

HLIB Research

PP 9484/12/2012 (031413)

Farah Diyana Kamaludin
FarahDiyana@hlib.hongleong.com.my

(603) 2083 1719

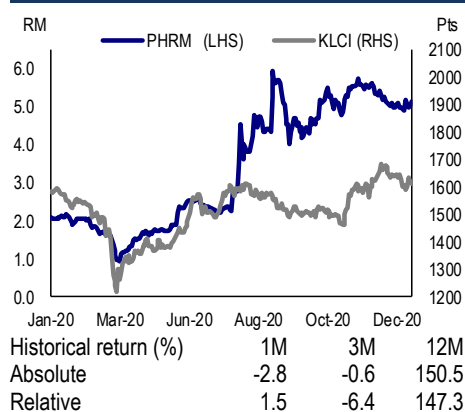
HOLD (Maintain)

Target Price: **RM5.70**
Previously: **RM5.70**
Current Price: **RM5.16**

Capital upside	10.5%
Dividend yield	3.0%
Expected total return	13.5%

Sector coverage: Healthcare

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

Share price

Stock information

Bloomberg ticker	PHRM MK
Bursa code	7081
Issued shares (m)	262
Market capitalisation (RM m)	1,350
3-mth average volume ('000)	1,434
SC Shariah compliant	Yes

Major shareholders

Boustead Holdings Bhd	55.8%
LTAT	11.2%
Kamaruddin Lodin Wok	4.8%

Earnings summary

	FY19	FY20f	FY21f
FYE (Dec)			
PATMI – core	51.6	62.3	68.7
EPS – core (sen)	19.8	24.1	26.5
P/E (x)	26.1	21.5	19.5

Pharmaniaga

Covid-19 vaccine from Sinovac

Pharmaniaga has entered into an Agreement with Sinovac for the purchase of ready-to-fill bulk product for the supply of 14m doses of Covid-19 vaccine in Malaysia. We are positive on this news as we believe it will enhance Pharmaniaga's vaccine business as well as aid in forming long-term partnerships. It expects to distribute the vaccines by end of Mar 2021. We retain our forecasts, pending the finer details. Maintain HOLD with unchanged TP of RM5.70 (PE multiple of 21.5x of mid FY21 EPS).

NEWSBREAK

Pharmaniaga has entered into a Binding Term Sheet Agreement with Sinovac Life Sciences Co. Ltd (subsidiary of Sinovac Biotech Ltd) for the purchase of ready-to-fill bulk product for the supply of 14m doses of Covid-19 vaccine in Malaysia.

Sinovac is a China-based biopharmaceutical company that focuses on the research development, manufacturing and commercialization of vaccines that protect against human infectious diseases.

The Agreement would enable Pharmaniaga to carry out fill-and-finish process of Covid-19 vaccine in Malaysia. Also, Sinovac will enter into a Local Manufacturing Agreement and a Technology and Know-How License Agreement.

The Agreement shall be effective from 12 January 2021 and shall remain in force for a period of 1 year.

HLIB's VIEW

Positive. We are positive on the news; we feel the Agreement would serve as a platform for Pharmaniaga to further strengthen its vaccine business. Apart from that, it will also aid in its long-term partnerships, including technology transfer to grow the sector in Malaysia. Moreover, we expect this Agreement would allow for a new income stream contribution to Pharmaniaga.

Covid-19 vaccine from Sinovac. Sinovac has completed its Phase 3 trials in Brazil and Turkey. The vaccine has to be stored at 2-8 degree Celsius which can be catered by Pharmaniaga's existing facilities. This project will be executed in Pharmaniaga's small volume injectable (SVI) high-tech plant in Puchong. Pharmaniaga expects to receive the vaccine in Mar 2021, and hopes to distribute the vaccines by end of that month.

Forecast. We keep our forecasts at this juncture, pending finer details on price point, cost structure and stock supply timeline.

Maintain HOLD, TP: RM5.70. Maintain HOLD with unchanged TP of RM5.70. Our TP is based on mid FY21 earnings pegged to P/E multiple of 21.5x (+2SD of 5 year mean).

