

22 December 2016 | Initiate Coverage

Pharmaniaga Berhad

Good proxy to healthcare growth

Initiate with BUY
Target Price (TP): RM5.80

INVESTMENT HIGHLIGHTS

- Holds a monopoly on government concession business
- Manufacturing as the future earnings driver
- Increasing revenue contribution from Indonesia expected
- Earnings to be driven by all segments
- Initiate with BUY with TP of RM5.80 per share

Monopolise the government concession business. Pharmaniaga has a 100% market share of the government concession business of MYR1.2bn. This Concession Agreement enables the company to supply and distribute pharmaceutical products to medical institutions under the Ministry of Health (MOH) via its logistics and distribution division until 2019.

Manufacturing as the future earnings driver. Pharmaniaga's earnings in the manufacturing division rely on the development and launch of new products. We see high growth potential in the segment for its: (i) better quality high margin pharmaceutical products; (ii) 200 new products in the pipeline for the next ten years; and (iii) capacity expansion – management guided that they are adding high volume capacity equipment as they foresee healthcare spending to escalate.

Increasing contribution from Indonesia expected. Pharmaniaga's Indonesian operation contributes 23% to the group's total FY15 revenue. Going forward, we think that Pharmaniaga will benefit from both its network of 29 branches across the country and also from Indonesia's large population of 255m.

Earnings to be driven by all segments. We project a FY17-18F net profit growth of +24.5% and +14.3% respectively, premised on: (i) expectation of increase in supply order from the government; (ii) increased contribution from its Indonesian operation and; (iii) new generic drugs introduced to the market.

Initiate coverage with BUY with TP of RM5.80. We initiate coverage on Pharmaniaga with a **BUY** recommendation and TP of RM5.80. Our TP is derived via pegging our FY17F EPS of 29sen to FY17F 20x.

RETURN STATS

Price (21 December 2016)	RM5.20
Target Price	RM5.80
Expected Share Price Return	+11.5%
Expected Dividend Yield	+3.9%
Expected Total Return	+15.4%

STOCK INFO

KLCI	1,629.59
Bursa / Bloomberg	7081 / PHRM MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	259.4
Par Value (RM)	0.50
Market cap. (RM'm)	1,348.8
Price over NA	1.0
52-wk price Range	RM5.20-RM6.36
Beta (against KLCI)	0.85
3-mth Avg Daily Vol	0.132m
3-mth Avg Daily Value	RM0.77m
Major Shareholders (%)	
Boustead Holdings Bhd	56.33
LTAT	10.04
Kamarudin Lodin	4.82
KWAP	3.11

KEY INVESTMENT THESIS

The main concessionaire for Ministry of Health. Pharmaniaga is currently the biggest pharmaceutical player in Malaysia and also the main concessionaire for Malaysia's MOH. Pharmaniaga has been the main concessionaire for MOH since 1994 with the mandate to purchase medicines under MOH's "Approved Products" list and to distribute the medicines to medical institutions under the purview of MOH. The current concession agreement (CA) was renewed back in November 2009 for a period of 10 years and is expected to expire in November 2019. Approved Products currently constitute about 50% of MOH's total medicine requirements.

Under the CA, the company supplies both branded and generic drugs to both government hospitals and clinics under MOH's jurisdiction which as of 2014, comprises of 142 hospitals and 2,871 clinics. The company would source out the required medicines and sell it to MOH at a price pre-determined by the MOH with an additional fixed mark-up rate to cover the cost of distribution, inventory holding and procurement. The CA contributes about 56% of Pharmaniaga's revenue and about 23% of PBT in FY15.

Additionally, in the recently announced Budget 2017 the government announced that it has not only increased the healthcare budget allocation by 8.6% from 2016 but also allocated RM4.5b solely for the purpose of supplying medicines, vaccines and reagents to government hospitals and clinics. We think this will contribute positively to Pharmaniaga's topline and bottomline going forward.

Increasing contribution from Indonesia expected. Pharmaniaga has penetrated into the Indonesian pharmaceutical market with its acquisition of 75% equity interest in PT Errita Pharma (manufacturing plant) in February 2014. This acquisition is a complement to its Indonesia marketing and distribution arm, PT Millennium Pharmacon International, enabling Pharmaniaga to complete the Business Value Chain in Indonesia with involvement in both the manufacturing and distribution of pharmaceutical products. As such, the company can command greater market share in the USD5b Indonesian pharmaceutical industry. As of FY15, the Indonesian operation contributes about 23% out of Pharmaniaga's total revenue.

