

Pharmaniaga

9M15 Inline; Expecting Stronger 4Q

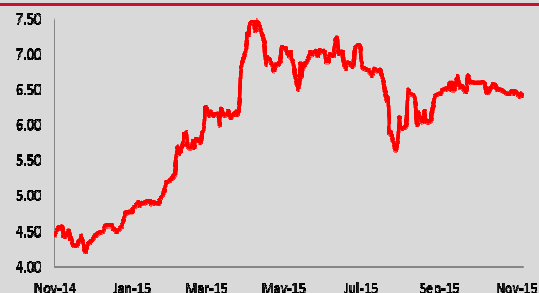
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Period	<ul style="list-style-type: none"> 3Q15/9M15
Actual vs. Expectations	<ul style="list-style-type: none"> 9M15 PATAMI of RM69m (+21% YoY) came in at 69% and 65% of our and market consensus full-year forecast, respectively. We consider the results to be within our expectation on the back of a seasonally stronger 4Q.
Dividends	<ul style="list-style-type: none"> A third interim single tier DPS of 9.0 sen was declared, bringing 9M15 payout to 23.0 sen, which is within our expectation.
Key Result Highlights	<ul style="list-style-type: none"> QoQ, 3Q15 revenue rose 2.0% due to contributions from the concession business as well as from its Indonesian operations. PBT rose 1.0% to RM25.3m despite amortization of Pharmacy Information System (PhIS) and transportation costs, reduced overhead expenses such as marketing and promotion costs. This brings 3Q15 PATAMI to RM20m (+23% QoQ) boosted by a higher effective tax rate of 21% compared to 34% in 2Q15. YoY, 9M15 net profit rose 21% to RM69m despite a flattish turnover due largely to lower effective tax rate of 23% compared to 34% in 9M14. PBT rose slightly by 1.4% to RM63.7m due largely to favourable profit margins from the Manufacturing Division (31.1% in 9M15 vs. 29.5% in 9M14) as a result of continuous cost optimisation initiatives, which led to reduced manufacturing costs. This included batch consolidation, enhanced procurement exercises and increased production yields through utilisation of innovative methods. However, this was negated by higher amortization of the Pharmacy Information System.
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"> Maintain Outperform. Maintain our TP of RM6.95 based on unchanged 16.5x FY16E EPS. We like Pharmaniaga for: (i) its defensive earnings being the sole concession holder to purchase, store, supplies and distribute approved drugs and medical products to Government hospitals and clinics nationwide, (ii) its exposure in the growing healthcare and pharmaceuticals industry which is supported by an ageing population, and (iii) decent dividend yield of 4.6%.
Risks to Our Call	<ul style="list-style-type: none"> Lower-than-expected volume sales.

OUTPERFORM ↔

Price: RM6.45
Target Price: RM6.95 ↔

Share Price Performance



KLCI	1,684.42
YTD KLCI chg	-4.4%
YTD stock price chg	40.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PHRM MK Equity
Market Cap (RM m)	1,662.0
Issued shares	258.9
52-week range (H)	7.53
52-week range (L)	4.10
3-mth avg daily vol:	125,011
Free Float	30%
Beta	0.9

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)	-	105.0	109.0
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)	17.8	16.7	15.3
Price/Book (x)	3.2	3.0	2.9
Net Gearing (%)	32.1	39.9	41.6
Net Div Yield (%)	4.3	4.6	4.6

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Result Highlight

	3Q FY15	2Q FY15	Q-o-Q Chg (%)	3Q FY14	Y-o-Y Chg (%)	9M FY14	9M FY15	Y-o-Y Chg (%)
FY Dec (RM'm)								
Turnover	524.4	512.8	2.3	502.1	4.4	1,495.8	1,509.2	0.9
EBITDA	45.7	43.5	5.2	41.7	9.6	132.8	144.7	9.0
PBT	25.3	25.1	1.1	24.9	1.6	87.7	90.0	2.6
PATAMI (NP)	20.0	16.2	23.1	15.0	33.1	57.1	69.0	20.7
EPS (sen)	7.7	6.3	23.2	5.78	33.4	22.1	26.3	19.0
EBITDA margin	9%	8%		8%		9%	10%	
PBT margin	5%	5%		5%		6%	6%	
Effective tax rate	21%	34%		40%		34%	23%	

