HOLD (From: BUY)

Change in Recommendation

TP: Bt 56.00 (Unchanged)

Upside: 6.7%

7 DECEMBER 2021

Small Cap Research

Mega Lifesciences Pcl (MEGA TB)

Limited upside

We downgrade MEGA to HOLD after the 47% YTD run-up in its share price toward our TP of Bt56. We believe the stock is now fairly priced trading at its historical average PE of 22x against 8% 2022F EPS growth from a high base.

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Thanachart Securities

Downgrading to HOLD

We downgrade MEGA to HOLD (from Buy) with the same DCF-based 12-month TP, using a 2022F base year, of Bt56. *First*, after the 47% YTD surge in its share price, we believe MEGA is fairly valued at its historical PE of 22x. *Second*, we estimate only 8% EPS growth in 2022F from its already high earnings base of 33% growth this year. *Third*, the stock isn't a Sell in our view as we still expect 4Q21F earnings momentum to come in strong and we continue to like MEGA's strong fundamentals, growth-mindset management team and its robust business position in the markets it is exposed to.

Likely a strong 4Q21F

MEGA reported record-high 3Q21 results of Bt535m, up 39% y-y and 14% q-q despite facing COVID challenges in its main markets of Thailand, Myanmar, Cambodia and Vietnam. MEGA so far in 4Q21 is still experiencing good business momentum across these markets thanks to COVID lockdowns being eased. We estimate its 4Q21F earnings to come in at Bt546m, up 33% y-y and 3% q-q. Giving the stronger-than-expected 3Q21 results, we raise our earnings projections by 6/2% in 2021-22F.

A high base challenge next year

MEGA has been a beneficiary of the COVID pandemic as shown by its earnings growth of 16% in 2020 and 33% in 2021F. Its average six-year EPS growth to 2019 was only 15% p.a. and the average three-year number was 12% p.a. As we expect the COVID crisis to subside next year and given the high base this year, we are comfortable with our 8% EPS growth estimate for 2022F. We believe the health-consciousness trend will continue but people's extra caution and drug and necessity item stocking behavior may subside. However, we do not expect sales to decline as demand should remain resilient for key medicines for diabetes, bone and heart diseases. Note that the strong growth this year has also exceeded MEGA's expectation and it sees double-digit EPS growth in 2022F as a challenge.

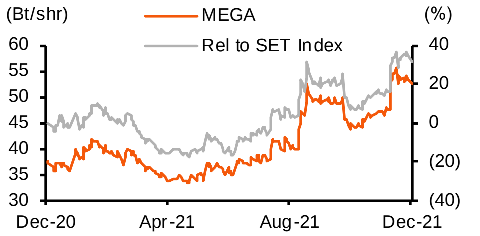
New drug line-up

MEGA has been launching new products in 4Q21 and it plans to launch more than 10 additional ones in 2022F. They comprise both replacement drugs and food supplements (e.g., new versions of vitamins) and new products (e.g., hemp-based supplements and green chiretta). MEGA is confident that the new products will be a success given the ongoing health-consciousness trend. MEGA also has around 100 more products waiting for Food and Drug Administration (FDA) approval and it plans to launch them in 2023-24. They are likely to contribute for 3-4% of sales growth p.a and have already factored this into our numbers.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	12,589	14,862	15,988	17,011
Net profit	1,393	1,885	2,037	2,215
Consensus NP	—	1,900	1,932	2,201
Diff frm cons (%)	—	*(0.8)*	*5.4*	*0.7*
Norm profit	1,416	1,885	2,037	2,215
Prev. Norm profit	—	1,772	2,003	2,214
Chg frm prev (%)	—	*6.3*	*1.7*	*0.1*
Norm EPS (Bt)	1.6	2.2	2.3	2.5
Norm EPS grw (%)	16.3	33.1	8.1	8.7
Norm PE (x)	32.3	24.3	22.5	20.7
EV/EBITDA (x)	23.2	18.0	16.4	14.9
P/BV (x)	6.6	5.8	5.2	4.7
Div yield (%)	1.7	2.3	2.7	3.1
ROE (%)	21.6	25.3	24.3	23.9
Net D/E (%)	(10.3)	(12.4)	(17.6)	(24.4)

