

28 May 2024

Pharmaniaga

Returns to the Black but PN17 Stays

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PHARMA's 1QFY24 results beat our forecast. Its 1QFY24 core net profit jumped almost 10-fold on improved sales, efficiency gains and cessation of non-core units. We raise our FY24-25F net profit forecasts by 13% and 5%, respectively, lift our TP by 9% to RM0.34 (from RM0.31) but maintain our UNDERPERFORM call. The stock remains under Practice Note 17 (PN17) status.

PHARMA's 1QFY24 net profit of RM25.6m (>100% YoY) beat our expectation at 55% of our full-year forecast. Consensus estimate is unavailable. The variance against our forecast came largely from higher-than-expected sales. No dividend was declared in this quarter which is within our expectation.

YoY, its 1QFY24 revenue rose 10% due to higher sales from its Indonesia operation (+32%) and medical supply unit (+2%), which more than offset poorer showing from generic drugs (-31%). Its 1QFY24 core net profit jumped almost 10-fold, thanks to operational efficiency gains through on-going inventory optimisation efforts, cessation of non-core and non-performing businesses and a lower effective tax rate.

QoQ, its 1QFY24 revenue jumped 22% due to higher sales from its medical supply unit (+34%) as orders from MOH picked up following a slow 4QFY23, which more than offset weaker showing from generic drugs (-13%). It returned to the black in 1QFY24 from a loss in 4QFY23 (due to the write-off of slow-moving expiring inventories namely personal protective equipment and needles and product development costs due to the non-commercial viability of the products).

Outlook. We remain cautious on PHARMA due to the negative shareholders' equity of RM272m as at 31 Mar 2024 impeding its ability to distribute any dividend. Looking ahead, it is building four new warehouses, being part of a RM220m capex plan to be funded with proceeds from a rights issue and a private placement of new shares. This is to meet the requirement in relation to the government concession to provide timely delivery of drugs and non-drugs products to government facilities throughout the country. In the biopharmaceutical space, it is establishing manufacturing facilities for vaccines and insulin to cope with the increasing needs in these therapeutic areas. The project is on track for commercialisation for vaccines in 2025 and insulin in 2026.

Forecasts. We raise our FY24-25F net profit forecasts by 13% and 5%, respectively.

Valuations. Likewise, we raise our TP by 9% to RM0.34 (from RM0.31) also to reflect the rolling forward of our valuation base year to FY25F (from FY24F). The basis of our TP of 10x FY25F EPS is at a 35% discount to the average of its peers due to its PN17 status. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). Reiterate **UNDERPERFORM**.

Key risks to our call include: (i) the 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 : RM0.39
Target Price : RM0.34 ↑

Share Price Performance



KLCI	1,618.27
YTD KLCI chg	11.2%
YTD stock price chg	1.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PHRM MK
Market Cap (RM m)	562.1
Shares Outstanding	1,441.2
52-week range (H)	0.51
52-week range (L)	0.30
3-mth avg. daily vol.	1,495,493
Free Float	34%
Beta	1.0

Major Shareholders

Boustead Holdings Bhd	47.1%
LTAT	7.8%
East Navigators Capital	6.0%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	3404.5	3506.6	3576.7
PBT / (LBT)	-62.8	79.4	76.4
Net Profit / (Loss)	-77.5	50.6	48.7
Core Profit / (Loss)	-77.5	50.6	48.7
Consensus (NP)	-	-	-
Earnings Revision	-	+13%	+5%
Core EPS (sen)	-5.4	3.4	3.4
Core EPS Growth (%)	(88.4)	(165.4)	(3.9)
NDPS (sen)	-	-	-
BVPS (RM)	-0.21	-0.17	-0.14
PER (x)	NM	11.1	11.5
Price/Book (x)	-	-	-
Net Gearing (%)	-	-	-
Net Div. Yield (%)	-	-	-

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Result Highlight						
FY Dec (RM m)	1Q FY23	4Q FY23	1Q FY24	Q-o-Q Chg (%)	Y-o-Y Chg (%)	
Turnover	880.5	789.8	965.0	22.2	9.6	
EBITDA	32.5	6.2	66.5	972.5	104.6	
Depreciation	(10.0)	(12.3)	(10.5)	(14.6)	5.4	
Net interest expense	(13.3)	(16.0)	(16.9)	6.1	27.1	
PBT / (LBT)	9.2	(22.1)	39.0	(276.7)	324.7	
Taxation	(6.4)	(10.0)	(12.9)	28.9	100.2	
Minorities	(0.1)	(0.6)	(0.5)	(17.0)	351.7	
PATAMI / (LATAMI)	2.6	(32.7)	25.6	(178.4)	868.5	
EPS (sen)	0.2	(2.4)	1.8	(174.5)	790.0	
EBITDA margin	4%	1%	7%			
PBT margin	1%	-3%	4%			
Effective tax rate	70%	-45%	33%			

Source: Bursa Malaysia, Kenanga Research

Quarterly segmental breakdown					
	1Q23	4Q23	1Q24	Chg % Q-o-Q	Chg % Y-o-Y
Revenue (RM m)					
Logistics and Distribution	655	498	668	34.3	2.0
Manufacturing	91	73	63	(13.4)	(31.1)
Indonesia	224	292	296	1.3	31.9
Eliminations	(90)	(72)	(62)	(14.7)	(31.4)
Total	880.5	789.8	965.0	22.2	9.6
Pre-tax profit (RM m)					
Logistics and Distribution	8.8	(8)	28	(437.8)	217.4
Manufacturing	1.1	(13)	9	(168.4)	679.7
Indonesia	1.9	0	2	NM	18.6
Pre-tax profit margin (%)					
Logistics and Distribution	1.3	NM	4.2		
Manufacturing	1.2	NM	14.0		

Source: Kenanga Research, Bursa Malaysia

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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	6.29	7.00	11.3%	55,396	Y	12/2024	20.6	21.6	41.6%	4.8%	30.5	29.1	1.8	6.1%	7.0	1.1%	
KOTRA INDUSTRIES BHD	OP	4.50	5.35	18.9%	667	Y	06/2024	29.5	35.6	-33.0%	20.6%	15.2	12.6	2.1	14.9%	26.0	5.8%	
KPJ HEALTHCARE BHD	OP	2.00	1.95	-2.5%	9,053	Y	12/2024	6.2	6.9	7.4%	12.0%	32.5	29.0	3.5	11.2%	3.4	1.7%	
NOVA WELLNESS GROUP BHD	OP	0.540	0.700	29.6%	172	Y	06/2024	4.1	4.7	-8.4%	13.0%	13.1	11.6	1.5	11.9%	3.3	6.1%	
PHARMANIAGA BHD	UP	0.390	0.340	-12.8%	562	Y	12/2024	3.5	3.4	-34.7%	-3.8%	11.1	11.5	NM	NM	0.0	0.0%	

Source: Bloomberg, Kenanga Research

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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

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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