

11 November 2019

# Pharmaniaga

## Breathes Easier, For Now

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Quoting TheEdgemarkets.com, the Government has agreed to provide a 25-month interim period for procurement of drugs to Pharmaniaga Bhd after its concession ends on 30 Nov 2019. We were positively surprised by this short-term reprieve for Pharmaniaga. Still, beyond FY21, the future looks uncertain considering that the concession accounts for an estimated 50% of the group's revenue. Upgrade back our FY20E net profit forecast by 40% as we reinstate revenue from the concession. However, TP is raised from RM1.60 to RM1.85 based on lowered 9x FY20E EPS (from previously 11.5x) which is at -2.0SD below 5-year historical forward mean due to the cloudy earnings visibility beyond FY21. Reiterate Underperform.

**A temporary reprieve from a major U-turn.** The Government has agreed to provide a 25-month interim period for procurement of drugs to Pharmaniaga Bhd after its concession ends on Nov 30, said Health Minister Datuk Seri Dr Dzulkefly Ahmad. The interim period from Dec 1 2019 to Dec 31 2021 was to ensure no supply chain disruption in the supply and distribution of medicines nationwide while an open tender and appointment of a new concessionaire is developed. This latest development came as a positive surprise which differs from what was mentioned previously and only provide a temporary reprieve to Pharmaniaga. Recall, on 31 Oct 2019, quoting TheEdgemarkets.com, Health Minister Datuk Seri Dr Dzulkefly Ahmad was quoted as saying that there would be no more concessions for logistics and distribution services for medical supplies.

**Low margin logistical support was renewed for an additional 5years.** However, starting from 1 Dec 2019, the Government will award Pharmaniaga a five-year contract for logistics and distribution of medicines based on its capabilities and performance. We highlight here that PBT margin for Logistics & Distribution segment is razor-thin averaging at 0.8% over the past 13 quarters. We believe the contract extension for logistical support lies in Pharmaniaga's capability in the development of a procurement and logistical computerised system i.e. Pharmacy Information System (PHIS). PHIS play a vital and integral role in ensuring the distribution of drugs to patients and effective management of stock levels.

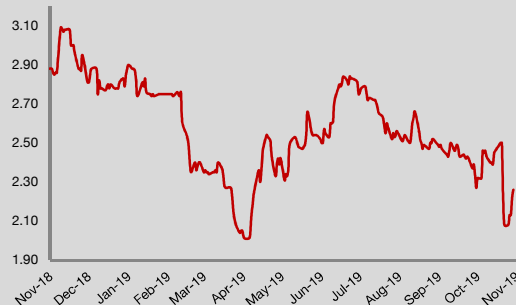
**Looking for buyer for 56.1%-owned Pharmaniaga?** Separately, according to the Edge Weekly, Boustead Holdings is looking to sell 56.1%-owned Pharmaniaga. We don't expect the share price to rally considering Pharmaniaga's cloudy earnings visibility beyond 2021. Recall, Boustead Holdings Berhad paid an estimated RM534m for 86.8% stake in Pharmaniaga (at RM5.75/share) in 2010. Based on current share price of RM2.21, the stock trades at 11x FY20E PER and 1x FY20E P/Book.

**Reiterate Underperform.** Due to the fluidity of the news and this latest development, we upgrade back our FY20E net profit by 40% taking into account an 20% increase in revenue. However, TP is raised marginally from RM1.60 to RM1.85 based on lowered 9x FY20E EPS (from previously 11.5x) which is -2.0SD below 5-year historical forward mean due to the cloudy earnings visibility beyond FY21. Reiterate Underperform.

## UNDERPERFORM ↔

Price : **RM2.26**  
Target Price : **RM1.85** ↑

### Share Price Performance



KLCI 1,609.73  
YTD KLCI chg -4.8%  
YTD stock price chg -18.7%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PHRM MK Equity
Market Cap (RM m)	590.4
Shares Outstanding	261.2
52-week range (H)	3.13
52-week range (L)	2.00
3-mth avg daily vol:	163,513
Free Float	14%
Beta	0.8

### Major Shareholders

Boustead Holdings Bhd	55.9%
LTAT	11.2%

### Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	2385.0	2504.2	2527.7
PBT	70.2	83.1	78.1
Net Profit (NP)	42.5	56.5	53.1
<b>Core NP</b>	<b>57.4</b>	<b>56.5</b>	<b>53.1</b>
Consensus (NP)	-	54.8	54.3
Earnings Revision	-	-	+40%
Core EPS (sen)	16.4	21.8	20.5
Core EPS growth (%)	(20.9)	33.1	(6.0)
NDPS (sen)	16.0	14.0	10.0
BVPS (RM)	1.97	2.05	2.15
PER (x)	13.8	10.4	11.0
Price/Book (x)	1.1	1.1	1.1
Net Gearing (%)	119.2	115.5	116.7
Net Div Yield (%)	7.1	6.2	4.4



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## Income Statement

FY Dec (RM m)	2017A	2018A	2019E	2020E
Revenue	2324.0	2385.0	2504.2	2527.7
EBITDA	138.3	152.5	175.3	174.4
Depre. & Amort	-46.5	-48.1	-51.3	-53.9
Operating Profit	91.8	104.4	124.0	120.5
PBT	73.1	70.2	83.1	78.1
<b>Net Profit</b>	<b>53.8</b>	<b>42.5</b>	<b>56.5</b>	<b>53.1</b>
<b>Core Net Profit</b>	<b>53.8</b>	<b>57.4</b>	<b>56.5</b>	<b>53.1</b>

