

27 January 2021

# Pharmaniaga

## Inks Vaccine Agreement

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According to an announcement to Bursa Malaysia, Pharmaniaga has entered into an agreement with the Government of Malaysia for the purchase and distribution of Covid-19 vaccine developed by Sinovac Life Sciences Company Limited. We increase our TP from RM1.80 to RM3.15 by ascribing a higher PER of 14x based on FY21 EPS (from previously 8x) to reflect Pharmaniaga's ability to secure the vaccine fill-and-finish venture after sealing the agreement. However, Underperform call reiterated as share price has raced ahead of the prospects.

**Inks vaccine agreement.** In an announcement to Bursa Malaysia, its wholly-owned Pharmaniaga Lifescience Sdn Bhd (PLS) has entered into a term sheet agreement with the Government of Malaysia for the purchase and distribution of Covid-19 vaccine developed by Sinovac Life Sciences Company Limited (subsidiary of Sinovac Biotech Ltd). The agreement enables PLS to supply 12m doses of finished Covid-19 CORONAVAC, SARS-COV-2 Vaccine (Vero Cell) Inactivated (developed by SINO-VAC LS), and fill-and-finished activity in PLS, to be delivered to hospitals, clinics and any other facilities nationwide as instructed by Ministry of Health of Malaysia (MOH), expected to commence in Feb 2021. The agreement shall be effective from 26 January 2021 and shall remain in force for one year, subject to an earlier termination by either party for failing to meet obligations or upon entering into the definitive agreement. However, we caution that it is also unclear at this stage as to the financial impact as no guidance were given for now in terms of pricing and margins and we are also mindful that the government will likely want to see it delivered in the most competitive manner as possible. However, we highlight here that PBT margin for Logistics & Distribution segment of which the distribution of the vaccine is expected to fall under is razor-thin, averaging at 0.5% over the past 20 quarters.

**Outlook.** Although we are positive of this latest news, we believe it has been priced in. More importantly, the stock lacks earnings visibility beyond the interim extended concession period from 1st Dec 2019 to 31st Dec 2021 for procurement of drugs from the government which 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.

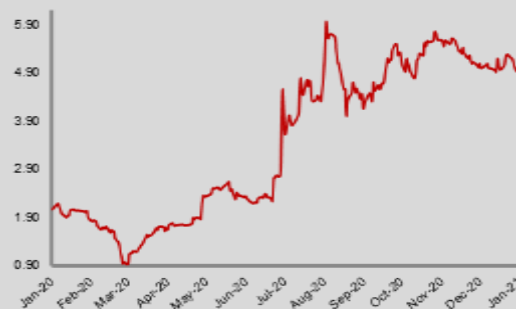
**Maintain UP.** No change to our earnings forecasts. The share price has risen sharply since July on talks that Pharmaniaga will be selected to package the commercialised Covid-19 vaccine. TP is raised from RM1.80 to RM3.15 based on 14x FY21E EPS (previously 8x) (close to -1.0SD below 5-year historical forward mean) on its ability to secure the vaccine fill-and-finish venture after sealing the agreement. The recent run-up in its share price has rendered current valuations unattractive, which seems to have over-priced the positive near-term prospects. Note that the stock lacks earnings visibility beyond the interim extended concession period from 1st Dec 2019 to 31st Dec 2021 for procurement of drugs as mentioned above.

**Key risk** is higher-than-expected volume sales.

## UNDERPERFORM ↔

Price : RM4.98  
Target Price : RM3.15 ↑

### Share Price Performance



KLCI 1,575.31  
YTD KLCI chg -3.2%  
YTD stock price chg -0.4%

### Stock Information

|                      |                |
|----------------------|----------------|
| Shariah Compliant    | Yes            |
| Bloomberg Ticker     | PHRM MK EQUITY |
| Market Cap (RM m)    | 1,303.3        |
| Shares Outstanding   | 261.7          |
| 52-week range (H)    | 6.69           |
| 52-week range (L)    | 0.91           |
| 3-mth avg daily vol: | 1,237,695      |
| Free Float           | 14%            |
| Beta                 | 1.2            |

