

Pharmaniaga Bhd (BUY ↔, EPS ↔)

INDUSTRY: NEUTRAL

NEWSBREAK

11 March 2015

Price Target: RM6.21 (↑)

Share Price: RM5.78

UKM Now, What's Next..?

Highlights/ Comments

- In an announcement to Bursa Malaysia, Pharmaniaga stated that its subsidiary Pharmaniaga Logistics Sdn Bhd had entered into a Supply Agreement with Universiti Kebangsaan Malaysia (UKM) to undertake the services of purchasing, storing, supplying and delivering to UKM drugs and non-drugs approved by UKM (Approved Products).
- The contract will commence from the date of the supply agreement 10th March 2015 and will end on 30th November 2019.
- Recall that Pharmaniaga also entered into a similar supply agreement with Universiti Sains Malaysia on 13th February 2015.
- Similar to the supply agreement with USM, 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.
- As stated in our previous report dated 16th February 2015, we reiterate that the supply agreement will spur more potential business opportunities with other university hospitals in Malaysia.
- We believe this should provide Pharmaniaga with more room to supply its products and services to other university hospitals of UKM, thus, creating a long term partnership with the university.
- Overall, we are positive on this new development to supply pharmaceutical products to university hospitals. This should widen its market reach and provide additional boost to the company's earnings base.

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

- Maintained.

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 higher fair value of RM6.21 (+3.5% from RM6.00 previously) based on higher FY16 P/E multiple of 15x, 15% discount (from 10% previously) to US peers (see Figure #1) as we see improving prospects for the company, especially after recent developments.

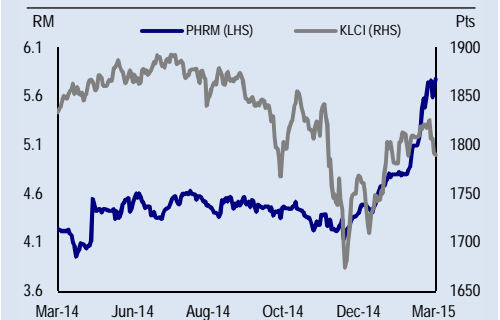
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KLCI	1789.7
Expected share price return	7.4%
Expected dividend return	3.6%
Expected total return	11.0%

Share price



Information

Bloomberg ticker	PHRM MK
Bursa code	7081
Issued shares (m)	259
Market cap (RM m)	1,496
3-mth avg. volume ('000)	199
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	18.0	32.6	38.3
Relative	19.4	30.8	40.8

Major Shareholders

Boustead Holdings	56.4%
LTAT	12.4%
Valuecap SB	5.4%

Summary Earnings Table

FYE 31 Dec	2014A	2015E	2016E	2017E
(RMm)				
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	1.3	1.5	3.4
US										
Teva Pharmaceutical	Dec	USD	56.79	48,385.1	48,385.1	11.0	11.1	2.0	1.8	2.6
Mylan	Dec	USD	55.74	27,222.8	27,222.8	13.5	12.0	3.0	2.5	-
Perrigo	Jun	USD	160.15	22,548.3	22,548.3	21.9	18.9	2.1	2.0	0.3
Hospira	Dec	USD	87.71	15,006.4	15,006.4	35.9	29.2	3.9	3.4	-
Average						20.6	17.8	2.7	2.4	0.7

Bloomberg, HLIB

Pharmaniaga Bhd (BUY, TP: RM6.21, CP: RM5.78)

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	1,496	1,496	1,496	1,497	1,496
Net Cash(Debt)	-167	-169	-160	-147	-133
EV	1,663	1,666	1,657	1,644	1,630
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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