

21 November 2018 | 3QFY18 Results Review

Pharmaniaga Berhad

Improvement in profit margin boosted 9MFY18 earnings

INVESTMENT HIGHLIGHTS

- **9MFY18 earnings of RM38.0m (+18.4%yoy) came in above our expectation**
- **Higher contribution from the concession business boosted the logistics and distribution segment**
- **Profit margin improves beyond two percent driven by the cost optimisation efforts**
- **Declared a second interim dividend of five sen, bringing cumulative 9MFY18 dividend to 14sen**
- **Maintain NEUTRAL with revised TP of RM3.15 per share**

9MFY18 earnings above our estimate. Pharmaniaga's accumulated 9MFY18 earnings came in at RM38.0m which above ours but lagged consensus earnings estimates at 81.5% and 62.6% respectively. The 9MFY18 revenue for the rose modestly by +4.5%yoy while earnings grew at a faster pace of +18.4%yoy.

Commendable revenue growth. Pharmaniaga's 9MFY18 higher revenue of RM1,788.3m (from RM1,710.8m in 9MFY17) was mainly due to the higher revenue contribution coming from the logistics and distribution (L&D) division. The L&D segment revenue contribution rose by +9.7%yoy mainly attributable to the stronger contributions from the concession business. This was partially mitigated by a lower revenue from its Indonesian division which dipped by -6.3%yoy in view of the depreciation of the Malaysian Ringgit against the Indonesian Rupiah.

Earnings boosted by lower operating expenses. Pharmaniaga recorded a jump in 9MFY18 earnings of +18.4%yoy mainly driven by a lower operating expense. The fall in operating expenses of -3.9%yoy was by the L&D division which reflects its efficiency in distributing pharmaceutical products to public hospitals in clinics in Malaysia. This lead to higher profit margin of 2.1% (9MFY17: 1.8%).

Third interim dividend declared. Pharmaniaga declared a third interim dividend of 5.0sen per share for the quarter under review. This brings its accumulated dividend for the year to 14.0sen.


Impact to earnings. Following the earnings announcement, we are revising our earnings forecasts for FY18F and FY19F to RM60.3m and RM65.4m respectively in-line with the management's cost optimisation efforts. Key risk to our earnings forecasts would be: (i) non-renewal of government concession orders and; (ii) lower-than-expected cost reduction.

Maintain NEUTRAL
Revised Target Price: RM3.15
(Previously RM3.00)

RETURN STATS	
Price (19 th November 2018)	RM3.09
Target Price	RM3.15
Expected Share Price Return	+1.9%
Expected Dividend Yield	+7.3%
Expected Total Return	+9.2%

STOCK INFO	
KLCI	1,710.71
Bursa / Bloomberg	7081 / PHRM MK
Board / Sector	Main / Trading Services
Syariah Compliant	YES
Issued shares (mil)	260.51
Market cap. (RM'm)	804.96
Price over NA	1.53
52-wk price Range	RM2.69-RM4.65
Beta (against KLCI)	0.77
3-mth Avg Daily Vol	0.03m
3-mth Avg Daily Value	RM0.10m
Major Shareholders (%)	
Boustead Holding Bhd	56.09
LTAT	11.23
Kamaruddin Lodin	4.80

Target price. We revised our target price to **RM3.15** (from RM3.00 per share previously) post earnings revision. This is premised on pegging FY19F EPS of 25.2sen to FY19F target PER of 12.5x which is -1.25SD lower than the average of its historical three-year rolling PER.

Maintain NEUTRAL. Since June 2018, the stock has been de-rated amidst concern over the non-renewal of its 10-year medical supplies concession agreements with the government which is slated to end in November 2019. While it is still uncertain whether the new government will renew its contract, we take comfort that the management is now focusing on cost optimisation efforts. We expect that this will result in further cost savings and hence, could improve the group's ability to offer a more competitive pricing to the government. In addition, the group will continue its focus on strengthening business synergies between its Indonesian subsidiaries to expand its presence in the Indonesian market. All things considered, we maintain our **NEUTRAL** call on the stock. 

