

PHAPROS (PEHA)

Focusing on therapeutics to improve margins

Phapros **NOT RATED**

COMPANY UPDATE



We are of the opinion PEHA's focus to expand its therapeutic products in the Ethical segment will increase consolidated gross margins with an evergreen clientele of patients suffering from chronic diseases. In spite of 9M22's negative cash flow, gradually incorporating locally manufactured raw materials into its product lines dilutes the payments to suppliers. We also favor the Company due to its digital transformation to drive down operational costs. As of 9M22, the operational expense-to-revenue is 41%. This is unchanged from 41% in FY21 and dropped from 44% in FY20. This means operational efficiency has slightly ticked up since FY20 and has the potential to drop another 3% with implementation of digital systems for supply chain enhancement.

At its current market cap of Rp 571.2 bn, PEHA is trading at 11.40x EV/EBITDA ratio. Despite PEHA's lower EBITDA margin of 10.87% vs its Manufacturing Pharmaceutical (KLBF, SOHO, SIDO) peers median (13.97%), we are of the opinion the Company deserves a more premium valuation due to its undemanding valuation compared to its Pharmaceutical Manufacturing peers which are currently trading at a slightly higher median of 13.97x EV/EBITDA. We currently have no rating for PEHA but will be planning to revisit it again in the future.

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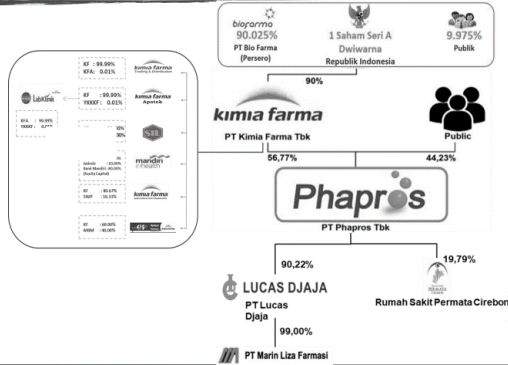
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Brief Company Profile

- PT Phapros (PEHA) is a subsidiary of the State-Owned Enterprise (SOE) Pharmaceuticals and Apothecary company Kimia Farma (KAEF). Aside from being a contracted medicine manufacturer, the Company holds 250 pharmaceutical brand products with a majority being its non-license brands under the ethical products, generic, OTC, and Agromeds. Having a Certified Calibration Laboratory, its utilization rate of its Semarang factory has reached 96%.

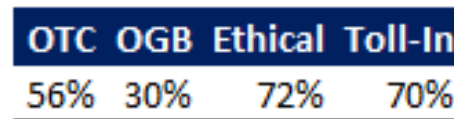
Shareholder Composition



- **We are of the opinion** PEHA’s focus to expand its therapeutic products in the Ethical segment will increase consolidated gross margins with an evergreen clientele of patients suffering from chronic diseases. In spite of 9M22’s negative cash flow, gradually incorporating locally manufactured raw materials into its product lines dilutes the payments to suppliers
- **We also favor the Company** due to its digital transformation to drive down operational costs. As of 9M22, the operational expense-to-revenue is 41%. This is unchanged from 41% in FY21 and dropped from 44% in FY20. This means operational efficiency has slightly ticked up since FY20 and has the potential to drop another 3% with implementation of digital systems for supply chain enhancement.

Financial Performances

The Company booked a 14.2% YoY jump in revenue to Rp 876.4 bn in 9M22. With a higher 9M22 Net Profit Margin of 1.88% vs 1.44% in 9M21, Net profits soared 48.6% YoY to Rp 16.5 bn despite easing covid worries.



Focusing on therapeutics to improve margins

- Maximizing its benefits as a subsidiary of the SOE KAEF, it signed a Memorandum of Understanding (MoU) on 19-Oct-2022 with SOE Transportation services KAI, PELNI, DAMRI, and ASDPR to enhance its logistics capabilities to improve margins.
- Despite its parent company KAEF manufacture medical raw materials in the effort to lower the pharmaceutical industry’s dependency on imports (esp. from China), a majority of PEHA’s products still rely on imports from China, India and Europe, including its 6 new products so far this year. The Company has plans, however, to switch into locally-made raw materials in the future, but this will take further assessment and approval by BPOM before being launched in the market.
- This long-term pivot to domestic sources was sparked by the government’s regulation for a minimum domestic component rate of 25% and China’s zero covid policy followed by political turmoil. We are of the view its connection to one of the leading medicinal raw material manufacturers KAEF will make its manufacturing cost-competitive to other pharmaceutical manufacturers.
- However, the Company’s cash position more than halved by 56% YTD to Rp 41.9 bn in 9M22 due to higher payments to suppliers and employees, and a slump in receipts from customers. A costly acquisition of right of use assets and fixed assets throughout 9M22 also contributed to the nosedive in cash and cash equivalent assets.
- Its 9M22 EPS has also rebounded to Rp26.3/share from Rp13.4/share in FY21 after net profit margin crunched from 5% in FY20 to 1.1% in FY21 following recovery receivables’ maturity. Yet 9M22 EPS has not recovered to FY20 EPS of Rp57.9/share. Despite finance income dropped 80% YTD to Rp 0.5 bn, 9M22 net profit ticked up since finance costs was cut 46% YTD to Rp 42.8 bn.

