

## Malaysia

### **HOLD** (previously ADD)

Consensus ratings\*: Buy 3 Hold 0 Sell 1

Current price: RM3.50 Target price: RM3.40 Previous target: RM2.20 Up/downside: -2.9% CGS-CIMB / Consensus: 41.2%

Reuters: PHMA.KL Bloomberg: PHRM MK Market cap: US\$215.0m RM916.0m Average daily turnover: US\$0.80m RM3.45m Current shares o/s: 258.9m Free float: 33.2% \*Source: Bloomberg

### Key changes in this note

No change to our EPS forecasts.

Source: Bloomberg

**Price performance** 1M 3M 12M Absolute (%) 48.3 114.7 28.2 Relative (%) 42.4 99.2 32

**Major shareholders** % held Boustead Holdings Berhad 56.2 Lembaga Tabung Angkatan Tentera 10.6

### Analyst(s)

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Price Close Relative to FBMKLCI (RHS)

3.60

127

2.60

101

1.60 76 10 Jul-19 Oct-19 Jan-20 Apr-20

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# Pharmaniaga Bhd Positivity looks to be mostly priced in

- PHRM's share price surged by 26% yesterday, which we think could be due to positive developments on global Covid-19 vaccine efforts.
- PHRM is one of the two local manufacturers identified to undertake the fill and finish process for the Covid-19 vaccine, once a vaccine is developed.
- Downgrade from Add to Hold as we think the potential earnings accretion from the fill-and-finish works is well priced in.

**Share price surged on positive Covid-19 vaccine developments** Pharmaniaga's (PHRM) share price jumped by 26% yesterday, which we think could be due to positive news that early tests for two Covid-19 vaccine candidates showed initial signs of efficacy, although it is still inconclusive as to whether it is fully effective at this juncture. This follows news the Minister of Science, Technology and Innovation announced recently that PHRM will be one of the two local companies (the other being Duopharma Berhad) undertaking the fill-and-finish process, once a Covid-19 vaccine is found and procured by the government.

**Work to be done at existing facility but commercial terms unknown** We gather that PHRM has a facility ready (with all the necessary licensing and certification requirements) to be converted to a fill and finish facility without any significant capital expenditure required. However, the commercial terms for its arrangement with the government are still uncertain at this juncture, likely until a viable vaccine is conclusively proven to be effective and procurable in bulk by the Ministry of Health.

**Contribution is uncertain, but is likely to be small** While the commercial terms are unknown, we conducted a rough scenario analysis on potential earnings contributions from the fill-and-finish arrangement based on data from vaccine packaging research. Assuming fill-and-finish works start by FY21F and total production is shared equally with Duopharma Bhd, potential earnings accretion to FY21F earnings for our conservative, base-case and blue-sky scenario is +0.4%, +3.5%, and +27.9%, respectively. (See pg. 2 and 3 for our analysis)

details and assumptions.)

**Downgrade to Hold from Add, TP raised to RM3.40** We make no changes to our earnings estimates as we have not factored in the potential contribution from the fill-and-finish works for the Covid-19 vaccine, pending further details. We downgrade our call to Hold from Add as we think its 12-month forward P/E of 18.2x (above its 10-year mean) appears to have adequately priced in any positive impact from the Covid-19 fill-and-finish contribution. We nonetheless raise our P/E peg from 10.5x (-1 s.d. of its 10-year mean) to 16x (close to its 5-year mean) to factor in potential margin accretion from higher manufacturing segment contribution vs. being reliant on its lower-margin logistics and distribution segment currently. Key de-rating/re-rating catalysts include i) weaker/stronger-than-expected earnings contribution from the Covid-19 vaccine fill-and-finish works, ii) higher/lower raw material and operating costs and iii) lower/higher- than-expected domestic drug demand.

