

BUY (Unchanged)

TP: Bt 56.00

(From: Bt 52.00)

Change in Numbers

Upside: 21.1%

23 AUGUST 2021

Mega Lifesciences Pcl (MEGA TB)

Adding green chiretta, hemp

MEGA is planning to launch a green chiretta product in 2H21 and hemp-based food supplements in late 2022. This, together with stronger-than-expected 2Q21 results, leads us to raise our EPS projections by 5-8% in 2021-23F. At 20x 2022F PE, we reaffirm BUY.



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Green chiretta and hemp in the pipeline

MEGA plans to launch 10 new products in 2H21, including green chiretta (*Andrographis Paniculata*). This herb-based drug is in very high demand as it is recommended by Thai doctors for home-isolation, mild-symptom COVID patients in the event of a lack of Favipiravir. We expect resilient demand for this home-based drug beyond this year as COVID looks set to become endemic. It also plans to launch other vitamins and probiotic products to boost people's immunity in 2H21. MEGA intends to launch hemp-based food supplements and more immunity-focused drugs in late 2022 and we expect decent demand. MEGA currently has more than 100 new drugs awaiting Food and Drug Administration approval for launch in 2022-24.

Share price has run-up but still a BUY

Due to the new product launches and its record 2Q21 results, we raise our earnings for MEGA by 5-8% in 2021-23F and our DCF-based 12-month TP (2022F base year) to Bt56 (from Bt52). We reaffirm BUY despite its recent share price run-up. *First*, we like MEGA's resilient business. *Second*, green chiretta and other immunity-boosting drugs in the pipeline for 2H21 are also timely given the pandemic. With MEGA's strong brand recognition, we expect these drugs to be successful. *Third*, despite an already high base in 2020-21F (+16/25%), we expect another 13/11% earnings growth in 2022-23F, supported by new immunity-based and hemp-based products. *Lastly*, MEGA looks inexpensive to us at 20x 2022F PE vs. its 22x average since listing in 2013. Its share price run-up came along with its higher earnings base.

Record 2Q21 profits

MEGA reported record normalized earnings of Bt470m in 2Q21, up 71% y-y, 33% q-q and 99% from 2Q19. The strong results were despite the COVID resurgence in Thailand (25% EBIT) and Myanmar (31%). The surprise was from its branded drug and vitamin business (48% of sales) which posted 34% y-y and 17% q-q sales growth. Growth was seen across its main product lines, including drugs for diabetes, heart disease, and vitamins B and C. Its distribution business in Myanmar, Vietnam and Cambodia also experienced strong 39% y-y revenue growth from an expanding client base in 2H20. Of total EBIT, branded products accounted for 67% and distribution 30%.

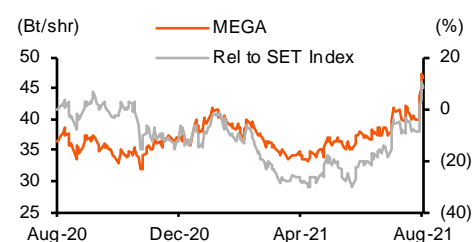
COVID resilient

MEGA doesn't produce COVID drugs and falling non-COVID patient flows to hospitals are a negative factor for the company. However, it has posted higher sales of its main diabetes and heart diseases drugs which we suspect was because more people were checking their own health status. Greater health consciousness also resulted in more vitamin consumption.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	12,589	14,624	15,853	17,086
Net profit	1,393	1,772	2,003	2,214
Consensus NP	—	1,583	1,756	1,972
Diff frm cons (%)	—	12.0	14.1	12.3
Norm profit	1,416	1,772	2,003	2,214
Prev. Norm profit	—	1,683	1,864	2,049
Chg frm prev (%)	—	5.3	7.4	8.0
Norm EPS (Bt)	1.6	2.0	2.3	2.5
Norm EPS grw (%)	16.3	25.2	13.0	10.5
Norm PE (x)	28.5	22.8	20.1	18.2
EV/EBITDA (x)	20.4	16.7	14.6	13.1
P/BV (x)	5.8	5.1	4.6	4.2
Div yield (%)	1.9	2.5	3.0	3.6
ROE (%)	21.6	24.0	24.2	24.1
Net D/E (%)	(10.3)	(11.7)	(16.8)	(23.4)

