

HOLD (Unchanged)

TP: Bt 47.00

(From: Bt 56.00)

Change in Numbers

Upside: 7.4%

9 MARCH 2022

Mega Lifesciences Pcl (MEGA TB)

High base challenges

After enjoying above-trend demand in the COVID pandemic period during 2020-21, MEGA expects low-single digit sales growth this year. We revise down our EPS growth estimate to only 5% this year and with MEGA trading at 20x 2022F PE, we maintain our HOLD call.

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Cutting earnings; maintaining HOLD

We revise down our earnings estimates for MEGA by 6/8/9% in 2022-24F and maintain our HOLD recommendation with a lower DCF-based 12-month TP, using a 2022F base year, of Bt47 (from Bt56 previously). *First*, COVID-led demand momentum is slowing down. This trend started in 4Q21 and has continued into 1Q22F. *Second*, MEGA's earnings base was high in 2020-21 and we estimate only 5/6/6% EPS growth in 2022-24F. *Lastly*, we don't foresee any material changes to MEGA's strong fundamentals and market position and we believe its 20x 2022F PE is fair despite its single-digit earnings growth outlook.

More conservative guidance

MEGA expects low single-digit sales growth this year vs. 13/12% during the COVID pandemic period in 2020-21. The single-digit growth momentum has also been seen so far in 1Q22 for both its branded drug and distribution businesses. The slower growth trend started in 4Q21 when earnings grew by 14% y-y compared with 41% y-y growth in 9M21. The weaker momentum has been seen both in its drug sales but more so in its distribution business in Myanmar. MEGA believes people have started to destock both drugs and consumer products.

Limited inflationary pressure

MEGA has experienced only mild increases in its raw material prices, e.g., natural substance and packing materials despite the global inflationary trend. MEGA believes it can manage cost inflation if it rises further, while it can pass on higher costs via increasing its selling prices thanks to its products' high-necessity nature. We forecast a stable gross margin for each product while the rising overall trend is from a product mix change (Exhibit 3).

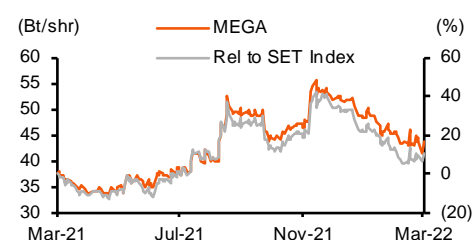
New drug products

MEGA launched 16 new products in 2021 and it is planning to launch 20-plus new drugs this year. The new drugs this year are likely to be replacement drugs, food supplements and new product types, e.g. hemp-based supplements and green chiretta. However, the launch of hemp-based products has been delayed from 1Q22 and is awaiting approval from the Thai Food And Drug Administration. MEGA expects new products to contribute around 2-3% p.a. to sales growth.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	14,136	14,667	15,547	16,526
Net profit	1,947	1,919	2,038	2,165
Consensus NP	—	1,904	2,149	2,345
Diff frm cons (%)	—	0.8	(5.2)	(7.6)
Norm profit	1,828	1,919	2,038	2,165
Prev. Norm profit	—	2,037	2,215	2,377
Chg frm prev (%)	—	(5.8)	(8.0)	(8.9)
Norm EPS (Bt)	2.1	2.2	2.3	2.5
Norm EPS grw (%)	29.2	5.0	6.2	6.3
Norm PE (x)	20.9	19.9	18.7	17.6
EV/EBITDA (x)	14.8	13.8	12.7	11.7
P/BV (x)	4.8	4.4	4.0	3.7
Div yield (%)	3.2	3.1	3.2	3.7
ROE (%)	24.4	22.9	22.3	21.7
Net D/E (%)	(29.5)	(34.1)	(38.5)	(44.1)

PRICE PERFORMANCE



COMPANY INFORMATION

Price as of 9-Mar-22(Bt)	43.75
Market Cap (US\$ m)	1,154.2
Listed Shares (m shares)	871.9
Free Float (%)	38.93
Avg Daily Turnover (US\$ m)	7.37
12M Price H/L (Bt)	55.50/33.25
Sector	Commerce
Major Shareholder	Shah Family 50.1%

Sources: Bloomberg, Company data, Thanachart estimates



Maintaining HOLD

We maintain our HOLD call on MEGA

We expect only 5% EPS growth this year...

