BUY (Unchanged) **TP: Bt 47.00** (Unchanged)

Company Update **Upside : 39.3%** **6 MAY 2021**

Mega Lifesciences Pcl (MEGA TB)

Surviving Myanmar

Despite facing difficulties from COVID-9 and the military coup in Myanmar, MEGA still looks likely to offer 12% EPS growth in 1Q21F. There is no change to our 15% EPS growth forecast this year while MEGA's share price is already down by 19% from this year's peak to trade at 18x PE, near its -1STD PE. BUY.

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Thanachart Securities

Decent 1Q21F

We estimate MEGA to report Bt342m in normalized profit in 1Q21F, up 12% y-y. 1) We project both pharmaceutical (46% of sales) and distribution of drugs and FMCG products (51%) to grow 4-5% y-y in 1Q21F. Despite MEGA's normal high single-digit growth rate, the soft revenues would be in line with our target, and we consider them decent since 1Q20 was a high-base quarter when people stocked up abnormally on vitamins and FMCG products in the first outbreak (sales grew 19% in 1Q20). Growth was seen across most of MEGA's markets, e.g. Thailand, Vietnam and African countries). 2) We estimate a 1ppt EBIT margin rise to 25.0% in 1Q21F on the operating leverage impact.

Surviving Myanmar

Myanmar is MEGA's largest market which accounts for around 40% of sales (~10% pharmaceutical and 30% distribution businesses). However, as distribution generates a lower margin, Myanmar accounts for only 24% of MEGA's profit, on our estimate. MEGA has been facing difficulties since the coup in February which has been putting severe pressure on both the economy and product distribution. That said, MEGA should still be able to generate low-single-digit sales growth in Myanmar in 1Q21F despite the high base last year mentioned earlier. We believe this is because demand for both MEGA's own pharmaceutical products and its distributed products, e.g., health-related drinks, personal hygiene products and daily products, has by nature been resilient against the external backdrop.

Weak baht helps

Despite the headwind in Myanmar, we keep our earnings growth forecast of 15% this year. Aside from MEGA having shown to be resilient in 1Q21F despite the Myanmar difficulties, the weaker baht benefits MEGA, a net-export company. The baht averaged Bt30.3/US$ in 1Q21 and has softened to Bt31.2 currently vs. our estimate of Bt29.9 this year. Our sensitivity suggests each 1% weakening of the baht would give 0.8% upside to our profit.

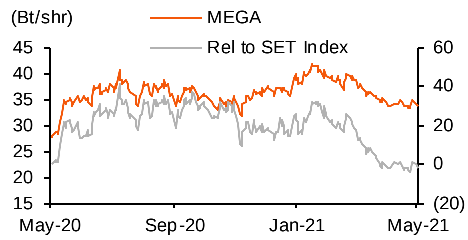
Cheap in our view; reaffirm BUY

We reaffirm our BUY on MEGA with an unchanged DCF-based TP, using a 2021F base year, of Bt47/share. MEGA's share price is down by 19% from its peak last year and is now trading at 18x PE vs. its 17x -1STD PE and 23x historical average PE despite the SET re-rating. We see MEGA, offering 15% EPS growth this year and 10% in 2022F, as inexpensive given its exposure to the pharmaceutical industry (global mega-trend of health consciousness) and strong business position in its main emerging markets where competition is less intense. We expect decent 1Q21F results to be a catalyst.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	12,589	13,994	15,079	16,158
Net profit	1,393	1,632	1,792	1,964
Consensus NP	—	1,487	1,651	1,897
Diff frm cons (%)	—	*9.7*	*8.5*	*3.5*
Norm profit	1,416	1,632	1,792	1,964
Prev. Norm profit	—	1,649	1,818	1,970
Chg frm prev (%)	—	*(1.1)*	*(1.4)*	*(0.3)*
Norm EPS (Bt)	1.6	1.9	2.1	2.3
Norm EPS grw (%)	16.3	15.3	9.8	9.6
Norm PE (x)	20.8	18.0	16.4	15.0
EV/EBITDA (x)	14.8	13.0	11.6	10.4
P/BV (x)	4.2	3.8	3.4	3.1
Div yield (%)	2.7	3.1	3.3	4.3
ROE (%)	21.6	22.2	22.0	21.8
Net D/E (%)	(10.3)	(11.9)	(16.7)	(23.2)

