Pharmaniaga Bhd (BUY ←→, EPS ←→)

INDUSTRY: NEUTRAL
NEWSBREAK

13 March 2015
Price Target: RM6.21 (←→)
Share Price: RM5.79

… And it's UM!

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Highlights/ Comments

- In its filing to Bursa Malaysia yesterday, 12th March 2015, Pharmaniaga announced that its wholly-owned subsidiary, Pharmaniaga Logistics Sdn Bhd has entered into a Supply Agreement with University of Malaya (UM) to undertake the services of purchasing, storing, supplying and delivering to UM of pharmaceutical products approved by UM.
- Pharmaniaga also entered into a similar supply agreement with Universiti Kebangsaan Malaysia (UKM) and Universiti Sains Malaysia (USM), announced on 10th March 2015 and 13th February 2015, respectively.
- Akin to the supply agreement with both public universities stated above, total value of the agreement will depend on actual volume, 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 date of the supply agreement 12th March 2015 and end on 30th November 2019.
- Our positive view on the partnerships with three public universities remains as it will increase Pharmaniaga's market reach and create additional revenue stream for the company.
- Also, we do not discount the possibility of another partnership with other public universities in Malaysia.

Catalysts

- Gaining market share in non-concession and private sectors, synergistic benefits from acquisition, favorable FOREX, continuous effective operational strategy.

Risks

- Political / regulatory / competitive / FOREX risks, failure / delay in drug delivery under CA, compliance to production standards / contamination and drug patent disputes.

Forecasts

- Unchanged. Pending more information and update from the management.

Rating

BUY ←→, TP: RM6.21 ←→

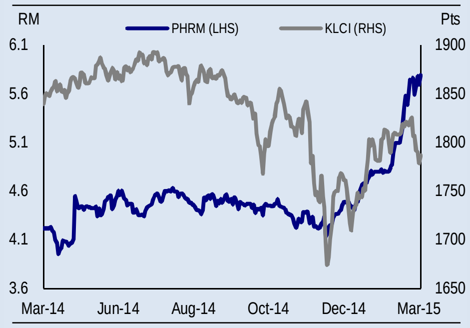
- Positives - Synergy from acquisition, quarterly dividend, secured business outlook thanks to CA.
- Negatives - FOREX, high level of stock and gearing.

Valuation

- Reiterate BUY with unchanged TP of RM6.21 based on FY16 P/E multiple of 15x, 15% discount to US peers (see Figure #1).

KLCI	1786.9
Expected share price return	7.3%
Expected dividend return	3.6%
Expected total return	10.8%

Share price



Information

Bloomberg ticker	PHRM MK
Bursa code	7081
Issued shares (m)	259
Market cap (RM m)	1,499
3-mth avg. volume ('000)	210
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	17.0	30.7	34.0
Relative	17.1	26.8	36.4

Major Shareholders

Boustead Holdings	56.4%
LTAT	12.4%
Valuecap SB	5.4%

Summary Earnings Table

FYE 31 Dec (RMm)	2014A	2015E	2016E	2017E
Revenue	2,123	2,138	2,206	2,279
EBITDA	190	229	232	234
Pre-tax Profit	126	166	163	162
PATAMI	94	109	107	107
Adj. PATAMI	112	109	107	107
Rep. EPS sen	36.2	42.1	41.4	41.2
Adj. EPS sen	43.2	42.1	41.4	41.2
Net DPS sen	28.0	21.1	20.7	20.6
Net DY (%)	4.8	3.6	3.6	3.6
P/E (x)	15.9	13.7	14.0	14.0
P/BV (x)	2.8	2.6	2.4	2.2
EV/EBITDA (x)	8.9	7.3	7.2	7.1
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	0.1

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 5.78	1,496.3	404.0	13.7	14.0	2.6	2.4	3.6
Apex Healthcare	Dec	MYR 3.82	447.5	120.8	10.9	11.6	N/A	N/A	2.6
YSP Southeast Asia	Dec	MYR 1.58	210.2	56.8	N/A	N/A	N/A	N/A	N/A
Average (excl PHRM)					**10.9**	**11.6**	**2.6**	**2.4**	**2.6**
US									
Teva Pharmaceutical	Dec	USD 57.61	49,083.7	49,083.7	11.2	11.3	2.0	1.8	2.5
Mylan	Dec	USD 59.00	28,814.9	28,814.9	14.3	12.7	3.1	2.7	-
Perrigo	Jun	USD 161.25	22,703.2	22,703.2	22.0	19.0	2.1	2.0	0.3
Hospira	Dec	USD 87.60	14,987.6	14,987.6	35.7	29.1	4.0	3.5	-
Average					**20.8**	**18.0**	**2.8**	**2.5**	**0.7**

Bloomberg, HLIB

Pharmaniaga Bhd (BUY, TP: RM6.21, CP: RM5.79)

Income Statement

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
Revenue	1,947	2,123	2,138	2,206	2,279
COGS	-1,776	-1,933	-1,909	-1,974	-2,044
EBITDA	**170**	**190**	**229**	**232**	**234**
D&A	-65	-50	-49	-54	-58
EBIT	106	140	181	177	176
Net Interest Income	-13	-15	-15	-14	-14
Associates	0	0	0	0	0
Exceptionals	0	0	0	0	0
PBT	**93**	**126**	**166**	**163**	**162**
Tax	-36	-31	-56	-55	-55
PAT	57	94	109	108	107
Minority Interests	-2	0	0	0	0
PATAMI	**55**	**94**	**109**	**107**	**107**
Adj PATAMI	**77**	**112**	**109**	**107**	**107**
Basic Shares (m)	259	259	259	259	259
Rep. EPS sen	21	36	42	41	41
Adj. EPS sen	30	43	42	41	41
Adj. FD EPS sen	30	43	42	41	41