PRICE PERFORMANCE

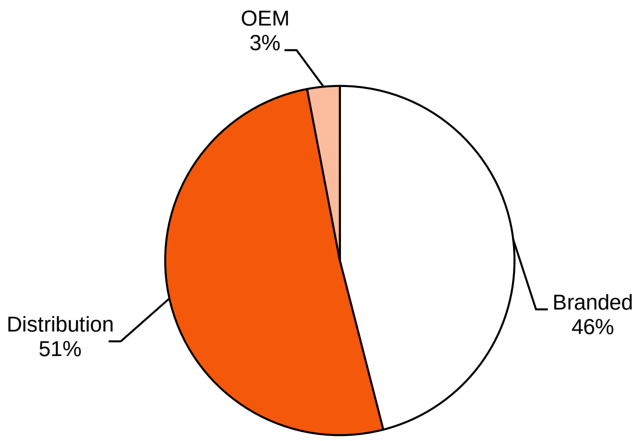


COMPANY INFORMATION

Price *as of* 7-Dec-21(Bt)	52.50
Market Cap (US$ m)	1,358.7
Listed Shares (m shares)	871.9
Free Float (%)	38.93
Avg Daily Turnover (US$ m)	9.31
12M Price H/L (Bt)	55.50/33.25
Sector	Commerce
Major Shareholder	Shah Family 50.1%

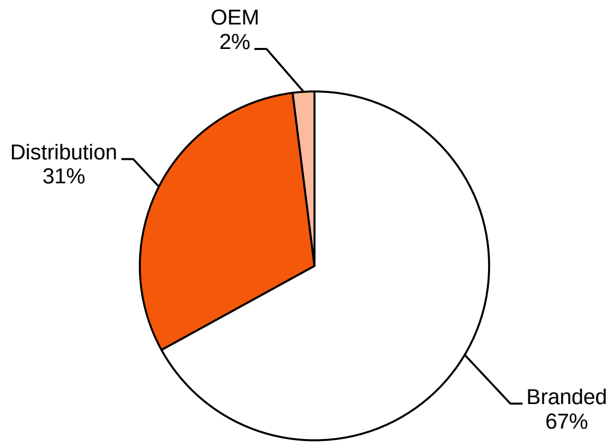
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Sales Breakdown