PRICE PERFORMANCE

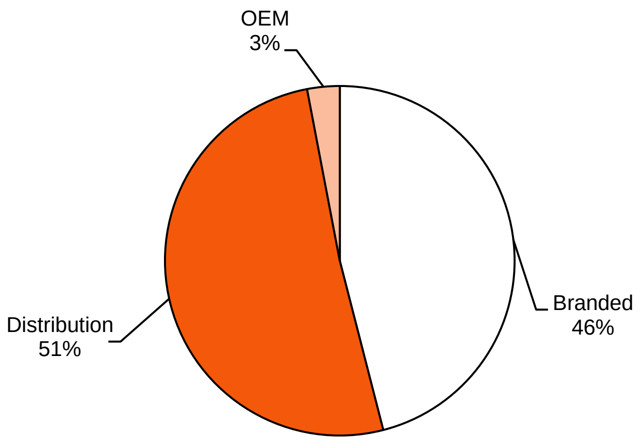


COMPANY INFORMATION

Price *as of* 6-May-21(Bt)	33.75
Market Cap (US$ m)	941.8
Listed Shares (m shares)	871.9
Free Float (%)	38.93
Avg Daily Turnover (US$ m)	4.87
12M Price H/L (Bt)	41.75/27.50
Sector	Commerce
Major Shareholder	Shah Family 50.1%

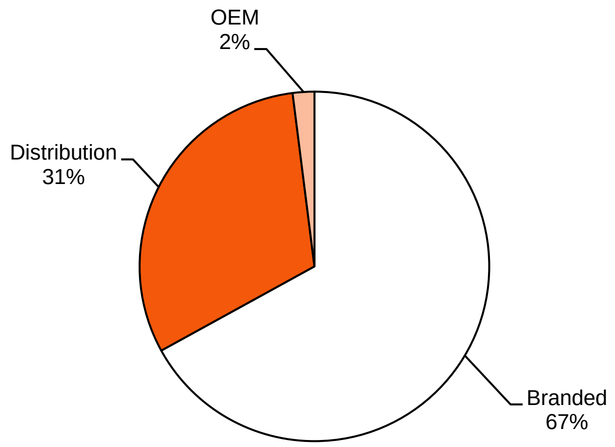
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Sales Breakdown By Business



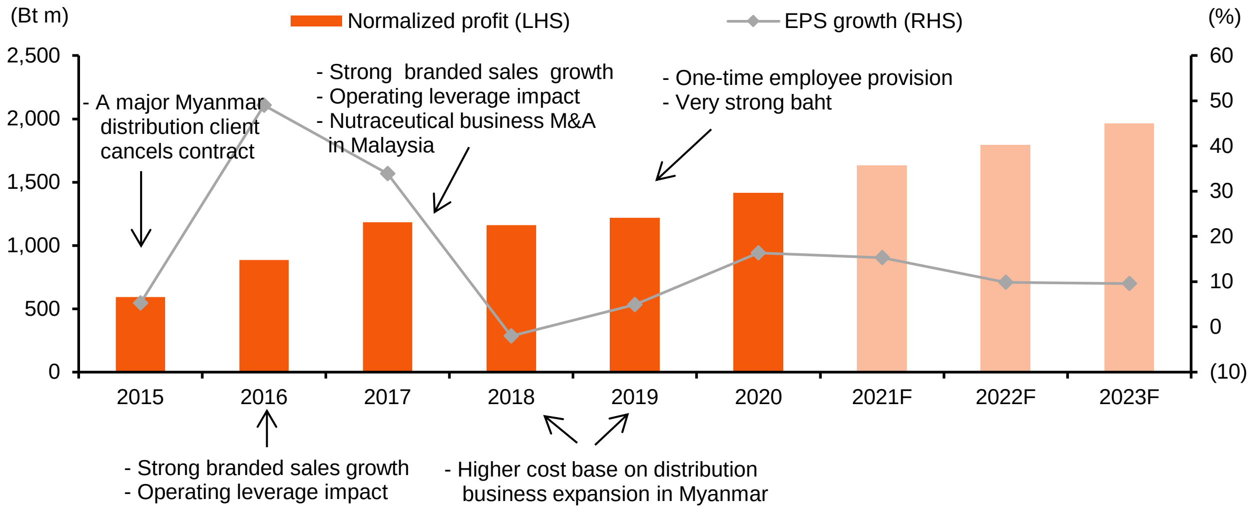
Sources: Company data; Thanachart estimates

