

8 June 2020

Consumer Cyclical | Retailing

Mega Lifesciences (MEGA TB)

Buy (Maintained)

Potential Upside Yet To Materialise; Keep BUY

Target Price (Return): THB38.00 (+10%)
 Price: THB34.50
 Market Cap: USD952m
 Avg Daily Turnover (THB/USD) 64.2m/2.00m

- **Maintain BUY, with new TP of THB38.00 from THB35.00, 10% upside and c.2% yield.** Core operations outlook remains solid thanks to the scaling up of its distribution wing and well-controlled expenses. Rising health awareness during the pandemic has led branded health products demand to remain intact – hence, earnings growth should mostly remain resilient against softened margin prospects.
- **Record high revenue, but earnings in line.** Mega Lifesciences posted 1Q20 core earnings at THB320m (+26.1% YoY, accounting for 24% of our FY20F), mostly on stronger revenue from core businesses and well-controlled expenses. 1Q20 group GPM dropped to 38.1% (vs 42.4% YoY), mainly dragged by the higher revenue mix from its logistic business that has relatively lower margins. Subsidiary PT Futamed Pharmaceuticals contributed a loss of THB10.6m, lowering the company's bottomline. This is largely on a one-time fair value adjustment on PT Futamed's inventory as part of the consolidation.
- **Growth remained intact.** Despite the unprecedented economic condition, 1Q20 branded product revenue continued to grow 8% YoY, largely on rising health awareness and inventory build-up during the pandemic. Distribution business revenue rose significantly to a record high (32% YoY) mainly from the expansion of the Myanmar unit and increase in logistic activities during pre-lockdown. Weakened consumption prospects should not create significant impact to MEGA's revenue outlook thanks to its client base that has relatively solid purchasing power and rising logistics demand at its core emerging markets.
- **GPM to soften slightly until new project is commercialised.** The scaling up of the distribution wing and change of product mix in both core businesses should result in group margins softening in the short term. MEGA's advanced pharmaceutical manufacturing plant in Myanmar (a JV with MSN Laboratories Pvt Ltd) should be a mid-term catalyst to its topline and GPM, thanks to the product portfolio that has relatively higher GPM.
- **Limited negative impact from divestment.** Although new functional drinks from Mega Malee (JV with Malee (MALEE TB, NR)) yet to bear fruit, the company has decided to divest from this JV and shift production in-house. Management said it may incur some losses from the divestment but we believe it will not be significant.
- **Upside from projects in pipeline still pending.** Despite ongoing overseas acquisitions over the past few years, the company is still able to maintain its net cash position mainly from its particularly high fixed asset turnover and strong cash flow generation. We preclude the PT Futamed acquisition and JV in Myanmar as upsides pending further details, but we believe MEGA still has room to leverage on its net cash position for further M&A.
- **Maintain BUY.** While we raise FY20F-21F revenue by c. 6%, we trim its GPM slightly to incorporate the change of revenue mix. Our TP implies 22.6x FY20F P/E, in line with its historical mean.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	32.7	19.0	34.0	15.0	(2.8)
Relative	43.4	10.6	31.6	24.9	11.1
52-wk Price low/high (THB)					18.2 – 37.3

Mega Lifesciences PCL (MEGA TB)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	10,207	11,129	12,321	13,052	13,697
Recurring net profit (THBm)	1,076	1,243	1,319	1,418	1,523
Recurring net profit growth (%)	(3.5)	15.6	6.1	7.5	7.4
Recurring P/E (x)	28.03	24.06	22.67	21.09	19.64
P/B (x)	5.3	4.8	4.3	3.9	3.5
P/CF (x)	76.08	22.89	51.66	33.23	29.48
Dividend Yield (%)	2.1	2.1	2.1	2.2	2.4
EV/EBITDA (x)	25.48	22.18	20.10	18.27	16.47
Return on average equity (%)	19.6	20.9	20.1	19.3	18.7
Net debt to equity (%)	0.6	net cash	net cash	net cash	net cash