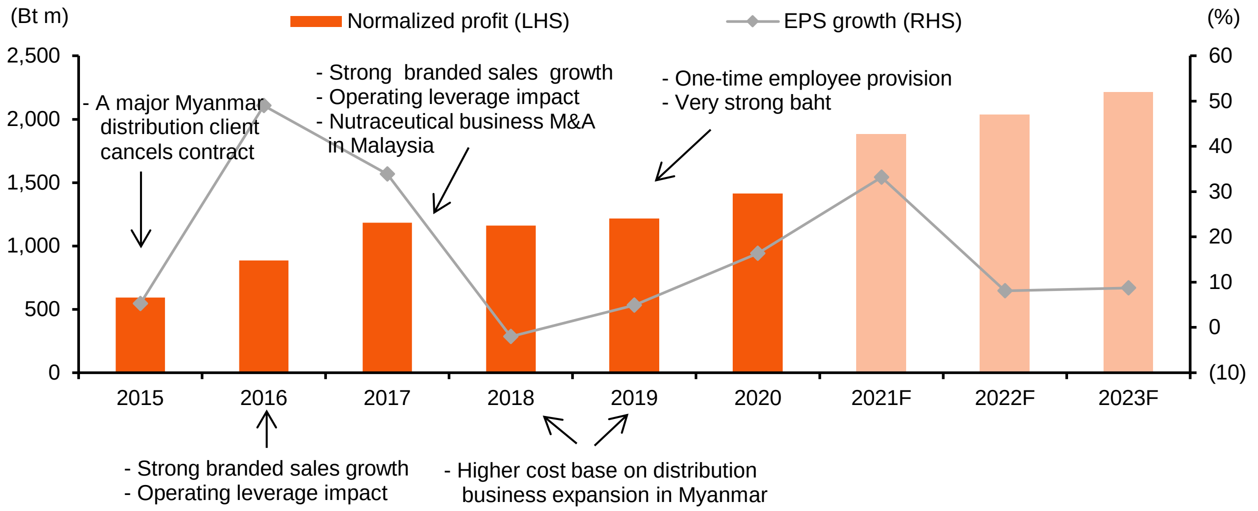
Source: Company data

Ex 2: EBIT Breakdown



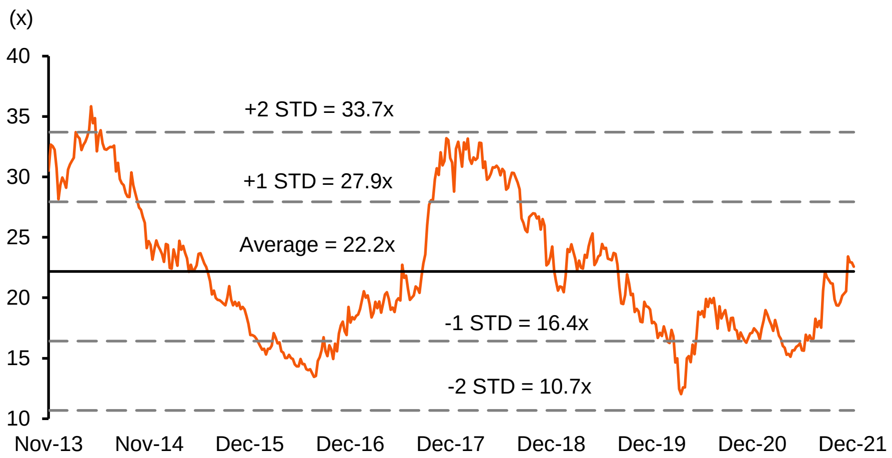
Sources: Company data; Thanachart estimates

Ex 3: Slower Growth After A High Base



Sources: Company data, Thanachart estimates

Ex 4: Already At The Average PE



Sources: Bloomberg, Thanachart estimates

Ex 5: Assumption Adjustment

	2019	2020	2021F	2022F	2023F
Sales					
New	11,130	12,589	14,862	15,988	17,011
Old			14,624	15,853	17,086
Change (%)			*1.6*	*0.8*	*(0.4)*
% Gross margin					
New	41.1	39.6	42.1	42.3	42.4
Old			39.3	39.7	39.8
Change (pp)			*2.8*	*2.6*	*2.6*
% SG&A to sales					
New	28.5	26.2	27.0	27.1	26.9
Old			24.8	24.6	24.4
Change (pp)			*2.2*	*2.5*	*2.5*
Normalized profit (Bt m)					
New	1,217	1,416	1,885	2,037	2,215
Old			1,772	2,003	2,214
Change (%)			*6.3*	*1.7*	*0.1*

Sources: Company data, Thanachart estimates

Ex 6: 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		2,700	2,919	3,143	3,644	4,089	4,599	5,185	5,720	6,441	7,218	7,979	—
Free cash flow		1,748	2,222	2,354	2,795	3,152	3,541	3,966	4,456	5,123	5,828	6,369	77,298
PV of free cash flow		1,743	1,855	1,796	1,948	1,964	2,007	2,044	2,089	2,185	2,262	2,143	26,008
Risk-free rate (%)	3.5												
Market risk premium (%)	8.0												
Beta	1.0												
WACC (%)	11.3												
Terminal growth (%)	2.0												
Enterprise value - add investments	48,045												
Net debt (end-2021F)	(982)												
Minority interest	16												
Equity value	49,010												
# of shares (m)	872												
Equity value/share (Bt)	**56.0**												

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	16.5	4.3	7.6	7.3	2.9	2.5	6.2	6.3	3.4	3.6
Eli Lilly & Co	LLY US	US	1.2	2.6	30.7	29.9	27.8	21.7	26.8	25.7	1.4	1.5
Johnson & Johnson	JNJ US	US	22.0	5.6	16.6	15.8	6.0	5.3	13.1	12.3	2.6	2.7
Merck & Co Inc	MRK US	US	(1.4)	23.6	12.5	10.1	6.0	4.9	10.2	8.4	3.5	3.8
Pfizer Inc	PFE US	US	90.1	11.0	12.2	11.0	3.8	2.9	9.9	7.3	3.0	3.1
Abbott Laboratories	ABT US	US	39.1	(6.6)	26.1	27.9	6.4	5.1	19.3	21.2	1.4	1.4
Astellas Pharma Inc	4503 JP	Japan	58.0	27.2	17.4	13.7	2.2	2.1	9.5	8.2	2.8	3.2
Chugai Pharmaceutical	4519 JP	Japan	34.3	0.4	20.7	20.6	5.2	4.5	13.5	13.5	1.9	2.1
Daiichi Sankyo Co Ltd	4568 JP	Japan	(14.6)	22.2	81.3	66.5	4.1	4.0	33.3	28.4	1.0	1.1
Eisai Co Ltd	4523 JP	Japan	39.8	(10.4)	33.5	37.4	2.7	2.7	16.5	16.3	2.4	2.4
Otsuka Holdings Co Ltd	4578 JP	Japan	6.8	0.3	14.2	14.2	1.1	1.1	7.4	6.9	2.4	2.5
Taisho Pharmaceutical	4581 JP	Japan	(16.5)	7.9	39.8	36.8	0.6	0.6	5.5	6.7	1.8	1.8
AstraZeneca	AZN LN	UK	28.6	30.4	21.1	16.2	4.7	4.7	17.2	12.3	2.6	2.7
GlaxoSmithKline	GSK LN	UK	(5.1)	6.0	14.2	13.4	5.3	4.9	11.6	10.1	5.1	3.5
Novartis AG	NOVN SW	Switzerland	10.3	5.8	12.8	12.1	3.0	2.8	10.4	11.0	4.1	4.2
Roche Holding AG	ROG SW	Switzerland	6.2	2.6	18.1	17.7	7.4	6.5	13.2	12.9	2.5	2.6
Blackmores Ltd	BKL AU	Australia	48.8	48.1	45.2	30.5	4.4	4.1	19.1	14.9	1.1	1.7
Novo Nordisk A/S	NOVOB DC	Denmark	14.7	12.2	34.8	31.0	23.4	20.3	25.2	22.3	1.4	1.6
Sanofi	SAN FP	France	10.8	12.2	13.1	11.7	1.6	1.5	9.8	9.0	3.9	4.1
Apex Healthcare	APEX MK	Malaysia	1.7	8.3	21.3	19.6	2.4	2.3	13.2	11.9	1.5	1.6
Kalbe Farma	KLBF IJ	Indonesia	11.8	9.4	24.9	22.7	4.0	3.6	16.0	14.6	1.9	2.1
Mega Lifesciences	MEGA TB*	Thailand	33.1	8.1	24.3	22.5	5.8	5.2	18.0	16.4	2.3	2.7
Average			**19.8**	**10.5**	**24.7**	**22.2**	**5.9**	**5.2**	**14.8**	**13.5**	**2.5**	**2.5**