Current Valuation

- At its current market cap of Rp 571.2 bn, PEHA is trading at 11.40x EV/EBITDA ratio. Despite PEHA’s lower EBITDA margin of 10.87% vs its Manufacturing Pharmaceutical (KLB, SOHO, SIDO) peers median (13.97%), we are of the opinion the Company deserves a more premium valuation due to its undemanding valuation compared to its Pharmaceutical Manufacturing peers which are currently trading at a slightly higher median of 13.97x EV/EBITDA. We currently have no rating for PEHA but will be planning to revisit it again in the future.

PEHA’s Ethical medicine segment was still the largest gross profit contributor in 9M22 with 45% from 43% in 2021 while its OGB segment decreased to 31% from 36% in 2021 followed by OTC (21%) and Toll-In (3%). Because the Ethical medicine segment has the largest contributor with the highest gross margin, the Company will be focusing to grow its Ethical segment profits due to the segment having the highest gross margin with 72%.

It claimed its notable travel nausea tablet ANTIMO contributed approximately 10-11% to total revenue. Recently, the ANTIMO brand celebrated its 50th Anniversary; the company assured ANTIMO’s patent expires in 2029.

Investment Risks

- Lower-than-expected production capacity as a majority of its raw materials are still imported from China where political instability is on the rise.
- Slower-than-expected transition into the adoption of domestically made medicinal raw materials into its product’s ingredient mixture.

Ticker	Pharmaceutical Manufacturing Peers	EV/EBITDA (x)	EBITDA margin	P/E(x)
SIDO	Industri Jamu Dan Farmasi Sido Muncul	14.41	37.10%	20.30
KLB	Kalbe Farma	19.05	17.07%	28.02
SOHO	SOHO Global Health	13.52	7.00%	21.16
PEHA	Phapros	11.50	10.87%	32.71
	Median	13.97	13.97%	24.59

*We used trailing valuation metrics for the last 12 months from last filing

Sources: Companies, IDX, Bloomberg, HP Analytics

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PEHA Product Portfolio

Pareto Products

ANTIMO



- **Indications** : Nausea and vomiting during travelling by motor vehicles [car, bus], ships, and aircraft
- **Ingredients** : Dimenhydrinate tablet 50 mg
- **Packing** : 1 strip @ 10 tablets

BECEFORT



- **Indications** : Vitamin supplement of vitamin C, B, and Calcium deficiency i.e growth step, healing step, malnutrition, pregnancy and nursing women.
- **Ingredients** : Vit-B1, Vit-B2, Vit-B6, Vit-B12, Vit-C, Vit-E, Calcium
- **Packing** : 1 strip @ 4 caplets

TABLET TAMBAH DARAH



- **Indications** : For Iron Deficiency and to reduce megaloblastic anemia
- **Ingredients** : Ferrous Fumarate 180mg, Folic Acid 400mg
- **Packing** : 3 strips @ 10 tablets

PEHACAIN



- **Indications** : local anesthesia for dental procedures
- **Ingredients** : Lidocaine HCl 20mg, Epinephrine 0,0125mg
- **Packing** : 20 Ampoules @ 20ml

DEXTAMINE



- **Indications** : Corticosteroid Therapy and to relieve symptoms of allergies
- **Ingredients** : Dexamethasone 0,5mg, Dexchlorpheniramine maleate
- **Packing** : 30 blisters @ 10 caplets

PRO TB



- **Indications** : Treatment for TB Disease
- **Ingredients** : Rifampicin, Isoniazide, Pyrazinamide, Ethambutol
- **Packing** : 1 blister @ 28 film coated caplets

PANTOPRAZOLE



- **Indications** : Duodenal ulcer, gastric ulcer, reflux esophagitis
- **Ingredients** : Pantoprazole Sodium 124mg/Pantoprazole 40mg
- **Packing** : 1 vial @ 40mg

RANITIDINE



- **Indications**: Hypersecretory conditions
- **Ingredients** : Ranitidine 25 mg
- **Packing** : 25 Ampoules @ 2ml

