

HLIB Research

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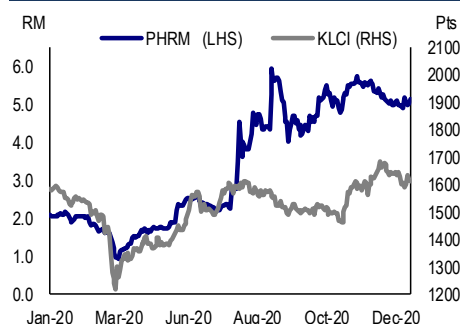
HOLD (Maintain)

Target Price: RM5.70
Previously: RM5.70
Current Price: RM5.16

Capital upside	10.5%
Dividend yield	3.0%
Expected total return	13.5%

Sector coverage: Healthcare

Company description: Pharmaniaga is the sole drug and medical supplies distributor concessionaire to the MoH of Malaysia.

Share price


	1M	3M	12M
Historical return (%)			
Absolute	-2.8	-0.6	150.5
Relative	1.5	-6.4	147.3

Stock information

Bloomberg ticker	PHRM MK
Bursa code	7081
Issued shares (m)	262
Market capitalisation (RM m)	1,350
3-mth average volume ('000)	1,434
SC Shariah compliant	Yes

Major shareholders

Boustead Holdings Bhd	55.8%
LTAT	11.2%
Kamaruddin Lodin Wok	4.8%

Earnings summary

FYE (Dec)	FY19	FY20f	FY21f
PATMI – core	51.6	62.3	68.7
EPS – core (sen)	19.8	24.1	26.5
P/E (x)	26.1	21.5	19.5

Pharmaniaga

Covid-19 vaccine from Sinovac

Pharmaniaga has entered into an Agreement with Sinovac for the purchase of ready-to-fill bulk product for the supply of 14m doses of Covid-19 vaccine in Malaysia. We are positive on this news as we believe it will enhance Pharmaniaga's vaccine business as well as aid in forming long-term partnerships. It expects to distribute the vaccines by end of Mar 2021. We retain our forecasts, pending the finer details. Maintain HOLD with unchanged TP of RM5.70 (PE multiple of 21.5x of mid FY21 EPS).

NEWSBREAK

Pharmaniaga has entered into a Binding Term Sheet Agreement with Sinovac Life Sciences Co. Ltd (subsidiary of Sinovac Biotech Ltd) for the purchase of ready-to-fill bulk product for the supply of 14m doses of Covid-19 vaccine in Malaysia.

Sinovac is a China-based biopharmaceutical company that focuses on the research development, manufacturing and commercialization of vaccines that protect against human infectious diseases.

The Agreement would enable Pharmaniaga to carry out fill-and-finish process of Covid-19 vaccine in Malaysia. Also, Sinovac will enter into a Local Manufacturing Agreement and a Technology and Know-How License Agreement.

The Agreement shall be effective from 12 January 2021 and shall remain in force for a period of 1 year.

HLIB's VIEW

Positive. We are positive on the news; we feel the Agreement would serve as a platform for Pharmaniaga to further strengthen its vaccine business. Apart from that, it will also aid in its long-term partnerships, including technology transfer to grow the sector in Malaysia. Moreover, we expect this Agreement would allow for a new income stream contribution to Pharmaniaga.

Covid-19 vaccine from Sinovac. Sinovac has completed its Phase 3 trials in Brazil and Turkey. The vaccine has to be stored at 2-8 degree Celsius which can be catered by Pharmaniaga's existing facilities. This project will be executed in Pharmaniaga's small volume injectable (SVI) high-tech plant in Puchong. Pharmaniaga expects to receive the vaccine in Mar 2021, and hopes to distribute the vaccines by end of that month.

Forecast. We keep our forecasts at this juncture, pending finer details on price point, cost structure and stock supply timeline.

Maintain HOLD, TP: RM5.70. Maintain HOLD with unchanged TP of RM5.70. Our TP is based on mid FY21 earnings pegged to P/E multiple of 21.5x (+2SD of 5 year mean).

