

Pharmaniaga

7-Year Extension to MoH Concession

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The Ministry of Health (MoH) has extended PHARMA's medical supply concession by seven years ending 30 Jun 2030. We are positive on the latest development although this is in-line with market expectations. Meanwhile, the clock is ticking on a more viable and holistic regularisation plan to lift PHARMA out of its Practice Note 17 (PN17) status. We maintain our forecasts, TP of RM0.33 and UNDERPERFORM call.

The MoH has extended PHARMA's medical supply concession by seven years (spanning from 1 July 2023 to 30 Jun 2030). This will eventually supersede the interim supply agreement first started on 1 Dec 2019 (but will remain in place pending the finalisation of the concession extension agreement as mentioned). PHARMA is expected to implement the Pharmacy Information System ("PhIS") and Clinic Pharmacy System ("CPS") maintenance, license renewal, change request and system implementation at the new facilities based on existing operating cost rates.

We are positive on this latest development which is in-line with market expectations. However, we are mindful that the government will likely want to see better value for money, and hence PHARMA will have to offer new rates that are more competitive (of which we have reflected in our forecasts).

Outlook. The group is confident of its future prospects amid a strategic plan to recover from the PN17 classification and is currently formulating a regularisation plan. We project pedestrian earnings growth in FY23 at levels similar to pre-COVID, averaging RM40m-RM60m driven by regular orders for medical supplies from the Ministry of Health concession.

Forecasts. Maintained.

Similarly, we keep our TP of RM0.33 based on 9x FY24F EPS, at a 35% discount to peers' average due to its smaller market capitalisation. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 3).

We are cautious due to: (i) the negative shareholders' equity of RM143m as at 31 Mar 2023 impeding its ability to frank out dividends, and (ii) the government seeking better value-for-money contracts and PHARMA might have to offer new rates that are more competitive (which we have reflected in our forecasts). Reiterate **UNDERPERFORM**.

Key risks to our call include: (i) appointment of new concessionaires by the government, (ii) its PN17 regularisation plan being less dilutive to existing shareholders, and (iii) privatisation at a significant premium to the current market price.

UNDERPERFORM ↔

Price: RM0.385
Target Price: RM0.33 ↔

Share Price Performance



KLCI	1,398.06
YTD KLCI chg	-6.5%
YTD stock price chg	-29.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PHRM MK
Market Cap (RM m)	504.4
Shares Outstanding	1,310.2
52-week range (H)	0.71
52-week range (L)	0.22
3-mth avg daily vol:	5,154,304
Free Float	35%
Beta	0.9

Major Shareholders

Boustead Holdings Bhd	51.8%
LTAT	8.6%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	3510.7	2877.4	2819.9
PBT / (LBT)	(580.8)	77.9	74.8
Net Profit / (loss)	(607.3)	50.6	48.6
Core Profit / (loss)	(607.3)	50.6	48.6
Consensus (NP)	-	42	41
Earnings Revision	-	-	-
Core EPS (sen)	-46.4	3.9	3.7
Core EPS growth (%)	-	-	(4.0)
NDPS (sen)	1.9	-	-
BVPS (RM)	-0.19	-0.15	-0.11
PER (x)	NM	10.0	10.4
Price/Book (x)	NM	NM	NM
Net Gearing (%)	NM	NM	NM
Net Div. Yield (%)	5.0	-	-