**Financial Summary** Dec-18A Dec-19A Dec-20F Dec-21F Dec-22F Revenue (RMm) 2,385 2,821 2,921 3,026 3,134 Operating EBITDA (RMm) 168.4 62.0 144.1 151.7 160.8 Net Profit (RMm) 44.0 (149.7) 49.8 56.2 63.2 Core EPS (RM) 0.21 0.11 0.19 0.22 0.24 Core EPS Growth (16.4%) (45.4%) 71.7% 12.9% 12.3% FD Core P/E (x) 17.04 31.22 18.19 16.11 14.34 DPS (RM) 0.16 0.09 0.13 0.15 0.17 Dividend Yield 4.57% 2.43% 3.85% 4.35% 4.88% EV/EBITDA (x) 9.10 23.56 9.92 9.36 8.77 P/FCFE (x) 21.23 26.11 16.48 8.90 8.36 Net Gearing 115% 150% 135% 127% 119% P/BV (x) 1.78 2.68 2.57 2.45 2.33 ROE 10.3% 6.9% 14.4% 15.6% 16.7% % Change In Core EPS Estimates 0% 0% 0% CGS-CIMB/Consensus EPS (x) 0.78 0.85 0.86

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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## Positivity looks to be mostly priced in

### Duopharma and Pharmaniaga to undertake fill-and-finish works for Covid-19 vaccine in Malaysia

Khairy Jamaluddin, the Minister of Science, Technology and Innovation announced recently that Duopharma Bhd and Pharmaniaga will be undertaking the fill-and-finish process, once a Covid-19 vaccine is developed and procured by the government. The vaccine will be purchased overseas, either from China, the US or the UK, in bulk, and the fill-and-finished process will be done in Malaysia, with Duopharma and Pharmaniaga being the identified government-linked companies to undertake the fill-and-finish process before it is rolled out to the masses. News reports also mention the minister saying that there will be minimal investment needed to prepare and operate the fill-and-finish facilities. Pharmaniaga will be converting an existing facility (mostly used for small volume injectables) to cater to the potential fill-and-finish works once a vaccine is procured in bulk by the government.

### Scenario analysis of potential earnings contribution from fill- and-finish works for Covid-19 vaccine

We conducted a rough scenario analysis on the potential impact of the fill-and- finish works for the Covid-19 vaccine on PHRM's FY21F earnings. Our key assumptions are as follows:

- We assumed that the vaccines will be packaged in single-dose glass vials, which we gather is one of the most commonly used vials for parenteral (injection, infusion or implantation) vaccines. Based on a research paper by Jeff Sedita, Stefanie Perrella, et al published in 2018 on the costs of various vaccine packaging formats, the fill-finish costs for each single-dose glass vial is c.US\$0.59. Assuming an exchange rate for RM/US\$ of RM4.3/US\$1, the estimated fill-finish costs per single- dose glass vial is c.RM2.53. We have assumed RM2.50 for fill-finish costs in our base case scenario.
- For our conservative case, we assumed 10m vials to be produced, or approximately one dose for every three people in Malaysia (2018 Malaysian population of 31.5m based on World Bank statistics). For our base case, we have assumed 30m doses, implying close to one dose per capita. For our blue-sky case, we have assumed production of close to 4 doses per capita, implying 120m vials or a run-rate of 10m doses per month.
- We have assumed net margins in the range of 2-8% for our three scenarios. Our base case scenario net margin of 5% is lower than our estimated manufacturing net margin for Duopharma Bhd of 9-11%.

We think this is fair as the fill-and-finish process does not involve the bulk manufacturing of the vaccine.

- We have also assumed that fill-and-finish works will be shared equally (50/50) between Duopharma and Pharmaniaga.

**Figure 1: Scenario analysis of potential contribution from fill-and-finish works for Covid-19 vaccine for PHRM**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS  
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**Conservative** 2.00 10 2% 0.2 0.4% 16.2 **Base case** 2.50 30 5% 2.0 3.5% 15.7 **Blue-sky** 3.00 120 8% 15.7 27.9% 12.7  
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Our base case scenario implies a small 3.5% upside to our FY21F net profit forecast, while our conservative scenario implies an insignificant contribution. Our blue-sky scenario implies a substantial 27.9% upside to our FY21F net profit forecast. However, we think this is unlikely as 8% net margins could be unreasonable as this would imply similar margins to higher-value pharmaceutical manufacturing.

Note that our assumptions are quite rough at this juncture. Each parameter could vary substantially from our assumptions. A key determinant would hinge on the pricing of the vaccine procured by the Ministry of Health, and the final commercial terms agreed upon between PHRM and the Malaysian government.