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	Recurring EPS	1.23	1.43	1.52	1.64	1.76
Consumer Cyclical	DPS	0.71	0.71	0.72	0.77	0.82
Mega Lifesciences	BV/PS	6.55	7.12	7.99	8.92	9.91
MEGA TB	Return on average equity (%)	19.6	20.9	20.1	19.3	18.7
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	28.03	24.06	22.67	21.09	19.64
DCF	P/B (x)	5.3	4.8	4.3	3.9	3.5
	FCF Yield (%)	1.3	4.4	1.9	3.0	3.4
Key drivers	Dividend Yield (%)	2.1	2.1	2.1	2.2	2.4
i. Faster-than-expected urbanisation in CMV markets;	EV/EBITDA (x)	25.48	22.18	20.10	18.27	16.47
ii. Stronger contributions from the branded business, which has higher margins.	EV/EBIT (x)	22.59	19.74	18.09	16.50	14.93
	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	10,207	11,129	12,321	13,052	13,697
i. Weaker-than-expected economic growth;	Gross profit	4,446	4,609	4,955	5,276	5,593
ii. Fluctuating gross margin at its branded business.	EBITDA	1,165	1,311	1,435	1,549	1,668
	Depreciation and amortisation	149	162	160	165	171
Company Profile	Operating profit	1,314	1,473	1,595	1,714	1,839
Mega Lifesciences is a leading international manufacturer and distributor of pharmaceutical, nutraceutical products, and fast moving consumer goods (FMCG).	Net interest	(34)	(65)	(50)	(54)	(57)
	Pre-tax profit	1,280	1,408	1,545	1,660	1,782
	Taxation	(203)	(160)	(222)	(239)	(257)
	Reported net profit	1,076	1,243	1,319	1,418	1,523
	Recurring net profit	1,076	1,243	1,319	1,418	1,523
	Cash flow (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	(203)	158	(382)	(123)	(61)
	Cash flow from operations	396	1,307	579	900	1,014
	Cash flow from investing activities	(647)	(172)	(260)	(250)	(100)
	Cash flow from financing activities	262	(638)	(375)	(597)	(653)
	Cash at beginning of period	477	559	1,248	1,710	2,314
	Net change in cash	11	496	(56)	52	262
	Ending balance cash	559	1,231	1,700	2,314	3,184
	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	926	1,455	1,917	2,521	3,391
	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	11,797	12,769	13,757
	Short-term debt	957	890	1,139	1,207	1,266
	Total long-term debt	3	3	3	3	3
	Total liabilities	3,908	4,358	4,914	5,119	5,283
	Total equity	5,724	6,175	6,883	7,650	8,475
	Total liabilities & equity	9,632	10,532	11,797	12,769	13,757
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	6.4	9.0	10.7	5.9	4.9
	Recurrent EPS growth (%)	(3.5)	16.5	6.1	7.5	7.4
	Gross margin (%)	43.6	41.4	40.2	40.4	40.8
	Operating EBITDA margin (%)	11.4	11.8	11.6	11.9	12.2
	Net profit margin (%)	10.5	11.2	10.7	10.9	11.1
	Dividend payout ratio (%)	57.1	49.7	47.3	46.9	46.8
	Interest cover (x)	38.6	22.6	31.8	31.6	32.2

