

HLIB Research

PP 9484/12/2012 (031413)

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HOLD (Maintain)

Target Price: **RM2.14**
Previously: **RM2.14**
Current Price: **RM2.26**

Capital upside -5.3%

Dividend yield 6.7%

Expected total return 1.3%

Sector coverage: Healthcare

Company description: Pharmaniaga is the sole drug and medical supplies distributor concessionaire to the MoH of Malaysia.

Share price


Historical return (%) 1M 3M 12M

Absolute -2.6 -11.7 -21.5

Relative -5.8 -11.4 -16.7

Stock information

Bloomberg ticker	PHRM MK
Bursa code	7081
Issued shares (m)	261
Market capitalisation (RM m)	590
3-mth average volume ('000)	164
SC Shariah compliant	Yes

Major shareholders

Boustead Holdings Bhd	55.9%
LTAT	11.2%
Kamaruddin Lodin Wok	4.8%

Earnings summary

FYE (Dec)	FY18	FY19f	FY20f
PATMI – core	59.5	59.6	68.9
EPS – core (sen)	22.9	23.0	26.6
P/E (x)	9.9	9.8	8.5

Pharmaniaga

25-month extension of concession

The Health Minister announced that Pharmaniaga will act as the interim concessionaire to distribute drugs and medical supplies for an additional 25 months. The news come with no surprise as we have expected it. We do believe Pharmaniaga would still be the ideal choice for the job given its experience and incumbent position. We maintain our HOLD call with unchanged TP of RM2.14 based on FY19 earnings pegged to P/E multiple of 9.3x (-2SD below 5 year mean).

NEWSBREAK

Pharmaniaga Bhd will act as the interim concessionaire, to distribute drugs and medical supplies for the Health Ministry, for an additional 25-months, when their contract expires 30th November 2019. Health Minister Datuk Seri Dzulkefly Ahmad told a press conference that the Cabinet had decided that an open tender process would take place to appoint the next concessionaire company once the interim period is over.

The 25-month period was decided to avoid disruptions in services of procurement and distribution of drugs and medical supplies. The government had also decided to an additional 5-year period with Pharmaniaga as the interim concessionaire company, if the ministry is still unable to handle the shift of duties after December 2021. (Malay Mail)

HLIB's VIEW

No surprise. The news is not surprising as we have stressed this previously. As mentioned, we are of the view that the migration to an open tender method will not occur immediately while a great deal of matters needs to be ironed out, hence we view Pharmaniaga's earnings will be unaffected in the near term. With the 25-month extension, we stressed that earnings visibility remains intact for FY19-21, as Pharmaniaga will be operating under the same current terms.

Competitive advantage. As stated before, we do strongly believe Pharmaniaga remains in pole position to competitively bid in the open tender for the concession backed by 25 years of historically proven track record. In addition, Pharmaniaga already has its existing systems and infrastructure in place, while potential new entrance would need to upfront a substantial amount of capex to build up the capacity, especially to cater to East Malaysia. As we understand the thin margins from concession business is not attractive enough (4 years average c.1-2% at the PBT level) to invite newcomers to embark into the journey.

Earnings impact. On average, in the past 4 years, logistics and distribution segment contributed 60%-62% to revenue and 8%-10% to PBT (margins 1%-2%). Assuming we strip out concession entirely in FY20, ceteris paribus, the earnings impact would be a decline north of 11% at the PBT level.

Forecast. Numbers are maintained this juncture as we believe that the earnings projection under our forecast horizon is still insulated (FY19-21 as elaborated above).

Maintain HOLD, TP: RM2.14. We are pending further clarity from the Government on the framework and structure of the new drug distribution model, thus we maintain HOLD with unchanged TP of RM2.14. Our TP is based on FY earnings pegged to P/E multiple of 9.3x (-2SD below 5 year mean).

