

17 May 2019 | 1QFY19 Results Review

Pharmaniaga Berhad

Seasonally stronger quarter

INVESTMENT HIGHLIGHTS

- **1QFY18 earnings of RM19.6m (+11.7%yoy) came in within our and consensus expectations**
- **The logistics and distribution division as well as the Indonesian's operation recorded stronger performance**
- **Declared an interim dividend of six sen per share**
- **Maintain BUY with a revised TP of RM2.74 per share**

Double digit earnings growth. Pharmaniaga's 1QFY19 earnings came in at RM19.6m which met ours and consensus earnings estimates at 40.6% and 34.8% respectively. Historically, 1Q earnings contributed an average of 38.4% to the full year earnings in the past three years. The stronger 1QFY19 earnings was driven by a stronger performance from both the logistics and distribution (L&D) division as well as the Indonesian operation.

Commendable revenue growth from L&D division. Pharmaniaga's L&D division's business primarily constitutes of the government concession contract. This concession contributed an average of 51.0% of total revenue in the past three years. The 1QFY19 revenue and operating profit for this division registered a growth of +28.1%yoy (RM582.6m) and +26.9%yoy (RM12.6m) respectively. This is due to the stronger contribution from government hospitals.

Indonesian operation has turned profitable. Pharmaniaga's Indonesian operation historically contributed an average of 30.0% of total revenue in the past three years. While revenue has been growing steadily, the operating profit has been affected by the weaker Indonesian Rupiah in relative to Ringgit. However, a solid growth in 1QFY19 revenue of +22.5%yoy coupled with ongoing cost optimisation effort has led to an operating profit of RM0.4m in comparison to a loss of RM0.4m in the previous year corresponding quarter.

First interim dividend declared. Pharmaniaga declared a first interim dividend of 6.0sen per share (vs 1QFY18: 5.0sen) for the quarter under review.

Maintain BUY

Revised Target Price: RM2.74
(Previously RM2.45)

RETURN STATS	
Price (16 th May 2019)	RM2.36
Target Price	RM2.74
Expected Share Price Return	+16.1%
Expected Dividend Yield	+7.2%
Expected Total Return	+23.3%

STOCK INFO	
KLCI	1,599.19
Bursa / Bloomberg	7081 / PHRM MK
Board / Sector	Main / Trading Services
Syariah Compliant	YES
Issued shares (mil)	260.51
Market cap. (RM'm)	614.79
Price over NA	1.21
52-wk price Range	RM2.00-RM4.10
Beta (against KLCI)	0.75
3-mth Avg Daily Vol	0.30m
3-mth Avg Daily Value	RM0.70m
Major Shareholders (%)	
Boustead Holding Bhd	56.09
LTAT	11.23
Kamaruddin Lodin	4.80

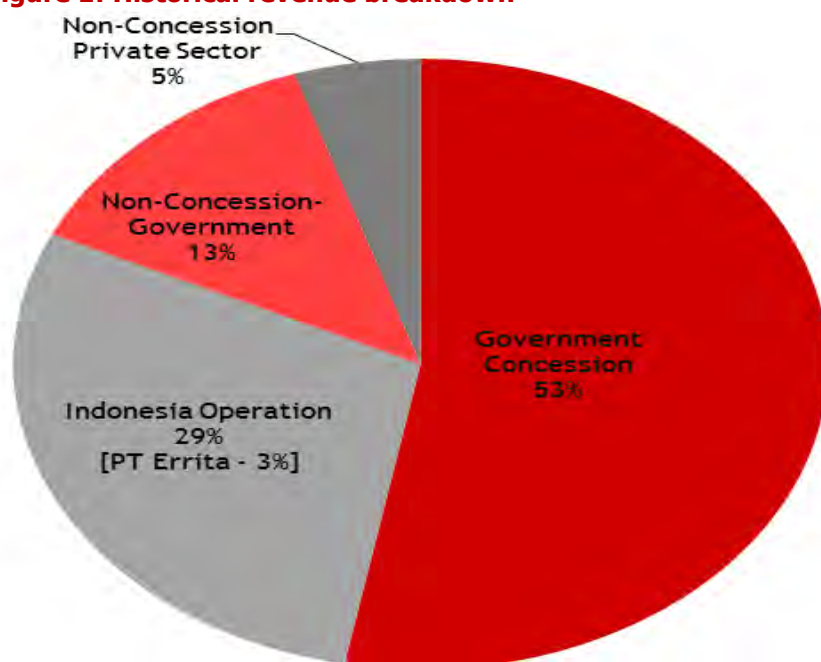
Impact to earnings. We maintain our earnings forecast for FY19F and FY20F as it is within our expectation.