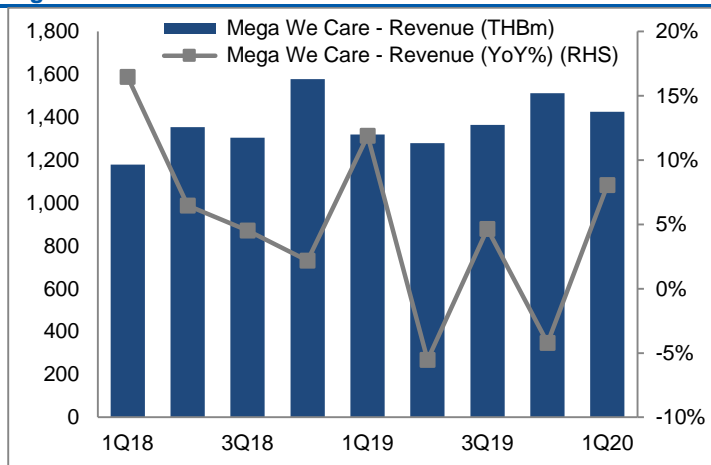
Source: Company data, RHB

Figure 1: DCF valuation

THBm	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
EBIT	1,595	1,714	1,839	1,963	2,097	2,243	2,401	2,575	2,761	1,595
Tax	(222)	(239)	(257)	(274)	(293)	(313)	(335)	(359)	(385)	(222)
EBIT (1-T)	1,372	1,475	1,583	1,689	1,804	1,930	2,066	2,215	2,376	1,372
Depreciation & Amortization	160	165	171	174	177	180	183	186	189	160
Change in net working capital	(382)	(123)	(61)	(76)	(75)	(73)	(71)	(68)	(64)	(382)
Capex	(250)	(250)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(250)
FCFF	901	1,268	1,592	1,687	1,806	1,937	2,078	2,233	2,400	901
Terminal growth	2.5%									
WACC	7.8%									
PV of FCFF	32,158									
Less: Net debt	(777)									
Total equity value	32,936									
Number of share (M)	866.76									
Equity value per share (THB)	38.0									