PRICE PERFORMANCE

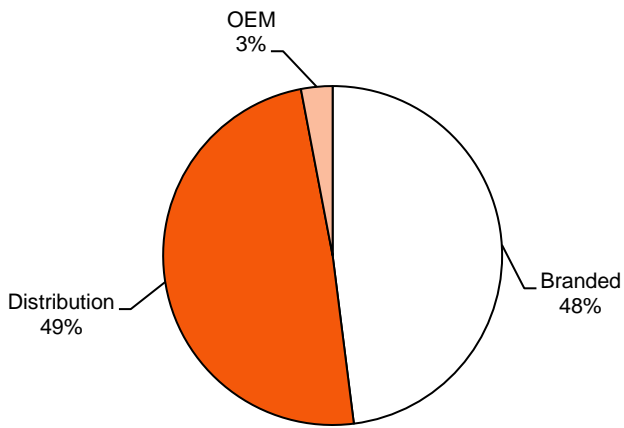


COMPANY INFORMATION

Price as of 23-Aug-21(Bt)	46.25
Market Cap (US\$ m)	1,209.1
Listed Shares (m shares)	871.9
Free Float (%)	38.93
Avg Daily Turnover (US\$ m)	7.17
12M Price H/L (Bt)	47.25/31.75
Sector	Commerce
Major Shareholder	Shah Family 50.1%

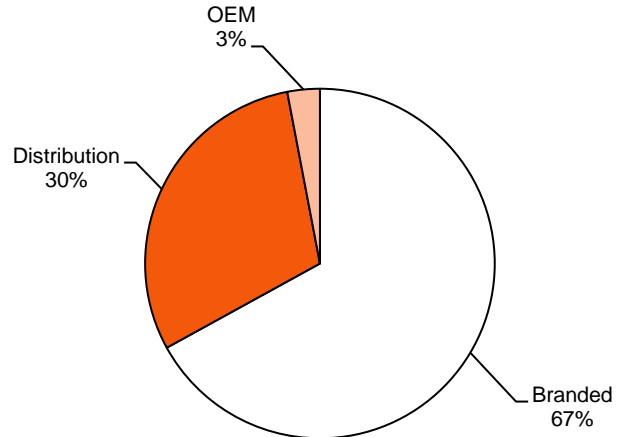
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Sales Breakdown