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue	2,189.3	2,189.0	2,324.0	2,424.9	2,555.8
Cost of sales	(1,836.5)	(1,845.8)	(1,988.8)	(2,085.4)	(2,199.3)
Gross profit	352.9	343.2	335.2	339.5	356.5
Finance cost	(15.1)	(33.7)	(28.8)	(25.0)	(26.2)
Profit Before Tax and Zakat	112.7	72.0	73.1	90.9	97.0
Income tax	(27.4)	(25.9)	(17.4)	(30.0)	(32.0)
Profit After Tax	84.6	45.9	55.1	60.3	65.4
EPS (sen)	0.32	0.18	0.21	0.23	0.25
EPS Growth (%)	-10.4	-43.9	15.5	12.1	8.0
PER (x)	9.6	17.2	14.9	13.3	12.3
Dividend Per Share (sen)	30	16	19	21	23
Dividend yield (%)	4.7	5.2	6.1	6.8	7.3

Source: Company, MIDFR

DAILY PRICE CHART



Table 1: Pharmaniaga's quarterly earnings review

FYE Dec (RM'm)	Quarterly results				Cummulative results			
	3QFY18	2QFY18	3QFY17	YoY (%)	QoQ (%)	9MFY18	9MFY17	YoY (%)
Revenue	587.7	582.7	574.5	2.3	0.8	1,788.3	1,710.8	4.5
Cost of sales	(511.6)	(500.3)	(488.7)	4.7	2.3	(1,538.0)	(1,462.9)	5.1
Gross Profit	76.0	82.4	85.8	(11.4)	(7.8)	250.3	247.9	1.0
Other income	0.0	0.2	0.0	n.m.	n.m.	0.9	0.0	n.m.
Operating expenses	(48.2)	(62.3)	(62.2)	(22.6)	(22.7)	(166.9)	(173.7)	(3.9)
EBIT	27.8	20.2	23.6	18.1	37.4	84.3	74.2	13.6
Finance cost	(10.5)	(8.5)	(8.4)	24.2	23.3	(26.5)	(21.2)	24.9
Interest income	0.2	0.2	0.1	73.5	13.5	0.5	0.3	56.0
Profit Before Tax and Zakat	17.6	12.0	15.3	15.3	47.1	58.3	53.3	9.4
Zakat	(0.0)	(1.0)	(0.0)	0.0	(96.9)	(1.0)	(0.6)	68.5
Income tax	(2.3)	(5.2)	(10.9)	(79.2)	(56.6)	(18.6)	(19.7)	(5.5)
Profit After Tax	15.3	5.8	3.9	293.4	165.4	38.7	33.0	17.3
Minority interest	0.3	0.4	0.3	(18.1)	(31.7)	0.6	(0.2)	n.m.
PATAMI	15.1	5.4	3.6	320.4	179.0	38.0	32.1	18.4

Source: Company, MIDFR

Table 2: Pharmaniaga's quarterly segmental breakdown

Segmental Breakdown	Quarterly results				Cummulative results			
	3QFY18	2QFY18	3QFY17	YoY (%)	QoQ (%)	9MFY18	9MFY17	YoY (%)
Revenue								
Logistics & Distribution	404.3	416.3	379.4	6.6	(2.9)	1,275.6	1,163.2	9.7
Manufacturing	0.6	0.7	1.2	(53.8)	(21.0)	1.9	2.7	(30.0)
Indonesia	182.8	165.7	193.8	(5.7)	10.3	510.8	544.9	(6.3)
Total Revenue	587.7	582.7	574.5	2.3	0.8	1,788.3	1,710.8	4.5
EBIT								
Logistics & Distribution	8.1	3.2	5.0	61.6	154.1	25.5	17.3	47.3
Manufacturing	15.6	16.1	17.5	(11.0)	(2.9)	51.6	52.2	(1.1)
Indonesia	4.7	4.2	4.0	18.3	13.5	11.0	9.8	12.5
Total EBIT	28.5	23.5	26.6	7.2	21.4	88.1	79.3	11.2

Source: Company, MIDFR

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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.