

# Pharmaniaga

## Third Consecutive Quarter Of Disappointment

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1H16 PATAMI of RM33.4m (-31% YoY) came in at 39% and 40% of our and market consensus full-year forecasts. The negative variance was due to higher-than-expected operating expenses and amortisation of the Pharmacy Information System (PHIS) system. Hence, we downgrade our FY16E and FY17E net profits by 5% to take into account the higher-than-expected expenses and amortisation of the PHIS system. Correspondingly, our target price is reduced from RM5.85 to RM5.57 based on unchanged 16.5x FY17E revised EPS. Maintain MARKET PERFORM.

1H16 PATAMI of RM33.4m (-31% YoY) came in at 39% and 40% of our and market consensus full-year forecasts, respectively. The negative variance was due to higher-than-expected operating expenses and amortisation of the Pharmacy Information System (PHIS) system. A second single-tier interim DPS of 5.0 sen was declared, bringing 1H16 DPS to 9.0 sen which is within our expectation.

**Result Highlights. QoQ, 2Q16** revenue fell 5% to RM531.8m driven by lower demand from Government hospitals under the concession operations. Correspondingly, PBT fell 19% to RM21.5m due to higher operating costs from promotional activities further exacerbated by higher amortization of the PHIS system. This brings 2Q16 PATAMI to RM15m (-18% QoQ) but buffeted by a lower effective tax rate of 27% compared to 30% in 1Q16. This quarter marked the third consecutive quarterly earnings disappointment.

**YoY, 1H16 Topline** rose +11% mainly due to the group's Indonesian operations. However, **1H16 PATAMI** fell 31% no thanks to i) higher expenses from promotional activities and research and development; ii) higher amortisation of the PHIS system; and iii) higher effective tax rate of 29% compared to 24% in 1H15. Overall profitability was mainly dragged down by the logistics and distribution division which recorded a loss before tax of RM4.7m compared to a PBT of RM9.5m due to higher expenses and amortisation as mentioned above. This brings overall 1H16 PBT margin to 4% compared to 6% in 1H15.

**Outlook.** We expect earnings to be lukewarm in 2H16 as well in anticipation of the slower-than-expected general economic growth. Additionally, the roll-out of the PHIS system is expected to continue to dampen Pharmaniaga's bottom line over the short-term. Over the longer-term, we expect Pharmaniaga's manufacturing division to propel its earnings. The group aims to add about 200 new products over the next 10 years to its existing portfolio of around 500 products. This should boost demand for its products and lift earnings.

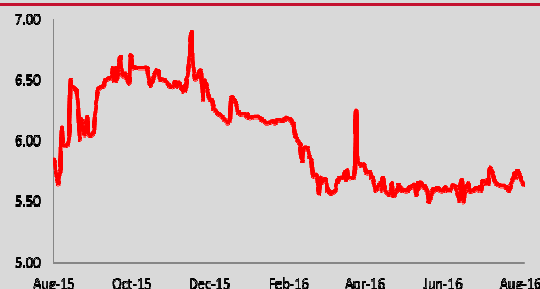
**Downgrade our FY16E and FY17E net profit.** We downgrade our FY16E and FY17E net profit estimates by 5% to take into account the higher-than-expected operating cost and amortisation of the PHIS system.

**Maintain Market Perform.** Correspondingly, we cut our TP from RM5.85 to RM5.57 based on unchanged 16.5x FY17E revised EPS.

## MARKET PERFORM ↔

Price: **RM5.64**  
Target Price: **RM5.57** ↓

### Share Price Performance



KLCI 1,687.68  
YTD KLCI chg -0.3%  
YTD stock price chg -11.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PHRM MK Equity
Market Cap (RM m)	1,462.9
Issued shares	259.4
52-week range (H)	6.90
52-week range (L)	5.37
3-mth avg daily vol:	151,360
Free Float	29%
Beta	0.9

### Major Shareholders

BOUSTEAD HOLDINGS BHD	56.3%
LTAT	10.0%

### Summary Earnings Table

FYE Dec (RM m)	2015A	2016E	2017E
Turnover	2189.3	2397.3	2541.1
PBT	112.7	120.7	131.4
Net Profit (NP)	84.0	80.3	87.4
Core NP	84.0	80.3	87.4
Consensus (NP)	-	83.1	87.8
Earnings Revision	-	-5%	-5%
Core EPS (sen)	32.5	31.0	33.8
Core EPS growth (%)	(10.4)	(4.4)	8.8
NDPS (sen)	27.0	19.2	20.9
BVPS (RM)	2.04	2.16	2.29
PER (x)	17.4	18.2	16.7
Price/Book (x)	2.8	2.6	2.5
Net Gearing (%)	71.1	66.2	65.3
Net Div Yield (%)	4.8	3.4	3.7