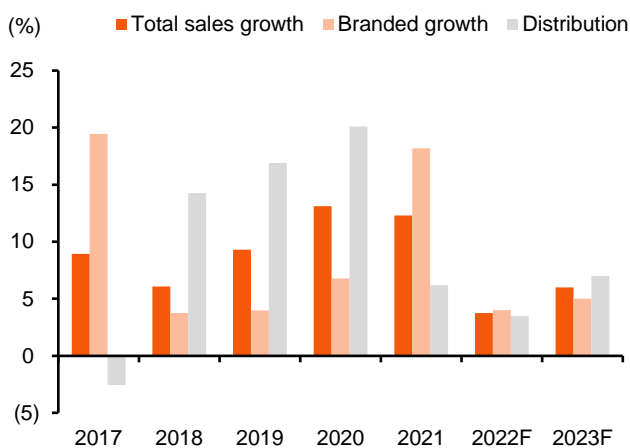
We maintain our HOLD call on shares of Mega Lifesciences Pcl (MEGA) with a lower DCF-based TP, using a 2022F base year, of Bt47/share (from Bt56 previously). Factors supporting our arguments are below:

First, we cut our earnings estimates by 6/8/9% in 2022-24F and we now project MEGA's earnings to grow by only 5/6/6% in those years. Our assumption is in line with MEGA's more conservative guidance where it expects its businesses, both branded drugs and food supplement and distribution of mainly drugs products, to grow only at a low-single digit level this year. We recap that MEGA was a beneficiary of COVID, which led to greater health consciousness among people in its main markets of Myanmar, Thailand, Cambodia and Vietnam. For instance, people consumed more of MEGA's main Vitamin C products to avoid catching cold and flu. Also, they have been checking up on their health more than usual at hospitals, while MEGA which supplies drugs for COVID-sensitive illnesses, e.g., diabetes and heart disease, has benefited from this trend. MEGA's earnings therefore grew by 16/29% in 2020-21.

However, the slowdown in growth already started in 4Q21 when MEGA's earnings still grew only by 14% y-y (but fell by 12% q-q) vs. the 41% growth seen in 9M21. So far in 1Q22, MEGA has experienced only low-single digit sales growth (vs. 13/12% growth in 2020-21). The weaker momentum has come about now that the COVID-led health consciousness trend has subsided and after people stocked up on its products. Also, we foresee greater difficulties for MEGA in getting more new distribution clients in its main market of Myanmar because the military coup has discouraged international firms from entering the country.

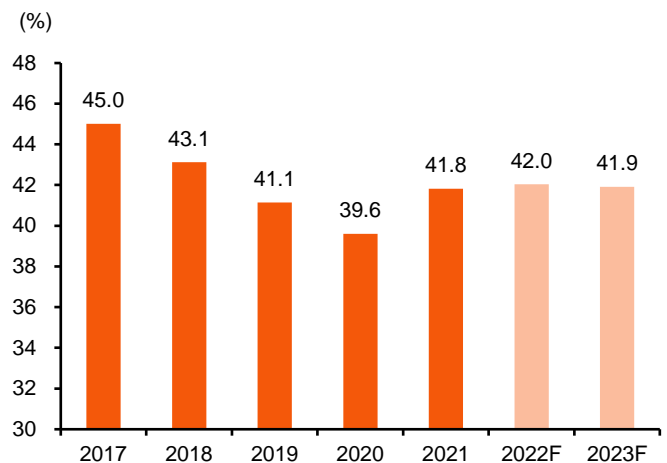
Note that our numbers already incorporate MEGA's launch of new drugs this year. MEGA is confident that those products will be successful but there will be only around 20-plus of them vs. hundreds of existing SKUs. Therefore, we expect the additional sales contribution to only be 2-3% growth p.a.