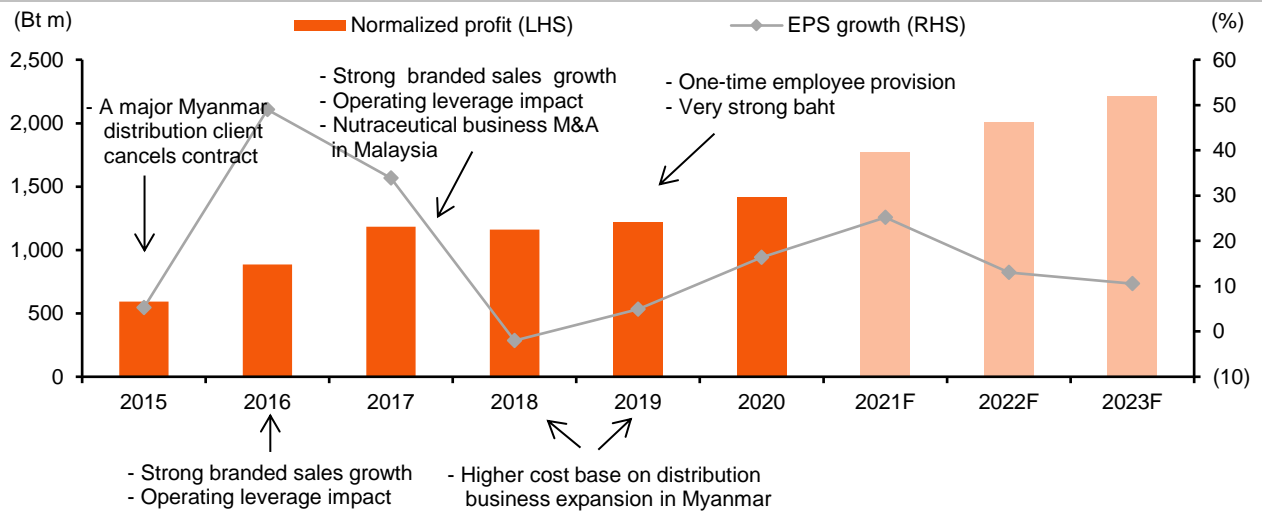
Source: Company data

Ex 2: EBIT Breakdown



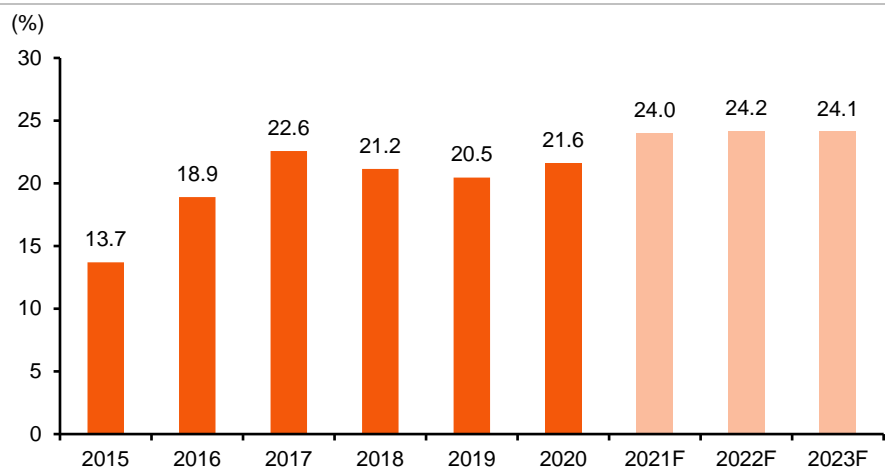
Sources: Company data; Thanachart estimates

Ex 3: MEGA's Decent EPS Growth...



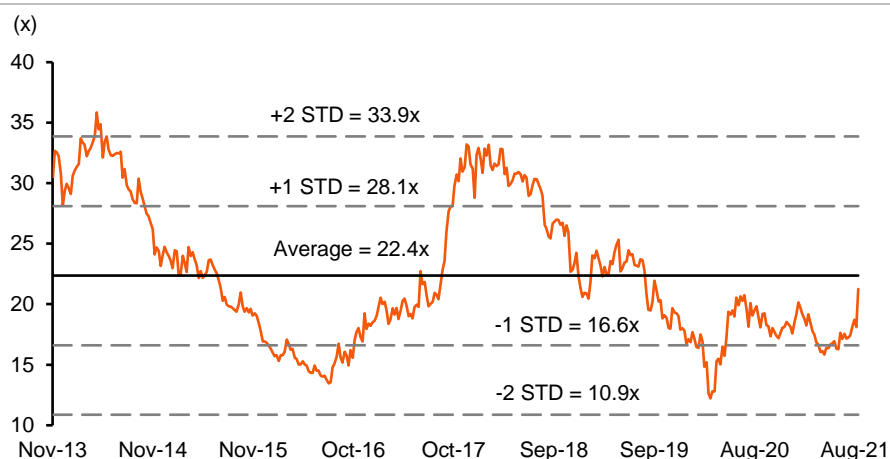
Sources: Company data, Thanachart estimates

Ex 4: ...And ROE



Sources: Company data, Thanachart estimates

Ex 5: PE Since Listing



Sources: Bloomberg, Thanachart estimates

Ex 6: Earnings Revisions

	2019	2020	2021F	2022F	2023F
Sales					
New	11,130	12,589	14,624	15,853	17,086
Old			14,301	15,542	16,698
Change (%)			2.3	2.0	2.3
% Gross margin					
New	41.1	39.6	39.3	39.7	39.8
Old			39.3	39.4	39.5
Change (pp)			0.0	0.3	0.3
% SG&A to sales					
New	28.5	26.2	24.8	24.6	24.4
Old			24.8	24.7	24.5
Change (pp)			0.0	(0.1)	(0.1)
Normalized profit (Bt m)					
New	1,217	1,416	1,772	2,003	2,214
Old			1,683	1,864	2,049
Change (%)			5.3	7.4	8.0