PT Millenium Pharmacon International carries out Pharmaniaga's L&D operation in Indonesia and currently its network comprises of 29 branches nationwide with almost 900 employees. Through this, the company plans to explore new and untapped markets spread across more than 20,000 hospitals, pharmacies and drugstores in Indonesia. It has also embarked on broadening its portfolio via a collaboration PT AEON Indonesia with the opening of its first community pharmacy called Apotek Millenium Pharma which commenced operation back in May 2015 at AEON Mall, BSD City, Tangerang in Jakarta. We think this is a good start for the company to take advantage of Indonesia's 255m population.

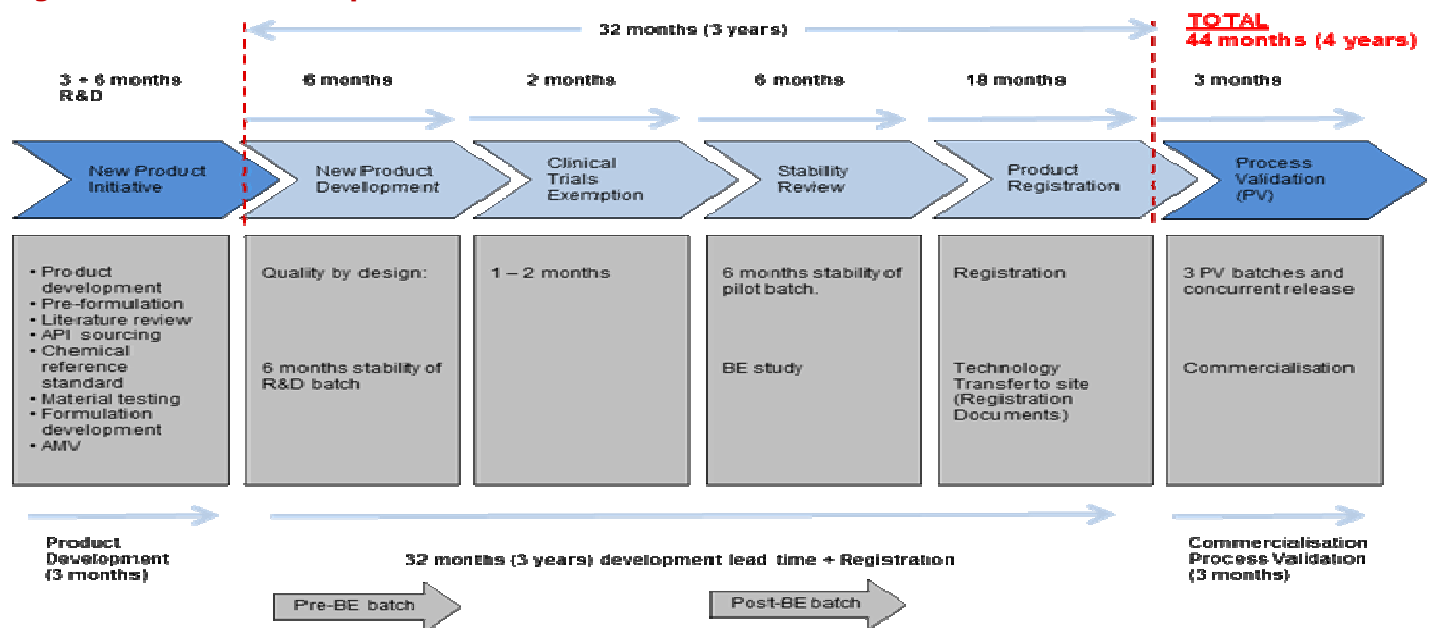
Figure 1: PT Millennium Pharmacon International's distribution network



Source: Company

Manufacturing as the future earnings driver. Pharmaniaga has laid out plans to develop and manufacture 200 products within the next 10 years on top of its existing 480 products. Among the new products will be the extension of the Citrex supplement range which had been well received in the consumer healthcare market. Generic drug manufacturers such as Pharmaniaga will also stand to gain from the “patent cliff” which will continue to see blockbuster drugs going off patent until 2019. Once the original drug goes off patent, other pharmaceutical companies are free to replicate the product. Nevertheless, the product development process is about four years and to ensure that Pharmaniaga will be able to deliver on their 200 products within the next 10 years, they have been beefing up on R&D expenditure. With two new Indian researchers onboard, the development process will continue to speed up and we can see the promised growth in Pharmaniaga’s manufacturing division.

