

Pharmaniaga Bhd (BUY ↔, EPS ↔)

INDUSTRY: NEUTRAL

EARNINGS EVALUATION

27 November 2015

Price Target: RM6.93 (↔)

Share Price: RM6.50

9MFY15 Results

Results

- 9MFY15 turnover of RM1509.2m was translated into core net profit of RM74.0m, which accounted for 67% and 71% of ours and streets' full year forecasts, respectively.
- We deem this as within expectations as we expect better results in the next quarter. In the past 4 years, 9M generally represents 61% - 77% of full year earnings.
- One-off adjustments:

RMk	Write-offs	Impairment	FOREX	Tax	Total
3Q14	5,501	0	379	0	5,880
2Q15	2,542	0	1,060	0	366
3Q15	511	0	-1,579	0	-1068

Deviations

Dividends

Highlights

- In line.
- A third interim dividend of 9.0 sen/share (vs. 3Q14: 8.0 sen) was declared. YTD DPS currently stands at 23 sen, equating to 77% of our DPS estimates. Ex-date on 9-Dec-15, payment on 21-Dec-15.
- 9MFY15 sales grew marginally by 0.9% yoy to RM1509.2m thanks to higher contribution from its Indonesia and non-concession segment. PBT improved 1.5% yoy, while its PATAMI jumped 19% yoy due to lower effective tax rate of 23% resulting from over provision of deferred tax liability of RM2.4m.
- Logistics and distribution segment registered lower PBT due to higher amortization costs from pHIS (Pharmacy Information System) of RM0.39m as well as lower orders from the government. We believe demand from government hospitals should increase in the next quarter as hospitals need to build up stocks (medical products & drugs) before receiving a new budget in 2016.
- Pharma's manufacturing division achieved higher PBT by 9% mainly due to lower manufacturing costs which showcased better economies of scale (better efficiency and productivity).
- 3QFY15 sales ratio of concession: non-concession: Indonesia business was 53%: 23%: 24% vs. 2QFY15 of 55%: 20%: 25%.
- The group should benefit from their Indonesian market, teaching hospitals and measures stated in Budget 2016 to supply medicines, consumables, vaccines and reagents to all government hospitals and clinics.

Catalysts

Risks

Forecasts

Rating

Valuation

- Gaining market share in non-concession and private sectors, synergistic benefits from acquisition, favorable FOREX, continuous effective operational strategy.
- Political / regulatory / competitive / FOREX risks, failure / delay in drug delivery under CA, compliance to production standards / contamination and drug patent disputes.
- Unchanged.

BUY ↔, TP: RM6.93 ↔

- 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.
- We maintain 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).

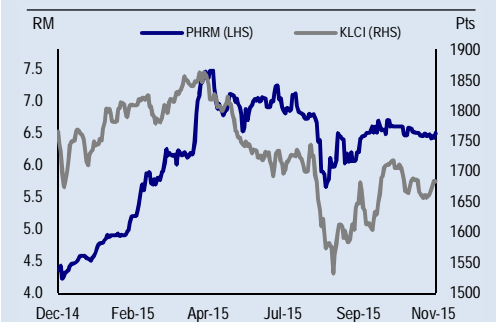
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KLCI	1,683.1
Expected share price return	6.6%
Expected dividend return	4.6%
Expected total return	11.2%

Share price



Information

Bloomberg ticker	PHRM MK
Bursa code	7081
Issued shares (m)	259
Market cap (RM m)	1,683
3-mth avg. volume ('000)	124
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	-1.5	6.9	42.2
Relative	-0.1	0.4	55.7

Major Shareholders

Boustead Holdings	56.4%
LTAT	10.1%

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 (%)	4.3	4.6	4.7	4.9
P/E (x)	17.9	15.3	14.8	14.2
P/BV (x)	3.2	3.0	2.8	2.7
EV/EBITDA (x)	9.9	8.3	7.9	7.5
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	0.2

HLIB

Figure #1 Pharmaniaga's 3Q15 Results

RMm	3Q14	2Q15	3Q15	YoY (%)	QoQ (%)	Comments
Revenue	502.1	512.8	524.4	4.4%	2.3%	Yoy/Qoq: Higher contribution from its non- concession business and its Indonesian operations.
EBITDA	41.4	43.5	45.8	10.5%	5.3%	Filtered down from sales.
EBITDA Margin %	8.3%	8.5%	8.7%			
EBIT	28.9	30.2	31.0	7.2%	2.8%	
PBT	24.9	25.1	25.3	1.6%	1.1%	Filtered down from EBIT.
Reported PAT	15.0	16.6	20.0	33.2%	20.0%	Filtered down from PBT.
PATAMI	15.0	16.2	20.0	33.5%	23.1%	
Normalized PATAMI	20.8	19.8	22.1	5.9%	11.3%	After adjustments of one-off losses / provisions.
Reported EPS (sen)	5.8	6.3	7.7	33.5%	23.1%	
Normalized EPS (sen)	8.0	7.7	8.5	5.9%	11.3%	Filtered down from normalized PATAMI.