Ex 1: Sales Growth



Sources: Company data; Thanachart estimates

Ex 2: Gross Margin Trend

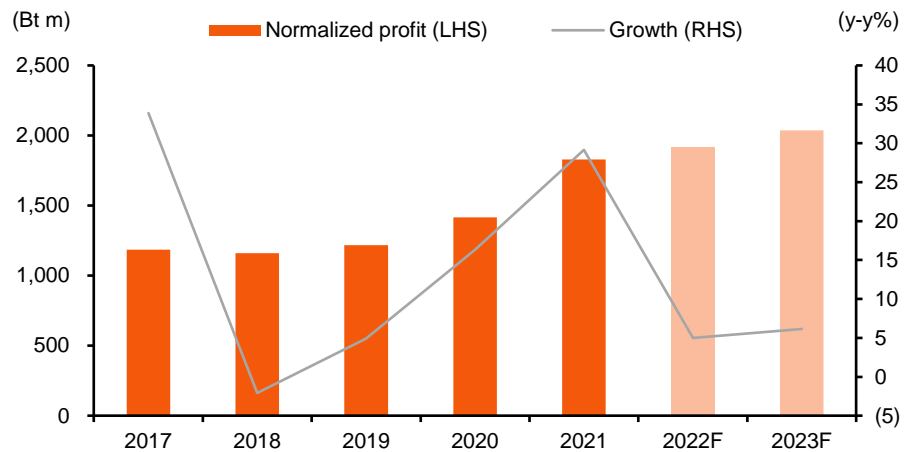


Sources: Company data; Thanachart estimates

Ex 3: Product Breakdown (%)

	2017	2018	2019	2020	2021	2022F	2023F
Branded	52.9	51.7	49.2	46.4	48.9	49.9	48.8
Distribution	42.2	45.5	48.6	51.7	48.8	47.8	48.9
OEM	4.9	2.8	2.1	1.9	2.3	2.3	2.3

Sources: Company data, Thanachart estimates

Ex 4: Earnings Growth

Sources: Company data, Thanachart estimates

*....and this make MEGA
look fairly valued at 20x PE*

Second, although having fallen, MEGA's 20x PE multiple in 2022F looks fairly valued to us against its single-digit earnings growth trend.

Ex 5: Assumption Revision

	2020	2021	2022F	2023F	2024F
Sales (Bt m)					
New	12,589	14,136	14,667	15,547	16,526
Old			15,988	17,011	18,316
Change (%)			(8.3)	(8.6)	(9.8)
Gross margin (%)					
New	39.6	41.8	42.0	41.9	41.9
Old			42.3	42.3	42.3
Change (pp)			(0.3)	(0.4)	(0.4)
SG&A to sales (%)					
New	26.2	26.7	26.7	26.6	26.5
Old			27.1	26.9	26.9
Change (pp)			(0.4)	(0.4)	(0.4)
Normalized profit (Bt m)					
New	1,416	1,828	1,919	2,038	2,165
Old			2,037	2,215	2,377
Change (%)			(5.8)	(8.0)	(8.9)