Sources: Company data, Thanachart estimates

Ex 7: 12-month DCF-based TP Calculation Using A Base Year Of 2022F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA	2,657	2,907	3,175	3,648	4,069	4,577	5,175	5,727	6,469	7,310	8,147	—
Free cash flow	1,685	2,159	2,389	2,795	3,132	3,487	3,926	4,431	5,116	5,840	6,447	78,249
PV of free cash flow	1,680	1,803	1,822	1,948	1,952	1,977	2,024	2,078	2,182	2,266	2,169	26,328
Risk-free rate (%)	3.5											
Market risk premium (%)	8.0											
Beta	1.0											
WACC (%)	11.3											
Terminal growth (%)	2.0											
Enterprise value - add investments	48,228											
Net debt (2020)	(722)											
Minority interest	21											
Equity value	48,929											
# of shares (m)	872											
Equity value/share (Bt)	56											

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 8: Valuation Comparison With Peers

Name	BBG code	Country	EPS growth		— PE —		— P/BV —		EV/EBITDA		— Div yield—	
			21F (%)	22F (%)	21F (x)	22F (x)	21F (x)	22F (x)	21F (x)	22F (x)	21F (%)	22F (%)
Bristol-Myers Squibb	BMY US	US	16.3	8.0	9.2	8.6	4.2	3.5	6.6	6.6	2.8	3.0
Eli Lilly & Co	LLY US	US	(0.7)	10.0	34.4	31.3	30.8	23.2	28.9	26.0	1.2	1.3
Johnson & Johnson	JNJ US	US	20.4	7.9	18.6	17.2	6.6	4.8	14.6	13.6	2.3	2.5
Merck & Co Inc	MRK US	US	(5.3)	15.3	14.0	12.1	6.1	5.5	10.9	9.8	3.3	3.6
Pfizer Inc	PFE US	US	84.6	(12.8)	11.9	13.6	3.7	3.4	10.2	11.8	3.2	3.3
Abbott Laboratories	ABT US	US	21.4	4.8	28.5	27.2	6.2	4.9	20.9	20.6	1.3	1.5
Astellas Pharma Inc	4503 JP	Japan	66.6	19.6	17.4	14.6	2.3	2.2	10.5	9.1	2.7	3.0
Chugai Pharmaceutical	4519 JP	Japan	20.2	(5.1)	27.4	28.9	6.3	5.6	18.1	19.0	1.5	1.6
Daiichi Sankyo Co Ltd	4568 JP	Japan	(22.3)	36.2	83.5	61.3	3.8	3.8	34.1	27.6	1.1	1.1
Eisai Co Ltd	4523 JP	Japan	33.2	9.5	46.3	42.3	3.6	3.6	23.4	21.5	1.8	1.9
Otsuka Holdings Co Ltd	4578 JP	Japan	5.0	0.5	16.6	16.6	1.3	1.3	8.6	8.3	2.1	2.2
Taisho Pharmaceutical	4581 JP	Japan	(12.7)	12.6	43.2	38.4	0.7	0.7	8.4	7.9	1.6	1.6
AstraZeneca	AZN LN	UK	28.7	29.5	23.1	17.8	5.7	5.3	17.5	13.2	2.4	2.5
GlaxoSmithKline	GSK LN	UK	(13.0)	10.2	15.0	13.6	5.1	4.8	10.8	10.0	5.3	3.8
Novartis AG	NOVN SW	Switzerland	10.3	6.8	14.8	13.8	3.7	3.4	14.1	13.2	3.6	3.7
Roche Holding AG	ROG SW	Switzerland	4.1	2.1	18.5	18.1	7.2	6.2	13.3	13.0	2.5	2.6
Blackmores Ltd	BKL AU	Australia	62.3	37.0	45.4	33.1	3.9	3.7	19.8	15.4	0.9	1.6
Novo Nordisk A/S	NOVOB DC	Denmark	11.1	11.4	34.0	30.6	22.6	19.9	24.7	22.2	1.5	1.6
Sanofi	SAN FP	France	8.2	11.8	14.3	12.8	1.8	1.7	10.7	9.8	3.6	3.8
Apex Healthcare	APEX MK	Malaysia	(1.1)	14.3	24.7	21.7	2.7	2.5	15.3	13.8	1.3	1.6
Kalbe Farma	KLBF IJ	Indonesia	7.5	9.3	20.6	18.9	3.2	3.0	13.3	12.4	2.3	2.5
Mega Lifesciences	MEGA TB*	Thailand	25.2	13.0	22.8	20.1	5.1	4.6	16.7	14.6	2.5	3.0
Average			16.8	11.5	26.6	23.3	6.2	5.3	16.0	14.5	2.3	2.4