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### Result Highlight

	2Q	1Q	Q-o-Q	2Q	Y-o-Y	6M	6M	Y-o-Y
FY Dec (RM'm)	FY16	FY16	Chg (%)	FY15	Chg (%)	FY15	FY16	Chg (%)
Turnover	531.8	559.2	(4.9)	512.8	3.7	984.7	1,091.0	10.8
EBITDA	47.5	50.6	(6.1)	43.5	9.3	97.9	98.2	0.2
PBT	21.5	26.5	(19.0)	25.1	(14.2)	63.7	48.0	(24.6)
PATAMI (NP)	15.0	18.4	(18.4)	16.2	(7.5)	48.0	33.4	(30.5)
EPS (sen)	5.8	7.1	(18.5)	6.3	(7.5)	18.6	12.9	(30.5)
EBITDA margin	9%	9%		8%		10%	9%	
PBT margin	4%	5%		5%		6%	4%	
Effective tax rate	27%	30%		34%		24%	29%	

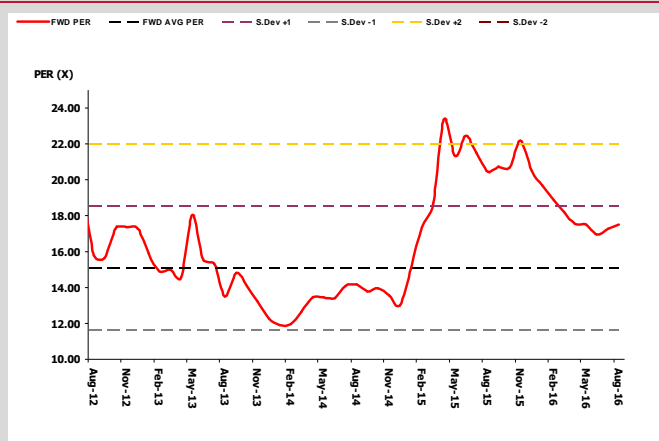
Source: Bursa Malaysia, Kenanga Research

### Quarterly segmental breakdown

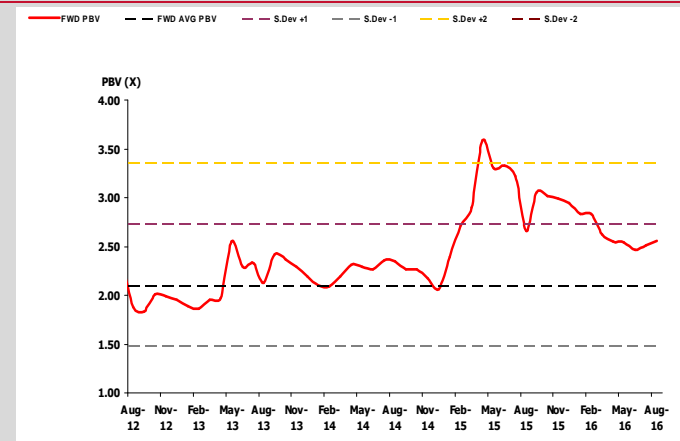
	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	QoQ chg %	YoY chg %
<b>Revenue</b>									
Logistics and Distribution	622.3	470.0	509.0	522.5	673.9	552.5	524.9	(5.0)	3.1
Manufacturing	93.7	97.5	96.5	82.4	111.8	108.0	97.1	(10.2)	0.6
Eliminations	(88.9)	(95.5)	(92.6)	(80.5)	(100.5)	(101.3)	(90.2)	(11.0)	(2.6)
TOTAL	627.1	471.9	512.8	524.4	685.2	559.2	531.8	(4.9)	3.7
<b>PBT</b>									
Logistics and Distribution	18.9	10.8	(1.3)	0.3	2.5	0.8	(5.6)	(772.7)	331.4
Manufacturing	17.0	32.2	32.8	19.1	25.5	32.4	24.4	(24.7)	(25.7)
Eliminations	2.0	(4.4)	(6.5)	6.0	(4.3)	(6.6)	2.7	(140.5)	(141.6)
TOTAL	37.9	38.6	25.1	25.3	23.7	26.5	21.5	(19.0)	(14.2)
<b>PBT Margins (%)</b>									
Logistics and Distribution	3.0	2.3	NM	0.1	0.4	0.1	NM		
Manufacturing	18.1	33.0	34.0	23.1	22.8	29.9	25.1		
TOTAL	6.0	8.2	4.9	4.8	3.5	4.7	4.0		

Source: Bursa Malaysia, Kenanga Research

### Fwd PER Band



### Fwd PBV Band



Source: Bloomberg, Kenanga Research

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Peer Comparison															
NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)	
IHH HEALTHCARE BHD	6.67	54904.9	61.1	57.6	51.1	0.4	4.0	2.3	899.2	953.8	1073.8	6.1	12.6	5.59	Underperform
KPJ HEALTHCARE BERHAD	4.30	4493.2	25.2	29.1	27.3	1.8	9.8	2.8	178.6	154.3	164.4	-13.6	6.5	4.38	Market Perform
PHARMANIAGA BERHAD	5.62	1457.7	17.4	18.2	16.7	3.4	14.3	2.2	84.0	80.3	87.4	-4.4	8.8	5.57	Market Perform

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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