

Pharmaniaga Bhd (BUY ↔, EPS ↔)

INDUSTRY: NEUTRAL

NEWSBREAK

16 February 2015

Price Target: RM5.30 (↔)

Share Price: RM4.98

Partnership with USM

Highlights	<ul style="list-style-type: none"> In its filing to the exchange on 13th February 2015, Pharmaniaga announced that its wholly-owned subsidiary, Pharmaniaga Logistics Sdn Bhd has entered into a Supply Agreement with Universiti Sains Malaysia (USM) to undertake the services of purchasing, storing, supplying and delivering to USM drugs and non-drugs approved by USM (Approved Products). The value of the Approved Products to be supplied to USM is not stipulated in the agreement. Hence, the total value of the agreement will depend on the actual volume, the agreed unit price of Approved Products and scope of services rendered from time-to-time during the agreement period. The agreement will commence from the even date, 13th February 2015 and end on 30th November 2019, a period of not more than 5 years.
Comments	<ul style="list-style-type: none"> The supply agreement involves three university hospitals of USM with potential arrangement to supply disposable medical equipment and tools to USM. This could be a kick-start to a long-term partnership with USM as there is an opportunity of providing services to other university hospitals of USM as well as expanding the scope of services or products supplied. This also provides the opening for business opportunities with the rest of the university hospitals in Malaysia. At the same time, a Memorandum of Collaboration (MoC) was also signed between USM and Pharmaniaga Pristien Sdn Bhd to set up more pharmacies in Malaysia. The rationale of the MoC is to provide assistance to USM pharmaceutical students to enable them to open their own pharmacies. If the initiative turns out successful, this would potentially provide a new dimension in earnings base and further room for earnings growth.
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"> Maintained.
Rating	BUY ↔, TP: RM5.30 ↔ <ul style="list-style-type: none"> Positives - Synergy from acquisition, quarterly dividend, secured business outlook thanks to CA. Negatives - FOREX, high level of stock and gearing.
Valuation	<ul style="list-style-type: none"> Reiterate BUY with unchanged fair value of RM5.30 based on FY15 P/E multiple of 14.5x, 10% discount to US peers (see Figure #1).

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KLCI	1801.0
Expected share price return	6.4%
Expected dividend return	3.6%
Expected total return	10.0%

Share price



Information

Bloomberg ticker	PHRM MK
Bursa code	7081
Issued shares (m)	259
Market cap (RM m)	1,289
3-mth avg. volume ('000)	149
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	4.6	12.2	13.2
Relative	1.3	13.0	14.3

Major Shareholders

Boustead Holdings	56.4%
LTAT	12.4%
Valuecap SB	5.4%

Summary Earnings Table

FYE 31 Dec	2013A	2014E	2015E	2016E
(RMm)				
Revenue	1,947	2,024	2,098	2,166
EBITDA	170	210	213	215
Pre-tax Profit	93	156	160	162
PATAMI	55	93	95	96
Adj. PATAMI	77	93	95	96
Rep. EPS sen	21.3	35.8	36.6	37.0
Adj. EPS sen	29.6	35.8	36.6	37.0
Net DPS sen	16.0	17.9	18.3	18.5
Net DY (%)	3.2	3.6	3.7	3.7
P/E (x)	23.4	13.9	13.6	13.4
P/BV (x)	2.6	2.4	2.2	2.0
EV/EBITDA (x)	8.6	7.1	6.8	6.6
Net D/E %	0.4	0.4	0.3	0.3
ROA %	0.1	0.1	0.1	0.1
ROE %	0.2	0.2	0.2	0.1

HLIB

Figure #1 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 4.98	1,289.2	355.3	13.6	13.4	2.2	2.0	3.7
Apex Healthcare	Dec	MYR 3.50	410.0	113.0	10.0	10.0	1.3	1.5	3.4
YSP Southeast Asia	Dec	MYR 1.41	187.6	51.7	N/A	N/A	N/A	N/A	N/A
Average (excl PHRM)					10.0	10.0	1.3	1.5	3.4
US									
Teva Pharmaceutical	Dec	USD 56.77	48,368.0	48,368.0	11.0	11.2	1.9	1.8	2.6
Mylan	Dec	USD 55.85	20,903.2	20,903.2	15.7	13.3	6.2	2.5	-
Perrigo	Jun	USD 150.90	21,246.0	21,246.0	20.6	17.8	1.9	2.0	0.3
Hospira	Dec	USD 87.35	14,944.8	14,944.8	36.1	29.5	3.9	3.4	-
Average					20.9	17.9	3.5	2.4	0.7

Bloomberg, HLIB

Pharmaniaga Bhd (BUY, TP: RM5.30, CP: RM4.98)

Income Statement

FYE 31 Dec (RMm)	2012	2013	2014E	2015E	2016E
Revenue	1,812	1,947	2,024	2,098	2,166
COGS	-1,642	-1,776	-1,814	-1,886	-1,951
EBITDA	171	170	210	213	215
D&A	-54	-65	-41	-40	-42
EBIT	117	106	169	173	173
Net Interest Income	-13	-13	-13	-13	-12
Associates	0	0	0	0	0
Exceptionals	0	0	0	0	0
PBT	103	93	156	160	162
Tax	-40	-36	-61	-62	-63
PAT	63	57	95	97	99
Minority Interests	-1	-2	-3	-3	-3
PATAMI	62	55	93	95	96
Adj PATAMI	83	77	93	95	96
Basic Shares (m)	259	259	259	259	259
Rep. EPS sen	24	21	36	37	37
Adj. EPS sen	32	30	36	37	37
Adj. FD EPS sen	32	30	36	37	37