## Operating Margin

FY Dec (RM m)	2017A	2018A	2019E	2020E
Fixed Assets	410.9	406.4	415.1	421.1
Intangibles	365.4	400.9	400.9	400.9
Other FA	52.9	41.9	41.9	41.9
Inventories	485.0	693.0	727.7	734.5
Receivables	245.5	317.0	337.7	362.9
Other CA	19.0	17.9	17.9	17.9
Cash	27.9	35.7	31.1	49.5
Total Assets	1,606.6	1,912.8	1,972.3	2,028.8
Payables	546.2	655.4	692.9	664.7
ST Borrowings	443.9	642.7	642.7	699.4
Ot. ST Liability	2.1	18.4	19.3	19.3
LT Borrowings	0.4	0.1	0.1	0.1
Ot. LT Liability	66.8	67.5	67.5	67.5
Minorities	19.1	19.3	20.1	20.9
Net Assets	528.0	509.3	529.6	556.8
Share Capital	146.2	149.4	149.4	149.4
Reserves	381.8	359.9	380.2	407.4
Equity	528.0	509.3	529.6	556.8

## Cashflow Statement

FY Dec (RM m)	2017A	2018A	2019E	2020E
Operating CF	239.4	(82.8)	90.7	104.3
Investing CF	(62.4)	(71.8)	(60.0)	(60.0)
Financing CF	(216.7)	162.8	(35.2)	(25.9)
Change In Cash	(39.8)	8.3	(4.6)	18.4
Free CF	179.4	(142.8)	30.7	44.3

Source: Kenanga Research

## Financial Data &amp; Ratios

FY Dec (RM m)	2017A	2018A	2019E	2020E
<b>Growth</b>				
Turnover	6.2%	2.6%	5.0%	0.9%
EBITDA	-6.3%	10.3%	14.9%	-0.5%
Operating Profit	-9.8%	13.8%	18.7%	-2.8%
PBT	1.5%	-3.9%	18.3%	-5.9%
Net Profit /(loss)	18.0%	-21.1%	33.1%	-6.0%

## Profitability

EBITDA Margin	6.0%	6.4%	7.0%	6.9%
Operating margin	22.3%	30.8%	26.9%	26.6%
PBT Margin	3.1%	2.9%	3.3%	3.1%
Core Net Margin	2.3%	1.8%	2.3%	2.1%
Eff. Tax Rate	24.6%	38.4%	31.0%	31.0%
ROA	3.4%	2.2%	2.9%	2.6%
ROE	10.2%	8.3%	10.7%	9.5%

## DuPont Analysis

Net Margin (%)	2.3	1.8	2.3	2.1
Assets T/O (x)	0.7	0.8	0.8	0.8
Lev. Factor (x)	3.0	3.8	3.7	3.6
ROE (%)	10.2	8.3	10.7	9.5

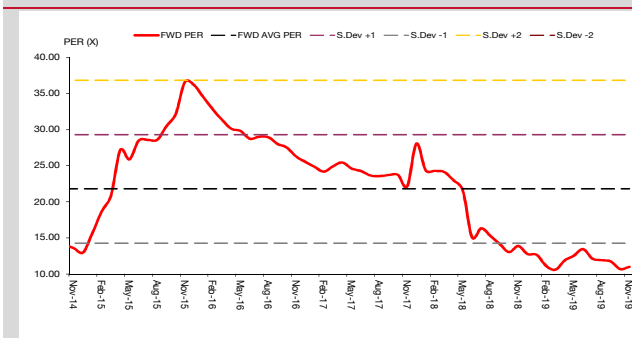
## Leverage

Debt/Asset (x)	0.3	0.3	0.3	0.4
Debt/Equity (x)	0.8	1.3	1.2	1.3

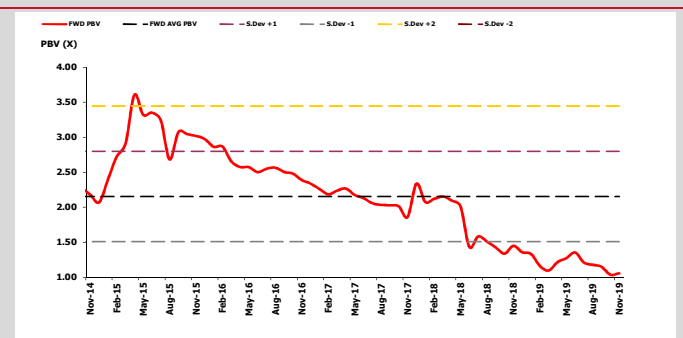
## Valuations

EPS (sen)	20.8	16.4	21.8	20.5
NDPS (sen)	19.0	16.0	14.0	10.0
BVPS (RM)	2.04	1.97	2.05	2.15
PER (x)	10.9	13.8	10.4	11.0
Net Div. Yield(%)	8.4	7.1	6.2	4.4
PBV (x)	1.1	1.1	1.1	1.1

## Fwd Core PER Band



## Fwd PBV Band



Source: Bloomberg, Kenanga Research

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## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
HEALTHCARE																	
IHH HEALTHCARE BHD	5.51	48344.7	Y	12/2019	12.0	10.3	0.5	8.4	47.0	46.8	43.1	2.2	2.1	4.5	0.5	4.85	UP
KPJ HEALTHCARE BERHAD	0.93	3959.5	Y	12/2019	10.5	3.3	5.0	1.0	22.2	21.2	21.0	2.1	1.9	9.1	2.2	1.15	OP
PHARMANIAGA BERHAD	2.26	590.4	Y	12/2019	5.0	0.9	-1.6	-6.0	10.2	10.4	11.0	1.1	1.1	10.6	4.4	1.85	UP

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%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

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

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