								
Risks	<ul style="list-style-type: none">Political / regulatory / competitive / FOREX risks, failure / delay in drug delivery under CA, compliance to production standards / contamination and drug patent disputes.																								
Forecasts	<ul style="list-style-type: none">Unchanged pending an update from management.																								
Rating	<p>BUY ↑, TP: RM6.93 ↔</p> <ul style="list-style-type: none">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	<ul style="list-style-type: none">We upgrade the stock to BUY with unchanged TP of RM6.93 based on unchanged FY16 P/E multiple of 15.8x, 15% discount to US peers (see Figure #6).																								

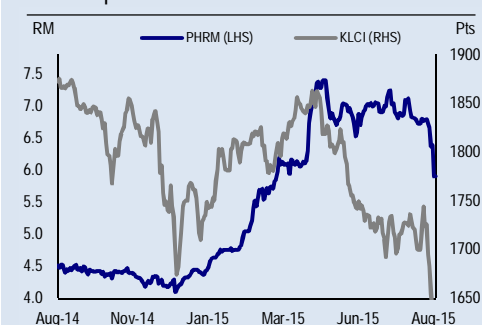
Mardhiah Omar

mardhiah@hlib.hongleong.com.my

(603) 2168 1155

KLCI	1,572.5
Expected share price return	22.7%
Expected dividend return	5.3%
Expected total return	27.9%

Share price



Information

Bloomberg ticker	PHRM MK
Bursa code	7081
Issued shares (m)	259
Market cap (RM m)	1,463
3-mth avg. volume ('000)	127
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	-20.3	-18.2	22.3
Relative	-12.5	-5.2	44.8

Major Shareholders

Boustead Holdings	56.4%
LTAT	10.1%
Valuecap SB	5.4%

Summary Earnings Table

FYE 31 Dec	2014A	2015E	2016E	2017E
(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 (%)	5.0	5.3	5.4	5.7
P/E (x)	19.3	16.5	16.0	15.3
P/BV (x)	3.4	3.2	3.1	2.9
EV/EBITDA (x)	10.6	8.8	8.4	8.0
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 Pharmaniaga's 2Q15 Results

RMm	2Q14	1Q15	2Q15	YoY (%)	QoQ (%)	Comments
Revenue	525.1	471.9	512.8	-2.3%	8.7%	Qoq: Higher contribution from its concession business and its Indonesian operations. Yoy: Lower sales from its concession segment.
EBITDA	38.3	54.5	43.5	13.4%	-20.2%	Filtered down from sales.
EBITDA Margin %	7.3%	11.5%	8.5%			
EBIT	27.8	42.3	30.2	8.5%	-28.7%	
PBT	24.6	38.6	25.1	1.8%	-35.1%	Filtered down from EBIT.
Reported PAT	16.0	31.9	16.6	4.3%	-47.9%	Filtered down from PBT.
PATAMI	16.0	31.8	16.2	1.5%	-49.0%	
Normalized PATAMI	23.0	32.2	19.8	-14.0%	-38.4%	After adjustments of one-off losses / provisions.
Reported EPS (sen)	6.2	12.3	6.3	1.5%	-49.0%	
Normalized EPS (sen)	8.9	12.4	7.7	-14.0%	-38.4%	Filtered down from normalized PATAMI.

Company Data

Figure #2 Pharmaniaga's 1HFY15 Results

RMm	1HFY14	1HFY15	YoY (%)	Comments
Revenue	993.7	984.7	-0.9%	Lower demand from its concession segment.
EBITDA	91.8	97.9	6.7%	Filtered down from sales.
EBITDA Margin %	9.2%	9.9%		
EBIT	69.3	72.5	4.6%	Lower expenses due to better efficiency.
PBT	62.8	63.7	1.4%	Filtered down from EBIT.
Reported PAT	42.6	48.6	14.0%	
PATAMI	42.2	48.0	13.8%	
Normalized PATAMI	51.0	52.0	1.9%	After adjustments of one-off losses / provisions.
Reported EPS (sen)	16.3	18.5	13.8%	
Normalized EPS (sen)	19.7	20.1	1.9%	Filtered down from normalized PATAMI.

Company Data

Figure #3 1HFY15 Results vs. HLIB and Consensus FY15 Estimates

RMm	1HFY15	HLIB FY15 Est.	Actual vs HLIB (%)	Consensus FY15	Actual vs Consensus (%)	Comments
Revenue	984.7	2,393.6	41%	2,345.0	42%	Below expectations.
EBITDA	97.9	227.6	43%	220.7	44%	
EBITDA Margin %	0.1	9.5%		9.4%		
EBIT	72.5	179.0	40%	167.0	43%	
PBT	63.7	164.4	39%	153.0	42%	
Reported PAT	48.6	110.2	44%	106.0	46%	
PATAMI	48.0	109.7	44%	106.0	45%	Below expectations
Normalized PATAMI	52.0	109.7	47%	106.0	49%	In line.
Reported EPS (sen)	18.5	42.4	44%	41.0	45%	
Adjusted EPS (sen)	20.1	42.4	47%	41.0	49%	In line.