Sources: Bloomberg, Thanachart estimates

Note: * Thanachart estimates, using normalized EPS

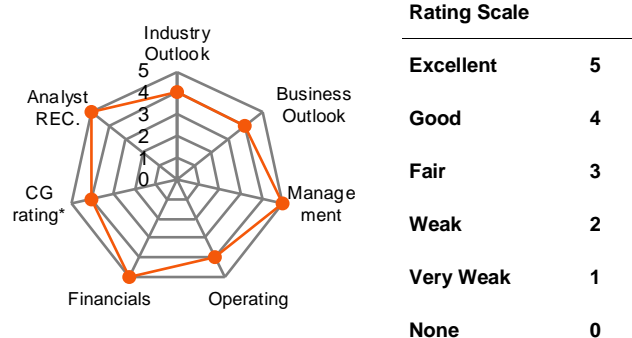
Based on 23-Aug-21 closing price

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 operates in 33 countries globally.

Source: Thanachart

COMPANY RATING



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.

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.

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.

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)	48.28	56.00	16%
Net profit 21F (Bt m)	1,583	1,772	12%
Net profit 22F (Bt m)	1,756	2,003	14%
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.

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.

Sources: Bloomberg consensus, Thanachart estimates

Source: Thanachart

INCOME STATEMENT

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

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	11,130	12,589	14,624	15,853	17,086
Cost of sales	6,551	7,603	8,881	9,564	10,290
Gross profit	4,578	4,986	5,743	6,289	6,797
% gross margin	41.1%	39.6%	39.3%	39.7%	39.8%
Selling & administration expenses	3,176	3,299	3,624	3,906	4,176
Operating profit	1,402	1,687	2,119	2,384	2,621
% operating margin	12.6%	13.4%	14.5%	15.0%	15.3%
Depreciation & amortization	160	256	243	273	287
EBITDA	1,562	1,943	2,362	2,657	2,907
% EBITDA margin	14.0%	15.4%	16.2%	16.8%	17.0%
Non-operating income	34	24	34	36	39
Non-operating expenses	0	0	0	0	0
Interest expense	(65)	(72)	(75)	(74)	(75)
Pre-tax profit	1,371	1,638	2,077	2,346	2,585
Income tax	160	234	320	361	398
After-tax profit	1,211	1,404	1,757	1,985	2,187
% net margin	10.9%	11.2%	12.0%	12.5%	12.8%
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	1,772	2,003	2,214
Normalized profit	1,217	1,416	1,772	2,003	2,214
EPS (Bt)	1.3	1.6	2.0	2.3	2.5
Normalized EPS (Bt)	1.4	1.6	2.0	2.3	2.5

BALANCE SHEET

Plenty of cash on hand

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	7,230	7,620	8,596	9,305	10,729
Cash & cash equivalent	1,467	1,221	1,306	1,500	2,400
Account receivables	2,717	2,684	3,118	3,336	3,549
Inventories	2,856	3,475	3,893	4,166	4,454
Others	190	240	279	302	326
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	13,401	14,418	15,891
LIABILITIES:					
Current liabilities:	4,158	4,262	4,846	4,863	5,349
Account payables	2,508	2,788	3,257	3,508	3,774
Bank overdraft & ST loans	888	499	391	27	141
Current LT debt	0	0	0	0	0
Others current liabilities	762	974	1,198	1,328	1,434
Total LT debt	0	0	0	0	0
Others LT liabilities	199	349	700	798	897
Total liabilities	4,358	4,611	5,546	5,661	6,246
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	5,632	6,535	7,428
Shareholders' equity	6,175	6,958	7,838	8,741	9,635
Liabilities & equity	10,533	11,590	13,401	14,418	15,891