## Valuation and recommendation

### Share priced has recovered and is now trading at above its 10-year mean

After its share price surge, PHRM has now recovered from its recent trough valuations of -2 s.d. of its 10-year mean. While the Covid-19 vaccine fill and finish works represent a key step in PHRM's drive to expand its manufacturing business, we think the recent share price surge has adequately priced in any potential earnings contribution.

**Figure 2: PHRM's P/E trend with 10-year average**

(x) 35.00



+2SD: 18.2x

- PHRM MK Equity +1SD Average -1SD +2SD -2SD

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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## BY THE NUMBERS

### P/BV vs ROE

#### 12-mth Fwd FD Core P/E vs FD Core EPS

3.2017.0%

#### 33.9Growth

80%

2.70

14.6%

28.9

57%

2.20

12.2%

23.9

33%

18.9

10% 1.70

9.8%

13.9

-13% 1.20

7.4%

8.9

-37%

0.70

3.9 Jan-16A Jan-17A Jan-18A Jan-19A Jan-20F Jan-21F

Jan-16A Jan-17A Jan-18A Jan-19A Jan-20F Jan-21F

Rolling P/BV (x) (lhs) ROE (rhs)

12-mth Fwd Rolling FD Core P/E (x) (lhs)

FD Core EPS Growth (rhs)

### Profit & Loss

(RMm) Dec-18A Dec-19A Dec-20F Dec-21F Dec-22F Total Net Revenues 2,385 2,821 2,921 3,026 3,134 Gross Profit 322 94 364 381 400 Operating

**EBITDA 168 62 144 152 161** Depreciation And Amortisation (48) (36) (36) (36) (36) **Operating EBIT 120 26 108 116 125** Financial Income/(Expense) (35) (39) (39) (38) (37) Pretax Income/(Loss) from Assoc. 0 0 0 0 0 Non-Operating Income/(Expense) 0 0 0 0 0 **Profit Before Tax (pre-EI) 85 (13) 69 78 88** Exceptional Items (15) (179) 0 0 0 **Pre-tax Profit 70 (192) 69 78 88** Taxation (27) 42 (19) (22) (25) Exceptional Income - post-tax **Profit After Tax 43 (149) 50 56 63** Minority Interests 1 (0) 0 0 0 Preferred Dividends FX Gain/(Loss) - post tax Other Adjustments - post-tax **Net Profit 44 (150) 50 56 63** Recurring Net Profit 53 29 50 56 63 **Fully Diluted Recurring Net Profit 53 29 50 56 63**

### Cash Flow

**(RMm) Dec-18A Dec-19A Dec-20F Dec-21F Dec-22F** EBITDA 168.4 62.0 144.1 151.7 160.8 Cash Flow from Invt. & Assoc. Change In Working Capital (173.5) 103.1 15.1 (8.7) (9.0) (Incr)/Decr in Total Provisions Other Non-Cash (Income)/Expense Other Operating Cashflow (23.4) 72.3 (11.2) 53.3 53.7 Net Interest (Paid)/Received (36.0) (37.9) (38.6) (37.7) (37.4) Tax Paid (17.3) (10.7) (19.4) (21.9) (24.6) **Cashflow From Operations (81.8) 188.8 90.0 136.8 143.4** Capex (17.7) (20.7) (25.0) (25.0) (25.0) Disposals Of FAs/subsidiaries 0.1 0.1 0.0 0.0 0.0 Acq. Of Subsidiaries/investments Other Investing Cashflow (58.9) (52.1) (10.0) (10.0) (10.0) **Cash Flow From Investing (76.6) (72.7) (35.0) (35.0) (35.0)** Debt Raised/(repaid) 201.1 (81.4) 0.0 0.0 0.0 Proceeds From Issue Of Shares 0.0 0.0 0.0 0.0 0.0 Shares Repurchased Dividends Paid (39.0) (40.4) (34.9) (39.4) (44.2) Preferred Dividends Other Financing Cashflow (0.2) (2.5) 11.2 (53.3) (53.7) **Cash Flow From Financing 161.9 (124.3) (23.7) (92.7) (97.9)** Total Cash Generated 3.4 (8.2) 31.3 9.1 10.5 **Free Cashflow To Equity 42.7 34.7 55.0 101.8 108.4** **Free Cashflow To Firm (121.5) 154.1 94.5 141.3 148.0**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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5.0%

