

07 June 2018 | Corporate Update

Pharmaniaga Berhad

Business as usual expected for pharma players

INVESTMENT HIGHLIGHTS

- **No changes to concession agreement with MoH**
- **Re-introduction of SST might increase price of medicines**
- **Minimal impact on local pharmaceutical companies**
- **FY18-19F earnings estimates maintained**
- **Maintain NEUTRAL with unchanged TP of RM4.20 per share**

No changes to concession agreement with MoH. Despite the recent change in the Federal Government we understand from Pharmaniaga that at this juncture; the concession agreement to supply medicines to Ministry of Health (MoH) is still intact and business is as usual as the company is governed by the MoH's policies. That said, we do not discount any price revisions on the supplies in the future due to the current financial situation of the government. However, we take comfort in the fact that the government has announced that it will relook into increasing the annual budget allocation to the MoH from the current 4.5% to 6-7% as this would potentially mean more business for the local pharmaceutical players.

Re-introduction of SST might increase price of medicines. To recall, under the Goods and Services Tax (GST) system 2,900 drug brands listed in National Essential Medicine List (NEML) were exempted from GST. This only make up about 25% out of 12,000 drug brands registered in Malaysia where the balance 75% is still subjected to GST. According to industry players, depending on the quantum; the re-introduction of sales and services tax (SST) could potentially lead to an increase in price of medicines from before. Furthermore, it is yet to be known if the medicines listed under NEML will continue to be exempted or otherwise.

Minimal impact on local pharmaceutical companies. We are expecting the re-introduction of SST to have minimal impact on generic drug manufacturers in Malaysia. For the two largest generic drug manufacturer in Malaysia, Pharmaniaga and CCM Duopharma Biotech (CCMD MK, NR), the largest purchaser of generic drugs (70% of the country's total medicines) is Malaysia's MoH. Currently, the sales to MoH make up 90% and up to 60% of Pharmaniaga and CCMD's revenue respectively. Therefore, we opine that the revenue coming from the government will potentially remain intact with a potential increase due to the re-introduction of SST.

Maintain NEUTRAL
Unchanged Target Price: RM4.20

RETURN STATS	
Price (6 June 2018)	RM4.00
Target Price	RM4.20
Expected Share Price Return	+5.0%
Expected Dividend Yield	+4.8%
Expected Total Return	+9.8%

STOCK INFO	
KLCI	1,777.13
Bursa / Bloomberg	7081 / PHRM MK
Board / Sector	Main / Trading Services
Syariah Compliant	YES
Issued shares (mil)	259.82
Market cap. (RM'm)	1,039.28
Price over NA	1.98
52-wk price Range	RM3.65-RM4.70
Beta (against KLCI)	0.50
3-mth Avg Daily Vol	0.01m
3-mth Avg Daily Value	RM0.07m
Major Shareholders (%)	
Boustead Holding Bhd	56.24
LTAT	10.94
Kamaruddin Lodin	4.81

Earnings forecasts maintained. We are maintaining our earnings forecasts for now pending further announcement on MoH procurement policies and clarity on the re-introduction of SST. Key risks to our earnings forecasts would be: (i) better or lower than expected government concession orders and; (ii) better than expected cost reduction.

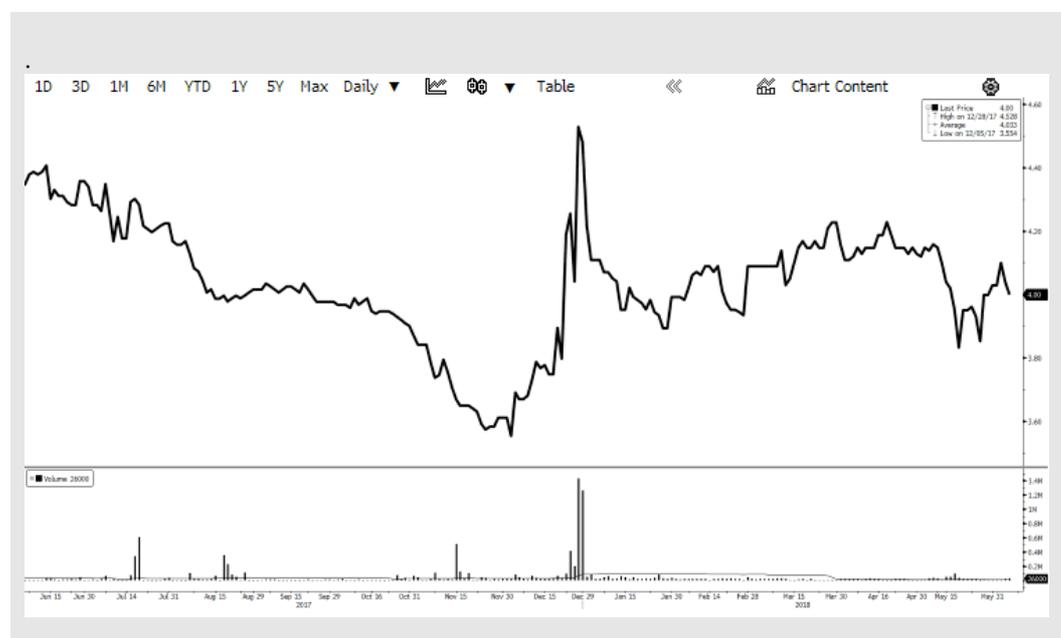
Maintain NEUTRAL with unchanged TP of RM4.20. All in, we are maintaining our **NEUTRAL** recommendation on Pharmaniaga with an unchanged TP of **RM4.20**. Our TP is derived via pegging our FY19F EPS of 29sen to an unchanged FY19F target PER of 14.3x which is -1SD lower than the average of its historical 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. In addition, we take comfort in the fact that the government has announced that it will relook into increasing the annual budget allocation to the MoH as this would potentially mean more business for the local pharmaceutical players. 

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)	12.5	22.2	19.2	14.6	13.6
Dividend Per Share (sen)	0.30	0.16	0.19	0.19	0.21
Dividend yield (%)	4.7	4.0	4.8	4.8	4.8

Source: Company, Forecasts by MIDFR

DAILY PRICE CHART



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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.