Figure 2: Product Development Process



Source: Company

Pharmaceutical products supplier to three local teaching universities. Pharmaniaga was also awarded contract to purchase, supply, store and deliver drugs and non-drugs pharmaceutical products to three local medical teaching hospitals earlier this year. These teaching hospitals are: Universiti Sains Malaysia hospital, Universiti Kebangsaan Malaysia hospital and Universiti Malaya hospital. It is expected that these contracts will contribute about RM160m annually in revenue to Pharmaniaga until November 2019. However, as these are contracts for the supply of drugs to teaching hospitals, we are expecting the profit margins to be slightly lower than that of the concession to the government hospitals. We think that the gross margins might be lower by about 2-3%. That said, we think that the volume coming from these teaching hospitals will more than offset the lower margins as these hospitals are sizeable in nature and are well-positioned in the state’s populous areas.

Giving the private sector a go. Although the core business segment for Pharmaniaga is the ongoing Concession Agreement with MOH, management guided that they are also focusing on growing its market share in the non-concession business. At present, the Malaysian private healthcare sector is worth RM4.9b and we understand from the management that Pharmaniaga holds about 8% market share of it. In FY15, Pharmaniaga recorded a double digit growth of 13% for the first time in its sales to the private sector. According to management, the Malaysian non-concession business is very fragmented with various players holding on to single digits market share. Hence, the private sector presents a good opportunity for further market penetration.

Expanding its reach via community pharmacy chain. Pharmaniaga has ventured into the community pharmacy business with the opening of its RoyalePharma retail pharmacy chain in 2013. It currently has seven outlets with the latest outlet opened in Shah Alam, Selangor back in September 2016. We understand that it plans to add more outlets to its network through strategic collaborations, partnerships and alliances to widen its reach. Although management has yet to disclose the targeted number of outlets it is planning to open in the next couple of years, based on our observation we think that Pharmaniaga might open around two outlets per financial year.

That said, we believe that it is unlikely that the pharmacy business will become one of Pharmaniaga's core business in the short-to-medium term as we view that the contribution to both its revenue and earnings will be quite minimal at 3-5% in the longer term. This is due to the intense pricing competition currently experienced by retail pharmacy players such as Guardian and Caring Pharmacy. We believe that the establishment of its retail pharmacy is more towards promoting its brand as well as community outreach.

Figure 3: RoyalePharma pharmacy chain

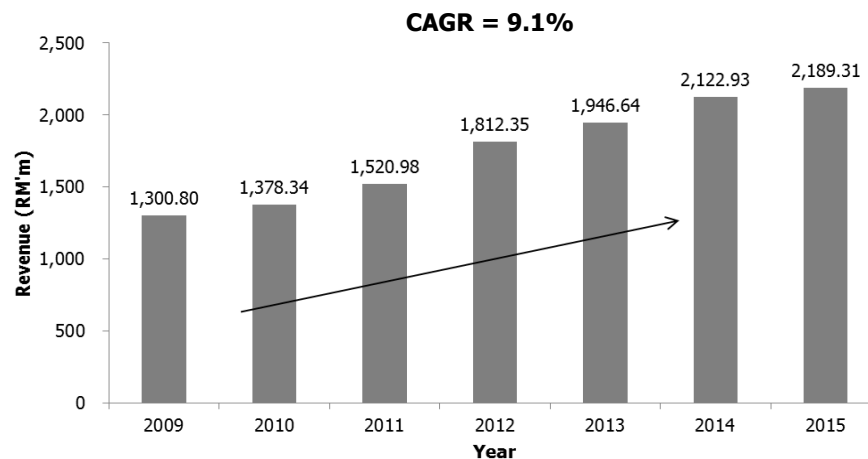


Source: Company

FINANCIAL HIGHLIGHTS

Decent growth in revenue. Historically, Pharmaniaga's revenue has been on an uptrend. From 2009-2015, it recorded a revenue CAGR of 9.1%. The increasing trend was mainly backed by its logistics and distribution segment, which contributed significantly to the group's revenue via the concession business and new tenders awarded to the company such as the award to supply pharmaceutical products to the three local universities as mentioned earlier in the report.

