

Pharmaniaga Bhd (BUY ↔, EPS ↔)

INDUSTRY: NEUTRAL

COMPANY INSIGHT

12 November 2015

Price Target: RM6.93 (↔)

Share Price: RM6.50

TPPA: Good or Bad?

Highlights

- Text of the Trans-Pacific Partnership (TPP) Agreement was released on 5th November 2015 by TPP Parties.

Comments

- Based on the TPP Agreement, there would be an extension of the exclusivity period for new drugs. However, period of extension differs ranging from 3 to 10 years.
- Foreign drug companies from TPP members are allowed to setup manufacturing plants in Malaysia, and vice versa.
- With affordable medicinal products and generic drugs being out of reach for a longer period, this would be a bad news for the rakyat. But, we see this situation as catalysts and opportunities for Pharmaniaga.
- As the sole concession holder, logistics and distribution arm is the group's main contributor (revenue: >95% and PBT: 32%) by earning a margin on top of the drug value delivered. This would translate into improved earnings in the future as pharmaceutical products remain high.
- TPP may present Pharmaniaga outsourcing opportunities. With its Sungai Petani (on average: 70%) and Puchong (still under capacity, <10%) plants running at subpar utilization rates, it has ample space to invite and secure more production contracts and further boost manufacturing contributions.
- Manufacturing regulation is not a concern with Malaysia as a member of PIC/S (Pharmaceutical Inspection Co-operation Scheme). Its production facilities are of high standard, quality complying with GMP (Good Manufacturing Practice) and enjoy halal certification. Overlapping TPPA and PIC/S members include Australia, Canada, Japan, New Zealand and Singapore.
- Even with a shorter period of patent protection, this does not guarantee generic players' success in replicating biosimilar drugs within the extended period cost effectively. However, leveraging on outsourcing arrangements, knowledge transfer will yield higher achievement along with R&D improvements. Also, Pharmaniaga has a huge library of off-patent drugs and medicinal products under their distribution.
- On a different note, an allocation of RM4.6bn was stated in Budget 2016 to supply medicines, consumables, vaccines and reagents to all government hospitals and clinics. We opine that this will benefit Pharmaniaga as it is the sole concession holder to purchase, store, supply and distribute drugs and medicinal products to 148 government hospitals and 1,400 clinics.

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 a meeting with the management.

Rating

BUY ↔, TP: RM6.93 ↔

Valuation

- Positives - Synergy from acquisition, quarterly dividend, secured business outlook thanks to CA as well as defensive and growing business.
- Negatives - FOREX, high level of stock and gearing.
- Maintain BUY with unchanged TP of RM6.93 based on unchanged FY16 P/E multiple of 15.8x, 15% discount to US peers (see Figure #1).

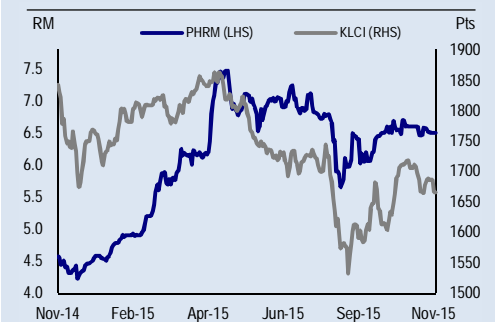
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KLCI	1,665.3
Expected share price return	6.6%
Expected dividend return	4.6%
Expected total return	11.2%

Share price



Information

Bloomberg ticker	PHRM MK
Bursa code	7081
Issued shares (m)	259
Market cap (RM m)	1,683
3-mth avg. volume ('000)	158
SC Shariah-Compliant	Yes

Price Performance	1M	3M	12M
Absolute	0.3	10.2	43.5
Relative	3.0	6.5	56.5

Major Shareholders

Boustead Holdings	56.4%
LTAT	10.1%

Summary Earnings Table

FYE 31 Dec (RMm)	2014A	2015E	2016E	2017E
Revenue	2,123	2,394	2,513	2,641
EBITDA	190	228	240	253
Pre-tax Profit	126	164	170	177
PATAMI	94	110	114	118
Adj. PATAMI	112	110	114	118
Rep. EPS sen	36.2	42.4	43.9	45.7
Adj. EPS sen	43.2	42.4	43.9	45.7
Net DPS sen	28.0	29.7	30.7	32.0
Net DY (%)	4.3	4.6	4.7	4.9
P/E (x)	17.9	15.3	14.8	14.2
P/BV (x)	3.2	3.0	2.8	2.7
EV/EBITDA (x)	9.9	8.3	7.9	7.5
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	0.2