Ex 2: EBIT Breakdown By Business



Sources: Company data; Thanachart estimates

Ex 3: MEGA's Earnings Growth Path



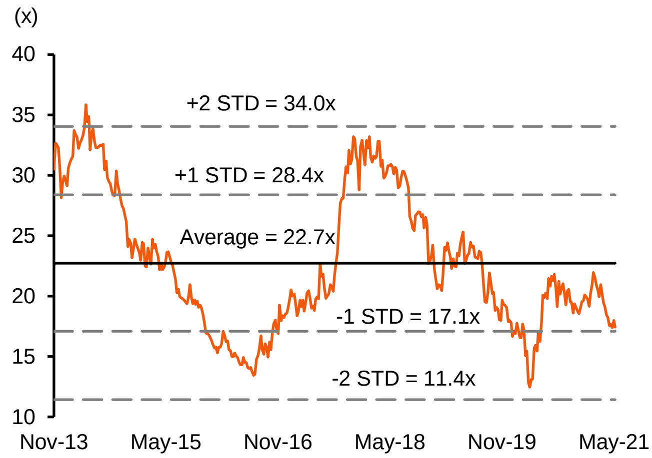
Sources: Company data, Thanachart estimates

Ex 4: Our Baht Assumptions

	2020	2021F	2022F	2023F
Bt/US$	31.3	29.9	29.3	28.9

Sources: Company data; Thanachart estimates

Ex 5: PE Since Listing



Sources: Company data; Thanachart estimates

Ex 6: 12-month DCF-based TP Calculation Using A Base Year Of 2021F

(Bt m)		2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	Terminal Value
EBITDA		2,197	2,415	2,619	2,828	3,265	3,646	4,138	4,714	5,127	5,770	6,502	—
Free cash flow		1,001	1,509	1,947	2,129	2,485	2,791	3,165	3,587	4,067	4,568	5,200	69,685
PV of free cash flow		998	1,505	1,485	1,484	1,583	1,582	1,632	1,682	1,735	1,773	1,836	21,237
Risk-free rate (%)	3.5												
Market risk premium (%)	8.0												
Beta	1.0												
WACC (%)	11.3												
Terminal growth (%)	2.0												
Enterprise value - add investments	40,282												
Net debt (2020)	(722)												
Minority interest	21												
Equity value	40,982												
# of shares (m)	872												
Equity value/share (Bt)	**47.00**												

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 7: Valuation Comparison With Peers