Sources: Companies, HP Analytics

PEHA's 2023 Grand Strategy



PEHA Income Statement & Balance Sheet

<i>(Rp bn)</i>				<i>(Rp bn)</i>			
INCOME STATEMENT	2020	2021	9M22	BALANCE SHEET	2020	2021	9M22
Revenue	980.6	1,051.44	876.4	Cash	60.2	94.3	41.9
growth		7.2%		Acc rcvbls, 3rd and rlted prties	456.5	439.2	643.1
Gross profit	523.5	519.5	426.8	Inventories, net	385.0	339.2	290.6
margin	53.4%	49.4%	48.7%	Prepaid expenses	4.2	2.1	10.3
Operating expenses	(433.7)	(429.4)	(362.7)	Prepaid Taxes	37.7	47.0	33.6
Op. Profit	89.8	90.1	64.1	Others	40.5	27.3	27.4
margin	9.2%	8.6%	7.3%	Total current assets	984.1	949.1	1,046.8
Finance Income	2.1	2.4	0.5	Fin. Ass. At Fair Val.	19.4	19.4	19.4
Finance Costs	(94.4)	(79.8)	(42.8)	Deferred Tax Assets	21.3	18.0	19.6
Others	66.6	0.2	(0.0)	Fixed Assets	650.7	615.9	595.4
Profit bef tax	64.1	12.9	21.7	Right of Use Assets	22.1	18.1	23.0
Net profit	48.7	11.3	16.5	Intangible Assets	4.4	4.4	4.6
growth		-76.8%		Investment Property	77.7	77.6	77.6
margin	5.0%	1.1%	1.9%	Goodwill	134.4	134.4	134.4
EBITDA	132.8	132.7	95.3	Other Non-current Assets	1.9	1.5	1.1
growth		-0.1%		Total non-current Assets	931.9	889.4	875.1
margin	13.5%	12.6%	10.9%	Total Assets	1,916.0	1,838.5	1,921.9
EPS	57.9	13.4	26.3	Trade Pybls	113.5	94.3	91.5
Current Price	680	680	680	Contract Liability	1.3	0.3	2.7
Mrkt Cap	571.2	571.2	571.2	Accrued Expenses	15.3	9.2	7.9
EV	1,410.7	1,335.1	1,448.2	Taxes Pybls	1.4	2.9	6.3
EV/EBITDA	10.62	10.06	11.40	Dividend Pybls	9.8	9.7	9.8
				Consumer Fncng Pybls	-	0.6	0.1
				Short-term Bank Loan	899.7	554.4	617.5
				LT Bank Loan	-	50.6	70.9
				Others	3.1	10.1	9.7
				Total Current Liabilities	1,044.1	732.0	816.4
				LT debts, net of current mat	-	253.3	230.5
				Lease Liability - non-current	22.4	10.0	12.9
				Post Employee Benefits Liab	106.9	101.4	111.2
				Others	1.7	0.9	-
				Total Non-current Liabilities	131.0	365.5	354.6
				Total Liabilities	1,175.1	1,097.6	1,171.0
				Common Stocks	84.0	84.0	84.0
				Additional paid-in capital	17.1	17.1	17.1
				Retained earnings, app	414.0	443.1	447.6
				Retained earnings, unapp	48.5	11.1	17.1
				Equity att to parents	719.7	719.5	730.0
				NC interests	21.3	21.5	20.9
				Total Equity	740.9	741.0	750.9
				Total Liabs & Equity	1,916.0	1,838.5	1,921.9
				check	-	-	-
				BVPS	882	882	894
				ROE	6.6%	1.5%	2.2%

Sources: Companies, HP Analytics

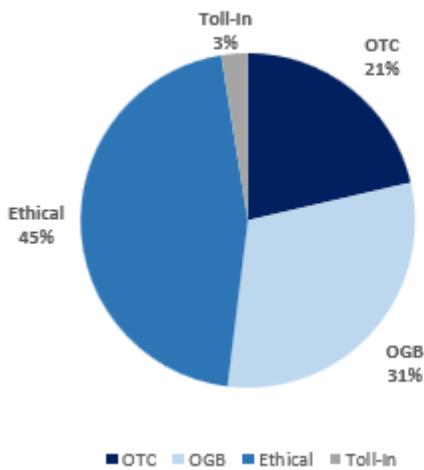
PEHA Dividend History

Dividend History	Dividend Per Share (Rp/Share)	Dividend Payout Ratio
2021	7.91	60%
2020	23.09	40%
2019	85.03	70%
2018	110.26	70%
2017	521.94	70%
2016	258.94	50%
2015	187.52	50%
2014	134.9	50%
2013	125.31	50%
2012	164.67	40%
2011	358.09	50%

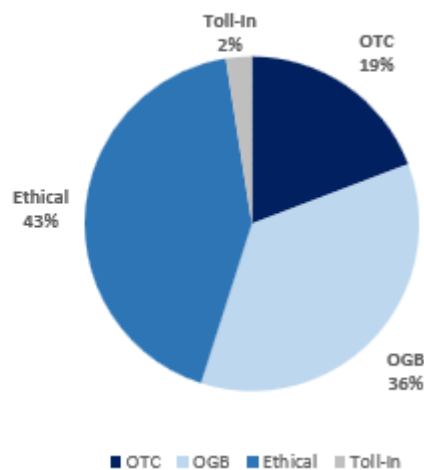
Sources: Companies, HP Analytics

PEHA Gross Profit Contributions for FY22 and FY21

2022 Gross Profit Contributions



2021 Gross Profit



Sources: Companies, HP Analytics

Rating Scale

BUY	: We expect the stock's total return to exceed 10% over the next 12 months.
HOLD	: We expect the stock's total return to be between 0% and positive 10% over the next 12 months.
SELL	: We expect the stock's total return to fall below 0% or more over the next 12 months.
NOT RATED	: We are not assigning any rating or price target to the stock.
OVERWEIGHT	: Fundamentals are improving.
NEUTRAL	: Fundamentals are steady.
UNDERWEIGHT	: Fundamentals are worsening.



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