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Cash	27.9	35.7	44.4	170.4	186.5
Receivables	175.0	222.8	323.1	288.8	308.1
Inventories	485.0	693.0	714.6	595.9	627.5
PPE	410.9	406.4	319.8	301.4	285.7
Others	509.1	549.9	564.3	601.3	630.6
Assets	1,607.8	1,907.7	1,966.2	1,957.9	2,038.4
Payables	499.4	572.3	592.7	534.9	564.2
Debt	444.3	642.8	667.8	692.8	717.8
Others	116.8	164.0	164.0	164.0	164.0
Liabilities	1,060.6	1,379.1	1,424.5	1,391.7	1,446.0
Shareholder's equity	528.0	509.3	521.9	546.0	571.8
Minority interest	19.1	19.3	19.7	20.2	20.7
Equity	547.1	528.7	541.6	566.2	592.4

Cash Flow Statement

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
EBIT	101.0	100.0	115.0	128.7	132.7
Working capital	178.1	(200.4)	(12.2)	95.0	(21.5)
Taxation	(18.0)	(27.0)	(20.0)	(23.1)	(24.7)
Others	(21.7)	45.6	19.4	18.9	23.4
CFO	239.4	(81.8)	102.1	219.5	109.9
Capex	(79.0)	(75.9)	(78.6)	(81.7)	(85.0)
Others	17.0	(0.7)	-	-	1.0
CFI	(62.0)	(76.6)	(78.6)	(81.7)	(84.0)
Changes in debt	(179.0)	198.5	29.0	33.0	37.0
Shares issued	-	-	-	-	1.0
Dividends	(42.0)	(39.2)	(39.0)	(44.8)	(47.8)
Others	(2.0)	-	-	-	-
CFF	(223.0)	161.9	(10.0)	(11.8)	(10.8)
Net cash flow	(45.6)	3.4	13.6	126.0	15.1
Forex	-	-	-	-	-
Others	-	-	-	-	-
Beginning cash	71.0	28.0	35.7	44.4	170.4
Ending cash	28.0	35.7	44.4	170.4	186.5

Income Statement

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Revenue	2,324.0	2,385.0	2,470.3	2,567.5	2,672.5
EBITDA	147.6	153.5	169.4	183.8	190.1
EBIT	101.0	105.4	115.0	128.7	132.7
Finance cost	(28.8)	(36.1)	(35.1)	(36.2)	(33.9)
Associates & JV	-	-	-	-	-
Profit before tax	73.1	70.2	80.0	92.5	98.7
Zakat & Tax	(18.0)	(27.0)	(20.0)	(23.1)	(24.7)
Net profit	55.1	43.2	60.0	69.4	74.1
Minority interest	(1.3)	(0.8)	(0.4)	(0.5)	(0.5)
Core PATMI	54.7	59.5	59.6	68.9	73.6
Exceptionals	0.8	16.0	-	-	-
Reported PATMI	53.8	43.5	59.6	68.9	73.6

Valuation & Ratios

FYE Dec	FY17	FY18	FY19f	FY20f	FY21f
Core EPS (sen)	21.1	22.9	23.0	26.6	28.4
P/E (x)	10.7	9.9	9.8	8.5	8.0
EV/EBITDA (x)	7.0	7.9	7.3	6.2	6.0
DPS (sen)	19.0	16.0	15.0	17.3	18.5
Dividend yield (%)	8.4	7.1	6.7	7.7	8.2
BVPS (RM)	2.0	2.0	2.0	2.1	2.2
P/B (x)	1.1	1.1	1.1	1.1	1.0
EBITDA margin	6.4%	6.4%	6.9%	7.2%	7.1%
EBIT margin	4.3%	4.4%	4.7%	5.0%	5.0%
PBT margin	3.1%	2.9%	3.2%	3.6%	3.7%
Net margin	2.4%	1.8%	2.4%	2.7%	2.8%
ROE	9.1%	8.2%	11.0%	12.2%	12.4%
ROA	3.4%	2.3%	3.0%	3.5%	3.6%
Net gearing	0.8	1.2	1.2	1.2	1.2

Assumptions

FYE Dec	FY17	FY18f	FY19f	FY20f	FY20f
M'sia pharma market size	6,078.8	6,170.0	6,293.4	6,419.2	6,547.6
MoH market size	0.51	0.51	0.51	0.51	0.51

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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