Name	BBG code	Country	EPS growth 21F (%)	EPS growth 22F (%)	PE 21F (x)	PE 22F (x)	P/BV 21F (x)	P/BV 22F (x)	EV/EBITDA 21F (x)	EV/EBITDA 22F (x)	Div yield 21F (%)	Div yield 22F (%)
Bristol-Myers Squibb	BMY US	US	15.9	7.6	8.7	8.1	3.9	3.2	6.9	6.9	3.0	3.1
Eli Lilly & Co	LLY US	US	1.3	6.9	24.0	22.5	22.4	17.2	20.4	18.8	1.7	1.9
Johnson & Johnson	JNJ US	US	19.0	8.8	17.5	16.1	5.1	4.5	13.6	12.6	2.5	2.7
Merck & Co Inc	MRK US	US	9.3	9.5	12.0	10.9	6.0	5.3	10.0	9.2	3.3	3.6
Pfizer Inc	PFE US	US	59.0	(9.0)	11.3	12.4	3.0	2.9	10.4	11.3	3.9	4.1
Abbott Laboratories	ABT US	US	38.1	7.3	23.5	21.9	5.3	4.7	18.0	17.1	1.4	1.5
Astellas Pharma Inc	4503 JP	Japan	80.3	12.7	14.2	12.6	2.1	1.9	9.2	8.6	2.8	3.0
Chugai Pharmaceutical	4519 JP	Japan	5.8	(1.1)	28.0	29.9	5.7	5.2	18.4	19.3	1.5	1.5
Daiichi Sankyo Co Ltd	4568 JP	Japan	5.0	4.6	81.0	60.5	4.3	4.1	36.9	29.5	1.0	1.0
Eisai Co Ltd	4523 JP	Japan	(5.5)	8.1	47.6	29.9	3.1	3.0	22.5	16.2	2.2	2.3
Otsuka Holdings Co Ltd	4578 JP	Japan	0.1	2.7	15.7	15.2	1.2	1.1	8.0	7.7	2.4	2.4
Taisho Pharmaceutical	4581 JP	Japan	(1.5)	0.7	34.4	38.3	0.7	0.7	7.9	8.6	1.6	1.6
AstraZeneca	AZN LN	UK	26.7	27.8	21.0	16.4	7.3	6.1	15.0	11.5	2.7	2.8
GlaxoSmithKline	GSK LN	UK	(15.5)	12.0	13.7	12.2	5.0	4.3	10.3	9.1	5.9	4.7
Novartis AG	NOVN SW	Switzerland	49.0	8.0	13.8	12.8	3.3	3.1	13.6	12.7	3.8	3.9
Roche Holding AG	ROG SW	Switzerland	2.7	4.6	15.2	14.5	5.8	4.9	10.6	10.4	3.2	3.3
Blackmores Ltd	BKL AU	Australia	1.8	11.2	40.5	29.1	3.5	3.3	17.5	13.5	1.1	1.9
Novo Nordisk A/S	NOVOB DC	Denmark	4.9	8.4	23.6	21.3	15.3	13.6	17.2	15.6	2.1	2.4
Sanofi	SAN FP	France	5.5	4.1	13.5	12.1	1.6	1.6	9.8	8.7	3.9	4.1
Apex Healthcare	APEX MK	Malaysia	8.3	6.5	22.8	21.1	5.3	4.9	14.7	13.5	1.5	1.6
Kalbe Farma	KLBF IJ	Indonesia	7.4	6.0	23.5	21.4	3.6	3.3	15.0	14.0	2.0	2.2
Mega Lifesciences	MEGA TB*	Thailand	15.3	9.8	18.0	16.4	3.8	3.4	13.0	11.6	3.1	3.3
Average			**15.1**	**7.1**	**23.8**	**20.7**	**5.3**	**4.7**	**14.5**	**13.0**	**2.6**	**2.7**

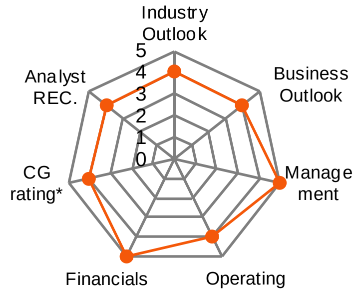
Sources: Bloomberg, Thanachart estimates
Note: * Thanachart estimates, using normalized EPS
Based on 6-May-21 closing price

COMPANY DESCRIPTION

Mega Lifesciences PCL manufactures, markets and distributes nutritional and herbal supplement, OTC and ethical drugs. The company produces products that range from treating internal issues to overall general health. MEGA's operates in 33 countries globally.

Source: Thanachart

COMPANY RATING



Rating Scale	
Excellent	**5**
Good	**4**
Fair	**3**
Weak	**2**
Very Weak	**1**
None	**0**

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Products have strong brand recognition.
- Has its own distribution networks.
- Strong market knowledge and business connections.

W — Weakness

- No exposure to large-value pharmaceutical markets in developed countries.
- Not keen on big-molecules medicines which are popular and offer high margins.

O — Opportunity

- Growing business along with decent GDP growth in its main markets.
- Penetrating untapped developing and less developed markets.
- New customers for its distribution services.

T — Threat

- Global pharmaceutical players entering MEGA's markets.
- Distribution customers can terminate contracts.
- Strong baht trend against other currencies, especially the US dollar.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	44.17	47.00	6%
Net profit 21F (Bt m)	1,487	1,632	10%
Net profit 22F (Bt m)	1,651	1,792	9%
Consensus REC	**BUY: 10**	**HOLD: 1**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings forecasts and TP are higher than the Bloomberg consensus numbers, which we attribute to us having a more bullish view on the pharmaceutical industry's growth.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Failure to receive drug-license approval for new pharmaceutical, nutraceutical and over-the-counter products would be the key downside risk to our call.
- Distribution clients terminating contracts represents a secondary downside risk.
- Unexpected OEM customer losses represent another downside risk.
- A stronger baht than our current expectation is another downside risk.