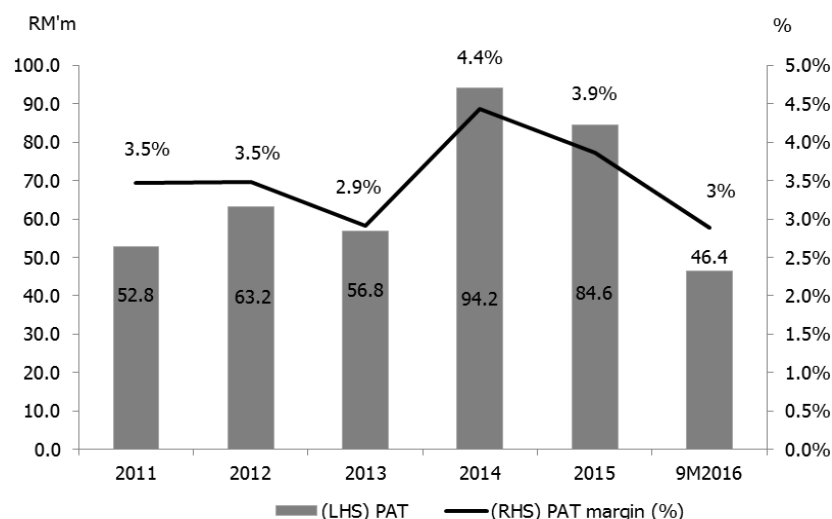
Chart 1: Historical revenue trend



Source: Company

Fluctuating but improvement seen for earnings. For the past five years, Pharmaniaga has seen fluctuations in its earnings delivery. In 2013, its earning was affected by one-offs which are related to: (i) impairment charges on goodwill related to its subsidiary Pharmaniaga Biomedical; (ii) amortisation charges related to Novation Agreement* and; (iii) provision for impairment of receivables. Meanwhile, the dip in FY15 vs FY14 was mainly attributed to lower government order as well as amortisation of Pharmacy Information System (PhIS). Despite the expected continued dip in earnings this year, which is mainly caused by the cut in government's healthcare expenditure by about RM250m earlier this year and further amortisation on PhIS, we expect that earnings will start to pick up in FY17. This is partly attributable to the recent budget 2017 announcement whereby RM4.5b will be allocated for the supply of medicines, vaccines and reagents to government hospitals and clinics. We believe that this will lift the revenue coming from the CA and will flow positively to its earnings.

Chart 2: Historical earnings trend

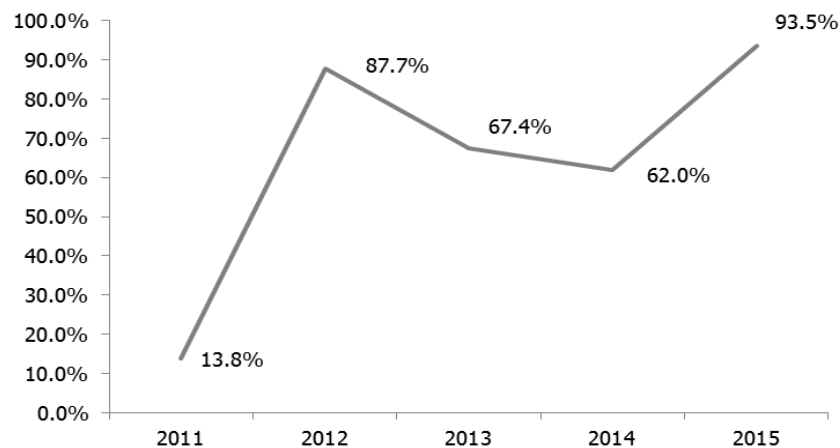


Source: Company

*Refer to appendices

Attractive dividend payout policy. Pharmaniaga has been consistently paying out >60% of its earnings as dividends for the past four years. Management shared that it is willing to pay out as high as 70% of its earnings. The company has so far for the past four years paid out close to and above its dividend policy and we believe Pharmaniaga will be able to meet its targeted dividend payout going forward given its past track record.

Chart 3: Historical dividend payout ratio trend



Source: Company

KEY RISKS

Foreign operation management issue. Pharmaniaga's strategy to capture the growing healthcare demand on an international basis by expanding to Indonesia might post operation management issues. Operating in a different geographical location would require Pharmaniaga to fully understand the local market conditions and comply with local regulations to be able to achieve operational effectiveness. If Pharmaniaga is unable to address these issues, their foreign operation could be loss making and will affect its total earnings.

Execution risk. One of the significant risk in investing in Pharmaniaga is the failure of the company to deliver the milestones in its Concession Agreement. Non-performing of the contracts will result in the early termination of the CA by the government, which will negatively impact the company's profitability. However, Pharmaniaga has always been obtaining excellent ratings from the government due to its magnificent services and products' quality. In FY15, the company achieved a success rate of 99.8% in terms of order fulfilment to the government within the stipulated delivery time of seven to ten working days.

Product recalls. There are risks of the government recalling the company's products due to non-compliance with regulations and health standards. As a result, the reputation and contract renewal of the company could be adversely affected. Nevertheless, we understand that Pharmaniaga has always maintained a high standard of quality for its products in accordance to the GMP guidelines.

Termination or non-renewal of pharmaceutical manufacturing license. Pharmaceutical product audits are conducted by the government and customers from time to time. Therefore, Pharmaniaga is subjected to the risk where its clients might obtain any unpleasant findings from its audits. Subsequently, the company's license to manufacture pharmaceutical products might be revoked or not be renewed.

VALUATION

Target Price. We are valuing Pharmaniaga with a target price (TP) of RM5.80 per share. Our TP is derived by pegging our FY17F EPS of 29sen to FY17 forward PER of 20x.

