

Pharmaniaga

Sustained Profitability After 1Q Spike

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PHARMA guided for sustained profitability (after an earnings spike in 1QFY24) with moderate orders for medical supplies under the concession, impact from a price hike in 1QFY24 and better inventory management. We maintain our forecasts, TP of RM0.34 and **UNDERPERFORM** call. The stock remains under Practice Note 17 (PN17) status.

We came away from PHARMA's post-1QFY24 results briefing feeling cautious. The key takeaways are as follows:

- PHARMA guided for orders to moderate at its medical supply unit in subsequent quarters following a strong uptick in 1QFY24 (which we have factored into our forecasts). It shed light to the good set of results. To recap, its 1QFY24 core net profit jumped almost 10-fold to RM25.6m on improved revenue (+10% YoY), efficiency gains and cessation of non-core units. Specifically, we understand that the increase in 1QFY24 revenue (+10%) was driven by a higher sales volume (+3%) in medical supply unit to government hospitals, the addition of new products to the approved product price list (11 new SKUs) and higher prices (+5%) under the new concession. Separately, the revenue at its Indonesia operation grew 32% driven by higher demand for products from existing principals. Additionally, sales were generated from four new principals and the opening of two new branches in Feb 2024.
- Its near-term profitability will be driven by: (i) closure of non-core and non-performing businesses involved in producing supplements and nutraceuticals products; and (ii) efficiency gain through on-going inventory optimisation efforts and aggressive payment collection. Specifically, it has managed to keep tabs on fast-moving SKUs and reduce slow-moving stocks, which should reduce working capital requirements.
- PHARMA is committed to innovation and product portfolio expansion. A case in point is, in the biopharmaceutical space, it is establishing manufacturing facilities for vaccines and insulin to cope with the increasing needs in these therapeutic areas. It will produce Recombinant Human Insulin and Analogue Insulin. Its insulin project is progressing steadily, with dossier submission in Feb 2024 and technology transfer slated for Jun 2024 and target commercialisation in mid-2025. For the vaccine project, the media fill or process simulation is expected to be completed by Sep2024 with the initiation of process validation batch in Dec2024.

Forecasts. Maintained.

Valuations. We also maintain our TP of RM0.34 based on 10x FY25F EPS, 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 3).

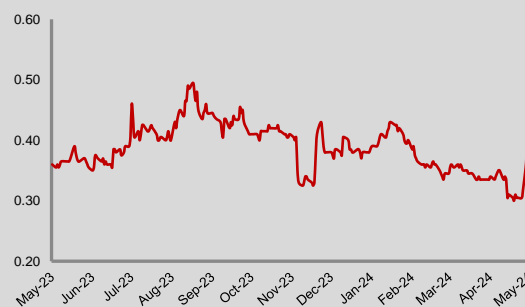
Investment case. We remain cautious on PHARMA due to the negative shareholders' equity of RM272m as at 31 Mar 2024 impeding its ability to distribute any dividend. Reiterate **UNDERPERFORM**.

Key risks to our call include: (i) it bagging more concessions from the government, (ii) its PN17 regularisation plan being less dilutive to existingshareholders, and (iii) privatisation at a significant premium to the current market price.

UNDERPERFORM ↔

Price: RM0.37
Target Price: RM0.34 ↔

Share Price Performance



KLCI	1,615.82
YTD KLCI chg	11.1%
YTD stock price chg	-6.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PHRM MK
Market Cap (RM m)	533.2
Shares Outstanding	1,441.2
52-week range (H)	0.51
52-week range (L)	0.30
3-mth avg. daily vol.	1,771,133
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	-	-	-
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	10.5	11.0
Price/Book (x)	-	-	-
Net Gearing (%)	-	-	-
Net Div. Yield (%)	-	-	-