Source: Thanachart

Sustained and decent sales growth in the past looks likely to continue

Plenty of cash on hand

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	11,130	12,589	13,994	15,079	16,158
Cost of sales	6,551	7,603	8,570	9,217	9,860
Gross profit	**4,578**	**4,986**	**5,425**	**5,862**	**6,298**
% gross margin	41.1%	39.6%	38.8%	38.9%	39.0%
Selling & administration expenses	3,176	3,299	3,471	3,720	3,966
Operating profit	**1,402**	**1,687**	**1,953**	**2,142**	**2,332**
% operating margin	12.6%	13.4%	14.0%	14.2%	14.4%
Depreciation & amortization	160	256	243	273	287
EBITDA	**1,562**	**1,943**	**2,197**	**2,415**	**2,619**
% EBITDA margin	14.0%	15.4%	15.7%	16.0%	16.2%
Non-operating income	34	24	32	35	37
Non-operating expenses	0	0	0	0	0
Interest expense	(65)	(72)	(75)	(80)	(80)
Pre-tax profit	**1,371**	**1,638**	**1,911**	**2,097**	**2,289**
Income tax	160	234	294	323	353
After-tax profit	**1,211**	**1,404**	**1,616**	**1,774**	**1,937**
% net margin	10.9%	11.2%	11.6%	11.8%	12.0%
Shares in affiliates' Earnings	6	7	10	13	22
Minority interests	(0)	4	5	5	5
Extraordinary items	(78)	(23)	0	0	0
NET PROFIT	**1,139**	**1,393**	**1,632**	**1,792**	**1,964**
Normalized profit	**1,217**	**1,416**	**1,632**	**1,792**	**1,964**
EPS (Bt)	1.3	1.6	1.9	2.1	2.3
Normalized EPS (Bt)	1.4	1.6	1.9	2.1	2.3

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	7,230	7,620	8,313	9,076	10,233
Cash & cash equivalent	1,467	1,221	1,306	1,600	2,300
Account receivables	2,717	2,684	2,983	3,173	3,356
Inventories	2,856	3,475	3,757	4,015	4,268
Others	190	240	267	288	308
Investments & loans	241	194	244	294	344
Net fixed assets	1,771	1,951	2,358	2,434	2,247
Other assets	1,292	1,824	2,203	2,385	2,571
Total assets	**10,533**	**11,590**	**13,118**	**14,189**	**15,395**
LIABILITIES:					
Current liabilities:	4,158	4,262	4,677	4,813	5,095
Account payables	2,508	2,788	3,143	3,380	3,616
Bank overdraft & ST loans	888	499	382	161	112
Current LT debt	0	0	0	0	0
Others current liabilities	762	974	1,152	1,271	1,367
Total LT debt	**0**	**0**	**0**	**0**	**0**
Others LT liabilities	199	349	688	783	879
Total liabilities	**4,358**	**4,611**	**5,365**	**5,596**	**5,974**
Minority interest	0	21	16	16	11
Preferreds shares	0	0	0	0	0
Paid-up capital	436	436	436	436	436
Share premium	2,305	2,305	2,305	2,305	2,305
Warrants	2	2	2	2	2
Surplus	(609)	(536)	(536)	(536)	(536)
Retained earnings	**4,041**	**4,752**	**5,531**	**6,371**	**7,204**
Shareholders' equity	6,175	6,958	7,737	8,577	9,410
Liabilities & equity	**10,533**	**11,590**	**13,118**	**14,189**	**15,395**

