

29 November 2022

M'sian Genomics Resources Centre Earnings Momentum to Pick Up

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MGRC reiterated that its earnings growth will gather momentum in coming quarters, driven by maiden contributions from Thailand and the Middle East as it ramps up its distribution network and footprint overseas for its biopharmaceutical products. We keep our forecasts, TP of RM1.07 and OUTPERFORM call.

We came away from MGRC's 1QFY23 post-results briefing feeling positive. The key takeaways are as follows:

1. The group reiterated that its earnings growth is expected to gather momentum in coming quarters driven by their biopharmaceutical products (immunotherapy and cell therapies including producing Car-T cells and natural killer cells) as it ramps up its distribution network and footprint overseas. Already, the group had, in 1QFY23, registered maiden contributions from Thailand and Middle East and expect orders to continue to flow through in coming quarters.

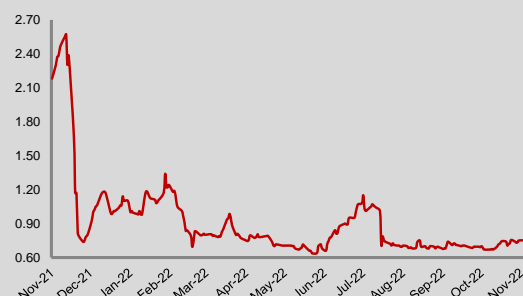
Recall, over the past 12 months, the group has established alliances with key distributors that have their respective captive markets to distribute its products and services. It has formed collaboration with: (i) Ajlan & Bros Medical Company, Saudi Arabia, to distribute genetic tests and cell therapies in the Middle East and North Africa region, and (ii) Acquest Healthcare Stem Cell Research and Development Co Ltd to produce CAR T-cells for supply to Acquest's customers, provider of various cell therapies to hospitals, specialist doctors, and patients in Thailand.

2. The group revealed that 1QFY23 could have come in stronger but for a one-off item, i.e. lumpy staff bonus payments. Recall, MGRC's 1QFY23 net profit jumped 3.5x YoY to RM0.8m thanks to contributions from immunotherapy and cell therapies came in at 14% of our full-year forecast. *Ceteris paribus*, EBITDA margin in 4QFY22 was 50% (vs. our FY23 assumption of 40%) which we equate it to the margin for the biopharmaceutical business following the absence of contribution from Covid-19 vaccine distribution. Hence, for illustrative purposes, assuming EBITDA margin of 40-50%, normalised 1QFY23 net profit works out to RM1.6m which is 25% of our full-year FY23 net profit forecast.
3. The group is targeting renal care (dialysis service) segment to start contributing to the group's revenue by the end of FY23. We have yet to factor in any renal care contribution into our FY24 earnings forecasts. MGRC also plans to form partnerships with other kidney dialysis operators to offer their expertise and services on a personalised kidney care model, instead of opening new dialysis centres. This will allow it to indirectly operate centres across the country on a personalised kidney care model, integrating dialysis with nutrition management, lifestyle changes, and even genetic testing of patients and their immediate family members.
4. MGRC is on the lookout for potential acquisitions and partnerships as part of its strategy to build a diverse portfolio of earnings-accretive assets across Southeast Asia, which will also complement its genomics and biopharmaceutical business.

OUTPERFORM ↔

Price: **RM0.75**
Target Price: **RM1.07** ↔

Share Price Performance



KLCI 1,486.54
YTD KLCI chg -5.2%
YTD stock price chg -35.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MGRC MK Equity
Market Cap (RM m)	93.2
Shares Outstanding	124.2
52-week range (H)	2.69
52-week range (L)	0.61
3-mth avg daily vol:	4,162,019
Free Float	44%
Beta	0.9

Major Shareholders

Pixelvest Sdn Bhd	7.5%
Bintai Trading Sdn Bhd	5.2%
Crest Advisory Bhd	4.6%

Summary Earnings Table

FY Jun (RMm)	2022A	2023F	2024F
Turnover	28.4	20.5	25.5
EBITDA	7.2	7.8	10.2
PBT	6.2	6.9	9.4
Net Profit	7.2	6.2	8.5
Core Net Profit	7.2	6.2	8.5
Consensus (NP)	-	-	-
Earnings Revision	-	-	-
EPS (sen)	5.9	4.6	6.3
EPS growth (%)	246.9	(22.0)	37.3
NDPS (sen)	-	-	-
Price to NTA (x)	2.8	2.1	1.8
PER (x)	12.6	16.2	11.8
PBV (x)	2.5	1.9	1.7
Net Gearing (%)	Cash	Cash	Cash
Net Div. Yield (%)	0.0	0.0	0.0

*FY23-FY24 EPS includes proposed private placement

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We like MGRC for: (i) the rising adoption and hence tremendous growth potential of immunotherapy globally, (ii) having the exclusive rights to deliver such therapy in the region under a long-term licensing agreement with reputable principals, and (iii) being the leading provider of genetic sequencing and analysis in Southeast Asia.

We maintain our forecasts and TP of RM1.07 based on 17x FY24F EPS, in line with the average of its international peers such as Fulgent Genetics Inc, Mega Genomics Ltd, Novogene Co Ltd and Neogenomics Inc. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 3).

Key risks to our recommendation include: (i) failure in clinical trials could scupper new-product break-through, which could lead to the inability to recover cost incurred for the pre-clinical and clinical trials, (ii) its dependency on commercialisation of new products and slower-than-expected commercial operation of the new lab to generate new revenue stream in the future.

