

26 February 2020

Consumer Cyclical | Retailing

Mega Lifesciences (MEGA TB)

Buy (Maintained)

Growth Remains Intact; Stay BUY

Target Price (Return): THB35.00 (+38%)
 Price: THB25.30
 Market Cap: USD694m
 Avg Daily Turnover (THB/USD) 40.2m/1.31m

- **Keep BUY with a new THB35.00 TP from THB36.00, 38% upside plus 2.9% FY20F yield.** FY19's earnings came in below our estimation despite the stable revenue growth and effective cost controls. While softening consumption of nutraceutical products should dampen Mega Lifesciences' short-term outlook, we think its long-term growth outlook remains solid. This is because it is being driven by low healthcare spending from both the private and public segments within its core markets.
- **FY19 earnings slip.** MEGA posted earnings of THB1.1bn, 96% of our estimates – slightly below – despite stable revenue growth (+9% YoY) and effective cost controls. The slip largely came from one-off expenses (employee benefits provisions and investment losses) and the GPM fall to 41.3% vs 43.1% YoY on a change in revenue mix. This was driven by higher revenue growth of its distribution wing, which has relatively lower margins.
- **Growth stays resilient.** Branded product revenue in South-East Asia was flat on changes in drug registration in Vietnam and closure of a local pharmacy due to industry consolidation. Yet, the resilient overall revenue growth (+4% YoY) was largely due to +13.8% and +14.5% YoY rises in African and other emerging markets. While we remain positive over MEGA's long-term outlook – given core markets' relatively laggard healthcare spending – we think the rise in sluggish purchasing power due to the economic slowdown could soften near-term nutraceutical demand.
- **Key mid-term drivers.** MEGA's distribution unit's revenue grew 16.9% YoY to THB780m, mainly from ongoing expansions in Myanmar and Vietnam. Its Myanmar unit remains the top performer: Revenue grew 21.9% YoY thanks to the new Yangon distribution centre that started full operations this year. While we expect this business to continue to growing c.8-10% on the rise in logistics demand in core markets, we believe the key mid-term growth drivers are the JV with MSN Laboratories on advanced pharmaceutical products and the acquisition of Indonesia's Futamed Pharmaceutical.
- **Management retained its FY20 revenue guidance** of high single-digit growth thanks to its plan to launch new products – ie probiotic and prescription – remains intact. We also expect MEGA's segmental GPM to remain solid, with ongoing cost optimisation under control. Management also reaffirmed that it has no material impact from the supply chain disruption due to the US-China trade war, as its Chinese supplier proportion is relatively small. MEGA also has >6 months of inventory supply on hand.
- **Call maintained.** A 2H19 dividend DPS of THB0.41 (FY19 DPS: THB0.71, or 2.8% yield). Our FY20F-21F's core earnings are trimmed 2-3% on the branded business' softening consumption. We deem the recent drop in share price as a good opportunity to accumulate for long-term holding.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.9)	(10.6)	(17.9)	(15.8)	(27.9)
Relative	6.0	(2.3)	(7.0)	(3.2)	(14.0)
52-wk Price low/high (THB)	25.3 – 38.0				

Mega Lifesciences PCL (MEGA TB)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19F	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	10,207	11,129	11,525	12,333	13,236
Recurring net profit (THBm)	1,076	1,243	1,380	1,419	1,498
Recurring net profit growth (%)	(3.5)	15.6	11.0	2.8	5.5
Recurring P/E (x)	20.52	17.61	15.86	15.42	14.61
P/B (x)	3.9	3.5	3.2	2.8	2.6
P/CF (x)	55.68	16.75	20.02	25.91	25.65
Dividend Yield (%)	2.8	2.8	2.9	3.0	3.1
EV/EBITDA (x)	18.55	16.06	13.51	12.80	11.68
Return on average equity (%)	19.6	20.9	21.1	19.4	18.4
Net debt to equity (%)	0.6	(9.1)	(18.5)	(23.1)	(28.7)

