

Pharmaniaga

1H15 Inline, Values Emerging

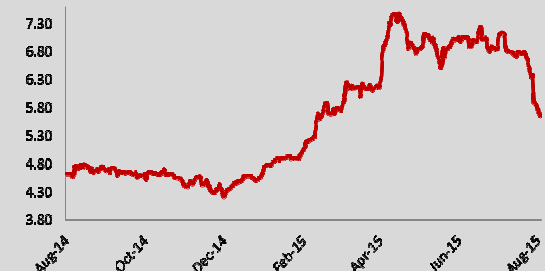
By the Kenanga Research Team | research@kenanga.com.my

Period	<ul style="list-style-type: none"> 2Q15/1H15
Actual vs. Expectations	<ul style="list-style-type: none"> 1H15 PATAMI of RM48m (+13.8% YoY) came in within expectations at 49% and 45% of our and market consensus full-year forecast, respectively.
Dividends	<ul style="list-style-type: none"> A second interim single tier DPS of 7.0 sen was declared bringing 1H15 payout to 14.0 sen, which came in within our expectation.
Key Result Highlights	<ul style="list-style-type: none"> QoQ, 2Q15 revenue rose 8.7% due to contributions from the concession business as well as from its Indonesian operations. However, PBT declined 35% to RM25.2m largely due to an unfavourable product mix coupled with higher overheads, including finance costs and increased provision for stock obsolescence and short expiry products, specifically in the logistics and distribution division which registered a loss of RM1.3m. The Manufacturing Division recorded a PBT of RM26.3m (-5.3% QoQ). This was attributable to lower off-take for in-house products during 2Q15. This brings 2Q15 PATAMI to RM16.2m (-49% QoQ) dragged down by a higher effective tax rate. Note that we have highlighted in 1Q15 that subsequent quarters earnings growth rates are expected to taper off as the recognition of deferred tax assets for some of the subsidiaries are expected to be fully utilised. We estimate the sustainable effective tax rate to be between 28% and 33%. YoY, 1H15 net profit rose 13.8% to RM48m due largely to lower effective tax rate of 24% compared to 32% in 1H14. PBT rose slightly by 1.4% to RM63.7m due to margin improvement in the manufacturing division as a result of improved operational efficiencies, which directly reduced its manufacturing costs. Some of the efficiency improvement initiatives were manufacturing batch consolidation and enhanced procurement exercise. However, this was negated by higher amortization of the Pharmacy Information System. There was also higher allocation of profit towards a talent development programme and on-going pre-clinical studies for the Group's biotechnology herbal project, Kacip Fatimah.
Outlook	<ul style="list-style-type: none"> Pharmaniaga is a prime beneficiary of being the sole concession holder to purchase, store, supply and distribute approved drugs and medical products to 148 government hospitals and 1,400 clinics and district offices nationwide. The concession agreement ends in 2019 and allows for upwards revision in prices every three years.
Change to Forecasts	<ul style="list-style-type: none"> No changes to our earnings forecasts.
Rating & Valuation	<ul style="list-style-type: none"> Upgrade to Outperform. Maintain our TP of RM6.95 based on unchanged 16.5x FY16 EPS. The share price of Pharmaniaga has retraced 25% from its high and is currently trading at an undemanding 13.5x FY16 EPS offering a decent dividend yield of 5%.
Risks to Our Call	<ul style="list-style-type: none"> Better-than-expected volume sales.

OUTPERFORM ↑

Price: RM5.70
Target Price: RM6.95 ↔

Share Price Performance



KLCI 1,572.54
YTD KLCI chg -10.7%
YTD stock price chg 23.4%

Stock Information

Bloomberg Ticker	PHRM MK Equity
Market Cap (RM m)	1,462.7
Issued shares	258.9
52-week range (H)	7.53
52-week range (L)	4.10
3-mth avg daily vol:	126,708
Free Float	28%
Beta	1.0

Major Shareholders

BOUSTEAD HOLDINGS BH	56.4%
LEMBAGA TABUNG ANGKA	10.1%
VALUECAP SDN BHD	5.4%

Summary Earnings Table

FYE Dec (RM m)	2014A	2015E	2016E
Turnover	2122.9	2324.6	2545.4
EBIT	140.2	155.2	176.2
PBT	125.5	145.6	163.4
Net Profit (NP)	93.8	100.0	109.0
Core NP	93.8	100.0	109.0
Consensus (NP)	-	106.0	110.0
Earnings Revision	-	-	-
Core EPS (sen)	36.2	38.6	42.1
Core EPS growth (%)	69.9	6.7	9.0
NDPS (sen)	28.0	29.9	29.5
BVPS (RM)	2.03	2.12	2.25
PER (x)	15.7	14.7	13.5
Price/Book (x)	2.8	2.7	2.5
Net Gearing (%)	32.1	39.9	41.6
Net Div Yield (%)	4.9	5.2	5.2