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	2,544	2,705	2,877	3,234	3,675	4,093	4,489	4,874	5,129	5,487	5,812	—
Free cash flow	1,798	1,927	2,265	2,509	2,998	3,398	3,745	3,942	4,258	4,591	4,880	58,779
PV of free cash flow	1,793	1,604	1,719	1,737	1,893	1,906	1,907	1,823	1,788	1,750	1,689	17,511
Risk-free rate (%)	3.5											
Market risk premium (%)	8.0											
Beta	0.9											
WACC (%)	10.7											
Terminal growth (%)	2.0											
Enterprise value - add investments	38,599											
Net debt (2021)	(2,368)											
Minority interest	22											
Equity value	40,944											
# 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		— PE —		— P/BV —		EV/EBITDA		— Div yield—	
			22F (%)	23F (%)	22F (x)	23F (x)	22F (x)	23F (x)	22F (x)	23F (x)	22F (%)	23F (%)
Bristol-Myers Squibb	BMY US	US	3.6	6.1	8.7	8.2	3.1	2.7	7.5	7.4	3.2	3.3
Eli Lilly & Co	LLY US	US	5.4	13.0	30.2	26.8	21.2	17.1	26.2	22.9	1.5	1.6
Johnson & Johnson	JNJ US	US	7.3	4.7	16.1	15.3	5.5	5.0	12.2	11.8	2.6	2.8
Merck & Co Inc	MRK US	US	20.1	(0.7)	10.6	10.7	5.2	4.5	9.1	9.3	3.7	4.0
Pfizer Inc	PFE US	US	63.0	(27.4)	6.6	9.1	2.5	2.2	5.2	7.7	3.4	3.7
Abbott Laboratories	ABT US	US	(7.0)	5.8	24.0	22.6	4.4	3.9	18.0	17.6	1.6	1.7
Astellas Pharma Inc	4503 JP	Japan	45.2	29.3	19.1	14.8	2.3	2.1	10.1	8.4	2.8	3.2
Chugai Pharmaceutical	4519 JP	Japan	5.1	(4.4)	18.8	19.7	4.4	3.9	12.2	12.4	2.2	2.3
Daiichi Sankyo Co Ltd	4568 JP	Japan	(9.9)	18.8	67.9	57.1	3.5	3.5	27.6	24.0	1.2	1.3
Eisai Co Ltd	4523 JP	Japan	45.2	(15.7)	25.6	30.3	2.2	2.2	12.9	13.7	2.9	3.0
Otsuka Holdings Co Ltd	4578 JP	Japan	19.9	4.7	14.0	13.4	1.0	1.0	6.9	6.7	2.6	2.6
Taisho Pharmaceutical	4581 JP	Japan	(20.5)	21.5	43.3	35.7	0.6	0.6	7.9	7.2	1.7	1.7
AstraZeneca	AZN LN	UK	27.6	16.3	17.3	14.9	4.5	4.2	13.4	11.1	2.5	2.6
GlaxoSmithKline	GSK LN	UK	48	7.2	12.9	12.1	4.4	3.7	9.7	9.1	3.5	3.5
Novartis AG	NOVN SW	Switzerland	0.4	9.3	12.8	11.7	2.8	2.8	10.5	10.1	4.2	4.4
Roche Holding AG	ROG SW	Switzerland	4.0	2.1	17.0	16.7	8.6	6.5	12.3	11.9	2.8	2.8
Blackmores Ltd	BKL AU	Australia	17.8	50.3	48.8	32.5	3.8	3.6	16.8	13.6	1.2	1.7
Novo Nordisk A/S	NOVOB DC	Denmark	8.2	19.2	30.6	25.6	20.5	17.3	21.8	19.4	1.6	1.9
Sanofi	SAN FP	France	14.3	5.4	12.5	11.9	1.6	1.5	9.9	9.3	3.7	3.9
Apex Healthcare	APEX MK	Malaysia	11.1	4.8	18.6	17.8	2.2	2.1	11.8	11.1	1.8	2.0
Kalbe Farma	KLBF IJ	Indonesia	9.8	8.8	22.3	20.5	3.6	3.3	14.4	13.4	2.1	2.3
Mega Lifesciences	MEGA TB*	Thailand	5.0	6.2	19.9	18.7	4.4	4.0	13.8	12.7	3.1	3.2
Average			14.7	8.4	22.6	20.3	5.1	4.4	13.2	12.3	2.5	2.7

Sources: Bloomberg, Thanachart estimates

Note: * Thanachart estimates, using normalized EPS

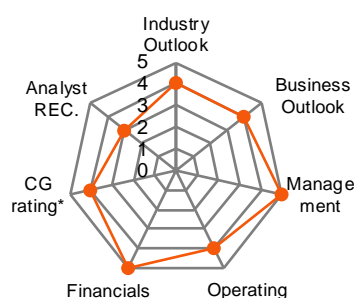
Based on 9-Mar-22 closing price

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



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.