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19F	Dec-20F	Dec-21F	Dec-22F
Thailand	Recurring EPS	1.23	1.43	1.59	1.64	1.73
Consumer Cyclical	DPS	0.71	0.71	0.73	0.75	0.79
Mega Lifesciences	BVPS	6.55	7.12	8.00	8.91	9.86
MEGA TB	Return on average equity (%)	19.6	20.9	21.1	19.4	18.4
Buy						
	Valuation metrics	Dec-18	Dec-19F	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	20.52	17.61	15.86	15.42	14.61
DCF	P/B (x)	3.9	3.5	3.2	2.8	2.6
	FCF Yield (%)	1.8	6.0	5.0	3.9	3.9
Key drivers	Dividend Yield (%)	2.8	2.8	2.9	3.0	3.1
i. Faster-than-expected urbanisation in CMV markets;	EV/EBITDA (x)	18.55	16.06	13.51	12.80	11.68
ii. Stronger contributions from the branded business, which has higher margins.	EV/EBIT (x)	16.44	14.29	12.21	11.57	10.57
	Income statement (THBm)	Dec-18	Dec-19F	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	10,207	11,129	11,525	12,333	13,236
i. Weaker-than-expected economic growth;	Gross profit	4,446	4,609	4,900	5,228	5,593
ii. Fluctuating gross margins at its branded business.	EBITDA	1,165	1,311	1,504	1,547	1,637
	Depreciation and amortisation	149	162	160	165	171
Company Profile	Operating profit	1,314	1,473	1,664	1,712	1,808
MEGA is a leading international manufacturer and distributor of pharmaceutical, nutraceutical products, and fast-moving consumer goods.	Net interest	(34)	(65)	(48)	(51)	(55)
	Pre-tax profit	1,280	1,408	1,616	1,661	1,753
	Taxation	(203)	(160)	(233)	(239)	(252)
	Reported net profit	1,076	1,243	1,380	1,419	1,498
	Recurring net profit	1,076	1,243	1,380	1,419	1,498
	Cash flow (THBm)	Dec-18	Dec-19F	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(203)	158	72	(178)	(198)
	Cash flow from operations	396	1,307	1,093	845	853
	Cash flow from investing activities	(647)	(172)	(250)	(250)	(100)
	Cash flow from financing activities	262	(621)	(456)	(574)	(601)
	Cash at beginning of period	477	559	1,248	2,144	2,716
	Net change in cash	11	513	388	20	152
	Ending balance cash	559	1,248	2,144	2,716	3,476
	Balance sheet (THBm)	Dec-18	Dec-19F	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	926	1,455	2,351	2,923	3,683
	Tangible fixed assets	1,426	1,771	2,139	2,190	2,086
	Total investments	496	272	286	300	315
	Total assets	9,632	10,532	11,494	12,519	13,614
	Short-term debt	957	890	1,065	1,140	1,224
	Total long-term debt	3	3	3	3	3
	Total liabilities	3,908	4,358	4,557	4,798	5,066
	Total equity	5,724	6,175	6,937	7,721	8,548
	Total liabilities & equity	9,632	10,532	11,494	12,519	13,614
	Key metrics	Dec-18	Dec-19F	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	6.4	9.0	3.6	7.0	7.3
	Recurrent EPS growth (%)	(3.5)	16.5	11.0	2.8	5.5
	Gross margin (%)	43.6	41.4	42.5	42.4	42.3
	Operating EBITDA margin (%)	11.4	11.8	13.1	12.5	12.4
	Net profit margin (%)	10.5	11.2	12.0	11.5	11.3
	Dividend payout ratio (%)	57.1	49.7	45.7	45.7	45.7
	Interest cover (x)	38.6	22.6	34.4	33.6	33.1

