

26 August 2019

Pharmaniaga

1H19 In Line With Expectations

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

1H19 core PATAMI of RM28.9m (+26% YoY) came in within expectations at 51%/52% of our/consensus full-year forecasts. The stock has been de-rated on concerns of Government reviewing all medical supplies concession agreements of which Pharmaniaga has a 10-year contract ending in November 2019. We are uncertain of the renewability of the contract. TP is RM2.35 based on 11x FY20E EPS. Reiterate UP.

1H19 core PATAMI of RM28.9m (+26% YoY) came in within expectations at 51%/52% of our/consensus full-year forecasts. A second interim DPS of 2.5 sen was declared bringing 1H19 to 8.5 sen, which is within our expectation.

Results' highlights. QoQ, 2Q19 top-line fell 23% to RM601m due to lower overall demand from both concession and non-concession businesses in Malaysia and Indonesia. Both Logistics & Distribution and Manufacturing division revenues fell 30% and 7%, respectively. This brings pre-tax profit lower by 59% due to lower pre-tax contribution from Logistics & Distribution (-50%) and Manufacturing (-55%) divisions as a result of lower margins from manufacturing. Manufacturing pre-tax margin fell 13.3ppt to 12.5% from 25.7% in 1Q19. As a result, 2Q19 PATAMI fell 53% to RM9.3m.

YoY, 1H19 revenue rose 16% due to increased orders from concession business and government hospitals. Correspondingly, 1H19 PATAMI rose 26% thanks to better performance from the Logistics and Distribution division which more than offset lower contribution from manufacturing. The Logistics and Distribution division's PBT rose >100% YoY from low base in 1H18, attributable to stronger contributions from government and non-concession businesses with higher revenue (+14%) despite higher operating expenses. The Manufacturing division posted a weaker PBT by 19%, due to lower orders from the concession business.

Outlook. The stock has been de-rated on concerns of Government reviewing all medical supplies concession agreements of which Pharmaniaga has a 10-year contract ending in November 2019. We are uncertain of the renewability of the contract but Pharmaniaga has the track records, platform and systems already in place for the distributions of such medical supplies. Overseas, its Indonesian operation remains a key area of growth, while further progress is being made in the European Union as the Group seeks to expand its global presence. Over the longer term, we expect its manufacturing division to propel earnings growth. The group aims to add about 200 new products over the next 10 years to its existing portfolio of around 500 products.

Maintain UP. We maintain our FY19E/FY20E earnings unchanged. TP is RM2.35 based on an unchanged 11x FY20E EPS (-1.5SD below 5-year historical forward mean). Reiterate Underperform.

Key risk is the uncertainty regarding the renewal of the government concession which is expected to expire in 2019.

UNDERPERFORM ↔

Price : RM2.66
Target Price : RM2.35 ↔

Share Price Performance



KLCI	1,609.33
YTD KLCI chg	-4.8%
YTD stock price chg	-4.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PHRM MK Equity
Market Cap (RM m)	694.9
Shares Outstanding	261.2
52-week range (H)	3.15
52-week range (L)	2.00
3-mth avg daily vol:	158,719
Free Float	28%
Beta	0.9

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	2579.3
PBT	70.2	83.1	81.3
Net Profit (NP)	42.5	56.5	55.3
Core NP	57.4	56.5	55.3
Consensus (NP)	-	55.2	57.7
Earnings Revision	-	-	-
Core EPS (sen)	22.2	21.8	21.4
Core EPS growth (%)	(20.9)	-1.6	-0.4
NDPS (sen)	16.0	14.0	14.0
BVPS (RM)	1.97	2.05	2.12
PER (x)	12.0	12.2	12.4
Price/Book (x)	1.4	1.3	1.3
Net Gearing (%)	119.2	115.5	121.4
Net Div Yield (%)	6.0	5.3	5.3

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Result Highlight								
FY Dec (RM'm)	2Q FY19	1Q FY19	Q-o-Q Chg (%)	2Q FY18	Y-o-Y Chg (%)	6M FY18	6M FY19	Y-o-Y Chg (%)
Turnover	601.9	786.1	(23.4)	582.7	3.3	1200.7	1388.0	15.6
EBITDA	37.5	55.1	(31.9)	32.8	14.5	78.9	92.6	17.3
PBT	12.5	30.2	(58.7)	12.0	4.3	40.7	42.7	5.0
PATAMI (NP)	9.3	19.6	(52.8)	5.4	71.7	23.0	28.9	25.6
EPS (sen)	3.6	7.5	(52.7)	2.1	71.2	8.8	11.1	25.5
EBITDA margin	6%	7%		6%		7%	7%	
PBT margin	2%	4%		2%		3%	3%	
Effective tax rate	26%	35%		52%		43%	32%	

Source: Bursa Malaysia, Kenanga Research

Quarterly segmental breakdown								
	1Q18	2Q18	1Q19	2Q19	Chg % q-o-q	2018 6M	2019 6M	Chg % y-o-y
Revenue (RM'm)								
Logistics and Distribution	455.0	416.3	582.6	406.7	(30.2)	871.3	989.3	13.5
Manufacturing	84.9	84.7	74.1	67.7	(8.6)	169.5	141.9	(16.3)
Indonesia	162.4	165.7	198.9	194.6	(2.2)	328.1	393.6	20.0
Eliminations	(84.3)	(83.9)	(69.6)	(67.2)	(3.4)	(168.2)	(136.7)	(18.7)
Total	617.9	582.7	786.1	601.9	(23.4)	1200.7	1388.0	15.6
Pre-tax profit^ (RM'm)								
Logistics and Distribution	9.9	(1.3)	12.6	6.3	(50.0)	8.7	18.9	117.8
Manufacturing	19.8	14.2	19.1	8.5	(55.4)	34.0	27.6	(19.0)
Indonesia	0.9	0.3	0.4	(0.3)	(182.0)	1.2	0.1	(94.4)
Pre-tax profit margin (%)								
Logistics and Distribution	2.2	(0.3)	2.2	1.5		1.0	1.9	
Manufacturing	23.3	16.8	25.7	12.5		20.1	19.4	

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	5.68	49836.3	Y	12/2019	13.2	11.0	2.6	9.9	48.4	47.2	43.0	2.3	2.2	4.6	0.5	4.90	UP
KPJ HEALTHCARE BERHAD	0.90	3859.3	Y	12/2019	10.5	3.3	5.0	1.0	21.6	20.6	20.4	2.0	1.9	9.1	2.2	1.20	OP
PHARMANIAGA BERHAD	2.66	694.9	Y	12/2019	5.0	3.0	-1.6	-0.4	12.0	12.2	12.4	1.4	1.3	10.6	5.3	2.35	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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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