Source: Bursa Malaysia, Kenanga Research

Quarterly segmental breakdown

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	QoQ chg %	YoY chg %
Revenue									
Logistics and Distribution	468.9	521.4	496.4	622.3	470.0	509.0	522.5	2.7	5.3
Manufacturing	90.8	95.6	90.0	93.7	97.5	96.5	82.4	(14.6)	(8.4)
Eliminations	(91.1)	(92.0)	(84.3)	(88.9)	(95.5)	(92.6)	(80.5)	(13.0)	(4.5)
TOTAL	468.7	525.1	502.1	627.1	471.9	512.8	524.4	2.3	4.4
PBT									
Logistics and Distribution	14.8	1.5	4.9	18.9	10.8	(1.3)	0.3	(121.5)	(94.3)
Manufacturing	25.4	28.6	22.7	17.0	32.2	32.8	19.1	(41.9)	(16.2)
Eliminations	(2.1)	(5.5)	(2.7)	2.0	(4.4)	(6.5)	6.0	(192.9)	(325.3)
TOTAL	38.2	24.6	24.9	37.9	38.6	25.1	25.3	1.1	1.6
PBT Margins (%)									
Logistics and Distribution	3.2	0.3	1.0	3.0	2.3	(0.3)	0.1		
Manufacturing	28.0	29.9	25.2	18.1	33.0	34.0	23.1		
TOTAL	8.1	4.7	5.0	6.0	8.2	4.9	4.8		

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

Source: Bursa Malaysia, Kenanga Research

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%

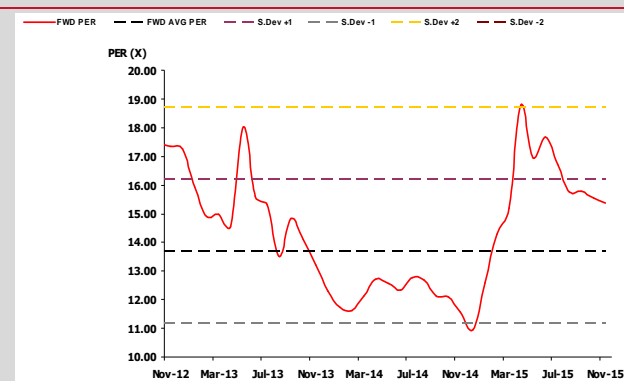
Leverage

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

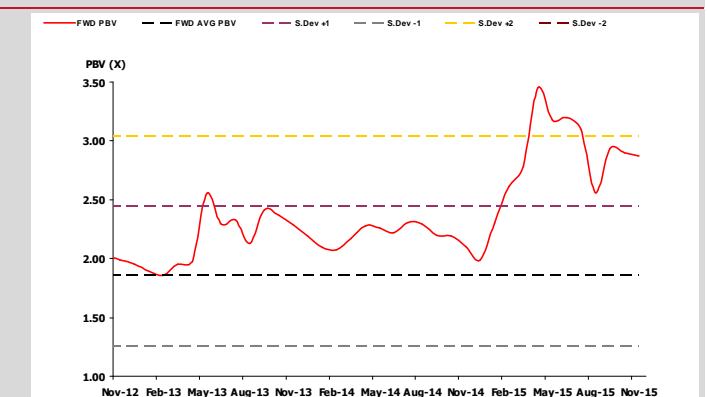
Valuations

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)	27.1	30.2	17.8	16.7	15.3
Net Div. Yield (%)	1.0	2.5	4.3	4.6	4.6
P/BV (x)	3.5	3.4	3.2	3.0	2.9

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	6.56	53945.1	71.5	62.2	56.5	0.5	4.2	2.6	754.3	867.0	954.0	14.9	10.0	5.00	Underperform
KPJ HEALTHCARE BERHAD	4.24	4404.5	35.7	31.1	29.6	0.0	10.2	3.2	123.3	141.4	149.0	14.7	5.4	3.97	Underperform
PHARMANIAGA BERHAD	6.50	1682.7	17.9	16.8	15.4	0.0	18.2	3.1	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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