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Cash	35.7	29.6	(2.3)	(7.1)	(8.3)
Receivables	222.8	204.1	303.0	322.8	336.2
Inventories	693.0	617.9	633.6	666.4	694.4
PPE	406.4	382.3	301.5	289.6	279.6
Others	549.9	358.4	383.5	402.1	422.0
Assets	1,907.7	1,592.3	1,619.2	1,673.7	1,723.9
Payables	572.3	549.0	561.1	591.2	615.7
Debt	642.8	565.3	644.1	644.1	644.1
Others	164.0	121.1	42.3	42.3	42.3
Liabilities	1,379.1	1,235.4	1,247.4	1,277.6	1,302.1
Shareholder's equity	509.3	337.9	352.5	376.5	401.9
Minority interest	19.3	19.1	19.3	19.6	19.9
Equity	528.7	356.9	371.8	396.1	421.8

Cash Flow Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
EBIT	88.4	-153.0	117.0	126.9	132.3
Working capital	-200.4	96.6	-39.5	-22.5	-16.9
Taxation	-27.0	42.4	-20.9	-23.0	-24.3
Others	57.1	203.7	18.0	14.3	14.1
CFO	-81.8	189.8	74.7	95.8	105.2
Capex	-75.9	-77.5	-74.0	-76.9	-80.1
Others	-0.7	4.8	8.5	12.0	14.0
CFI	-76.6	-72.7	-65.5	-64.9	-66.1
Changes in debt	198.5	1.2	0.0	0.0	0.0
Shares issued	0.0	0.0	0.0	0.0	0.0
Dividends	-39.2	-40.7	-40.5	-44.7	-47.2
Others					
CFF	161.9	-125.3	-37.0	-38.2	-42.7
Net cash flow	3.4	-8.2	-27.8	-7.3	-3.6
Forex	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	28.0	28.0	29.6	-2.3	-7.1
Ending cash	35.7	29.6	-2.3	-7.1	-8.3

Income Statement

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Revenue	2,385.0	2,820.5	2,693.0	2,800.4	2,916.5
EBITDA	153.5	130.6	158.6	164.2	169.5
EBIT	105.4	-153.0	117.0	126.9	132.3
Finance cost	-36.1	-37.6	-33.6	-34.9	-35.1
Associates & JV	0.0	0.0	0.0	0.0	0.0
Profit before tax	70.2	-190.6	83.4	92.0	97.2
Zakat & Tax	-27.0	42.4	-20.9	-23.0	-24.3
Net profit	43.2	-147.2	62.6	69.0	72.9
Minority interest	-0.8	-0.2	-0.3	-0.3	-0.3
Core PATMI	59.5	51.6	62.3	68.7	72.6

Valuation & Ratios

FYE Dec	FY18	FY19	FY20f	FY21f	FY22f
Core EPS (sen)	22.9	19.8	24.1	26.5	28.0
P/E (x)	22.5	26.1	21.5	19.5	18.4
EV/EBITDA (x)	12.7	15.0	12.5	12.2	11.8
DPS (sen)	16.0	8.5	15.6	17.2	18.2
Dividend yield (%)	3.1	1.6	3.0	3.3	3.5
BVPS (RM)	2.0	1.3	1.4	1.5	1.6
P/B (x)	2.6	4.0	3.8	3.6	3.3
EBITDA margin	6.4%	4.6%	5.9%	5.9%	5.8%
EBIT margin	4.4%	-5.4%	4.3%	4.5%	4.5%
PBT margin	2.9%	-6.8%	3.1%	3.3%	3.3%
Net margin	1.8%	-5.2%	2.3%	2.5%	2.5%
ROE	11.2%	14.5%	16.8%	17.3%	17.2%
ROA	3.1%	3.2%	3.8%	4.1%	4.2%
Net gearing	1.2	1.8	1.7	1.6	1.5

Assumptions

FYE Dec	FY20f	FY21f	FY21f
M'sia pharma market size	6,419.2	6,547.6	6,678.6
MoH market size	0.53	0.53	0.53

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BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

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NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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