

20 November 2020

Pharmaniaga

A Weak 3QFY20, Cloudy Mixture

By Raymond Choo Ping Khoo | pkchoo@kenanga.com.my

9MFY20 core PATAMI of RM34m (+15% YoY) came in at 50%/47% of our/consensus forecasts. The results came in below our expectation due to lower-than-expected concession demand. We cut FY20E net profit by 11% to take into account the lower concession demand. However, we maintain our FY21E earnings forecast. The share price has run up ahead of earnings expectation and fundamentals in anticipation of Pharmaniaga being selected to package the Covid-19 vaccine once it is commercialised. No change to our TP of RM1.80 based on 8x FY21E EPS. UP maintained.

Results' highlights. QoQ, 3QFY20 top-line fell 3% as demand from concession business and Indonesia were impacted by the pandemic. PBT fell 71% due largely to lower contribution from manufacturing (-74%) and logistics (-66%). Correspondingly, 3QFY20 PATAMI came in at RM1.4m (-86%) dragged down by a higher effective tax rate of 68% compared to 33% in 2QFY20. A 3rd interim dividend of 1.5 sen was announced bringing 9MFY20 DPS to 10.0 sen came in above expectation. Raise our FY20E DPS assumption from 10 sen to 12 sen.

YoY, 9MFY20 revenue fell 1% due to lower concession but orders from non-concession businesses mainly due to higher sales of personal protective equipment in response to the Covid-19 outbreak helped cushion further downside. The Logistics and Distribution division's PBT rose 238%, driven by stronger contributions from non-concession as well as lower operating costs which more than offset lower Manufacturing division (-73%). This brings PATAMI higher by 15%.

Outlook. The Government has agreed to provide a 25-month interim concession period for procurement of drugs to Pharmaniaga after its concession ended on 30th Nov 2019. The interim period from 1st Dec 2019 to 31st Dec 2021 is 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. However, starting from 1st Dec 2019, the government awarded Pharmaniaga a five-year contract extension 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 0.2% over the past 20 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.

We cut our FY20E net profit by 11% to take imputing lower contribution from concession business. However, we maintain our FY21E earnings forecast.

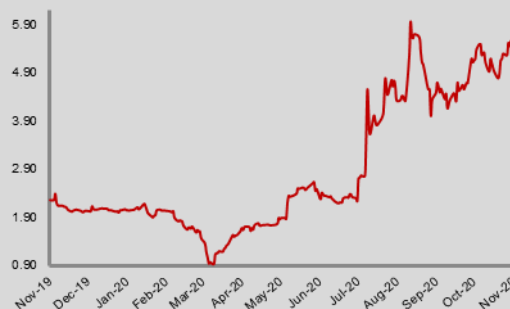
Maintain UP. The share price has risen sharply since July on talks that Pharmaniaga will be selected to package the Covid-19 vaccine once it is commercialised. However, we caution that such talks are premature and even if selected, there may be multiple packagers for the vaccine. It is also unclear at this stage as to the financial impact of such a venture, mindful that the government will likely want to see it delivered in the most competitive manner as possible. TP is unchanged at RM1.80 based on 8x FY21E EPS (-1.5SD below 5-year historical forward mean due to lack of earnings clarity beyond FY21). The recent run-up in its share price has rendered current valuations unattractive, which seems to have over priced the positive near-term prospects.

Key risk is higher-than-expected volume sales.

UNDERPERFORM ↔

Price : RM5.72
Target Price : RM1.80 ↔

Share Price Performance



KLCI	1,583.68
YTD KLCI chg	-0.3%
YTD stock price chg	177.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PHRM MK EQUITY
Market Cap (RM m)	1,497.0
Shares Outstanding	261.7
52-week range (H)	6.69
52-week range (L)	0.91
3-mth avg daily vol:	3,301,273
Free Float	14%
Beta	1.3

Major Shareholders

Boustead Holdings Bhd	55.8%
LTAT	11.2%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	2820.5	2754.2	2681.1
PBT	-191.9	87.1	83.6
Net Profit (NP)	-149.2	60.3	57.9
Core NP	44.8	60.3	57.9
Consensus (NP)		71.6	80.7
Earnings Revision	-	-11.0%	-
Core EPS (sen)	17.3	23.3	22.4
Core EPS growth (%)	5.5	34.6	(4.0)
NDPS (sen)	6.0	12.0	10.0
BVPS (RM)	1.31	1.42	1.54
PER (x)	33.1	24.6	25.6
Price/Book (x)	4.4	4.0	3.7
Net Gearing (%)	158.4	137.4	118.4
Net Div Yield (%)	1.0	2.1	1.7



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Result Highlight								
FY Dec (RM m)	3Q FY20	2Q FY20	Q-o-Q Chg (%)	3Q FY19	Y-o-Y Chg (%)	9M FY19	9M FY20	Y-o-Y Chg (%)
Turnover	624.8	645.8	(3.2)	716.8	(12.8)	2104.8	2090.5	(0.7)
EBITDA	21.4	30.1	(29.0)	31.0	(31.1)	123.6	100.8	(18.4)
PBT	4.1	14.3	(71.4)	3.9	5.4	46.6	49.3	5.8
PATAMI (NP)	1.4	10.0	(85.5)	0.5	199.8	29.4	33.8	15.3
EPS (sen)	0.6	3.8	(85.6)	0.2	205.6	11.3	12.9	14.9
EBITDA margin	3%	5%		4%		6%	5%	
PBT margin	1%	2%		1%		2%	2%	
Effective tax rate	68%	33%		90%		37%	32%	

Source: Bursa Malaysia, Kenanga Research

Quarterly segmental breakdown							
	1Q20	2Q20	3Q20	Chg % q-o-q	2019 9M	2020 9M	Chg % y-o-y
Revenue (RM m)							
Logistics and Distribution	579.9	471.7	440.5	(6.6)	1504.2	1492.2	(0.8)
Manufacturing	68.2	68.4	64.6	(5.6)	219.8	201.2	(8.4)
Indonesia	239.2	173.2	183.9	6.2	594.4	596.3	0.3
Eliminations	(67.4)	(67.6)	(64.3)	(4.9)	(213.6)	(199.3)	(6.7)
Total	819.9	645.8	624.8	(3.2)	2104.8	2090.5	(0.7)
Pre-tax profit^ (RM m)							
Logistics and Distribution	23.0	14.0	4.8	(65.9)	17.4	41.8	140.6
Manufacturing	9.1	3.5	0.9	(74.4)	36.1	13.5	(62.6)
Indonesia	(0.0)	(1.9)	(0.5)	(74.1)	(0.7)	(2.4)	252.6
Pre-tax profit margin (%)							
Logistics and Distribution	4.0	3.0	1.1		1.2	2.8	
Manufacturing	13.3	5.1	1.4		16.4	6.7	

Source: Kenanga Research, Bursa Malaysia

^before unallocated corporate expenses

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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	5.43	47,660	Y	12/2020	-20%	26.7%	-30%	43.0%	48.6	73.3	51.2	2.0	2.1	2.9%	0.7%	4.56	UP
KPJ HEALTHCARE BERHAD	0.925	3,959	Y	12/2020	-8.7%	5.8%	-32%	15.9%	19.3	28.1	24.3	2.2	2.1	7.5%	2.2%	1.00	OP
PHARMANIAGA BERHAD	5.72	1,497	Y	12/2020	-2.4%	-2.7%	35%	-4.0%	33.1	24.6	25.6	4.4	4.0	17.1%	2.1%	1.80	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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my