Quarterly Financial Summary

FYE 31 Dec (RMm)	4Q13	1Q14	2Q14	3Q14	4Q14
Revenue	567.9	468.7	525.1	502.1	627.1
COGS	-514.6	-415.2	-486.7	-460.6	-569.6
EBITDA	**53.2**	**53.5**	**38.3**	**41.4**	**57.5**
D&A	-16.9	-12.0	-10.5	-12.5	-14.7
EBIT	36.3	41.5	27.8	28.9	42.8
Net Interest Income	-3.3	-3.3	-3.2	-4.0	-5.0
Associates	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
PBT	**33.0**	**38.2**	**24.6**	**24.9**	**37.9**
Tax	-11.7	-11.5	-8.7	-9.9	-1.2
PAT	21.3	26.6	16.0	15.0	36.6
Minority Interests	0.5	0.4	0.0	0.0	-0.1
PATAMI	**20.8**	**26.2**	**16.0**	**15.0**	**36.7**
Adj PATAMI	**29.1**	**28.0**	**23.0**	**20.8**	**39.9**
Basic Shares (m)	258.9	258.9	258.9	258.9	258.9
Rep. EPS sen	8.0	10.1	6.2	5.8	14.2
Adj. EPS sen	11.2	10.8	8.9	8.0	15.4
Adj. FD EPS sen	11.2	10.8	8.9	8.0	15.4

Balance Sheet

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
Cash	33	32	41	54	68
Receivables	169	155	156	161	166
Inventories	411	427	422	436	452
Investments	0	0	0	0	0
Fixed Assets	353	370	383	381	381
Intangibles	126	236	276	313	348
Other Assets	22	23	23	23	23
Ttl Assets	**1,113**	**1,243**	**1,301**	**1,369**	**1,438**
Payables	388	451	454	468	483
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**	**694**	**708**	**724**
Shareholders' Funds	488	527	581	635	688
Minority Interests	16	26	26	26	27
Total S/H Equity	503	552	607	661	715
Ttl Liab&S/H Funds	**1,113**	**1,243**	**1,301**	**1,369**	**1,438**

Valuation Ratios

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
PER (x)	27.1	15.9	13.7	14.0	14.0
Adj. PER (x)	19.5	13.4	13.7	14.0	14.0
FD PER (x)	19.5	13.4	13.7	14.0	14.0
Net DPS (sen)	16.0	28.0	21.1	20.7	20.6
Net DY (%)	2.8	4.8	3.6	3.6	3.6
Book/share (sen)	188.4	203.4	224.4	245.1	265.7
P/Book (x)	3.1	2.8	2.6	2.4	2.2
FCF/share (sen)	74.0	22.5	24.4	25.8	25.9
FCF yield (%)	12.8	3.9	4.2	4.5	4.5
Mkt Cap	1,499	1,499	1,499	1,500	1,499
Net Cash(Debt)	-167	-169	-160	-147	-133
EV	1,666	1,668	1,659	1,647	1,632
EV/EBITDA (x)	9.8	8.8	7.2	7.1	7.0
ROE (%)	15.3	20.2	18.0	16.2	14.9
Current Ratio (x)	1.1	0.9	0.9	1.0	1.0
Quick Ratio (x)	0.4	0.3	0.3	0.3	0.3
Interest Cover (x)	7.2	8.4	10.8	10.6	10.5

Cashflow Analysis

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
EBITDA	106	140	181	177	176
Tax Paid	-34	-21	-56	-55	-55
Working Capital Chgs	185	58	7	-5	-5
Other	-7	36	34	40	45
Operating CF	**250**	**213**	**165**	**157**	**160**
FCF	**192**	**58**	**63**	**67**	**67**
CAPEX	-59	-86	-102	-90	-93
Asset Sales	0	1	0	0	0
Acquisitions	0	-69	0	0	0
Other	-21	0	0	0	0
Investing CF	**-80**	**-155**	**-102**	**-90**	**-93**
Dividends	-37	-57	-55	-54	-53
Debt Chgs	-141	1	0	0	0
Other	7	-4	0	0	0
Financing CF	**-171**	**-60**	**-55**	**-54**	**-53**
Net Cashflow	**0**	**-1**	**9**	**13**	**14**

Other Ratios

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
Sales Growth (%)	7.4	9.1	0.7	3.2	3.3
EBITDA Growth (%)	-0.2	11.5	20.6	1.1	1.2
EBIT Growth (%)	-9.4	32.5	28.7	-1.7	-0.9
PBT Growth (%)	-10.0	35.0	32.0	-1.6	-0.7
Net Profit Growth (%)	-10.5	70.0	16.2	-1.6	-0.7
EBITDA Margin (%)	8.8	8.9	10.7	10.5	10.3
EBIT Margin (%)	5.4	6.6	8.4	8.0	7.7
PBT Margin (%)	4.8	5.9	7.8	7.4	7.1
Net Profit Margin (%)	3.9	5.3	5.1	4.9	4.7
Net Debt/Equity (%)	39.7	36.4	33.1	30.4	28.1
CAPEX/Sales (%)	3.0	4.1	4.8	4.1	4.1

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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.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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