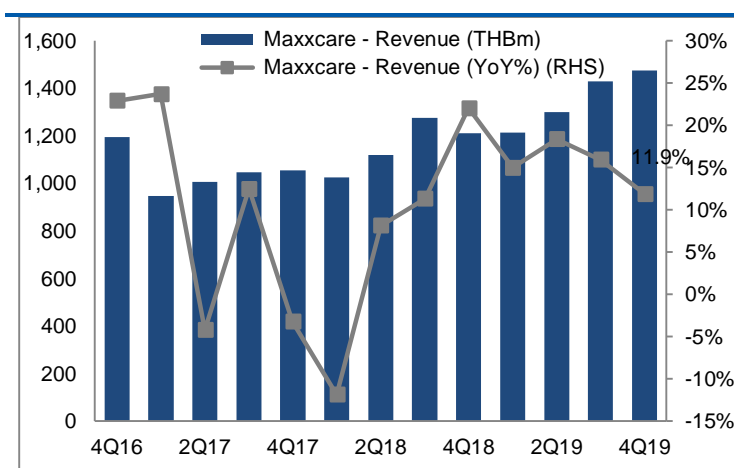
Source: Company data, RHB

Figure 1: MEGA's DCF valuation

THBm	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2027F	2028F
EBIT	1,664	1,712	1,808	1,928	2,061	2,212	2,381	2,570	2,782	1,664
Tax	1,431	1,473	1,555	1,659	1,774	1,904	2,049	2,212	2,394	1,431
EBIT (1-T)	160	165	171	174	177	180	183	186	189	160
Depreciation & Amortisation	72	(178)	(198)	(219)	(244)	(271)	(301)	(335)	(373)	72
Capital Expenditure	(250)	(250)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(250)
Change in net working capital	1,413	1,210	1,428	1,513	1,607	1,713	1,831	1,963	2,110	1,413
FCFF	1,664	1,712	1,808	1,928	2,061	2,212	2,381	2,570	2,782	1,664
Terminal growth	2.5%									
WACC	7.8%									
Total discounted firm value	29,061									
Less: Net debt	(1,066)									
Less: Minority interest	(2.9)									
Plus: Cash on hand	2,351									
Total equity value	30,346									
Number of share (M)	866.7									
Equity value per share (THB)	35.0									