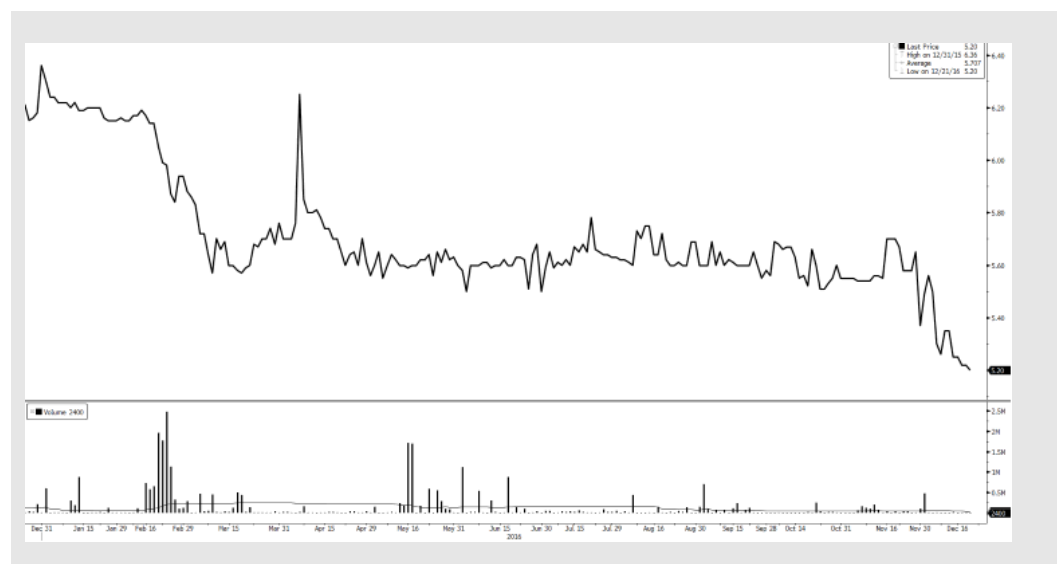
Initiate with BUY. Notwithstanding the current year's dip in earnings, we believe that going forward Pharmaniaga's earnings will be buoyed by the: (i) RM4.5b budget allocation for medicines by the Government announced in the recent Budget 2017; (ii) higher contribution from Indonesia as well as; (iii) potential introduction of new generic drugs into the market. All factors considered, we are initiating our coverage on Pharmaniaga with a **BUY** recommendation.

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2014	FY2015	FY2016F	FY2017F	FY2018F
Revenue	2,122.9	2,189.3	2,224.0	2,292.8	2,364.0
Cost of sales	(1,773.5)	(1,836.5)	(1,894.8)	(1,942.0)	(1,997.6)
Gross profit	349.5	352.9	329.1	350.8	366.4
Finance cost	(16.8)	(15.1)	(22.0)	(23.8)	(25.0)
Profit Before Tax	125.6	112.7	82.2	102.0	116.5
Income tax	(31.4)	(27.4)	(20.5)	(25.5)	(29.1)
Profit After Tax	94.2	84.6	60.9	75.8	86.7
EPS (sen)	0.36	0.32	0.24	0.29	0.33
EPS Growth (%)	67.9	-10.4	-26.6	24.5	14.3
PER (x)	14.8	16.5	22.5	18.1	15.8
Dividend Per Share (sen)	0.22	0.30	0.16	0.21	0.23
Dividend yield (%)	4.8	4.7	3.1	3.9	4.4

Source: Company, Forecasts by MIDFR

DAILY PRICE CHART



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SUMMARY OF FINANCIAL STATEMENT

Income statement	2013	2014	2015	2016F	2017F	2018F
Revenue	1946.6	2122.9	2189.3	2224.0	2292.8	2364.0
Cost of sales	-1631.0	-1773.5	-1836.5	-1894.8	-1942.0	-1997.6
Gross profit	315.7	349.5	352.9	329.1	350.8	366.4
Operating profit	124.5	124.5	141.0	126.8	103.1	124.8
PBT	111.1	125.6	112.7	82.2	102.0	116.5
PAT	56.8	94.2	84.6	60.9	75.8	86.7
EPS (basic)	21.3	35.8	32.1	23.5	29.3	33.5
Dividend/share (sen)	14.4	22.2	30.0	16.5	20.5	23.4
Payout ratio (%)	67.4	62.0	93.5	70.0	70.0	70.0
Dividend yield (%)	3.2	4.8	4.7	3.1	3.8	4.4
PAT margin (%)	2.9	4.4	3.9	2.7	3.3	3.7