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 6.50	1,682.7	384.0	15.5	14.8	3.0	2.8	4.6
Apex Healthcare	Dec	MYR 3.65	427.6	97.6	11.1	11.4	N/A	N/A	2.7
YSP Southeast Asia	Dec	MYR 2.53	340.3	77.7	N/A	N/A	N/A	N/A	N/A
Hovid	Jun	MYR 0.50	394.0	89.9	15.6	13.2	N/A	N/A	2.2
CCM Duopharma	Dec	MYR 2.68	747.6	170.6	N/A	N/A	N/A	N/A	N/A
Average (excl PHRM)					13.3	12.3	N/A	N/A	2.5
International									
Teva Pharmaceutical	Dec	USD 59.94	51,068.9	51,068.9	11.2	10.7	2.1	1.9	2.3
Allergan	Dec	USD 306.70	120,878.0	120,878.0	20.1	18.9	1.7	1.5	-
Sun Pharmaceutical	Mar	INR 731.95	1,761,391.1	26,561.5	32.2	21.0	5.8	4.7	0.5
Glenmark Pharmaceutical	Mar	INR 948.50	267,625.1	4,035.7	26.9	17.2	5.9	4.4	0.3
Aurobindo Pharma	Mar	INR 831.30	485,449.7	7,320.5	23.6	19.2	6.5	4.7	0.3
Wockhardt Ltd	Mar	INR 1537.45	169,876.6	2,561.7	27.9	22.0	3.9	3.2	0.3
Lupin Ltd	Mar	INR 1790.40	806,140.5	12,156.5	34.6	23.9	7.4	5.9	0.4
Sawai Pharmaceutical	Mar	JPY 7360.00	280,906.1	2,282.7	16.6	15.4	2.2	2.0	1.5
Average					24.1	18.5	4.4	3.5	0.7
Overall Average (Exc Pharma)					22.0	17.3	4.4	3.5	1.1

Bloomberg, HLIB

Bloomberg, HLIB

Figure #2 HLIB Forecasts vs. Consensus

RMm	FY15E			FY16E		
	HLIB	Consensus	%	HLIB	Consensus	%
Net Profit	109.7	105.0	+4.5	113.6	109.0	+4.2
EPS (sen)	42.4	40.3	+5.2	43.9	42.0	+4.5

Bloomberg, HLIB

Pharmaniaga Bhd (BUY, TP: RM6.93, CP: RM6.50)

Income Statement

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
Revenue	1,947	2,123	2,394	2,513	2,641
COGS	-1,776	-1,933	-2,166	-2,274	-2,388
EBITDA	170	190	228	240	253
D&A	-65	-50	-49	-55	-60
EBIT	106	140	179	185	193
Net Interest Income	-13	-15	-15	-15	-15
Associates	0	0	0	0	0
Exceptionals	0	0	0	0	0
PBT	93	126	164	170	177
Tax	-36	-31	-54	-56	-59
PAT	57	94	110	114	119
Minority Interests	-2	0	0	0	0
PATAMI	55	94	110	114	118
Adj PATAMI	77	112	110	114	118
Basic Shares (m)	259	259	259	259	259
Rep. EPS sen	21	36	42	44	46
Adj. EPS sen	30	43	42	44	46
Adj. FD EPS sen	30	43	42	44	46

Quarterly Financial Summary

FYE 31 Dec (RMm)	2014	3Q14	4Q14	1Q15	2Q15
Revenue	525.1	502.1	627.1	471.9	512.8
COGS	-486.7	-460.6	-569.6	-417.4	-469.4
EBITDA	38.3	41.4	57.5	54.5	43.5
D&A	-10.5	-12.5	-14.7	-12.2	-13.3
EBIT	27.8	28.9	42.8	42.3	30.2
Net Interest Income	-3.2	-4.0	-5.0	-3.7	-5.1
Associates	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
PBT	24.6	24.9	37.9	38.6	25.1
Tax	-8.7	-9.9	-1.2	-6.7	-8.4
PAT	16.0	15.0	36.6	31.9	16.6
Minority Interests	0.0	0.0	-0.1	0.1	0.4
PATAMI	16.0	15.0	36.7	31.8	16.2
Adj PATAMI	23.0	20.8	39.9	32.2	19.8
Basic Shares (m)	258.9	258.9	258.9	258.9	258.9
Rep. EPS sen	6.2	5.8	14.2	12.3	6.3
Adj. EPS sen	8.9	8.0	15.4	12.4	7.7
Adj. FD EPS sen	8.9	8.0	15.4	12.4	7.7