### 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   |
| <b>Core NP</b>      | 44.8   | 60.3   | 57.9   |
| Consensus (NP)      |        | 53.7   | 70.8   |
| Earnings Revision   | -      | -      | -      |
| 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)             | 28.8   | 21.4   | 22.3   |
| Price/Book (x)      | 3.8    | 3.5    | 3.2    |
| Net Gearing (%)     | 158.4  | 137.4  | 118.4  |
| Net Div Yield (%)   | 1.2    | 2.4    | 2.0    |

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## Income Statement

| FY Dec (RM m)          | 2018A       | 2019A         | 2020E       | 2021E       |
|------------------------|-------------|---------------|-------------|-------------|
| Revenue                | 2385.0      | 2820.5        | 2754.2      | 2681.1      |
| EBITDA                 | 152.5       | 130.6         | 173.8       | 169.6       |
| Depre. & Amort         | -48.1       | -51.3         | -53.9       | -53.6       |
| Operating Profit       | 104.4       | -154.2        | 119.9       | 116.0       |
| PBT                    | 70.2        | -191.9        | 87.1        | 83.6        |
| <b>Net Profit</b>      | <b>42.5</b> | <b>-149.2</b> | <b>60.3</b> | <b>57.9</b> |
| <b>Core Net Profit</b> | <b>42.5</b> | <b>-149.2</b> | <b>60.3</b> | <b>57.9</b> |

## Operating Margin

| FY Dec (RM m)    | 2018A   | 2019A   | 2020E   | 2021E   |
|------------------|---------|---------|---------|---------|
| Fixed Assets     | 406.4   | 380.5   | 386.6   | 392.9   |
| Intangibles      | 400.9   | 200.3   | 200.3   | 200.3   |
| Other FA         | 41.9    | 77.7    | 77.7    | 77.7    |
| Inventories      | 693.0   | 617.9   | 603.4   | 587.4   |
| Receivables      | 317.0   | 267.1   | 260.9   | 253.9   |
| Other CA         | 17.9    | 19.1    | 19.1    | 19.1    |
| Cash             | 35.7    | 29.6    | 116.8   | 205.6   |
| Total Assets     | 1,912.8 | 1,592.3 | 1,664.7 | 1,737.0 |
| Payables         | 655.4   | 631.2   | 618.5   | 602.3   |
| ST Borrowings    | 642.7   | 564.6   | 621.3   | 678.0   |
| Ot. ST Liability | 18.4    | 9.5     | 10.9    | 10.9    |
| LT Borrowings    | 0.1     | -       | -       | -       |
| Ot. LT Liability | 67.5    | 28.1    | 28.1    | 28.1    |
| Minorities       | 19.3    | 19.1    | 18.9    | 18.7    |
| Net Assets       | 509.3   | 339.9   | 367.1   | 399.1   |
| Share Capital    | 149.4   | 151.9   | 151.9   | 151.9   |
| Reserves         | 359.9   | 186.0   | 215.2   | 247.2   |
| Equity           | 509.3   | 337.9   | 367.1   | 399.1   |

## Cashflow Statement

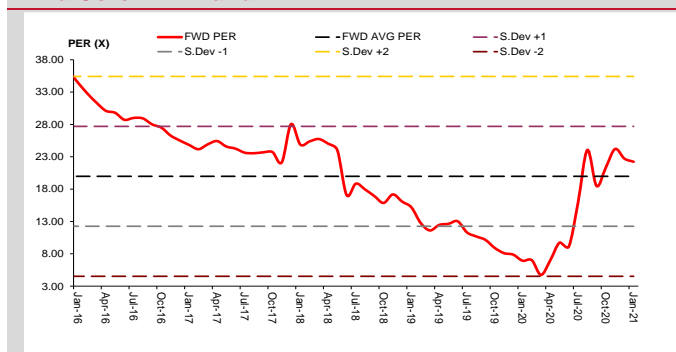
| FY Dec (RM m)  | 2018A   | 2019A   | 2020E  | 2021E  |
|----------------|---------|---------|--------|--------|
| Operating CF   | (82.8)  | 188.8   | 120.1  | 118.0  |
| Investing CF   | (71.8)  | (72.7)  | (60.0) | (60.0) |
| Financing CF   | 162.8   | (124.3) | 33.7   | 30.8   |
| Change In Cash | 8.3     | (8.2)   | 93.8   | 88.8   |
| Free CF        | (142.8) | 128.8   | 60.1   | 58.0   |