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	1,371	1,638	2,077	2,346	2,585
Tax paid	(116)	(183)	(316)	(336)	(390)
Depreciation & amortization	160	256	243	273	287
Chg In working capital	60	(305)	(383)	(241)	(234)
Chg In other CA & CL / minorities	111	150	191	99	97
Cash flow from operations	1,586	1,557	1,813	2,141	2,344
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)	272	16	12
Cash flow from investments	(220)	(822)	(728)	(484)	(238)
Debt financing	(150)	(371)	(108)	(364)	114
Capital increase	130	0	(0)	0	0
Dividends paid	(618)	(670)	(892)	(1,100)	(1,320)
Warrants & other surplus	(200)	60	0	0	0
Cash flow from financing	(838)	(981)	(1,000)	(1,464)	(1,207)
Free cash flow	1,081	1,120	1,163	1,791	2,244

Strong cash flows, based on our estimates

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	33.1	28.5	22.8	20.1	18.2
Normalized PE - at target price (x)	40.1	34.5	27.5	24.4	22.1
PE (x)	35.4	29.0	22.8	20.1	18.2
PE - at target price (x)	42.9	35.1	27.5	24.4	22.1
EV/EBITDA (x)	25.4	20.4	16.7	14.6	13.1
EV/EBITDA - at target price (x)	30.9	24.8	20.3	17.8	16.0
P/BV (x)	6.5	5.8	5.1	4.6	4.2
P/BV - at target price (x)	7.9	7.0	6.2	5.6	5.1
P/CFO (x)	25.4	25.9	22.2	18.8	17.2
Price/sales (x)	3.6	3.2	2.8	2.5	2.4
Dividend yield (%)	1.6	1.9	2.5	3.0	3.6
FCF Yield (%)	2.7	2.8	2.9	4.4	5.6
(Bt)					
Normalized EPS	1.4	1.6	2.0	2.3	2.5
EPS	1.3	1.6	2.0	2.3	2.5
DPS	0.7	0.9	1.1	1.4	1.7
BV/share	7.1	8.0	9.0	10.0	11.1
CFO/share	1.8	1.8	2.1	2.5	2.7
FCF/share	1.2	1.3	1.3	2.1	2.6

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	9.3	13.1	16.2	8.4	7.8
Net profit (%)	(5.6)	22.3	27.3	13.0	10.5
EPS (%)	(5.9)	22.2	27.3	13.0	10.5
Normalized profit (%)	4.9	16.3	25.2	13.0	10.5
Normalized EPS (%)	4.5	16.3	25.2	13.0	10.5
Dividend payout ratio (%)	55.1	56.3	56.3	60.0	65.0
Operating performance					
Gross margin (%)	41.1	39.6	39.3	39.7	39.8
Operating margin (%)	12.6	13.4	14.5	15.0	15.3
EBITDA margin (%)	14.0	15.4	16.2	16.8	17.0
Net margin (%)	10.9	11.2	12.0	12.5	12.8
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	28.2	32.2	35.0
Interest coverage - EBITDA (x)	24.0	26.9	31.4	35.9	38.8
ROA - using norm profit (%)	12.1	12.8	14.2	14.4	14.6
ROE - using norm profit (%)	20.5	21.6	24.0	24.2	24.1
DuPont					
ROE - using after tax profit (%)	20.4	21.4	23.8	23.9	23.8
- asset turnover (x)	1.1	1.1	1.2	1.1	1.1
- operating margin (%)	12.9	13.6	14.7	15.3	15.6
- leverage (x)	1.7	1.7	1.7	1.7	1.6
- interest burden (%)	95.5	95.8	96.5	96.9	97.2
- 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	28.7	29.1	30.5
NOPAT (Bt m)	1,238	1,446	1,793	2,016	2,217
invested capital (Bt m)	5,597	6,236	6,923	7,268	7,375

We expect ROIC to surpass WACC

Sources: Company data, Thanachart estimates

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