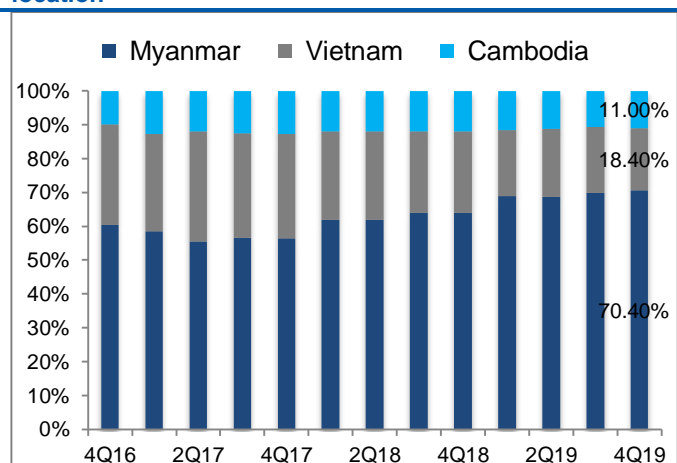
Source: RHB

Figure 2: Branded business revenue



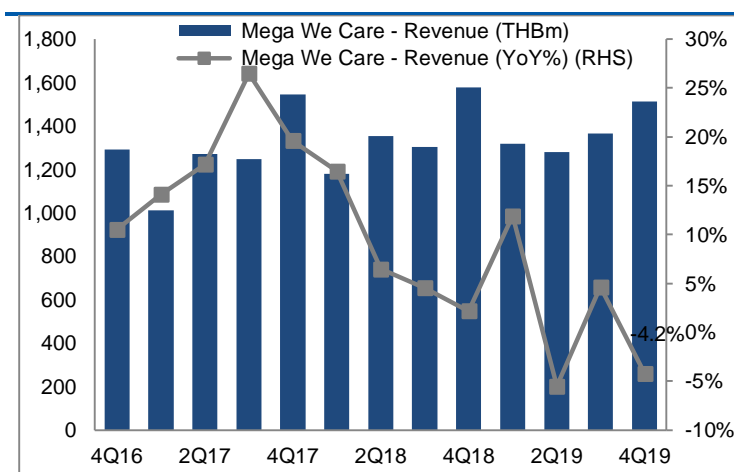
Source: Company data, RHB

Figure 3: Branded business' breakdown by geographic location



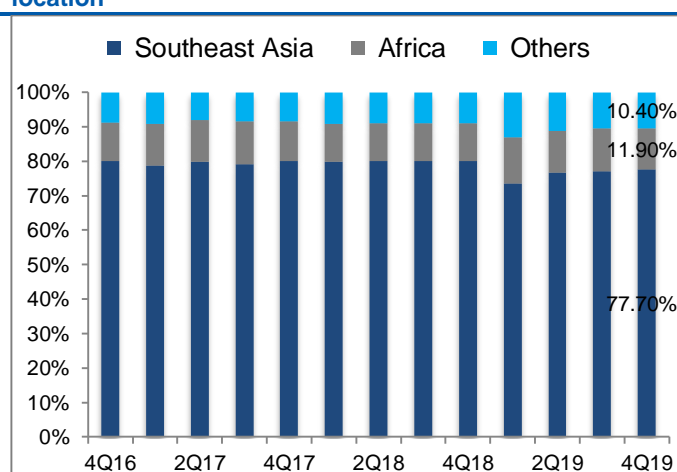
Source: Company data, RHB

Figure 4: Distribution business revenue



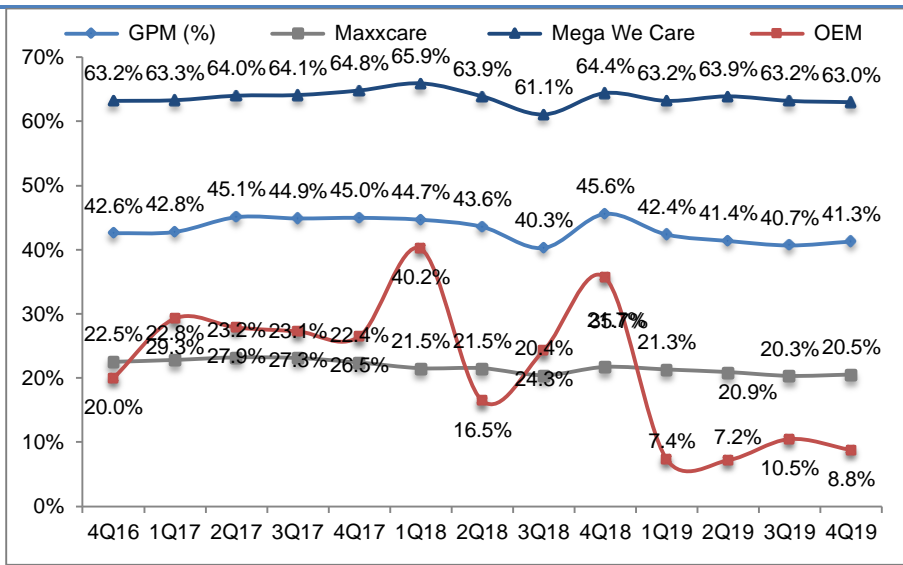
Source: Company data, RHB

Figure 5: Distribution business' breakdown by geographic location



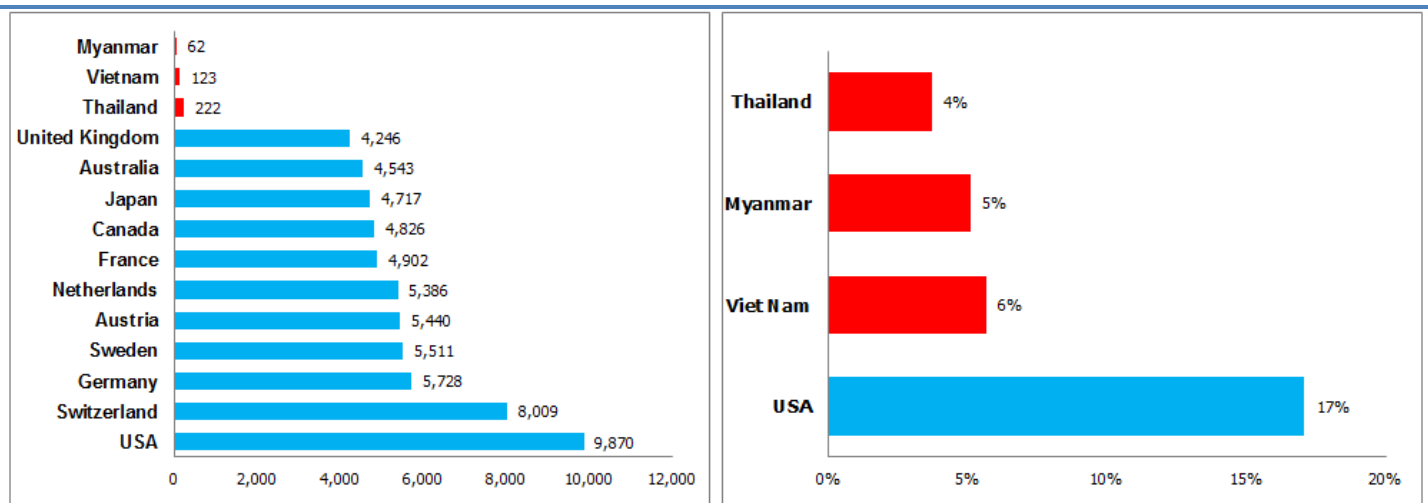
Source: Company data, RHB

Figure 6: GPM by businesses



Source: Company data

Figure 7: Healthcare expenditure per capita (USD) and GDP (%)



Source: World Health Organisation, RHB

Figure 8: MEGA's FY19 results summary

FYE Dec (THB m)	4Q18	3Q19	4Q19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)	Comments
Revenue	2,869	2,849	3,051	7.1	6.3	10,207	11,129	9.0	
Distribution Business	1,211	1,428	1,474	3.2	21.7	4,633	5,414	16.9	Mostly driven by the new distribution centre in Myanmar that started full operations this year.
Branded Product Business	1,579	1,365	1,512	10.8	(4.2)	5,291	5,476	3.5	Mostly driven by Africa and other emerging markets.
OEM Business	80	56	65	17.1	(18.2)	283	239	(15.5)	
Cost of Business	(1,561)	(1,690)	(1,791)	5.9	14.7	(5,761)	(6,520)	13.2	
Distribution Business	(948)	(1,138)	(1,172)	2.9	23.6	(3,648)	(4,292)	17.6	Increased mainly from an ongoing expansion in Myanmar and Vietnam.
Branded Product Business	(562)	(502)	(559)	11.4	(0.5)	(1,915)	(2,009)	4.9	