Target price. We are revising our target price to **RM2.74** (previously RM2.45) per share. This is premised on pegging FY20F EPS of 19.6sen to target PER of 14.0x (previously 12.5x) which is the average of its historical two-year rolling PER. We are using a higher valuation to take into account the positive sentiment on the stock given the imminent renewal of its concession contract. This as the contract is slated to end in November 2019 and the government has yet to announce if the tender for the concession will be done via tender process. Given the short period of time for other possible players to put in a strong bid, we are confident that the likelihood of Pharmaniaga securing the concession is much higher.

Maintain BUY. As aforementioned, the 10-year concession agreement with the government is slated to end in November 2019. There is a mounting concern on a non-renewal of the concession agreement contract as Pharmaniaga is viewed to be having monopolistic position. Nevertheless, we believe that there is a fair chance that the concession business will still be awarded to the company given: (i) its years of experience and expertise in the logistics and distribution business; (ii) the huge amount of investment to ensure efficient deliveries and; (iii) the massive savings enjoyed by MOH from Pharmaniaga's handling capability. We estimate that it will take up at least four years for other competitors to reach the same capability. In addition, the group has renewed its focus on its non-concession business by strengthening business synergies between its Indonesian subsidiaries to expand its presence in the Indonesian market which has led to an improved performance during the quarter. We expect these will to help support group's earnings going forward. Moreover, we view that the recent decline in the share price presents an opportunity to accumulate the stock. In addition, the stock commands an attractive dividend of more than seven percent in comparison with its peers. All things considered, we maintain our **BUY** on the stock.



Figure 1: Historical revenue breakdown



Source: Company, MIDFR

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2016	FY2017	FY2018	FY2019F	FY2020F
Revenue	2,189.0	2,324.0	2,385.0	2,432.7	2,463.2
Cost of sales	(1,845.8)	(1,988.8)	(2,062.8)	(2,104.2)	(2,130.7)
Gross profit	343.2	335.2	322.1	328.4	332.5
Finance cost	(33.7)	(28.8)	(36.1)	(36.5)	(36.9)
Profit before tax and zakat	72.0	73.1	70.2	75.4	78.8
Income tax	(25.9)	(17.4)	(25.9)	(27.1)	(27.9)
Profit after tax	45.9	55.1	43.2	48.3	50.9
EPS (sen)	18.0	20.8	16.3	18.7	19.6
EPS Growth (%)	-44.6	15.5	-21.5	14.2	5.0
PAT margin (%)	2.1	2.4	1.8	2.0	2.1
PER (x)	13.1	11.4	14.5	12.7	12.0
Dividend per share (sen)	16.0	19.0	16.0	16.0	17.0
Dividend yield (%)	6.8	8.1	6.8	6.8	7.2

Source: Company, MIDFR

DAILY PRICE CHART



PHARMANIAGA BHD: Quarterly earnings review

FYE Dec (RM'm)	Quarterly results				
	1QFY19	4QFY18	1QFY18	YoY (%)	QoQ (%)
Revenue	786.1	596.6	617.9	27.2	31.8
Cost of sales	(687.8)	(524.9)	(526.0)	30.8	31.0
Gross Profit	98.3	71.8	91.9	7.0	36.9
Other income	0.4	0.1	0.7	nm	nm
Operating expenses	(59.0)	(50.7)	(56.4)	4.6	16.3
EBIT	39.7	21.1	36.2	9.6	87.6
Finance cost	(9.6)	(9.6)	(7.6)	27.7	0.7
Interest income	0.2	0.4	0.1	191.3	(37.9)
Profit Before Tax and Zakat	30.2	11.9	28.7	5.4	153.3
Zakat	(0.0)	(0.1)	(0.0)	0.0	(53.3)
Income tax	(10.6)	(7.3)	(11.1)	nm	44.6
Profit After Tax	19.6	4.6	17.6	11.7	329.9
Minority interest	0.0	0.1	0.0	933.3	(76.7)
PATAMI	19.6	4.4	17.6	11.5	342.1
GP margin (%)	12.5%	12.0%	14.9%	(15.9)	3.9
PBT margin (%)	3.8%	2.0%	4.6%	(17.2)	92.2
PATAMI margin (%)	2.5%	0.7%	2.8%	(12.3)	235.6
Effective tax rate (%)	34.9%	61.2%	38.7%	nm	(42.9)

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.