Cash flow	2013	2014	2015	2016F	2017F	2018F
Operating cash flow						
PBT	111.1	125.6	112.7	82.2	102.0	116.5
Depreciation	10.1	16.2	22.0	33.0	35.2	37.3
Finance cost	-16.1	-16.6	-15.5	-22.0	-23.8	-25.0
Others	37.2	1.3	0.9	0.0	0.0	0.0
OP before Δ in WC	142.3	126.5	120.2	93.1	113.5	128.8

Δ in working capital

Inventories	54.3	0.0	0.0	45.7	-15.3	-15.8
Payables	56.1	2150.8	2170.4	-8.9	-13.8	-14.2
Receivables	31.3	-1900.7	-2112.5	0.6	4.6	4.7
Others	0.0	0.0	0.9	0.0	0.0	0.0
Cash from operations	284.0	376.6	179.0	130.5	89.0	103.5
Tax refunded	0.0	0.0	0.0	0.0	0.0	0.0
Taxes paid	-33.6	-21.3	-35.3	-20.5	-25.5	-29.1
Net CF to Operations	250.4	355.2	143.7	110.0	63.5	74.4

Investing cash flow

Acquisition of PPE	-43.5	-31.4	-61.3	-65.0	-65.0	-65.0
Others	0.0	0.0	-0.4	0.0	0.0	0.0
Net CF to Investments	-43.5	-31.4	-61.7	-65.0	-65.0	-65.0

Financing cash flow

Dividend paid	-37.2	-57.5	-90.6	-42.6	-53.1	-60.7
Net rpmt of term loans	0.0	-510.8	-635.4	-4.7	-7.9	-10.8
Others	-134.1	508.2	826.8	40.0	35.2	23.7
Net CF to Financing	-171.3	-60.1	100.8	-7.4	-25.8	-47.8
Exchange difference	0.0	0.3	1.2	0.0	0.0	0.0
Net increase/(decrease)	-0.4	-1.2	-10.7	80.2	22.0	15.7
Cash b/f	34.6	32.9	32.0	22.5	102.7	124.7
Overdrafts and forex	0.0	0.0	0.0	0.0	0.0	0.0
Ending cash c/f	34.1	32.0	22.5	102.7	124.7	140.4

Source: Company, MIDFR

Balance sheet	2013	2014	2015	2016F	2017F	2017F
Assets						
PPE	353.4	369.8	406.2	438.2	468.0	495.7
Intangible assets	124.5	233.0	284.1	284.1	284.1	284.1
Others	7.7	35.7	36.5	36.5	36.5	36.5
Total NCA	485.6	638.5	726.8	758.8	788.6	816.3

Receivables	143.4	117.0	147.7	148.3	152.9	157.6
Inventories	410.5	427.0	539.9	494.2	509.5	525.3
Others	38.6	28.2	58.8	58.8	58.8	58.8
Cash & cash equiv.	32.9	32.0	22.5	102.7	124.7	140.4
Total CA	625.5	604.3	768.9	804.0	845.9	882.1

Total assets	1111.1	1242.7	1495.6	1562.7	1634.4	1698.4
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Equity

Share capital	129.4	129.4	129.4	129.4	129.4	129.4
Reserves	358.2	397.1	400.0	418.2	441.0	467.0
S/holder's funds	487.6	526.5	529.4	547.7	570.4	596.4
MI	15.6	25.5	30.6	30.6	30.6	30.6
Total equity	503.3	552.0	560.0	578.3	601.0	627.0

Liabilities

Loans	0.3	1.1	0.6	0.6	0.6	0.6
Others	17.6	34.5	40.9	40.9	40.9	40.9
Total NCL	17.9	35.6	41.5	41.5	41.5	41.5
Loans	199.6	200.1	399.6	439.6	474.7	498.5
Payables	337.4	396.5	435.9	444.8	458.6	472.8
Others	52.9	58.4	58.4	58.4	58.4	58.4
Total CL	589.9	655.0	894.0	942.8	991.7	1029.7
Total liabilities	607.8	690.5	935.4	984.3	1033.2	1071.2

Ratios	2013	2014	2015	2016F	2017F	2018F
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Profitability ratios

ROE (%)	11.3	17.1	15.1	10.5	12.6	13.8
ROA (%)	5.1	7.6	5.7	3.9	4.6	5.1
Net margins (%)	2.9	4.4	3.9	2.7	3.3	3.7

Liquidity ratios

Current ratio (x)	1.1	0.9	0.9	0.9	0.9	0.9
Quick ratio (x)	0.4	0.3	0.3	0.3	0.3	0.3