Sources: Bloomberg, Thanachart estimates

Note: * Thanachart estimates, using normalized EPS

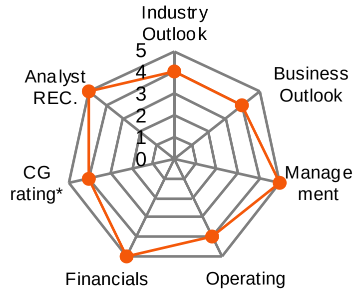
Based on 7-Dec-21 closing price

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)	55.72	56.00	0%
Net profit 21F (Bt m)	1,900	1,885	-1%
Net profit 22F (Bt m)	1,932	2,037	5%
Consensus REC	**BUY: 9**	**HOLD: 2**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022F earnings forecast is higher than the Bloomberg consensus number, 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.
- The prolonged strength in health-conscious trend can be upside risk to our view.

Source: Thanachart

Growth looks likely to slowdown after a high base

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	11,130	12,589	14,862	15,988	17,011
Cost of sales	6,551	7,603	8,607	9,225	9,798
Gross profit	**4,578**	**4,986**	**6,254**	**6,763**	**7,213**
% gross margin	41.1%	39.6%	42.1%	42.3%	42.4%
Selling & administration expenses	3,176	3,299	4,006	4,336	4,580
Operating profit	**1,402**	**1,687**	**2,248**	**2,426**	**2,632**
% operating margin	12.6%	13.4%	15.1%	15.2%	15.5%
Depreciation & amortization	160	256	243	273	287
EBITDA	**1,562**	**1,943**	**2,491**	**2,700**	**2,919**
% EBITDA margin	14.0%	15.4%	16.8%	16.9%	17.2%
Non-operating income	34	24	34	37	39
Non-operating expenses	0	0	0	0	0
Interest expense	(65)	(72)	(72)	(76)	(85)
Pre-tax profit	**1,371**	**1,638**	**2,210**	**2,387**	**2,586**
Income tax	160	234	340	368	398
After-tax profit	**1,211**	**1,404**	**1,870**	**2,019**	**2,188**
% net margin	10.9%	11.2%	12.6%	12.6%	12.9%
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**	**1,885**	**2,037**	**2,215**
Normalized profit	**1,217**	**1,416**	**1,885**	**2,037**	**2,215**
EPS (Bt)	1.3	1.6	2.2	2.3	2.5
Normalized EPS (Bt)	1.4	1.6	2.2	2.3	2.5

Plenty of cash on hand

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	7,230	7,620	8,531	9,388	10,699
Cash & cash equivalent	1,467	1,221	1,306	1,700	2,600
Account receivables	2,717	2,684	3,168	3,365	3,533
Inventories	2,856	3,475	3,773	4,019	4,242
Others	190	240	283	305	324
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**	**13,336**	**14,501**	**15,862**
LIABILITIES:					
Current liabilities:	4,158	4,262	4,697	4,870	5,257
Account payables	2,508	2,788	3,157	3,383	3,594
Bank overdraft & ST loans	888	499	325	149	235
Current LT debt	0	0	0	0	0
Others current liabilities	762	974	1,215	1,338	1,429
Total LT debt	**0**	**0**	**0**	**0**	**0**
Others LT liabilities	199	349	704	801	895
Total liabilities	**4,358**	**4,611**	**5,401**	**5,671**	**6,152**
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**	**5,713**	**6,608**	**7,492**
Shareholders' equity	6,175	6,958	7,919	8,814	9,698
Liabilities & equity	**10,533**	**11,590**	**13,336**	**14,501**	**15,862**