Sources: Company data, Thanachart estimates

Strong cash flows, based on our estimates

2021F PE of 18x looks inexpensive to us for a strong-brand business

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	1,371	1,638	1,911	2,097	2,289
Tax paid	(116)	(183)	(297)	(300)	(346)
Depreciation & amortization	160	256	243	273	287
Chg In w orking capital	60	(305)	(227)	(211)	(200)
Chg In other CA & CL / minorities	111	150	165	93	90
Cash flow from operations	**1,586**	**1,557**	**1,795**	**1,952**	**2,121**
Capex	(505)	(437)	(650)	(350)	(100)
Right of use	0	(263)	(300)	(100)	(100)
ST loans & investments	0	0	0	0	0
LT loans & investments	221	46	(50)	(50)	(50)
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	63	(168)	261	14	10
Cash flow from investments	**(220)**	**(822)**	**(739)**	**(486)**	**(240)**
Debt financing	(150)	(371)	(118)	(220)	(49)
Capital increase	130	0	(0)	0	0
Dividends paid	(618)	(670)	(852)	(952)	(1,131)
Warrants & other surplus	(200)	60	0	0	0
Cash flow from financing	**(838)**	**(981)**	**(970)**	**(1,173)**	**(1,180)**
Free cash flow	**1,081**	**1,120**	**1,145**	**1,602**	**2,021**

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	24.2	20.8	18.0	16.4	15.0
Normalized PE - at target price (x)	33.7	28.9	25.1	22.9	20.9
PE (x)	25.8	21.1	18.0	16.4	15.0
PE - at target price (x)	36.0	29.4	25.1	22.9	20.9
EV/EBITDA (x)	18.5	14.8	13.0	11.6	10.4
EV/EBITDA - at target price (x)	25.8	20.7	18.2	16.4	14.8
P/BV (x)	4.8	4.2	3.8	3.4	3.1
P/BV - at target price (x)	6.6	5.9	5.3	4.8	4.4
P/CFO (x)	18.5	18.9	16.4	15.1	13.9
Price/sales (x)	2.6	2.3	2.1	2.0	1.8
Dividend yield (%)	2.1	2.7	3.1	3.3	4.3
FCF Yield (%)	3.7	3.8	3.9	5.4	6.9
(Bt)					
Normalized EPS	1.4	1.6	1.9	2.1	2.3
EPS	1.3	1.6	1.9	2.1	2.3
DPS	0.7	0.9	1.1	1.1	1.5
BV/share	7.1	8.0	8.9	9.8	10.8
CFO/share	1.8	1.8	2.1	2.2	2.4
FCF/share	1.2	1.3	1.3	1.8	2.3

Sources: Company data, Thanachart estimates

We expect ROIC to surpass WACC

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	9.3	13.1	11.2	7.7	7.2
Net profit (%)	(5.6)	22.3	17.2	9.8	9.6
EPS (%)	(5.9)	22.2	17.2	9.8	9.6
Normalized profit (%)	4.9	16.3	15.3	9.8	9.6
Normalized EPS (%)	4.5	16.3	15.3	9.8	9.6
Dividend payout ratio (%)	55.1	56.3	56.3	55.0	65.0
Operating performance					
Gross margin (%)	41.1	39.6	38.8	38.9	39.0
Operating margin (%)	12.6	13.4	14.0	14.2	14.4
EBITDA margin (%)	14.0	15.4	15.7	16.0	16.2
Net margin (%)	10.9	11.2	11.6	11.8	12.0
D/E (incl. minor) (x)	0.1	0.1	0.0	0.0	0.0
Net D/E (incl. minor) (x)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
Interest coverage - EBIT (x)	21.5	23.3	26.1	26.9	29.2
Interest coverage - EBITDA (x)	24.0	26.9	29.4	30.3	32.8
ROA - using norm profit (%)	12.1	12.8	13.2	13.1	13.3
ROE - using norm profit (%)	20.5	21.6	22.2	22.0	21.8
DuPont					
ROE - using after tax profit (%)	20.4	21.4	22.0	21.7	21.5
- asset turnover (x)	1.1	1.1	1.1	1.1	1.1
- operating margin (%)	12.9	13.6	14.2	14.4	14.7
- leverage (x)	1.7	1.7	1.7	1.7	1.6
- interest burden (%)	95.5	95.8	96.2	96.3	96.6
- tax burden (%)	88.3	85.7	84.6	84.6	84.6
WACC (%)	9.4	9.4	9.4	9.4	9.4
ROIC (%)	21.6	25.8	26.5	26.6	27.6
NOPAT (Bt m)	1,238	1,446	1,653	1,812	1,973
invested capital (Bt m)	5,597	6,236	6,812	7,138	7,222

Sources: Company data, Thanachart estimates

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Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

For sectors, an “Overweight” sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. “Underweight” is used when we have SELLs on majority of the stocks we cover by market cap. “Neutral” is used when there are relatively equal weightings of BUYs and SELLs.

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