OEM Business	(51)	(50)	(59)	19.3	16.0	(197)	(219)	10.8	
SG&A	(976)	(819)	(770)	(6.1)	(21.1)	(3,243)	(3,176)	(2.0)	Despite provision expenses on employee benefits, SG&A remain flat QoQ from the improvements in cost optimisation.
Selling expenses	(640)	(501)	(462)	(7.7)	(27.9)	(2,036)	(1,899)	(6.8)	
Administrative expenses	(336)	(319)	(308)	(3.5)	(8.3)	(1,207)	(1,278)	5.9	
EBITDA	599	383	497	29.5	(17.1)	1,595	1,562	(2.1)	
EBITDA Margin (%)	20.9	13.5	16.3			15.6	14.0		
Depreciation	(38)	(41)	(42)	2.4	9.9	(149)	(162)	8.7	Increased mainly from the construction of warehouse and production facilities in Thailand, and office spaces in Myanmar.
Tax	(63)	(39)	(63)	61.6	0.8	(203)	(160)	(21.1)	
Effective tax rate (%)	(13)	(12)	(14)			(20)	(17)		
Minority Interest	0	0	0	(100.0)	nm	(1)	(3)	189.0	
Net Profit	407	282	382	35.5	(6.1)	1,206	1,139	(5.6)	Earnings slipped slightly from the one-time provision expenses of employee benefits and FX impacts.
Core Profit	447	305	493	61.4	10.2	1,179	1,365	15.7	Core profit grew both QoQ and YoY on the back of topline growth and effective cost controls.
Net Margin (%)	15.6	10.7	16.2			11.6	12.3		

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-12-09	Buy	36.0	29.0
2019-08-23	Buy	36.0	30.0
2019-03-06	Buy	39.5	31.8

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
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90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		ดีพอใช้	Satisfactory
50 - 59		ผ่าน	Pass
ต่ำกว่า 50	No logo give	N/A	N/A