Company Data, HLIB, Bloomberg

Figure #4 HLIB Forecasts vs. Consensus

RMm	FY15E			FY16E		
	HLIB	Consensus	%	HLIB	Consensus	%
Net Profit	109.7	106.0	+3.5	113.6	110.0	+3.2
EPS (sen)	42.4	41.0	+3.4	43.9	42.3	+3.7

Bloomberg, HLIB

Figure #5 Pharmaniaga's Performance by Divisions

RMm	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
Logistics and distribution								
Total revenue	440.9	568.2	468.9	521.4	496.4	622.3	470.0	509.0
PBT	-3.4	10.7	14.8	1.5	4.9	18.9	10.8	-1.3
Manufacturing								
Total revenue	75.2	95.2	90.8	95.6	90.0	93.7	97.5	96.5
PBT	14.9	24.7	25.4	28.6	22.7	17.0	32.2	32.8
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	5.65	1,462.7	356.8	13.8	13.4	2.6	2.5	5.4
Apex Healthcare	Dec	MYR	4.05	474.4	115.7	11.6	12.3	N/A	N/A	2.5
YSP Southeast Asia	Dec	MYR	2.26	303.9	74.1	N/A	N/A	N/A	N/A	N/A
Average (excl PHRM)						11.6	12.3	N/A	N/A	2.5
US										
Teva Pharmaceutical	Dec	USD	69.43	59,015.5	59,015.5	13.1	13.0	2.4	2.0	2.0
Mylan	Dec	USD	55.49	27,276.4	27,276.4	13.1	11.7	2.5	2.2	-
Perrigo	Jun	USD	197.06	28,825.8	28,825.8	25.4	22.2	2.8	2.6	0.2
Hospira	Dec	USD	89.80	15,529.5	15,529.5	28.3	24.8	4.0	3.4	-
Average						20.0	17.9	2.9	2.6	0.6

Bloomberg, HLIB

Pharmaniaga Bhd (BUY, TP: RM6.93, CP: RM5.65)

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

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

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

Quarterly Financial Summary

FYE 31 Dec (RMm)	2014	3Q14	4Q14	1Q15	2Q15
Revenue	525.1	502.1	627.1	471.9	512.8
COGS	-486.7	-460.6	-569.6	-417.4	-469.4
EBITDA	38.3	41.4	57.5	54.5	43.5
D&A	-10.5	-12.5	-14.7	-12.2	-13.3
EBIT	27.8	28.9	42.8	42.3	30.2
Net Interest Income	-3.2	-4.0	-5.0	-3.7	-5.1
Associates	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
PBT	24.6	24.9	37.9	38.6	25.1
Tax	-8.7	-9.9	-1.2	-6.7	-8.4
PAT	16.0	15.0	36.6	31.9	16.6
Minority Interests	0.0	0.0	-0.1	0.1	0.4
PATAMI	16.0	15.0	36.7	31.8	16.2
Adj PATAMI	23.0	20.8	39.9	32.2	19.8
Basic Shares (m)	258.9	258.9	258.9	258.9	258.9
Rep. EPS sen	6.2	5.8	14.2	12.3	6.3
Adj. EPS sen	8.9	8.0	15.4	12.4	7.7
Adj. FD EPS sen	8.9	8.0	15.4	12.4	7.7

Valuation Ratios

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
PER (x)	32.8	19.3	16.5	16.0	15.3
Adj. PER (x)	23.6	16.2	16.5	16.0	15.3
FD PER (x)	23.6	16.2	16.5	16.0	15.3
Net DPS (sen)	16.0	28.0	29.7	30.7	32.0
Net DY (%)	2.8	5.0	5.3	5.4	5.7
Book/share (sen)	188.4	203.4	216.1	229.3	243.0
P/Book (x)	3.7	3.4	3.2	3.1	2.9
FCF/share (sen)	74.0	22.5	28.1	25.5	32.8
FCF yield (%)	13.1	4.0	5.0	4.5	5.8
Mkt Cap	1,463	1,463	1,463	1,463	1,463
Net Cash(Debt)	-167	-169	-173	-187	-184
EV	1,630	1,632	1,636	1,650	1,647
EV/EBITDA (x)	9.6	8.6	7.2	6.9	6.5
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

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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Hong Leong Investment Bank Berhad (10209-W)

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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NOT RATED	No research coverage, and report is intended purely for informational purposes.

Industry rating definitions

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.