-60%

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## BY THE NUMBERS... cont'd

### Balance Sheet

**(RMm) Dec-18A Dec-19A Dec-20F Dec-21F Dec-22F** Total Cash And Equivalents 36 30 61 70 80 Total Debtors 312 267 243 252 261 Inventories 693 618 701 725 749 Total Other Current Assets 18 19 19 19 19 **Total Current Assets 1,059 934 1,024 1,066 1,110** Fixed Assets 406 381 375 370 365 Total Investments 0 0 0 0 0 Intangible Assets 401 200 205 209 213 Total Other Non-Current Assets 42 78 78 78 78 **Total Non-current Assets 849 659 657 656 656** Short-term Debt 643 565 565 565 565 Current Portion of Long-Term Debt Total Creditors 643 627 701 725 749 Other Current Liabilities 21 9 9 9 9 **Total Current Liabilities 1,307 1,201 1,275 1,299 1,323** Total Long-term Debt 0 0 0 0 0 Hybrid Debt - Debt Component Total Other Non-Current Liabilities 13 17 17 17 17 **Total Non-current Liabilities 13 17 17 17 17** Total Provisions 59 18 18 18 18 **Total Liabilities 1,379 1,235 1,309 1,333 1,358** Shareholders' Equity 509 338 353 370 389 Minority Interests 19 19 19 19 19 **Total Equity 529 357 372 389 408**

### Key Ratios

**Dec-18A Dec-19A Dec-20F Dec-21F Dec-22F** Revenue Growth 2.6% 18.3% 3.6% 3.6% 3.6% Operating EBITDA Growth 7% (63%) 132% 5% 6% Operating EBITDA Margin 7.06% 2.20% 4.93% 5.01% 5.13% Net Cash Per Share (RM) (2.35) (2.07) (1.95) (1.91) (1.87) BVPS (RM) 1.97 1.31 1.36 1.43 1.50 Gross Interest Cover 3.34 0.64 2.73 2.93 3.17 Effective Tax Rate 38.4% 0.0% 28.0% 28.0% 28.0% Net Dividend Payout Ratio 66% 139% 70% 70% 70% Accounts Receivables Days 42.75 37.47 31.99 29.89 29.89 Inventory Days 104.2 87.7 94.4 98.3 98.4 Accounts Payables Days 105.0 85.0 95.0 98.3 98.4 ROIC (%) 8.9% 1.6% 8.8% 9.7% 10.4% ROCE (%) 10.7% 2.5% 11.5% 12.2% 13.0% Return On Average Assets 4.83% 3.36% 4.84% 4.99% 5.25%

### Key Drivers

**Dec-18A Dec-19A Dec-20F Dec-21F Dec-22F** ASP (% chg, main prod./serv.) 3.0% 3.0% 3.0% 3.0% 3.0% Unit sales grth (% , main prod./serv.) 6.3% 19.4% 3.0% 3.0% 3.0% Util. rate (% , main prod./serv.) N/A N/A N/A N/A N/A ASP (% chg, 2ndary prod./serv.) N/A N/A N/A N/A N/A Unit sales grth (% ,2ndary prod./serv) 64.1% 4.0% 4.0% 4.0% 0.0% Util. rate (% , 2ndary prod./serv) N/A N/A N/A N/A N/A R&D Cost/sales (%) N/A N/A N/A N/A N/A

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Rating Distribution (%) Investment Banking clients (%) Add 60.1% 0.4% Hold 25.9% 0.1% Reduce 14.0% 0.3%

### Spitzer Chart for stock being researched ( 2 year data ) Pharmaniaga Bhd (PHRM MK)

**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019 ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BPC** – Excellent, Certified, **BPCG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, n/a, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** – Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent,

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Price Close

5.00 Recommendations & Target Price 4.50



Add Hold Reduce Not Rated Jul-17 Jan-18 Jul-18 Jan-19 Jul-19 Jan-20

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