Income Statement						Financial Data & Ratios					
FY Jun (RM m)	2021A	2022A	2023F	2024F	2025F	FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	1.8	28.4	20.5	25.5	31.5	Growth (%)					
Gross Profit	-3.8	7.2	7.8	10.2	12.6	Turnover	87.5	1,490.1	(27.7)	24.1	23.7
Depreciation	(0.5)	(1.0)	(1.3)	(1.2)	(1.6)	EBITDA	(14.3)	(290.9)	8.8	30.7	23.7
Profit Before Tax	-4.3	6.2	6.9	9.4	11.6	Operating Profit	-28.4	-239.0	7.3	38.2	23.5
Taxation	0.0	1.0	-0.7	-0.9	-1.2	PBT	(33.4)	(244.0)	11.3	37.3	23.2
Net Profit	-4.3	7.2	6.2	8.5	10.5	Core Net Profit	(33.3)	(268.0)	(14.1)	37.3	23.2
Balance Sheet						Profitability (%)					
FY Jun (RM m)	2021A	2022A	2023F	2024F	2025F	EBITDA Margin	-210%	25%	38%	40%	40%
Fixed Assets	3.8	4.3	6.6	6.2	7.8	Operating Margin	-243%	21%	32%	35%	35%
Intangible Assets	1.8	5.0	5.0	5.0	5.0	PBT Margin	-241%	22%	34%	37%	37%
Other FA	1.5	2.6	2.6	2.6	2.6	Core Net Margin	-241%	25%	30%	33%	33%
Inventories	0.3	0.4	0.6	0.8	0.9	Effective Tax Rate	0%	-17%	10%	10%	10%
Receivables	4.0	8.8	6.4	7.9	9.8	ROA	-60.3	61.0	43.8	61.9	68.5
Other CA	0.1	0.3	0.3	0.3	0.3	ROE	-24%	19%	12%	14%	15%
Cash	11.3	20.5	33.0	40.5	47.6						
Total Assets	22.8	41.9	54.5	63.3	74.0	DuPont Analysis					
Payables	0.4	1.2	0.9	1.1	1.4	Net Margin (%)	-241%	25%	30%	33%	33%
ST Borrowings	-	-	-	-	-	Assets Turnover (x)	12.8	1.5	2.7	2.5	2.3
Other ST Liability	3.1	0.4	0.4	0.4	0.4	Leverage Factor (x)	1.3	1.1	1.0	1.0	1.0
LT Borrowings						ROE (%)	-24%	19%	12%	14%	15%
Other LT Liability	1.3	1.3	1.3	1.3	1.3						
Net Assets	17.9	39.0	51.9	60.5	70.9	Leverage					
Share Capital	40.7	52.6	61.3	61.3	61.3	Debt/Asset (x)	NM	NM	NM	NM	NM
Reserves	(22.8)	(15.6)	(9.4)	(0.9)	9.6	Debt/Equity (x)	NM	NM	NM	NM	NM
Other reserves	-	1.9	-	-	-	Net (Cash)/Debt	11.3	20.5	33.0	40.5	47.6
Equity	17.9	39.0	51.9	60.4	70.9	Net Debt/Equity (x)	NM	NM	NM	NM	NM
Cashflow Statement						Valuations					
FY Jun (RM m)	2021A	2022A	2023F	2024F	2025F	Core EPS (sen)	-4.0	5.9	4.6	6.3	7.7
Operating CF	(2.6)	0.1	9.7	8.7	10.8	NDPS (sen)	0.0	0.0	0.0	0.0	0.0
Investing CF	(3.9)	(2.4)	(1.0)	(1.0)	(1.0)	BV/sh (RM)	0.2	0.3	0.4	0.4	0.5
Financing CF	11.8	11.6	3.7	(0.2)	(2.7)	PER (x)	-18.5	12.6	16.2	11.8	9.6
Change in Cash	5.2	9.3	12.3	7.5	7.1	Div. Yield (%)	0%	0%	0%	0%	0%
						PBV (x)	4.4	2.5	1.9	1.7	1.4

Source: Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
IHH HEALTHCARE BHD	OP	6.00	7.20	20.00%	52,836.3	Y	12/2022	18.6	20.5	2.1%	10.6%	32.3	29.2	2.2	7.1%	6.0	1.0%
KPJ HEALTHCARE BHD	OP	0.975	1.16	18.97%	4,234.6	Y	12/2022	3.8	4.2	211.0%	11.5%	25.8	23.1	1.9	7.3%	2.0	2.1%
MALAYSIAN GENOMICS RESOURCE CENTRE BHD	OP	0.750	1.07	42.67%	93.2	Y	06/2023	4.6	6.3	-13.9%	37.1%	16.4	11.9	2.0	13.9%	0.0	0.0%
NOVA WELLNESS GROUP BHD	OP	0.890	1.09	22.47%	283.4	Y	06/2023	6.7	7.9	19.8%	18.4%	13.3	11.3	2.5	19.8%	3.0	3.4%
PHARMANIAGA BHD	MP	0.550	0.510	-7.27%	720.5	Y	12/2022	5.0	4.7	-62.3%	-5.7%	11.1	11.7	1.5	13.9%	2.3	4.2%
Simple Average								7.7	8.7	31.4%	14.4%	19.8	17.5	2.0	12.4%		2.1%

Source: Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	☆		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	☆		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	☆		
SPECIFIC	Medical waste disposal	★	★	★		
	Usage of biodegradable materials	★	★	☆		
	Energy efficiency	★	★	★		
	Product safety	★	★	★	☆	
	Work site safety	★	★	★	☆	
	Staff welfare	★	★	☆		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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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