29 May 2024

Income Statement					Financial Data & Ratios				
FY Dec (RM m)	2022A	2023A	2024F	2025F	FY Dec	2022A	2023A	2024F	2025F
Revenue	3510.7	3404.5	3506.6	3576.7	Growth				
EBITDA	-505.3	39.2	179.5	183.1	Turnover	-27.1%	-3.0%	3.0%	2.0%
Depre. & Amort	-36.4	-41.7	-39.2	-46.2	EBITDA	-247.6%	-107.8%	358.0%	2.0%
Operating Profit	-544.8	-2.5	140.3	137.0	Operating Profit	-277.3%	-99.5%	-5810.9%	-2.4%
PBT	-580.8	-62.8	79.4	76.4	PBT	-309.6%	-89.2%	-226.4%	-3.7%
Taxation	-24.2	-13.2	-27.3	-26.3	Net Profit /(loss)	-452.8%	-87.2%	-165.4%	-3.9%
MI	-2.3	-1.4	-1.5	-1.5					
Net Profit	-607.3	-77.5	50.6	48.7	Profitability				
Core Net Profit	-607.3	-77.5	50.6	48.7	EBITDA Margin	-14.4%	1.2%	5.1%	5.1%
Operating Margin					Operating margin	22.3%	-0.1%	4.0%	3.8%
FY Dec (RM m)	2022A	2023A	2024F	2025F	PBT Margin	-16.5%	-1.8%	2.3%	2.1%
Fixed Assets	404.2	515.3	536.1	549.9	Core Net Margin	-17.3%	-2.3%	1.4%	1.4%
Intangibles	160.6	149.6	149.6	149.6	Eff. Tax Rate	38.0%	35.0%	34.4%	34.4%
Other FA	65.9	129.9	129.9	129.9	ROA	-33.5%	-4.1%	2.6%	2.4%
Inventories	763.2	580.6	598.1	610.0	ROE	244.2%	26.1%	-20.6%	-24.7%
Receivables	351.7	369.2	380.3	387.9					
Other CA	16.3	30.2	30.2	30.2	DuPont Analysis				
Cash	52.8	127.4	145.0	179.6	Net Margin (%)	-17.3%	-2.3%	1.4%	1.4%
Total Assets	1,814.7	1,902.2	1,969.1	2,037.1	Assets T/O (x)	0.5	0.6	0.6	0.6
					Lev. Factor (x)	-7.3	-6.4	-8.0	-10.3
Payables	802.6	866.0	891.9	909.8	ROE (%)	244.2%	26.1%	-20.6%	-24.7%
ST Borrowings	968.3	967.7	967.7	967.7					
Ot. ST Liability	49.3	73.4	62.3	62.3	Leverage				
LT Borrowings	190.6	219.4	219.4	219.4	Debt/Asset (x)	0.4	0.6	0.6	0.6
Ot. LT Liability	31.2	47.1	47.1	47.1	Debt/Equity (x)	NM	NM	NM	NM
Minorities	21.4	25.0	26.4	27.9					
Net Assets	(248.7)	(296.4)	(245.7)	(197.1)	Valuations				
					EPS (sen)	-46.4	-5.4	3.5	3.4
Share Capital	154.2	200.0	200.0	200.0	NDPS (sen)	2.3	0.0	0.0	0.0
Reserves	(402.9)	(496.4)	(445.8)	(397.1)	BVPS (RM)	-0.19	-0.21	-0.17	-0.14
Equity	(248.7)	(296.4)	(245.7)	(197.1)	PER (x)	NM	NM	10.5	11.0
					Net Div. Yield(%)	6.1	0.0	0.0	0.0
					PBV (x)	NM	NM	NM	NM
Cashflow Statement									
FY Dec (RM m)	2022A	2023A	2024F	2025F					
Operating CF	(142.3)	46.1	88.8	94.6					
Investing CF	(72.4)	(55.4)	(60.0)	(60.0)					
Financing CF	220.8	83.6	(11.2)	0.0					
Change In Cash	6.1	74.3	17.6	34.6					
Free CF	(202.3)	(13.9)	28.8	34.6					

Source: Kenanga Research

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	6.20	7.00	12.9%	Y	12/2024	20.6	21.6	41.6%	4.8%	30.0	28.7	1.8	6.1%	7.0	1.1%
KOTRA INDUSTRIES BHD		OP	4.47	5.35	19.7%	Y	06/2024	29.5	35.6	-33.0%	20.6%	15.1	12.6	2.1	14.9%	26.0	5.8%
KPJ HEALTHCARE BHD		OP	1.94	1.95	0.5%	Y	12/2024	6.2	6.9	7.4%	12.0%	31.5	28.1	3.4	11.2%	3.4	1.8%
NOVA WELLNESS GROUP BHD		OP	0.530	0.700	32.1%	Y	06/2024	4.1	4.7	-8.4%	13.0%	12.9	11.4	1.5	11.9%	3.3	6.2%
PHARMANIAGA BHD		UP	0.370	0.340	-5.6%	Y	12/2024	3.5	3.4	-34.7%	-3.8%	10.5	11.0	NM	NM	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

29 May 2024

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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