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Cash	35.7	29.6	(2.3)	(7.1)	(8.3)
Receivables	222.8	204.1	303.0	322.8	336.2
Inventories	693.0	617.9	633.6	666.4	694.4
PPE	406.4	382.3	301.5	289.6	279.6
Others	549.9	358.4	383.5	402.1	422.0
Assets	1,907.7	1,592.3	1,619.2	1,673.7	1,723.9
Payables	572.3	549.0	561.1	591.2	615.7
Debt	642.8	565.3	644.1	644.1	644.1
Others	164.0	121.1	42.3	42.3	42.3
Liabilities	1,379.1	1,235.4	1,247.4	1,277.6	1,302.1
Shareholder's equity	509.3	337.9	352.5	376.5	401.9
Minority interest	19.3	19.1	19.3	19.6	19.9
Equity	528.7	356.9	371.8	396.1	421.8

Cash Flow Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
EBIT	88.4	-153.0	117.0	126.9	132.3
Working capital	-200.4	96.6	-39.5	-22.5	-16.9
Taxation	-27.0	42.4	-20.9	-23.0	-24.3
Others	57.1	203.7	18.0	14.3	14.1
CFO	-81.8	189.8	74.7	95.8	105.2
Capex	-75.9	-77.5	-74.0	-76.9	-80.1
Others	-0.7	4.8	8.5	12.0	14.0
CFI	-76.6	-72.7	-65.5	-64.9	-66.1
Changes in debt	198.5	1.2	0.0	0.0	0.0
Shares issued	0.0	0.0	0.0	0.0	0.0
Dividends	-39.2	-40.7	-40.5	-44.7	-47.2
Others					
CFF	161.9	-125.3	-37.0	-38.2	-42.7
Net cash flow	3.4	-8.2	-27.8	-7.3	-3.6
Forex	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	28.0	28.0	29.6	-2.3	-7.1
Ending cash	35.7	29.6	-2.3	-7.1	-8.3

Income Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Revenue	2,385.0	2,820.5	2,693.0	2,800.4	2,916.5
EBITDA	153.5	130.6	158.6	164.2	169.5
EBIT	105.4	-153.0	117.0	126.9	132.3
Finance cost	-36.1	-37.6	-33.6	-34.9	-35.1
Associates & JV	0.0	0.0	0.0	0.0	0.0
Profit before tax	70.2	-190.6	83.4	92.0	97.2
Zakat & Tax	-27.0	42.4	-20.9	-23.0	-24.3
Net profit	43.2	-147.2	62.6	69.0	72.9
Minority interest	-0.8	-0.2	-0.3	-0.3	-0.3
Core PATMI	59.5	51.6	62.3	68.7	72.6

Valuation & Ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Core EPS (sen)	22.9	19.8	24.1	26.5	28.0
P/E (x)	22.5	26.1	21.5	19.5	18.4
EV/EBITDA (x)	12.7	15.0	12.5	12.2	11.8
DPS (sen)	16.0	8.5	15.6	17.2	18.2
Dividend yield (%)	3.1	1.6	3.0	3.3	3.5
BVPS (RM)	2.0	1.3	1.4	1.5	1.6
P/B (x)	2.6	4.0	3.8	3.6	3.3
EBITDA margin	6.4%	4.6%	5.9%	5.9%	5.8%
EBIT margin	4.4%	-5.4%	4.3%	4.5%	4.5%
PBT margin	2.9%	-6.8%	3.1%	3.3%	3.3%
Net margin	1.8%	-5.2%	2.3%	2.5%	2.5%
ROE	11.2%	14.5%	16.8%	17.3%	17.2%
ROA	3.1%	3.2%	3.8%	4.1%	4.2%
Net gearing	1.2	1.8	1.7	1.6	1.5

Assumptions

FYE Dec	FY20f	FY21f	FY21f
M'sia pharma market size	6,419.2	6,547.6	6,678.6
MoH market size	0.53	0.53	0.53

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, are under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 13 January 2021, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 13 January 2021, the analyst(s) whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) -.

Published & printed by:

Hong Leong Investment Bank Berhad (10209-W)

Level 28, Menara Hong Leong,

No. 6, Jalan Damanlela,

Bukit Damansara,

50490 Kuala Lumpur

Tel: (603) 2083 1800

Fax: (603) 2083 1766

Stock rating guide

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.

The stock rating guide as stipulated above serves as a guiding principle to stock ratings. However, apart from the abovementioned quantitative definitions, other qualitative measures and situational aspects will also be considered when arriving at the final stock rating. Stock rating may also be affected by the market capitalisation of the individual stock under review.