Balance Sheet

FYE 31 Dec (RMm)	2012	2013	2014E	2015E	2016E
Cash	35	33	27	61	96
Receivables	218	169	176	182	188
Inventories	465	411	419	436	451
Investments	0	0	0	0	1
Fixed Assets	340	353	400	398	397
Intangibles	151	126	134	144	153
Other Assets	15	22	22	22	21
Ttl Assets	1,223	1,113	1,177	1,242	1,306
Payables	306	388	404	419	432
Short Term Debt	341	200	200	200	200
Long Term Debt	0	0	0	0	0
Other Liabilities	88	21	21	21	21
Ttl Liab	735	610	625	640	653
Shareholders' Funds	472	488	534	581	629
Minority Interests	16	16	18	21	24
Total S/H Equity	488	503	552	602	653
Ttl Liab&S/H Funds	1,223	1,113	1,177	1,242	1,306

Cashflow Analysis

FYE 31 Dec (RMm)	2012	2013	2014E	2015E	2016E
EBITDA	117	106	169	173	173
Tax Paid	-36	-34	-61	-62	-63
Working Capital Chgs	-112	185	0	-8	-7
Other	48	-7	28	27	30
Operating CF	17	250	136	129	133
FCF	-81	192	40	81	83
CAPEX	-49	-59	-96	-48	-49
Asset Sales	0	0	0	0	0
Acquisitions	-49	0	0	0	0
Other	-30	-21	0	0	0
Investing CF	-127	-80	-96	-48	-49
Dividends	-61	-37	-46	-47	-48
Debt Chgs	153	-141	0	0	0
Other	-2	7	0	0	0
Financing CF	89	-171	-46	-47	-48
Net Cashflow	-21	0	-6	34	35

Quarterly Financial Summary

FYE 31 Dec (RMm)	3Q13	4Q13	1Q14	2Q14	3Q14
Revenue	440.8	567.9	468.7	525.1	502.1
COGS	-407.9	-514.6	-415.2	-486.7	-460.6
EBITDA	32.9	53.2	53.5	38.3	41.4
D&A	-16.2	-16.9	-12.0	-10.5	-12.5
EBIT	16.7	36.3	41.5	27.8	28.9
Net Interest Income	-3.3	-3.3	-3.3	-3.2	-4.0
Associates	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
PBT	13.5	33.0	38.2	24.6	24.9
Tax	-9.3	-11.7	-11.5	-8.7	-9.9
PAT	4.2	21.3	26.6	16.0	15.0
Minority Interests	0.4	0.5	0.4	0.0	0.0
PATAMI	3.8	20.8	26.2	16.0	15.0
Adj PATAMI	5.6	29.1	28.0	23.0	20.8
Basic Shares (m)	258.9	258.9	258.9	258.9	258.9
Rep. EPS sen	1.4	8.0	10.1	6.2	5.8
Adj. EPS sen	2.2	11.2	10.8	8.9	8.0
Adj. FD EPS sen	2.2	11.2	10.8	8.9	8.0

Valuation Ratios

FYE 31 Dec (RMm)	2012	2013	2014E	2015E	2016E
PER (x)	20.9	23.4	13.9	13.6	13.4
Adj. PER (x)	15.5	16.8	13.9	13.6	13.4
FD PER (x)	15.5	16.8	13.9	13.6	13.4
Net DPS (sen)	15.9	16.0	17.9	18.3	18.5
Net DY (%)	3.2	3.2	3.6	3.7	3.7
Book/share (sen)	182.3	188.4	206.3	224.6	243.1
P/Book (x)	2.7	2.6	2.4	2.2	2.0
FCF/share (sen)	-31.3	74.0	15.6	31.4	32.2
FCF yield (%)	-6.3	14.9	3.1	6.3	6.5
Mkt Cap	1,289	1,289	1,289	1,289	1,290
Net Cash(Debt)	-306	-167	-173	-139	-104
EV	1,596	1,456	1,462	1,428	1,393
EV/EBITDA (x)	9.3	8.5	7.0	6.7	6.5
ROE (%)	17.1	15.3	16.8	15.7	14.7
Current Ratio (x)	1.0	1.1	1.0	1.1	1.2
Quick Ratio (x)	0.4	0.4	0.4	0.4	0.5
Interest Cover (x)	7.8	7.2	11.5	11.8	11.8

Other Ratios

FYE 31 Dec (RMm)	2012	2013	2014E	2015E	2016E
Sales Growth (%)	19.2	7.4	4.0	3.7	3.2
EBITDA Growth (%)	75.8	-0.2	23.1	1.3	1.1
EBIT Growth (%)	56.3	-9.4	59.7	2.2	0.4
PBT Growth (%)	41.2	-10.0	67.9	2.2	1.3
Net Profit Growth (%)	18.3	-10.5	67.9	2.2	1.3
EBITDA Margin (%)	9.4	8.8	10.4	10.1	9.9
EBIT Margin (%)	6.4	5.4	8.3	8.2	8.0
PBT Margin (%)	5.7	4.8	7.7	7.6	7.5
Net Profit Margin (%)	4.6	3.9	4.6	4.5	4.4
Net Debt/Equity (%)	69.9	39.7	36.2	33.2	30.6
CAPEX/Sales (%)	2.7	3.0	4.7	2.3	2.3

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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.
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