

17 May 2018 | 1QFY18 Results Review

Pharmaniaga Berhad

Lower contribution from business segments a drag on earnings

INVESTMENT HIGHLIGHTS

- **1QFY18 earnings within estimates**
- **Lower revenue contribution from manufacturing and Indonesia**
- **Significant improvement in PBT contribution from L&D**
- **Declared a first interim dividend of 5.0sen**
- **Maintain NEUTRAL with revised TP of RM4.20 per share**

1QFY18 earnings within estimates. Pharmaniaga's 1QFY18 earnings came in at RM17.6m which is within our but above consensus earnings estimates at 24.8% and 29% respectively. Revenue and earnings declined by -0.1% and -7.2% on a year-over-year basis respectively while on a quarterly sequential basis, revenue was flat and earnings dipped by -19%.

Lower revenue contribution from manufacturing & Indonesia.

In 1QFY18, Pharmaniaga's lower revenue of RM617.9m (from RM618.3m in 1QFY17) was mainly due to lower revenue contribution coming from both its manufacturing as well as Indonesian segment. Manufacturing revenue contribution was down by -20.2%yoy due to lower order for in-house brand products whilst Indonesia's revenue declined by -8.3%yoy respectively. Meanwhile, the Logistics and Distribution (L&D) segment grew steadily with a marginal increase in revenue by +3.3%yoy due to the addition of 117 new products into the Ministry of Health's Approved Products Purchase List (APPL) last year.

Significant improvement in PBT contribution from L&D. Despite the lower revenue and earnings during the quarter, Pharmaniaga still recorded a PBT of RM36.2m in 1QFY18 which is +2% higher than 1QFY17's PBT. This was mainly due to a four-fold jump in L&D PBT to RM10m (from RM2m in 1QFY17) which was attributable to effective marketing and promotion strategies. Meanwhile, its manufacturing division posted a lower PBT by -24.3%yoy due to lower demand under concession business as well as increase in R&D expenses. In addition, its Indonesian division also registered a decline in PBT by -26.5%yoy mainly due to the depreciation of MYR against IDR and increase in finance costs.

Maintain NEUTRAL
Revised Target Price: RM4.20
(Previously RM4.66)

RETURN STATS	
Price (16 May 2018)	RM4.07
Target Price	RM4.20
Expected Share Price Return	+3.2%
Expected Dividend Yield	+5.1%
Expected Total Return	+8.3%

STOCK INFO	
KLCI	1,858.3
Bursa / Bloomberg	7081 / PHRM MK
Board / Sector	Main / Trading Services
Syariah Compliant	YES
Issued shares (mil)	259.82
Market cap. (RM'm)	1,057.5
Price over NA	1.98
52-wk price Range	RM3.65-RM4.92
Beta (against KLCI)	0.66
3-mth Avg Daily Vol	0.01m
3-mth Avg Daily Value	RM0.06m
Major Shareholders (%)	
Boustead Holding Bhd	56.24
LTAT	10.88
Kamaruddin Lodin	4.81

Declared a first interim dividend of 5.0sen. Pharmaniaga declared a first interim dividend of 5.0sen per share for the quarter under review. This translates to an annualised yield of 4.9% to yesterday's closing price and a payout ratio of 73.6%.

Earnings forecasts maintained. Following the earnings announcement, we are revising our earnings forecasts for FY19F by -3.0% as we anticipate that operating environment will remain challenging for Pharmaniaga due to the cautious procurement stance from the Ministry of Health. Key risks to our earnings forecasts would be: (i) better or lower than expected government concession orders and; (ii) better than expected cost reduction.


Maintain NEUTRAL with a revised TP of RM4.20. All in, we are maintaining our **NEUTRAL** recommendation on Pharmaniaga with a revised TP of **RM4.20** (from RM4.66 per share previously) post earnings revision and rolling forward our valuation base year to FY19. Our TP is derived via pegging our FY19F EPS of 29sen to a revised FY19F target PER of 14.3x which is -1SD lower than the average of its historical five-year rolling PER. We think this is fair, given that we believe that procurement of drugs and medical supplies going forward from the Ministry of Health will continue to be moderate as it tries to manage the ballooning healthcare costs in the public hospitals. That said, we take comfort in the fact that both its private sector business as well as Indonesian operation have been contributing well to the group's overall revenue which we think will bode well for the company in terms of future earnings contribution. 