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Result Highlight

	2Q	1Q	Q-o-Q	2Q	Y-o-Y	6M	6M	Y-o-Y
FY Dec (RM'm)	FY15	FY15	Chg (%)	FY14	Chg (%)	FY14	FY15	Chg (%)
Turnover	512.8	471.9	8.7	525.1	(2.3)	993.7	984.7	(0.9)
EBITDA	43.5	54.5	(20.2)	38.2	13.9	91.8	97.9	6.7
PBT	25.1	38.6	(35.1)	24.6	1.8	62.8	63.7	1.4
PATAMI (NP)	16.2	31.8	(49.0)	16.0	1.5	42.2	48.0	13.8
EPS (sen)	6.3	12.3	(49.0)	6.17	1.5	16.3	18.6	13.8
EBITDA margin	8%	12%		7%		9%	10%	
PBT margin	5%	8%		5%		6%	6%	
Effective tax rate	34%	17%		35%		32%	24%	

Source: Bursa Malaysia, Kenanga Research

Quarterly segmental breakdown

	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	QoQ chg %	YoY chg %
Revenue									
Logistics and Distribution	568.2	468.9	521.4	496.4	622.3	470.0	509.0	8.3	(2.4)
Manufacturing	95.2	90.8	95.6	90.0	93.7	97.5	96.5	(1.0)	0.9
Eliminations	(95.5)	(91.1)	(92.0)	(84.3)	(88.9)	(95.5)	(92.6)	(3.1)	0.6
TOTAL	567.9	468.7	525.1	502.1	627.1	471.9	512.8	8.7	(2.3)
PBT									
Logistics and Distribution	10.7	14.8	1.5	4.9	18.9	10.8	(1.3)	(112.0)	(186.4)
Manufacturing	24.7	25.4	28.6	22.7	17.0	32.2	32.8	2.0	14.8
Eliminations	(2.4)	(2.1)	(5.5)	(2.7)	2.0	(4.4)	(6.5)	48.3	18.3
TOTAL	33.0	38.2	24.6	24.9	37.9	38.6	25.1	(35.1)	1.8
PBT Margins (%)									
Logistics and Distribution	1.9	3.2	0.3	1.0	3.0	2.3	(0.3)		
Manufacturing	26.0	28.0	29.9	25.2	18.1	33.0	34.0		
TOTAL	5.8	8.1	4.7	5.0	6.0	8.2	4.9		

Source: Bursa Malaysia, Kenanga Research

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Income Statement

FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Revenue	1812.3	1946.6	2122.9	2324.6	2545.4
EBITDA	160.3	160.4	189.9	209.2	229.1
Depreciation	-44.1	-54.5	-49.7	-54.0	-52.9
Operating profit	116.3	105.8	140.2	155.2	176.2
Other income	1.1	1.3	1.3	3.3	4.2
Interest Exp	-15.0	-14.7	-16.8	-13.8	-17.8
Associate	0.0	0.0	0.0	0.0	0.0
PBT	103.3	93.0	125.5	145.6	163.4
Taxation	-40.1	-36.2	-31.4	-45.1	-53.9
Minority Interest	-1.5	-1.6	-0.4	-0.4	-0.5
Net Profit	61.7	55.2	93.8	100.0	109.0

Balance Sheet

FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Fixed Assets	339.7	353.4	369.8	410.2	451.6
Intangible Assets	149.5	124.5	233.0	233.0	233.0
Other FA	10.3	18.7	35.7	35.7	35.7
Inventories	464.9	410.5	427.0	490.2	536.8
Receivables	199.5	132.4	142.9	156.5	171.4
Other CA	24.4	38.6	2.3	2.3	2.3
Cash	34.6	32.9	32.0	87.1	109.8
Total Assets	1,222.8	1,111.0	1,242.7	1,415.0	1,540.6

Payables	306.2	337.4	448.6	491.2	537.7
ST Borrowings	341.0	199.6	200.1	260.0	300.0
Other ST Liability	76.6	52.9	6.5	8.1	8.1
LT Borrowings	0.1	0.3	1.1	46.2	51.9
Other LT Liability	11.2	17.6	34.5	34.5	34.5
Minorities Int.	15.8	15.6	25.5	25.9	26.4
Net Assets	472.0	487.6	526.5	549.1	581.8

Share Capital	117.7	129.4	129.4	129.4	129.4
Reserves	354.3	358.2	397.1	419.7	452.4
Equity	472.0	487.6	526.5	549.1	581.8

Cashflow Statement

FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Operating CF	16.7	254.9	213.5	120.3	147.5
Investing CF	(127.3)	(84.0)	(154.5)	(60.0)	(60.0)
Financing CF	89.5	(171.3)	(60.1)	(5.1)	(64.9)
Change In Cash	(21.1)	(0.4)	(1.2)	55.1	22.6
Free CF	(5.8)	211.4	123.5	60.3	87.5