Sources: Company data, Thanachart estimates

Strong cash flows, based on our estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	1,371	1,638	2,210	2,387	2,586
Tax paid	(116)	(183)	(334)	(343)	(392)
Depreciation & amortization	160	256	243	273	287
Chg In working capital	60	(305)	(415)	(215)	(181)
Chg In other CA & CL / minorities	111	150	201	95	88
Cash flow from operations	**1,586**	**1,557**	**1,907**	**2,197**	**2,387**
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)	277	15	8
Cash flow from investments	**(220)**	**(822)**	**(723)**	**(485)**	**(242)**
Debt financing	(150)	(371)	(175)	(175)	85
Capital increase	130	0	(0)	0	0
Dividends paid	(618)	(670)	(923)	(1,142)	(1,331)
Warrants & other surplus	(200)	60	0	0	0
Cash flow from financing	**(838)**	**(981)**	**(1,098)**	**(1,317)**	**(1,246)**
Free cash flow	**1,081**	**1,120**	**1,257**	**1,847**	**2,287**

2022F PE looks fully valued to us at 22x or at its historical average

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	37.6	32.3	24.3	22.5	20.7
Normalized PE - at target price (x)	40.1	34.5	25.9	24.0	22.0
PE (x)	40.2	32.9	24.3	22.5	20.7
PE - at target price (x)	42.9	35.1	25.9	24.0	22.0
EV/EBITDA (x)	28.9	23.2	18.0	16.4	14.9
EV/EBITDA - at target price (x)	30.9	24.8	19.2	17.5	15.9
P/BV (x)	7.4	6.6	5.8	5.2	4.7
P/BV - at target price (x)	7.9	7.0	6.2	5.5	5.0
P/CFO (x)	28.9	29.4	24.0	20.8	19.2
Price/sales (x)	4.1	3.6	3.1	2.9	2.7
Dividend yield (%)	1.4	1.7	2.3	2.7	3.1
FCF Yield (%)	2.4	2.4	2.7	4.0	5.0
(Bt)					
Normalized EPS	1.4	1.6	2.2	2.3	2.5
EPS	1.3	1.6	2.2	2.3	2.5
DPS	0.7	0.9	1.2	1.4	1.7
BV/share	7.1	8.0	9.1	10.1	11.1
CFO/share	1.8	1.8	2.2	2.5	2.7
FCF/share	1.2	1.3	1.4	2.1	2.6

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	18.0	7.6	6.4
Net profit (%)	(5.6)	22.3	35.3	8.1	8.7
EPS (%)	(5.9)	22.2	35.3	8.1	8.7
Normalized profit (%)	4.9	16.3	33.1	8.1	8.7
Normalized EPS (%)	4.5	16.3	33.1	8.1	8.7
Dividend payout ratio (%)	55.1	56.3	56.3	60.0	65.0
Operating performance					
Gross margin (%)	41.1	39.6	42.1	42.3	42.4
Operating margin (%)	12.6	13.4	15.1	15.2	15.5
EBITDA margin (%)	14.0	15.4	16.8	16.9	17.2
Net margin (%)	10.9	11.2	12.6	12.6	12.9
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	31.2	31.7	31.0
Interest coverage - EBITDA (x)	24.0	26.9	34.5	35.3	34.3
ROA - using norm profit (%)	12.1	12.8	15.1	14.6	14.6
ROE - using norm profit (%)	20.5	21.6	25.3	24.3	23.9
DuPont					
ROE - using after tax profit (%)	20.4	21.4	25.1	24.1	23.6
- asset turnover (x)	1.1	1.1	1.2	1.1	1.1
- operating margin (%)	12.9	13.6	15.4	15.4	15.7
- leverage (x)	1.7	1.7	1.7	1.7	1.6
- interest burden (%)	95.5	95.8	96.8	96.9	96.8
- 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	30.5	29.6	30.7
NOPAT (Bt m)	1,238	1,446	1,902	2,053	2,227
invested capital (Bt m)	5,597	6,236	6,937	7,263	7,333

Sources: Company data, Thanachart estimates

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