Table 1: Pharmaniaga's quarterly earnings review

FYE Dec (RM'm)	Quarterly results				
	1QFY17	4QFY17	1QFY18	QoQ (%)	YoY (%)
Revenue	618.3	613.2	617.9	0.8	(0.1)
Cost of sales	(523.9)	(526.0)	(526.0)	0.0	0.4
Gross Profit	94.4	87.2	91.9	5.3	(2.7)
Other income	0.0	8.3	0.7	(91.6)	nm
Operating expenses	(60.3)	(68.6)	(56.4)	(17.8)	(6.5)
EBIT	34.1	27.0	36.2	34.1	6.1
Finance cost	(6.4)	(7.6)	(7.6)	(0.1)	18.0
Interest income	0.1	0.4	0.1	(82.2)	(20.0)
Profit Before Tax and Zakat	27.8	19.9	28.7	44.5	3.3
Income tax	(8.5)	(8.5)	(11.1)	30.5	30.5
Profit After Tax	19.3	22.1	17.6	(20.4)	(8.8)
Minority interest	(0.3)	0.4	0.0	nm	nm
PATAMI	18.9	21.7	17.6	(19.0)	(7.2)

Source: Company, MIDFR

Table 2: Pharmaniaga's quarterly segmental breakdown

Segmental Breakdown	Quarterly results				
	1QFY17	4QFY17	1QFY18	QoQ (%)	YoY (%)
Revenue					
Logistics & Distribution	440.5	423.7	455.0	7.4	3.3
Manufacturing	0.7	0.4	0.6	48.3	(20.2)
Indonesia	177.1	189.1	162.4	(14.1)	(8.3)
Total Revenue	618.3	613.2	617.9	0.8	(0.1)
EBIT					
Logistics & Distribution	6.3	2.3	14.1	523.7	122.9
Manufacturing	26.4	24.3	20.0	(18.0)	(24.3)
Indonesia	2.8	4.6	2.1	(54.5)	(26.5)
Total EBIT	35.5	31.2	36.2	16.1	1.9

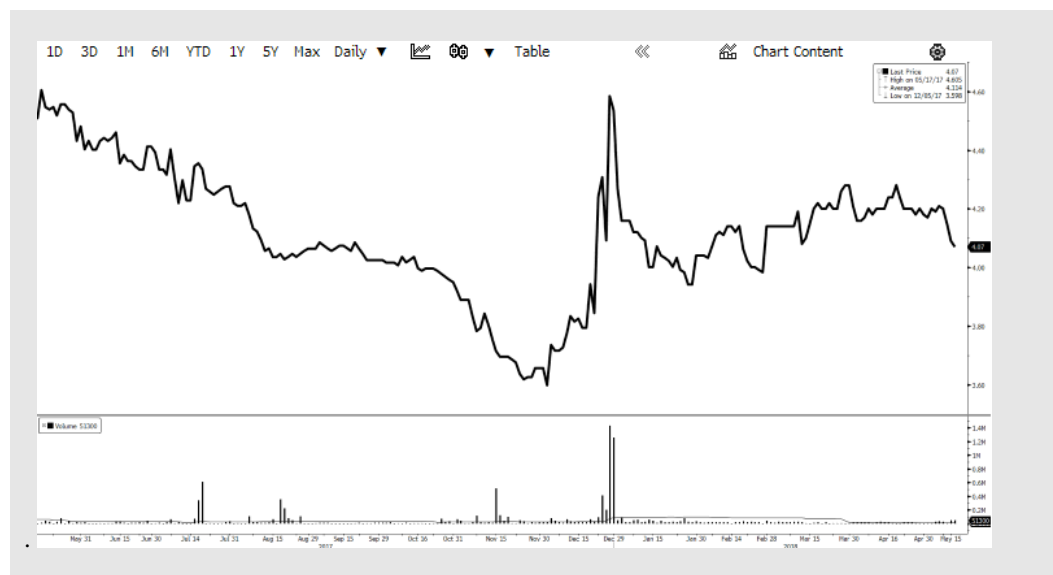
Source: Company, MIDFR

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue	2,189.3	2,189.0	2,324.0	2,364.0	2,437.5
Cost of sales	(1,836.5)	(1,845.8)	(1,988.8)	(2,010.3)	(2,076.8)
Gross profit	352.9	343.2	335.2	353.7	360.8
Finance cost	(15.1)	(33.7)	(28.8)	(25.0)	(26.2)
Profit Before Tax and Zakat	112.7	72.0	73.1	95.4	101.2
Income tax	(27.4)	(25.9)	(17.4)	(23.9)	(25.3)
Profit After Tax	84.6	45.9	55.1	71.0	76.3
EPS (sen)	0.32	0.18	0.21	0.27	0.29
EPS Growth (%)	-10.4	-43.9	15.5	31.9	7.1
PER (x)	12.7	22.6	19.6	14.8	13.9
Dividend Per Share (sen)	0.30	0.16	0.19	0.19	0.21
Dividend yield (%)	4.7	3.9	4.7	4.7	5.1

Source: Company, Forecasts by MIDFR

DAILY PRICE CHART



Noor Athila Mohd Razali
noor.athila@midf.com.my
03-2772 1679

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.