Source: Kenanga Research

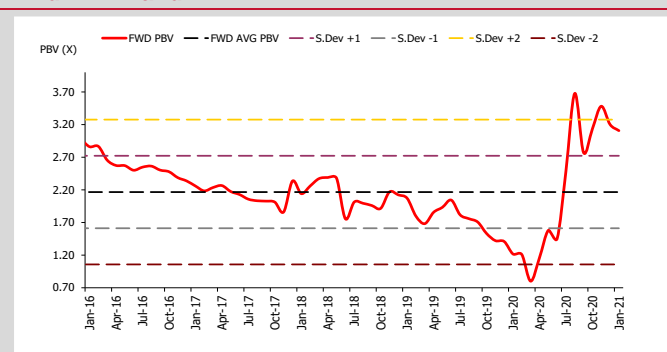
## Financial Data &amp; Ratios

| FY Dec                 | 2018A  | 2019A   | 2020E   | 2021E |
|------------------------|--------|---------|---------|-------|
| <b>Growth</b>          |        |         |         |       |
| Turnover               | 2.6%   | 18.3%   | -2.4%   | -2.7% |
| EBITDA                 | 10.3%  | -14.4%  | 33.1%   | -2.4% |
| Operating Profit       | 13.8%  | -247.7% | -177.7% | -3.3% |
| PBT                    | -3.9%  | -373.2% | -145.4% | -4.0% |
| Net Profit /(loss)     | -21.1% | -451.3% | -140.4% | -4.0% |
| <b>Profitability</b>   |        |         |         |       |
| EBITDA Margin          | 6.4%   | 4.6%    | 6.3%    | 6.3%  |
| Operating margin       | 22.3%  | 30.8%   | 26.9%   | 26.6% |
| PBT Margin             | 2.9%   | -6.8%   | 3.2%    | 3.1%  |
| Core Net Margin        | 1.8%   | -5.3%   | 2.2%    | 2.2%  |
| Eff. Tax Rate          | 38.4%  | 31.0%   | 31.0%   | 31.0% |
| ROA                    | 2.2%   | -9.4%   | 3.6%    | 3.3%  |
| ROE                    | 8.3%   | -44.2%  | 16.4%   | 14.5% |
| <b>DuPont Analysis</b> |        |         |         |       |
| Net Margin (%)         | 1.8%   | -5.3%   | 2.2%    | 2.2%  |
| Assets T/O (x)         | 0.8    | 0.6     | 0.6     | 0.6   |
| Lev. Factor (x)        | 3.8    | 4.7     | 4.5     | 4.4   |
| ROE (%)                | 8.3%   | -44.2%  | 16.4%   | 14.5% |
| <b>Leverage</b>        |        |         |         |       |
| Debt/Asset (x)         | 0.3    | 0.4     | 0.4     | 0.4   |
| Debt/Equity (x)        | 1.3    | 1.7     | 1.7     | 1.7   |
| <b>Valuations</b>      |        |         |         |       |
| EPS (sen)              | 16.4   | 17.3    | 23.3    | 22.4  |
| NDPS (sen)             | 16.0   | 6.0     | 12.0    | 10.0  |
| BVPS (RM)              | 1.97   | 1.31    | 1.42    | 1.54  |
| PER (x)                | 34.9   | 28.8    | 21.4    | 22.3  |
| Net Div. Yield(%)      | 3.2    | 1.2     | 2.4     | 2.0   |
| PBV (x)                | 2.5    | 3.8     | 3.5     | 3.2   |

## 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    | 5.05            | 44,325            | Y                 | 12/2020     | -20%           | 27%        | -30%                 | 43.0%      | 45.2                    | 68.1       | 47.6       | 1.9     | 2.0        | 2.9%       | 0.8%            | 4.56              | UP     |
| KPJ HEALTHCARE BERHAD | 0.930           | 3,980.3           | Y                 | 12/2020     | -8.7%          | 5.8%       | -32%                 | 15.9%      | 19.4                    | 28.3       | 24.4       | 2.2     | 2.1        | 7.5%       | 2.2%            | 1.00              | MP     |
| PHARMANIAGA BERHAD    | 4.98            | 1,303.3           | Y                 | 12/2020     | -2.4%          | -2.7%      | 35%                  | -4.0%      | 28.8                    | 21.4       | 22.3       | 3.8     | 3.5        | 17.1%      | 2.4%            | 3.15              | 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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