

## Pharmaniaga

Recommendation: **HOLD**

Stock Code: 7081

Bloomberg: PHRM MK

Price: MYR5.18

12-Month Target Price: MYR5.50

Date: May 27, 2010

Board: Main

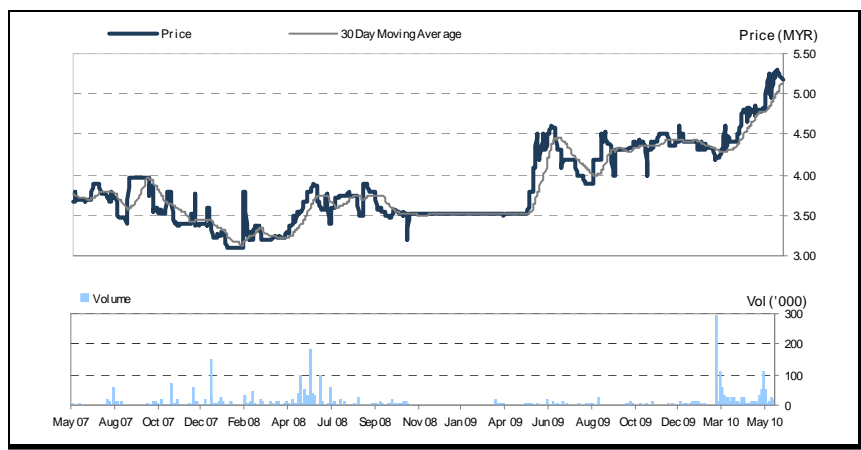
Sector: Trading/Services

GICS: Health Care/Pharmaceuticals

Market Value - Total: MYR554.1 mln

**Summary:** Pharmaniaga holds the sole concession for the supply of pharmaceuticals to government hospitals. The group also manufactures generic pharmaceuticals and supplies medical products and equipment in Malaysia and Indonesia.

Analyst: Siti Rudziah Salikin



## Results Review &amp; Earnings Outlook

- Pharmaniaga's 1Q10 net profit fell 35.9% YoY to MYR9.3 mln because of increased sales of lower margin products and margin pressure in the generic product market, in general, due to competition from cheaper generics from India and other sources. The completion of medical equipping projects in December 2009 and MYR0.4 mln loss arising from the two-week closure of its manufacturing plant in March also contributed to the lower profit.
- Although the net profit accounted for only 14.1% of our original full-year forecast, we view the results to be slightly below our expectations as we expect stronger performance going forward.
- Pharmaniaga's prospects are decent, in our opinion. Reasons include: (i) we expect continued demand for H1N1-related products as the government continues with its initiatives to curb the pandemic; (ii) we project higher sales for the DTaP/Hib Vaccine as the Ministry of Health (MOH) implements the immunization program (for babies) to all states of Malaysia beginning January 2010; (iii) Pharmaniaga expects to obtain approval to start commercial production of Small Volume Injectables in 2010; and (iv) increased profile and acceptance of generics in the region, which will support the market's growth although margins could continue to be pressured by competition.
- We cut our projected net profit for 2010 by 5.5% after factoring in the competitive environment in the generic market. We maintain our 2011 forecast.

## Recommendation &amp; Investment Risks

- We maintain our Hold recommendation. We raise our 12-month target price to MYR5.50 (from MYR4.60) after rolling our valuation to 2011 earnings.
- Pharmaniaga is a defensive stock, in our opinion, (as earnings are secured from the government contract) with decent prospects (given the rising demand for more affordable generic drugs) and respectable dividend yields. Nonetheless, low share trading liquidity remains an issue and we believe the stock is fairly valued at current levels.
- The target price is based on PER of 8x and includes our projected dividend. The assigned valuation is at a premium to the stock's two-year average forward PER of 6.5x because the renewal of the concession has been confirmed (for another 10 years).
- Risks to our recommendation and target price include: (i) slower-than-expected economic growth could cause the government to reduce healthcare spending and request for lower product pricing; and (ii) an adverse outcome from negotiations of the new terms of the concessions with the MOH.

## Key Stock Statistics

FY Dec.	2009	2010E
Reported EPS (sen)	56.3	58.4
PER (x)	9.2	8.9
Dividend/Share (sen)	37.0	30.0
NTA/Share (MYR)	3.72	4.09
Book Value/Share (MYR)	4.03	4.38
No. of Outstanding Shares (mln)	107.0	
52-week Share Price Range (MYR)	3.90 - 5.31	
Major Shareholders:	%	
UEM Group Berhad	86.8	

\* Stock deemed Shariah compliant by the Securities Commission.

## Per Share Data

FY Dec.	2007	2008	2009	2010E
Book Value (MYR)	3.27	3.63	4.03	4.38
Cash Flow (sen)	62.6	69.9	69.2	71.0
Reported Earnings (sen)	46.8	56.1	56.3	58.4
Dividend (sen)	18.0	27.0	37.0	30.0
Payout Ratio (%)	38.4	36.1	58.6	38.5
PER (x)	11.1	9.2	9.2	8.9
P/Cash Flow (x)	8.3	7.4	7.5	7.3
P/Book Value (x)	1.6	1.4	1.3	1.2
Dividend Yield (%)	3.5	5.2	7.1	5.8
ROE (%)	15.0	16.3	12.4	13.9
Net Gearing (%)	49.2	8.7	0.0	9.5

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**Quarterly Performance**

FY Dec. / MYR mln	1Q10	1Q09	% Change
Reported Revenue	317.6	313.7	1.2
Reported Operating Profit	14.1	20.7	-31.7
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-0.9	-0.8	18.3
Reported Pre-tax Profit	12.4	20.2	-38.4
Reported Net Profit	9.3	14.5	-35.9
Reported Operating Margin (%)	4.4	6.6	-
Reported Pre-tax Margin (%)	3.9	6.4	-
Reported Net Margin (%)	2.9	4.6	-

Source: Company data

**Profit & Loss**

FY Dec. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	1,305.6	1,300.8	1,270.4	1,335.1
Reported Operating Profit	95.1	85.9	87.1	96.7
Depreciation & Amortization	-15.5	-14.7	-14.3	-15.0
Net Interest Income / (Expense)	-5.5	-3.6	-1.8	-1.4
Reported Pre-tax Profit	90.6	81.4	85.8	95.8
Effective Tax Rate (%)	32.2	24.2	25.0	25.0
Reported Net Profit	60.0	60.2	62.4	69.8
Reported Operating Margin (%)	7.3	6.6	6.9	7.2
Reported Pre-tax Margin (%)	6.9	6.3	6.8	7.2
Reported Net Margin (%)	4.6	4.6	4.9	5.2

Source: Company data, S&amp;P Equity Research

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**Strong Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

**Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

**Hold:** Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

**Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

**Strong Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

**S&P 12 Month Target Price** – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

**Shariah-compliant stock** - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Hold	5.50
25-Aug-09	Hold	4.60
11-May-09	Hold	4.20
25-Nov-08	Hold	3.70
26-Jun-08	Hold	4.05