Financial Data & Ratios

FY Dec (RM m)	2012A	2013A	2014A	2015E	2016E
Growth					
Turnover (%)	19.2%	7.4%	9.1%	9.5%	9.5%
EBITDA (%)	39.9%	0.0%	18.4%	10.2%	9.5%
Operating Profit (%)	56.4%	-9.0%	32.5%	10.7%	13.5%
PBT (%)	41.2%	-10.0%	35.0%	16.0%	12.2%
Core Net Profit (%)	18.3%	-10.5%	69.9%	6.7%	9.0%

Profitability (%)

EBITDA Margin	8.8%	8.2%	8.9%	9.0%	9.0%
Operating Margin	6.4%	5.4%	6.6%	6.7%	6.9%
PBT Margin	5.7%	4.8%	5.9%	6.3%	6.4%
Core Net Margin	5.50%	8.10%	8.50%	6.60%	6.50%
Effective Tax Rate	38.8%	39.0%	33.0%	31.0%	33.0%
ROA	5.0%	5.0%	7.5%	7.1%	7.1%
ROE	13.1%	11.3%	17.8%	18.2%	18.7%

DuPont Analysis

Net Margin (%)	3.4%	2.8%	4.4%	4.3%	4.3%
Assets Turnover (x)	0.7	0.6	0.6	0.6	0.6
Leverage factor (x)	2.6	2.3	2.4	2.6	2.6
ROE (%)	13.1%	11.3%	17.8%	18.2%	18.7%

Leverage

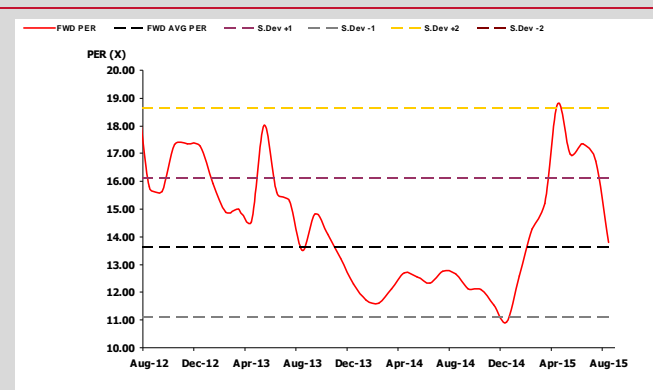
Debt/Asset (x)	0.3	0.2	0.2	0.2	0.2
Debt/Equity (x)	0.7	0.4	0.4	0.6	0.6
Net Cash/(Debt)	-306.5	-167.0	-169.2	-219.1	-242.1
Net Debt/Equity (x)	0.6	0.3	0.3	0.4	0.4

Valuations

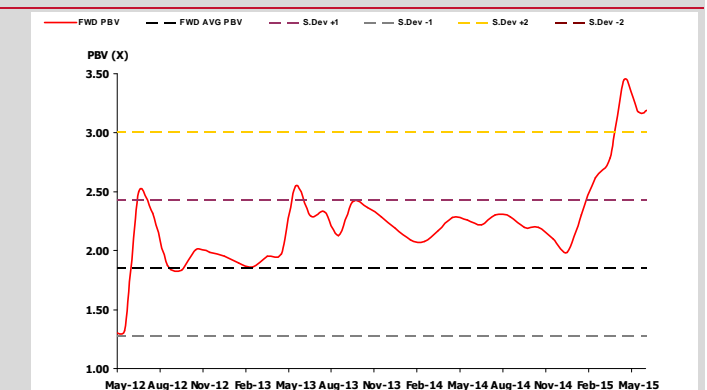
EPS (sen)	23.8	21.3	36.2	38.6	42.1
NDPS (sen)	6.3	16.0	28.0	29.9	29.5
BVPS (RM)	1.82	1.88	2.03	2.12	2.25
PER (x)	23.9	26.7	15.7	14.7	13.5
Net Div. Yield (%)	1.1	2.8	4.9	5.2	5.2
P/BV (x)	3.1	3.0	2.8	2.7	2.5

Source: Bursa Malaysia, Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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Peer Comparison															
NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Est. ROE	P/BV	Net Profit (RMm)			1 Yr Fwd NP Growth	2 Yr Fwd NP Growth	Target Price	Rating
	(RM)	(RMm)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(x)	Actual	1 Yr Fwd	2 Yr Fwd	(%)	(%)	(RM)	
IHH HEALTHCARE BHD	5.69	46790.2	62.0	54.0	49.0	0.5	4.2	2.3	754.3	867.0	954.0	14.9	10.0	5.00	Underperform
KPJ HEALTHCARE BERHAD	4.05	4202.7	29.4	33.6	31.6	0.0	9.0	3.0	143.0	125.0	133.0	-12.6	6.4	3.54	Underperform
PHARMANIAGA BERHAD	5.65	1462.7	15.6	14.6	13.4	0.0	18.2	2.7	93.8	100.0	109.0	6.6	9.0	6.95	Outperform

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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