Balance Sheet

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
Cash	33	32	28	15	17
Receivables	169	155	166	175	176
Inventories	411	427	451	474	491
Investments	0	0	0	0	0
Fixed Assets	353	370	382	381	382
Intangibles	126	236	282	326	367
Other Assets	22	23	23	23	23
Ttl Assets	1,113	1,243	1,333	1,393	1,456
Payables	388	451	508	533	560
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	748	773	800
Shareholders' Funds	488	527	559	594	629
Minority Interests	16	26	26	26	27
Total S/H Equity	503	552	585	620	656
Ttl Liab&S/H Funds	1,113	1,243	1,333	1,393	1,456

Valuation Ratios

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
PER (x)	30.5	17.9	15.3	14.8	14.2
Adj. PER (x)	21.9	15.1	15.3	14.8	14.2
FD PER (x)	21.9	15.1	15.3	14.8	14.2
Net DPS (sen)	16.0	28.0	29.7	30.7	32.0
Net DY (%)	2.5	4.3	4.6	4.7	4.9
Book/share (sen)	188.4	203.4	216.1	229.3	243.0
P/Book (x)	3.5	3.2	3.0	2.8	2.7
FCF/share (sen)	74.0	22.5	28.1	25.5	32.8
FCF yield (%)	11.4	3.5	4.3	3.9	5.0
Mkt Cap	1,683	1,683	1,683	1,684	1,683
Net Cash(Debt)	-167	-169	-173	-187	-184
EV	1,850	1,852	1,856	1,870	1,867
EV/EBITDA (x)	10.9	9.7	8.2	7.8	7.4
ROE (%)	15.3	20.2	18.7	18.3	18.0
Current Ratio (x)	1.1	0.9	0.9	0.9	0.9
Quick Ratio (x)	0.4	0.3	0.3	0.3	0.3
Interest Cover (x)	7.2	8.4	10.7	11.0	11.5

Cashflow Analysis

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
EBITDA	106	140	179	185	193
Tax Paid	-34	-21	-54	-56	-59
Working Capital Chgs	185	58	22	-5	8
Other	-7	36	34	40	45
Operating CF	250	213	180	164	187
FCF	192	58	73	66	85
CAPEX	-59	-86	-108	-97	-102
Asset Sales	0	1	0	0	0
Acquisitions	0	-69	0	0	0
Other	-21	0	0	0	0
Investing CF	-80	-155	-108	-97	-102
Dividends	-37	-57	-77	-79	-83
Debt Chgs	-141	1	0	0	0
Other	7	-4	0	0	0
Financing CF	-171	-60	-77	-79	-83
Net Cashflow	0	-1	-4	-13	2

Other Ratios

FYE 31 Dec (RMm)	2013A	2014A	2015E	2016E	2017E
Sales Growth (%)	7.4	9.1	12.7	5.0	5.1
EBITDA Growth (%)	-0.2	11.5	19.8	5.4	5.4
EBIT Growth (%)	-9.4	32.5	27.7	3.3	4.1
PBT Growth (%)	-10.0	35.0	31.0	3.5	4.2
Net Profit Growth (%)	-10.5	70.0	16.9	3.5	4.2
EBITDA Margin (%)	8.8	8.9	9.5	9.5	9.6
EBIT Margin (%)	5.4	6.6	7.5	7.4	7.3
PBT Margin (%)	4.8	5.9	6.9	6.8	6.7
Net Profit Margin (%)	3.9	5.3	4.6	4.5	4.5
Net Debt/Equity (%)	39.7	36.4	34.4	32.4	30.7
CAPEX/Sales (%)	3.0	4.1	4.5	3.9	3.9

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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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