Company Data

Figure #2 Pharmaniaga's 9MFY15 Results

RMm	9MFY14	9MFY15	YoY (%)	Comments
Revenue	1,495.8	1,509.2	0.9%	Higher contribution from Indonesian and non-concession business.
EBITDA	133.3	143.7	7.9%	Filtered down from sales.
EBITDA Margin %	8.9%	9.5%		
EBIT	98.2	103.5	5.4%	Lower expenses (particularly from manufacturing division) due to better efficiency.
PBT	87.7	89.0	1.5%	Filtered down from EBIT.
Reported PAT	57.6	68.5	19.0%	
PATAMI	57.1	68.0	19.0%	Due to lower effective tax rate of 23% due to over provision of deferred tax liability and current tax.
Normalized PATAMI	71.9	74.0	3.0%	After adjustments of one-off losses / provisions.
Reported EPS (sen)	22.1	26.3	19.0%	
Normalized EPS (sen)	27.8	28.6	3.0%	Filtered down from normalized PATAMI.

Company Data

Figure #3 9MFY15 Results vs. HLIB and Consensus FY15 Estimates

RMm	9MFY15	HLIB FY15 Est.	Actual vs HLIB (%)	Consensus FY15	Actual vs Consensus (%)	Comments
Revenue	1,509.2	2,393.6	63%	2,333.7	65%	In line.
EBITDA	143.7	227.6	63%	219.3	66%	
EBITDA Margin %	0.1	9.5%		9.4%		
EBIT	103.5	179.0	58%	155.0	67%	
PBT	89.0	164.4	54%	152.0	59%	
Reported PAT	68.5	110.2	62%	105.0	65%	
PATAMI	68.0	109.7	62%	105.0	65%	In line.
Normalized PATAMI	74.0	109.7	67%	105.0	71%	In line.
Reported EPS (sen)	26.3	42.4	62%	40.3	65%	
Adjusted EPS (sen)	28.6	42.4	67%	40.3	71%	In line.

Company Data, HLIB, Bloomberg

Figure #4 HLIB Forecasts vs. Consensus

RMm	FY15E			FY16E		
	HLIB	Consensus	%	HLIB	Consensus	%
Net Profit	109.7	105.0	+4.5	113.6	109.0	+4.2
EPS (sen)	42.4	40.3	+5.2	43.9	42.0	+4.4

Bloomberg, HLIB

Figure #5 Pharmaniaga's Performance by Divisions

RMm	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15
Logistics and distribution								
Total revenue	568.2	468.9	521.4	496.4	622.3	470.0	979.0	1,501.5
PBT	10.7	14.8	1.5	4.9	18.9	10.8	9.5	9.8
Manufacturing								
Total revenue	95.2	90.8	95.6	90.0	93.7	97.5	193.9	276.4
PBT	24.7	25.4	28.6	22.7	17.0	32.2	65.0	84.0
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	5.65	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: RM6.50)

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)	3Q14	4Q14	1Q15	2Q15	3Q15
Revenue	502.1	627.1	471.9	512.8	524.4
COGS	-460.6	-569.6	-417.4	-469.4	-478.6
EBITDA	41.4	57.5	54.5	43.5	45.8
D&A	-12.5	-14.7	-12.2	-13.3	-14.8
EBIT	28.9	42.8	42.3	30.2	31.0
Net Interest Income	-4.0	-5.0	-3.7	-5.1	-5.7
Associates	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
PBT	24.9	37.9	38.6	25.1	25.3
Tax	-9.9	-1.2	-6.7	-8.4	-5.4
PAT	15.0	36.6	31.9	16.6	20.0
Minority Interests	0.0	-0.1	0.1	0.4	0.0
PATAMI	15.0	36.7	31.8	16.2	20.0
Adj PATAMI	20.8	39.9	32.2	19.8	22.1
Basic Shares (m)	258.9	258.9	258.9	258.9	258.9
Rep. EPS sen	5.8	14.2	12.3	6.3	7.7
Adj. EPS sen	8.0	15.4	12.4	7.7	8.5
Adj. FD EPS sen	8.0	15.4	12.4	7.7	8.5

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)	30.5	17.9	15.3	14.8	14.2
Adj. PER (x)	21.9	15.1	15.3	14.8	14.2
FD PER (x)	21.9	15.1	15.3	14.8	14.2
Net DPS (sen)	16.0	28.0	29.7	30.7	32.0
Net DY (%)	2.5	4.3	4.6	4.7	4.9
Book/share (sen)	188.4	203.4	216.1	229.3	243.0
P/Book (x)	3.5	3.2	3.0	2.8	2.7
FCF/share (sen)	74.0	22.5	28.1	25.5	32.8
FCF yield (%)	11.4	3.5	4.3	3.9	5.0
Mkt Cap	1,683	1,683	1,683	1,684	1,683
Net Cash(Debt)	-167	-169	-173	-187	-184
EV	1,850	1,852	1,856	1,870	1,867
EV/EBITDA (x)	10.9	9.7	8.2	7.8	7.4
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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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.