Growth

Sales (%)	7.4	9.1	3.1	1.6	3.1	3.1
Profit (%)	-10.2	66.0	-10.2	-28.0	24.5	14.3

APPENDICES

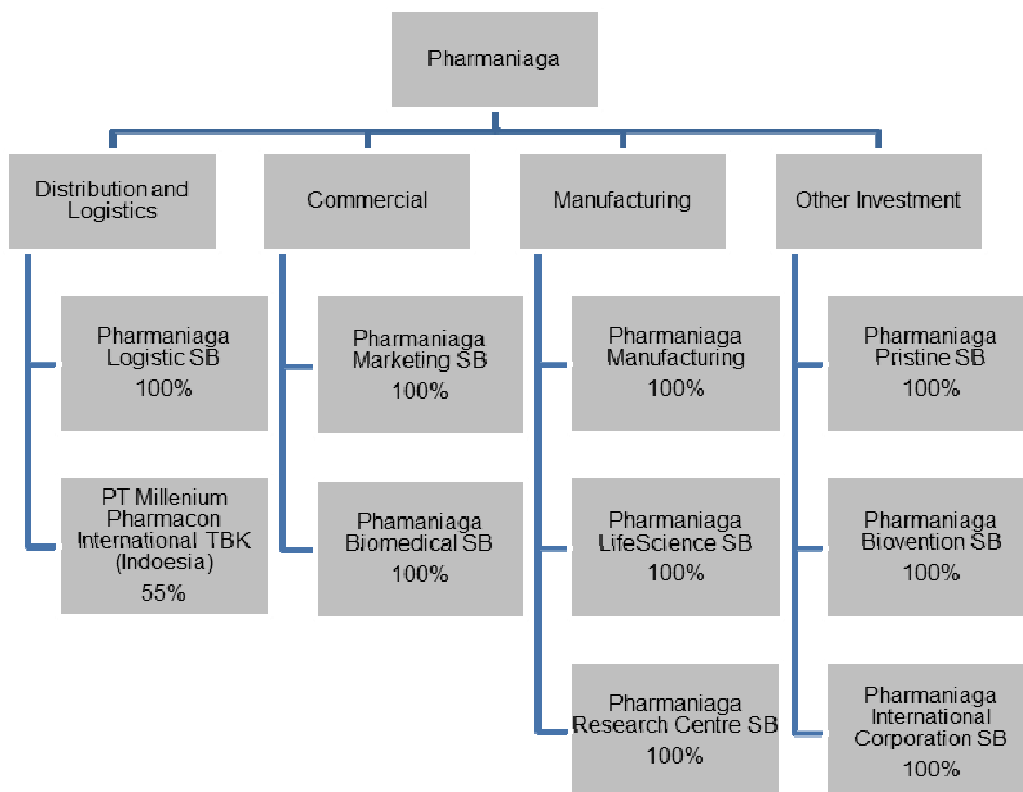
Company Profile and Business Overview

Background. Founded in 1998 through the merger of Remedi Pharmaceuticals Sdn Bhd , Raza Manufacturing Bhd and Strand Pharmaceuticals Sdn Bhd, Pharmaniaga was listed in Bursa Malaysia Securities Berhad in Nov 1999, which was subsequently transferred to the Main Board of Bursa Malaysia in March 2003. In 2010, Pharmaniaga was acquired by Boustead Group. The company operates in two principal business segments: (i) pharmaceutical logistics and distribution and; (ii) pharmaceutical manufacturing.

Largest local integrated healthcare player. Pharmaniaga provides extensive services, which include manufacturing of generic pharmaceuticals, logistic and distributions, sales and marketing, supply of medical products & services and hospital equipping. Through its logistics and distribution segment, it captures 100% market share (RM1.2b) of the Malaysian Pharmaceutical Industry's concession business.

Key management. Pharmaniaga is led by its Group's Managing Director, Dato' Farshila Emran, who has assumed her role since 13 April 2011. She possesses 10 years of experience in the pharmaceutical industry with 24 years of knowledge in developing and managing businesses in various fields. She is also an EXCO member of Malaysian Pharmaceutical Organisation. In 2013 Dato' Farshila Emran was conferred the "MBA Industry Excellence Award – Health Services" by The ASEAN Business Advisory Council Malaysia, for her monumental contribution to the advancement of Malaysian business as a whole, exceptional demonstration of stewardship of a business as well as continually sustaining the success of the Pharmaniaga Group.

