

21 February 2020

# Pharmaniaga

## Cloudy Mixture

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**FY19 core PATAMI of RM44.8m (+5% YoY) came in at 80% of our but at 112% of consensus forecasts. The variance from ours is due to lower-than-expected volume sales. However, we keep our FY20E earnings unchanged. The headline loss in 4QFY19 was due to PHARMA fulfilling its contractual obligations whereby the remaining unamortised costs in PHIS were amortised under the concession agreement. However, earnings visibility is cloudy beyond this interim period. TP is RM1.85. Reiterate UP.**

**FY19 core PATAMI of RM44.8m (-10% YoY) came in at 80% of our but at 112% of consensus forecasts. The variance from ours is due to lower-than-expected volume sales. No dividend was declared in this quarter which was unexpected bringing FY19 DPS to 6.0 sen.**

**Results' highlights. QoQ, 4QFY19** top-line fell marginally by 0.2% due to flat overall demand from both concession and non-concession businesses in Malaysia and Indonesia. Nevertheless, the group registered a pre-tax loss of RM238m compared to a pre-tax profit of RM11.9m in 4QFY18 due to expensing a one-off RM247m revision in useful life of the rights to supply and provision of stock write off as a result of the voluntary Ranitidine product recall. However, headline Core PATAMI came in at RM15.4m (>+100% from low base in 3QFY19). The rights to supply are expenses incurred for Pharmacy Information System (PHIS) in providing and supplying to the Government certain hardware and software, being part and parcel of the contractual obligations under the concession agreement.

**YoY, FY19** revenue rose 18% due to increased orders from concession and non-concession businesses and government hospitals. Nevertheless, FY19 register a headline loss of RM149m due to due to expensing a one-off RM247m revision in useful life of the rights to supply (concession) and provision of stock write off as a result of the voluntary Ranitidine product recall. However, core PATAMI rose 5% to RM44.8m thanks to better contribution from logistics and distribution.

**Outlook.** With the new contract arrangement as explained, the remaining unamortised rights to supply have been fully recognised. The Government has agreed to provide a 25-month interim period for procurement of drugs to Pharmaniaga Bhd after its concession ended on 30<sup>th</sup> Nov 2019. The interim period from 1<sup>st</sup> Dec 2019 to 31<sup>st</sup> Dec 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. However, starting from 1<sup>st</sup> Dec 2019, the government will award 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 0.8% 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.

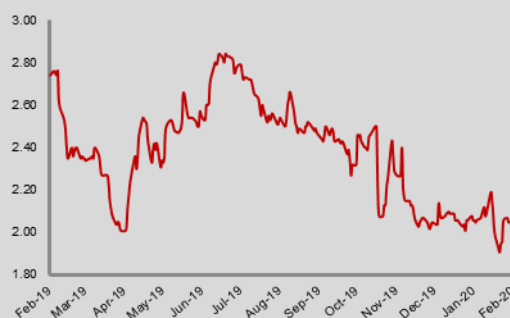
**Maintain UP.** We maintain our FY19E/FY20E earnings. TP is RM1.85 based on 9x FY20E EPS which is -2.0SD below 5-year historical forward mean due to the cloudy earnings visibility beyond FY21. Reiterate Underperform.

**Key risk** is if it wins the open tender to retain the concession on satisfactory terms earlier than expected.

## UNDERPERFORM ↔

Price : **RM2.04**  
Target Price : **RM1.85** ↔

### Share Price Performance



KLCI	1,534.98
YTD KLCI chg	-3.4%
YTD stock price chg	-1.0%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PHRM MK EQUITY
Market Cap (RM m)	532.9
Shares Outstanding	261.2
52-week range (H)	2.88
52-week range (L)	1.83
3-mth avg daily vol:	251,756
Free Float	14%
Beta	0.9