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)	54.28	47.00	-13%
Net profit 22F (Bt m)	1,904	1,919	1%
Net profit 23F (Bt m)	2,149	2,038	-5%
Consensus REC	BUY: 7	HOLD: 5	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings forecasts and TP are lower than the Bloomberg consensus numbers, which we attribute to us having a more bearish view on MEGA's growth after the high base

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 gains represent an upside risk.
- A lower baht than our current expectation is another upside 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)	2020A	2021A	2022F	2023F	2024F
Sales	12,589	14,136	14,667	15,547	16,526
Cost of sales	7,603	8,225	8,500	9,031	9,607
Gross profit	4,986	5,911	6,166	6,516	6,920
% gross margin	39.6%	41.8%	42.0%	41.9%	41.9%
Selling & administration expenses	3,299	3,769	3,914	4,128	4,374
Operating profit	1,687	2,141	2,252	2,388	2,546
% operating margin	13.4%	15.1%	15.4%	15.4%	15.4%
Depreciation & amortization	256	274	291	316	331
EBITDA	1,943	2,416	2,544	2,705	2,877
% EBITDA margin	15.4%	17.1%	17.3%	17.4%	17.4%
Non-operating income	24	37	34	36	38
Non-operating expenses	0	0	0	0	0
Interest expense	(72)	(28)	(29)	(30)	(50)
Pre-tax profit	1,638	2,150	2,257	2,394	2,534
Income tax	234	336	353	374	396
After-tax profit	1,404	1,814	1,904	2,019	2,138
% net margin	11.2%	12.8%	13.0%	13.0%	12.9%
Shares in affiliates' Earnings	7	9	10	13	22
Minority interests	4	6	5	5	5
Extraordinary items	(23)	119	0	0	0
NET PROFIT	1,393	1,947	1,919	2,038	2,165
Normalized profit	1,416	1,828	1,919	2,038	2,165
EPS (Bt)	1.6	2.2	2.2	2.3	2.5
Normalized EPS (Bt)	1.6	2.1	2.2	2.3	2.5

BALANCE SHEET

Plenty of cash on hand

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	7,587	9,301	9,895	11,051	12,639
Cash & cash equivalent	1,221	2,536	3,000	3,800	5,000
Account receivables	2,684	2,808	2,914	3,046	3,192
Inventories	3,489	3,823	3,843	4,058	4,290
Others	193	134	139	147	157
Investments & loans	194	215	235	255	276
Net fixed assets	1,951	1,837	1,946	1,930	1,699
Other assets	1,824	1,919	2,004	2,093	2,187
Total assets	11,557	13,272	14,080	15,329	16,801
LIABILITIES:					
Current liabilities:	4,229	4,853	4,877	5,274	5,881
Account payables	2,794	3,533	3,651	3,879	4,126
Bank overdraft & ST loans	499	168	18	114	400
Current LT debt	0	0	0	0	0
Others current liabilities	936	1,152	1,207	1,281	1,354
Total LT debt	0	0	0	0	0
Others LT liabilities	349	393	459	477	497
Total liabilities	4,578	5,247	5,336	5,751	6,378
Minority interest	21	22	17	17	12
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	(536)	(506)	(506)	(506)	(506)
Retained earnings	4,752	5,766	6,491	7,324	8,174
Shareholders' equity	6,958	8,003	8,728	9,561	10,411
Liabilities & equity	11,557	13,272	14,080	15,329	16,801

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

Strong cash flows, based on our estimates

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	1,638	2,150	2,257	2,394	2,534
Tax paid	(183)	(311)	(349)	(361)	(384)
Depreciation & amortization	256	274	291	316	331
Chg In working capital	(315)	281	(7)	(119)	(132)
Chg In other CA & CL / minorities	159	275	55	71	74
Cash flow from operations	1,557	2,670	2,248	2,300	2,423
Capex	(437)	(161)	(400)	(300)	(100)
Right of use	(263)	(3)	(3)	(3)	(3)
ST loans & investments	0	0	0	0	0
LT loans & investments	46	(20)	(20)	(20)	(20)
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(168)	(57)	(17)	(69)	(71)
Cash flow from investments	(822)	(241)	(440)	(392)	(194)
Debt financing	(371)	(213)	(150)	96	286
Capital increase	0	0	(0)	0	0
Dividends paid	(670)	(923)	(1,195)	(1,204)	(1,315)
Warrants & other surplus	60	21	0	0	0
Cash flow from financing	(981)	(1,114)	(1,344)	(1,108)	(1,029)
Free cash flow	1,120	2,509	1,848	2,000	2,323