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ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี (ประเทศไทย) จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความครบถ้วนและถูกต้องของผลสำรวจดังกล่าวแต่อย่างใด

ข้อมูล Anti-Corruption Progress Indicator 2560

ประกาศเจตนารมณ์ CAC

A	ASK	CHG	FC	GREEN	JUTHA	MATCH	NINE	PIMO	RWI	SPPT	TFI	TU	VNT
AI	AU	CHOTI	FER	GSTEL	KASET	MATI	NMG	PK	SANKO	SPRC	THE	TVD	WAVE
AIE	BCH	CHOW	FPI	GUNKUL	KBS	MBAX	NNCL	PL	SAUCE	SR	TICON	TVO	WHA
AIRA	BJC	CIG	FSMART	HARN	KCAR	MC	NTV	PLANB	SC	SRICHA	TIP	TVT	WICE
AJ	BJCHI	COL	GEL	IFS	KTECH	MFEC	NUSA	POST	SCCC	SST	TKN	TWPC	WIJK
ALUCON	BLAND	COM7	GFPT	ILINK	KWC	MIDA	NWR	PRINC	SCN	STA	TLUXE	U	TRUE
AMATAV	BR	CPALL	GGC	INET	KYE	MILL	OGC	PRO	SEAOIL	SUPER	TMILL	UPA	
AOT	BROCK	CPF	GIFT	IRC	L&E	ML	PACE	PSTC	SE-ED	SUSCO	TMT	UREKA	
APCO	BRR	CPR	GJS	J	LEE	MTLS	PAF	PYLON	SENA	SWC	TNP	UWC	
AQUA	CEN	CSC	GLOBAL	JMART	LIT	NBC	PAP	QTC	SIRI	SYMC	TPA	VGI	
ARROW	CGH	EKH	GOLD	JMT	LVT	NCL	PATO	ROH	SMART	TAKUNI	TSE	VIBHA	
ASIA	CHEWA	EPCO	GPSC	JUBILE	MAKRO	NEP	PCSGH	ROJNA	SPACK	TBSP	TTI	VIH	

ได้รับการรับรอง CAC

ADVANC	BKI	CPN	FE	INTUCH	LANNA	MSC	PLAT	PTT	SAT	SNP	TCMC	TMD	UOBKH
AKP	BLA	CSL	FNS	IRPC	LHBANK	MTI	PM	PTTEP	SCB	SORKON	TFG	TNITY	WACOAL
AMANAH	BROOK	DCC	FSS	IVL	LHK	NKI	PPP	PTTGC	SCC	SPC	TGCI	TNL	
AP	BTS	DEMCO	GBX	K	LPN	NSI	PPS	Q-CON	SCG	SPI	THANI	TOG	
ASP	BWG	DIMET	GCAP	KBANK	MBK	OCC	PRANDA	QH	SGP	SSF	THCOM	TOP	
AYUD	CENTEL	DRT	GLOW	KCE	MBKET	OCEAN	PREB	QLT	SINGER	SSI	THRE	TPCORP	
BAFS	CFRESH	DTAC	HANA	KGI	MCOT	PB	PRG	RATCH	SIS	SSSC	THREL	TRU	
BANPU	CIMBT	DTC	HMPRO	KKP	MFC	PDI	PSH	RML	SITHAI	SVI	TIPCO	TSC	
BAY	CM	EASTW	HTC	KSL	MINT	PE	PSL	ROBINS	SMIT	SYNTEC	TISCO	TSSTH	
BBL	CNS	ECL	ICC	KTB	MONO	PG	PT	S & J	SMPC	TAE	TKT	TTCL	
BCP	CPI	EGCO	IFEC	KTC	MOONG	PHOL	PTG	SABINA	SNC	TCAP	TMB	TVI	