### Major Shareholders

Boustead Holdings Bhd	55.9%
LTAT	11.2%

### Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	2820.5	2701.8	2460.8
PBT	-191.9	77.4	67.9
Net Profit (NP)	-149.2	53.6	47.0
<b>Core NP</b>	44.8	53.6	47.0
Consensus (NP)		45.0	48.4
Earnings Revision	-	-	-
Core EPS (sen)	17.3	20.7	18.2
Core EPS growth (%)	5.5	19.6	(12.2)
NDPS (sen)	6.0	6.0	6.0
BVPS (RM)	1.31	1.45	1.57
PER (x)	11.8	9.9	11.2
Price/Book (x)	1.6	1.4	1.3
Net Gearing (%)	158.4	130.6	108.9
Net Div Yield (%)	2.9	2.9	2.9

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Result Highlight								
FY Dec (RM m)	4Q FY19	3Q FY19	Q-o-Q Chg (%)	4Q FY18	Y-o-Y Chg (%)	12M FY18	12M FY19	Y-o-Y Chg (%)
<b>Turnover</b>	715.7	716.8	(0.2)	596.6	20.0	2385.0	2820.5	18.3
EBITDA	6.1	30.8	(80.2)	34.2	(82.0)	153.5	130.6	(14.9)
PBT	(238.5)	3.9	NM	11.9	NM	70.2	(191.9)	NM
<b>PATAMI (NP)</b>	(178.6)	0.5	NM	4.4	NM	42.5	(149.2)	NM
<b>Core PATAMI</b>	15.4	0.5	NM	4.4	NM	42.5	44.8	5.4
Reported EPS (sen)	(68.5)	0.2	NM	8.0	20.0	16.3	(57.2)	NM
EBITDA margin	1%	4%		6%		7%	5%	
PBT margin	-33%	1%		2%		3%	-7%	
Effective tax rate	25%	90%		62%		43%	22%	

Source: Bursa Malaysia, Kenanga Research

Quarterly segmental breakdown							
	4Q18	3Q19	4Q19	Chg % Q-o-Q	2018 12M	2019 12M	Chg % Y-o-Y
<b>Revenue (RM m)</b>							
Logistics and Distribution	410.4	514.9	508.2	(1.3)	1686.0	2012.4	19.4
Manufacturing	83.0	77.9	69.9	(10.2)	329.2	289.7	(12.0)
Indonesia	183.8	200.9	206.7	2.9	694.7	801.1	15.3
Eliminations	(80.7)	(76.9)	(69.1)	(10.1)	(324.9)	(282.7)	(13.0)
Total	596.6	716.8	715.7	(0.2)	2385.0	2820.5	18.3
<b>Pre-tax profit^ (RM m)</b>							
Logistics and Distribution	(0.4)	(1.5)	(237.3)	NM	12.0	(219.9)	NM
Manufacturing	11.1	8.5	1.8	(78.7)	60.7	37.9	(37.5)
Indonesia	0.3	(0.8)	(1.1)	43.4	0.4	(1.8)	NM
<b>Pre-tax profit margin (%)</b>							
Logistics and Distribution	(0.1)	(0.3)	(46.7)		0.7	(10.9)	
Manufacturing	13.3	10.9	2.6		18.4	13.1	

Source: Kenanga Research, Bursa Malaysia

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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.			
<b>HEALTHCARE</b>																	
IHH HEALTHCARE BHD	5.81	50976.9	Y	12/2019	10.5	10.0	-5.6	7.8	49.6	52.5	48.7	2.3	2.2	4.3	0.5	4.70	UP
KPJ HEALTHCARE BERHAD	0.98	4192.4	Y	12/2019	10.5	3.3	5.0	1.0	23.6	22.4	22.2	2.2	2.0	9.1	2.0	1.15	OP
PHARMANIAGA BERHAD	2.04	532.9	Y	12/2020	-4.2	-8.9	19.6	-12.3	11.8	9.9	11.2	1.0	1.0	10.1	2.9	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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