VALUATION

2022F PE looks fairly valued to us at 20x or at its historical average

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	26.9	20.9	19.9	18.7	17.6
Normalized PE - at target price (x)	28.9	22.4	21.3	20.1	18.9
PE (x)	27.4	19.6	19.9	18.7	17.6
PE - at target price (x)	29.4	21.0	21.3	20.1	18.9
EV/EBITDA (x)	19.3	14.8	13.8	12.7	11.7
EV/EBITDA - at target price (x)	20.7	16.0	14.9	13.8	12.6
P/BV (x)	5.5	4.8	4.4	4.0	3.7
P/BV - at target price (x)	5.9	5.1	4.7	4.3	3.9
P/CFO (x)	24.5	14.3	17.0	16.6	15.7
Price/sales (x)	3.0	2.7	2.6	2.5	2.3
Dividend yield (%)	2.1	3.2	3.1	3.2	3.7
FCF Yield (%)	2.9	6.6	4.8	5.2	6.1
(Bt)					
Normalized EPS	1.6	2.1	2.2	2.3	2.5
EPS	1.6	2.2	2.2	2.3	2.5
DPS	0.9	1.4	1.4	1.4	1.6
BV/share	8.0	9.2	10.0	11.0	11.9
CFO/share	1.8	3.1	2.6	2.6	2.8
FCF/share	1.3	2.9	2.1	2.3	2.7

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	13.1	12.3	3.8	6.0	6.3
Net profit (%)	22.3	39.8	(1.4)	6.2	6.3
EPS (%)	22.2	39.8	(1.4)	6.2	6.3
Normalized profit (%)	16.3	29.2	5.0	6.2	6.3
Normalized EPS (%)	16.3	29.2	5.0	6.2	6.3
Dividend payout ratio (%)	56.3	61.8	61.8	60.0	65.0
Operating performance					
Gross margin (%)	39.6	41.8	42.0	41.9	41.9
Operating margin (%)	13.4	15.1	15.4	15.4	15.4
EBITDA margin (%)	15.4	17.1	17.3	17.4	17.4
Net margin (%)	11.2	12.8	13.0	13.0	12.9
D/E (incl. minor) (x)	0.1	0.0	0.0	0.0	0.0
Net D/E (incl. minor) (x)	(0.1)	(0.3)	(0.3)	(0.4)	(0.4)
Interest coverage - EBIT (x)	23.3	75.7	77.9	79.0	51.2
Interest coverage - EBITDA (x)	26.9	85.4	87.9	89.5	57.8
ROA - using norm profit (%)	12.8	14.7	14.0	13.9	13.5
ROE - using norm profit (%)	21.6	24.4	22.9	22.3	21.7
DuPont					
ROE - using after tax profit (%)	21.4	24.2	22.8	22.1	21.4
- asset turnover (x)	1.1	1.1	1.1	1.1	1.0
- operating margin (%)	13.6	15.4	15.6	15.6	15.6
- leverage (x)	1.7	1.7	1.6	1.6	1.6
- interest burden (%)	95.8	98.7	98.7	98.8	98.1
- tax burden (%)	85.7	84.4	84.4	84.4	84.4
WACC (%)	9.6	9.6	9.6	9.6	9.6
ROIC (%)	25.8	29.0	33.7	35.1	36.6
NOPAT (Bt m)	1,446	1,807	1,900	2,015	2,148
invested capital (Bt m)	6,236	5,635	5,746	5,875	5,811

We expect ROIC to surpass WACC

Sources: Company data, Thanachart estimates

General Disclaimers And Disclosures:

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