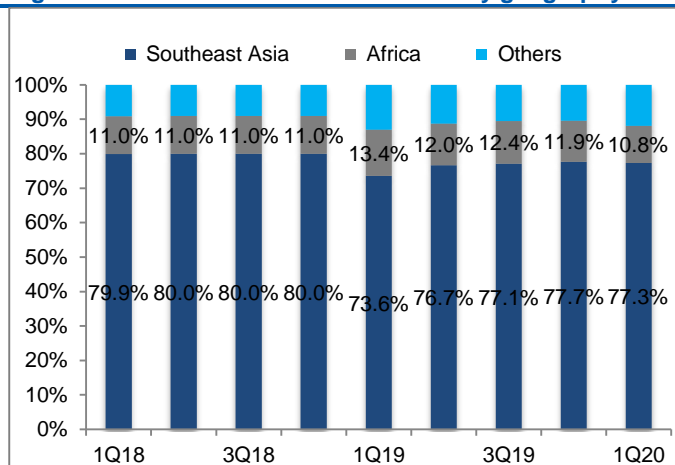
Source: RHB

Figure 2: Branded business revenue



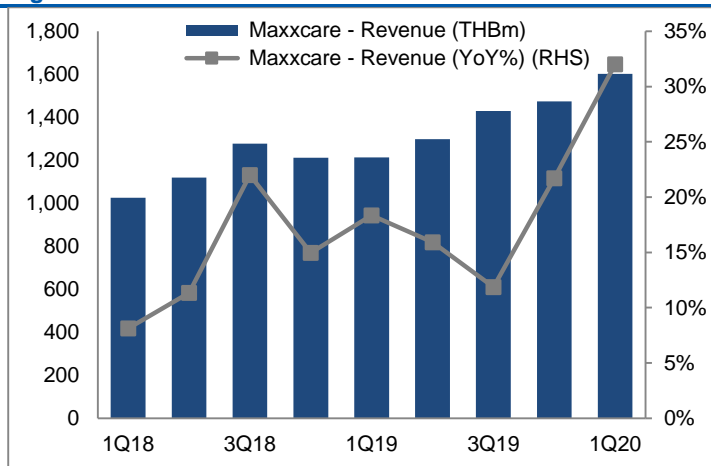
Source: Company data, RHB

Figure 3: Branded business breakdown by geography



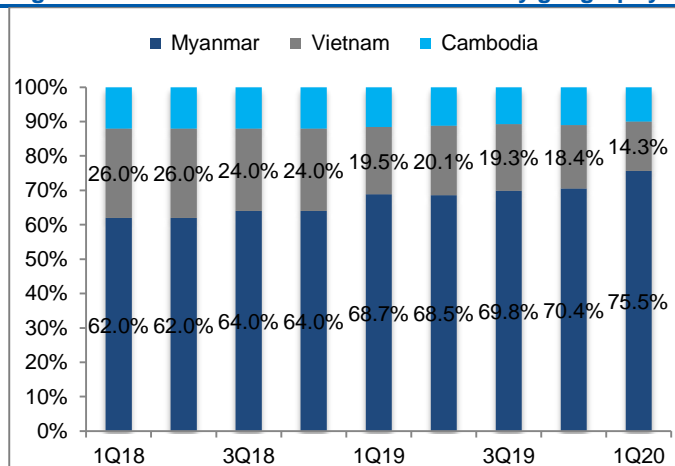
Source: Company data, RHB

Figure 4: Distribution business revenue



Source: Company data, RHB

Figure 5: Distribution business breakdown by geography

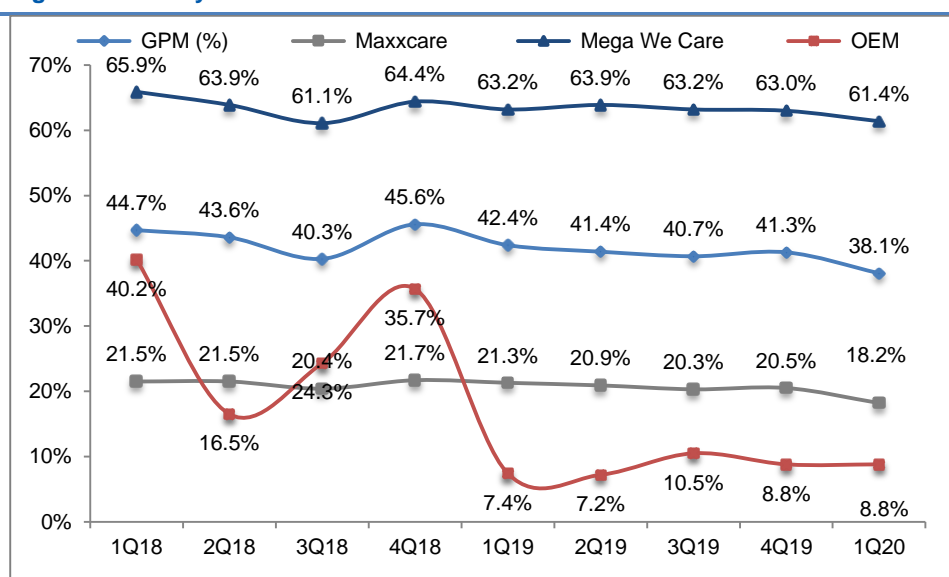


Source: Company data, RHB

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Figure 6: GPM by businesses



Source: Company data

Figure 7: 1Q20 results summary

FYE Dec (THB m)	1Q19	4Q19	1Q20	QoQ (%)	YoY (%)	Comments
Revenue	2,586	3,051	3,077	0.9	19.0	
Distribution Business	1,213	1,474	1,602	8.7	32.0	Increased significantly both QoQ and YoY driven by the scaling up of the new distribution center in Yangon that start full operations last year.
Branded Product Business	1,319	1,512	1,426	(5.7)	8.0	Mostly driven by stronger revenue from South-East Asia that outweighed the slight decline of the African markets.
OEM Business	53	65	50	(23.4)	(6.7)	
Cost of Business	(1,490)	(1,791)	(1,906)	6.4	27.9	
Distribution Business	(955)	(1,172)	(1,310)	11.8	37.2	Rose in tandem with revenue growth and the change in services mix.
Branded Product Business	(486)	(559)	(550)	(1.6)	13.3	
OEM Business	(49)	(59)	(45)	(23.4)	(8.2)	
SG&A	(773)	(770)	(789)	2.5	2.1	SG&A increased slightly both QoQ and YoY on the improvement of cost optimisation.
Selling expenses	(461)	(462)	(463)	0.2	0.4	
Administrative expenses	(312)	(308)	(326)	6.0	4.7	
EBITDA	599	383	497	29.5	(17.1)	
EBITDA Margin (%)	23.2	12.6	16.1			
Depreciation	(38)	(41)	(59)	44.5	55.1	Increased mainly from the adoption of TFRS 16 On lease recognition.
Tax	(41)	(63)	(62)	(2.7)	49.3	
Effective tax rate (%)	(14)	(14)	(16)			
Minority Interest	0	0	(2)	nm	nm	
Net Profit	254	382	321	(16.0)	26.5	
Core Profit	284	493	324	(34.3)	14.0	Core profit increased YoY on stronger topline growth and effective cost control.
Net Margin (%)	15.6	10.7	16.2			

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-02-26	Buy	35.0	24.8
2019-12-09	Buy	36.0	29.0
2019-03-06	Buy	39.5	31.8
2018-08-30	Buy	44.0	35.0

Source: RHB, Bloomberg

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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.)

- ได้ประกาศเจตนารมณ์เข้าร่วม CAC
- ได้รับการรับรอง CAC

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