N/A

2S	ARIP	BSM	CSS	FMT	INOX	LTX	NPK	RCL	SFP	SUC	TITLE	TSR	VPO
AAV	AS	BTC	CTW	FN	INSURE	M	NPP	RICH	SGF	SUN	TIW	TSTE	VTE
ABICO	ASAP	BTNC	CWT	FOCUS	IRCP	MACO	NVD	RICHY	SHANG	SUTHA	TK	TTA	WG
ACAP	ASEFA	BTW	D	FORTH	IT	MAJOR	NYT	RJH	SIAM	SVH	TKS	TTL	WHAUP
ACC	ASIAN	BUI	DCON	FTE	ITD	MALEE	OHTL	ROCK	SIMAT	SVOA	TM	TTTM	WIN
ADAM	ASIMAR	CBG	DCORP	FVC	ITEL	MANRIN	OISHI	RP	SKE	SYNEX	TMC	TTW	WINNER
ADB	ASN	CCET	DDD	GC	JAS	MAX	ORI	RPC	SKN	T	TMI	TUCC	WORK
AEC	ATP30	CCP	DELTA	GENCO	JCT	M-CHAI	OTO	RPH	SKR	TACC	TMW	TWP	WORLD
AEONTS	AUCT	CGD	DIGI	GL	JKN	MCS	PAE	RS	SKY	TAPAC	TNDT	TWZ	WP
AF	BA	CHARAN	DNA	GLAND	JSP	MDX	PDG	RSP	SLP	TASCO	TNH	TYCN	WPH
AFC	BAT-3K	CHO	DTCI	GPI	JTS	MEGA	PERM	S	SMK	TC	TNPC	UAC	WR
AGE	BCPG	CHUO	EA	GRAMMY	JWD	METCO	PF	S11	SMM	TCB	TNR	UBIS	XO
AH	BDMS	CI	EARTH	GRAND	KAMART	MGT	PICO	SAFARI	SMT	TCC	TOA	UEC	YCI
AHC	BEAUTY	CITY	EASON	GTB	KC	MJD	PJW	SALEE	SOLAR	TCCC	TOPP	UKEM	YNP
AIT	BEC	CK	ECF	GULF	KCM	MK	PLANET	SAM	SPA	TCJ	TPAC	UMI	YUASA
AJA	BEM	CKP	EE	GYT	KDH	MM	PLE	SAMART	SPALI	TCOAT	TPBI	UMS	ZIGA
AKR	BFIT	CMO	EFORL	HFT	KIAT	MODERN	PMTA	SAMCO	SPCG	TEAM	TPCH	UNIQU	ZMICO
ALLA	BGRIM	CMR	EIC	HOTPOT	KKC	MPG	POLAR	SAMTEL	SPG	TFD	TIPL	UP	
ALT	BGT	CNT	EMC	HPT	KOOL	MPIC	POMPUI	SAPPE	SPORT	TFMAMA	TIPIP	UPF	
AMA	BH	COLOR	EPG	HTECH	KTIS	NC	PORT	SAWAD	SPVI	TGPRO	TPOLY	UPOIC	
AMARIN	BIG	COMAN	ERW	HUMAN	KWG	NCH	PPM	SAWANG	SQ	TH	TPP	UT	
AMATA	BIZ	CPH	ESSO	HYDRO	LALIN	NDR	PRAKIT	SCI	SSC	THAI	TR	UTP	
AMC	BKD	CPL	ESTAR	ICHI	LDC	NETBAY	PRECHA	SCP	SSP	THANA	TRC	UV	
ANAN	BLISS	CPT	ETE	ICN	LH	NEW	PRIN	SDC	STANLY	THG	TRITN	UVAN	
APCS	BM	CRANE	EVER	IEC	LOXLEY	NEWS	PRM	SE	STAR	THIP	TRT	VARO	
APEX	BOL	CRD	F&D	IHL	LPH	NFC	PTL	SEAFCO	STEC	THL	TRUBB	VCOM	
APURE	BPP	CSP	FANCY	III	LRH	NOBLE	RAM	SELIC	STHAI	THMUI	TSF	VI	
AQ	BSBM	CSR	FLOYD	INGRS	LST	NOK	RCI	SF	STPI	TIC	TSI	VNG	

Source: Thai Institute of Directors

ข้อมูลบริษัทที่เข้าร่วมโครงการแนวร่วมปฏิบัติของภาคเอกชนไทยในการต่อต้านทุจริต (Thai CAC) ของสมาคมส่งเสริมสถาบันกรรมการบริษัทไทย (ข้อมูล ณ วันที่ 17 ต.ค.)

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- ได้รับการรับรอง CAC

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