Figure 4: Pharmaniaga corporate structure



Source: Company

Main business segments. Pharmaniaga operates in two principal business segments:

1. Pharmaceutical logistics and distribution Pharmaniaga's wide local distribution network is backed by the 10 year Concession Agreement (CA) with MOH, which enables the company to supply and distribute medical items to over 148 government hospitals and 2,000 healthcare clinics locally, aided by its combined logistic capacity of 34,286 pallets over 280,000 square feet. Their aim to reach out to everyone everywhere is slowly coming together as they have built a distribution network that spreads throughout Malaysia and Indonesia. Malaysia's distribution network is being supported by 4 key distribution centres (Shah Alam, Juru, Kuching and Kota Kinabalu); whereas in Indonesia, their distribution network comprises of 29 branches with the 3 warehouses located in Jakarta, Bandung and Surabaya.

Prior to growth in the pharmaceutical manufacturing business, this segment was the core of Pharmaniaga business. The logistics and distribution segment has been contributing about 99% of the group's total revenue throughout the past 5 years.

2. Pharmaceutical manufacturing. Pharmaniaga's manufacturing facilities are designed and constructed to the international pharmaceutical engineering guideline and comply with International Pharmaceutical Inspection Cooperation Scheme (PIC/S) requirement for current Good Manufacturing Practice (GMP) of pharmaceuticals. The Quality Management System is certified to the ISO9001 standards, Occupational Health & Safety practices are certified to OHSAS18001 standards while the Environment Management System is certified to the ISO 14001 standards. Their QC laboratories are credited to the SAMM ISO/IEC 17025 laboratory management system.

With manufacturing plants that are fully GMP compliant following PIC/s guidelines and Bio-Equivalent status ("BE" – status), Pharmaniaga manufactures 59 "BE" - status approved generic pharmaceuticals. The therapeutic product categories include consumer healthcare, cardiovascular, respiratory, anti-infective and anti-diabetics. To date, Pharmaniaga have a cumulative of 477 products registered locally and 238 registered internationally.

Figure 5: Pharmaniaga corporate structure



Pharmaniaga Manufacturing Berhad - plant in Bangi
Products: Solid and galenical and Cephalosporin



Pharmaniaga LifeScience Sdn Bhd - plant in Puchong
Products: Small volume injectables



Idaman Pharma Manufacturing Sdn Bhd - plant in Sri Iskandar
Products: Oral solid and granule dosage Penicilin



Idaman Pharma Manufacturing Sdn Bhd - plant in Sg Petani
Products: Solid and galenical non-penicilin

Source: Company

NOVATION AGREEMENT

According to the management, Novation Agreement was one of the causes for the one-off charges it had incurred back in FY13 that eroded its earnings. Pharmaniaga under its CA with the government is responsible to source and supply pharmaceutical products under the "Approved List" to the government hospitals. One of the subsidiaries that was responsible to carry out this activity for Pharmaniaga is Idaman Pharma Sdn Bhd (IPSB) which falls under government's Adoption Scheme. The scheme is aimed at increasing Bumiputera manufacturers' participation in the pharmaceutical industry.

IPSB is an approved supplier to MOH and Pharmaniaga will need to enter into various agreements with IPSB in terms of quantity and price of pharmaceutical products to be supplied to MOH. IPSB is also the party responsible for negotiating with the government on prices of products to be supplied once every three years.

Pharmaniaga acquired Idaman Pharma Manufacturing Sdn Bhd (IPMSB) back in 2011. This was done after Pharmaniaga was taken over by Boustead Holdings from UEM Group during the same year. IPMSB is a generic drug manufacturer which is previously 51% and 49% owned by Boustead Holdings and IPSB respectively. The purchase consideration for the acquisition of IPMSB was RM99.7m. IPMSB was the supplier of medical products to IPSB which then would sell off the products onward to Pharmaniaga to be supplied to MOH. With the acquisition of IPMSB, Pharmaniaga also acquired IPSB's "Adoption Scheme" status and the two companies entered into a Novation Agreement with IPSB to transfer all the rights and obligations of IPSB under the supply agreement with Pharmaniaga to IPMSB.

Figure 6: Supply structure before acquisition of IPMSB and IPSB



Source: Company

Pharmaniaga, as a consideration for the transfer of Adoption Scheme Status and Novation Agreement paid a cash amount of RM51.1m to IPSB. This consideration was derived through a method of net present value of income that IPSB would have generated under the supply agreement with Pharmaniaga. The payment was then capitalised on Pharmaniaga's book as an intangible asset.

The latest supply agreement entered into by Pharmaniaga and IPSB prior to the acquisition was for a three year supply of 50 medical products from 1st February 2012 until 31st January 2014. This means that the Novation Agreement which came into effect at the end of March 2012 will expire in 22 months along with the supply agreement. As a result, Pharmaniaga amortised the Novation Agreement for a period of 22 months from 1st April 2012 until 31st January 2014. This caused Pharmaniaga to incur an amortisation charge of RM28m in FY13. That said, the charge was no longer recognised post 31st January 2014.

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.