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Income Statement					Financial Data & Ratios				
FY Dec (RM m)	2021A	2022A	2023F	2024F	FY Dec	2021A	2022A	2023F	2024F
Revenue	4815.0	3510.7	2877.4	2819.9	Growth				
EBITDA	342.4	-505.3	148.2	145.4	Turnover	76.7%	-27.1%	-18.0%	-2.0%
Depre. & Amort	-24.9	-36.4	-29.1	-30.6	EBITDA	238.3%	-247.6%	-129.3%	-1.9%
Operating Profit	307.4	-544.8	119.1	114.7	Operating Profit	372.4%	-277.3%	-121.9%	-3.6%
PBT	277.1	-580.8	80.6	77.5	PBT	732.8%	-309.6%	-113.9%	-3.8%
Taxation	-104.9	-24.2	-28.2	-27.1	Net Profit /(loss)	526.3%	-452.8%	-108.3%	-3.9%
MI	-0.1	-2.3	-1.9	-1.8	Profitability				
Net Profit	172.2	-607.3	50.6	48.6	EBITDA Margin	7.1%	-14.4%	5.2%	5.2%
Core Net Profit	172.2	-607.3	50.6	48.6	Operating margin	22.3%	30.8%	4.6%	4.3%
Operating Margin					PBT Margin	5.8%	-16.5%	2.8%	2.7%
FY Dec (RM m)	2021A	2022A	2023F	2024F	Core Net Margin	3.6%	-17.3%	1.8%	1.7%
Fixed Assets	364.6	404.2	435.1	464.5	Eff. Tax Rate	37.8%	38.0%	35.0%	35.0%
Intangibles	208.0	160.6	160.6	160.6	ROA	7.6%	-33.5%	3.0%	2.8%
Other FA	64.0	65.9	65.9	65.9	ROE	38.2%	244.2%	-25.5%	-32.5%
Inventories	1,260.3	763.2	624.8	612.2	DuPont Analysis				
Receivables	297.8	351.7	288.2	282.5	Net Margin (%)	3.6%	-17.3%	1.8%	1.7%
Other CA	6.7	16.3	16.3	16.3	Assets T/O (x)	0.5	0.5	0.6	0.6
Cash	52.4	52.8	96.2	122.4	Lev. Factor (x)	5.0	-7.3	-8.5	-11.5
Total Assets	2,253.8	1,814.7	1,687.1	1,724.3	ROE (%)	38.2%	244.2%	-25.5%	-32.5%
Payables	858.4	802.6	657.8	644.8	Leverage				
ST Borrowings	570.1	968.3	968.3	968.3	Debt/Asset (x)	0.4	0.4	0.4	0.4
Ot. ST Liability	39.3	49.3	14.1	14.1	Debt/Equity (x)	2.0	NM	NM	NM
LT Borrowings	285.2	190.6	190.6	190.6	Valuations				
Ot. LT Liability	30.4	31.2	31.2	31.2	EPS (sen)	13.2	-46.4	3.9	3.7
Minorities	20.0	21.4	23.2	25.1	NDPS (sen)	9.3	2.3	0.0	0.0
Net Assets	450.5	(248.7)	(198.2)	(149.7)	BVPS (RM)	0.34	-0.19	-0.15	-0.11
Share Capital	154.1	154.2	154.2	154.2	PER (x)	2.9	NM	10.0	10.4
Reserves	296.4	(402.9)	(352.4)	(303.8)	Net Div. Yield(%)	13.2	6.1	0.0	0.0
Equity	450.5	(248.7)	(198.2)	(149.6)	PBV (x)	1.1	NM	NM	NM
Cashflow Statement									
FY Dec (RM m)	2021A	2022A	2023F	2024F					
Operating CF	(64.1)	(142.3)	138.6	86.2					
Investing CF	(45.6)	(72.4)	(60.0)	(60.0)					
Financing CF	120.7	220.8	(35.2)	0.0					
Change In Cash	11.1	6.1	43.4	26.2					
Free CF	(124.1)	(202.3)	78.6	26.2					

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. (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.
HEALTHCARE																	
IHH HEALTHCARE BHD	OP	5.95	7.00	18%	52,402	Y	12/2023	18.8	20.7	20%	10%	31.6	28.8	1.9	6.2%	15.5	2.6%
KOTRA INDUSTRIES BHD	OP	5.15	7.00	36%	763	Y	06/2023	46.6	46.7	11%	0%	11.0	11.0	2.4	24.8%	19.0	3.7%
KPJ HEALTHCARE BHD	OP	1.10	1.50	36%	4,801	Y	12/2023	4.9	5.3	28%	8%	22.3	20.7	2.1	9.7%	3.0	2.7%
MALAYSIAN GENOMICS RESOURCE CENTRE BHD	OP	0.455	0.800	76%	59	Y	06/2023	1.3	4.7	-75%	256%	34.2	9.6	1.3	4.3%	0.0	0.0%
NOVA WELLNESS GROUP BHD	OP	0.690	0.960	39%	220	Y	06/2023	4.7	6.4	-11%	38%	14.8	10.7	2.0	14.1%	3.0	4.3%
PHARMANIAGA BHD	UP	0.385	0.330	-14%	504	Y	12/2023	3.9	3.7	-92%	-4%	10.0	10.4	(2.5)	-22.6%	0.0	0.0%

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	☆		
SPECIFIC	Product Quality & Safety	★	★	★		
	Effluent/Waste Management	★	★	☆		
	Energy efficiency	★	★	★		
	Education & Training	★	★	★	☆	
	Talent Management	★	★	☆		
	Supply Chain Management	★	★	★	☆	
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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