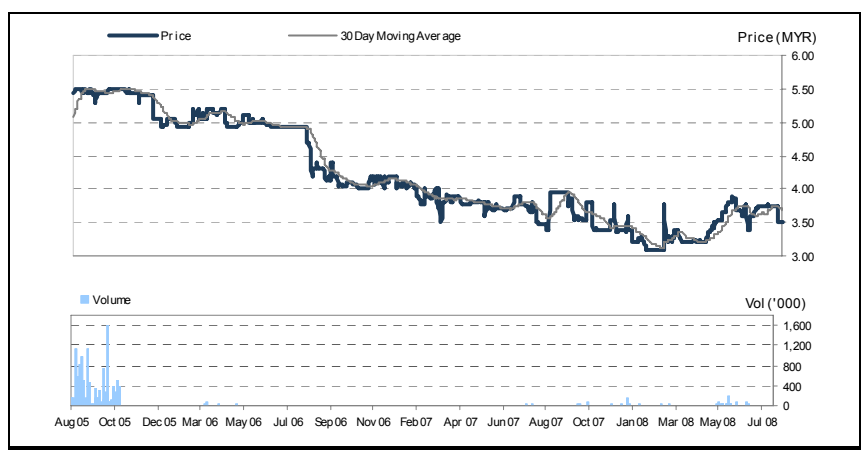


Pharmaniaga

Recommendation: **HOLD**Stock Code: **7081**Bloomberg: **PHRM MK**Price: **MYR3.50**12-Month Target Price: **MYR4.05**Date: **August 15, 2008****Board:** Main**Sector:** Trading/Services**GICS:** Health Care/Pharmaceuticals**Market Value - Total:** MYR374.4 mln

Summary: Pharmaniaga holds the sole concession for the supply of pharmaceuticals to government hospitals, which expires in October 2009. The group also manufactures generic pharmaceuticals and supplies medical products and equipment in Malaysia and Indonesia.

Analyst: Siti Rudziah Salikin

Results Review & Earnings Outlook

- Pharmaniaga's 1H08 results were in line with our expectations. Net profit rose 2.5x YoY to MYR31.7 mln on the back of a 19.1% YoY increase in revenue to MYR663.1 mln.
- The growth was driven by an 18.5% increase in sales to government hospitals and a 20.7% rise in sales to the private sector. Margins improved due to the upward revision in prices of products under the government concession in October 2007, a more favorable product mix, and tight cost control.
- We maintain our projected net profit of MYR62 mln for 2008, up 23.8% YoY helped by the full-year impact of the price hike. Our 2009 net profit forecast of MYR67.8 mln assumes its concession agreement will be renewed without any changes in the terms. The concession, which is presently the main contributor to Pharmaniaga's earnings, expires in October 2009.

Recommendation & Investment Risks

- We maintain our Hold call with an unchanged 12-month target price of MYR4.05.
- In spite of the potential 15.7% upside, we believe that interest toward the stock is likely to be subdued until there is further clarity on the outcome of the renewal of the concession agreement, which is expected to be known by October 2008.
- We value the stock at 7x PER on projected earnings for 2008. The assigned multiple is at a discount to present valuations for its domestic peers in the pharmaceutical industry, which we believe is fair, given present uncertainty surrounding the renewal of the concession, which contributes significantly to Pharmaniaga's earnings.
- No interim dividend was declared but we expect the rate for 2008 to remain at 18 sen per share, yielding a decent 5.1% at the current share price.
- Risks to our recommendation and target price include: (i) Pharmaniaga not successfully renewing its concession or renewing it on less favorable terms; and (ii) lower-than-expected demand for pharmaceuticals due to among others, an economic slowdown.

Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	46.8	58.0
PER (x)	7.5	6.0
Dividend/Share (sen)	18.0	18.0
NTA/Share (MYR)	2.93	3.34
Book Value/Share (MYR)	3.27	3.67
No. of Outstanding Shares (mln)	107.0	
52-week Share Price Range (MYR)	3.10 - 3.96	
Major Shareholders:	%	
UEM World Bhd	72.5	
Employees Provident Fund Board	9.1	

* Stock deemed Shariah compliant by the Securities Commission.

Per Share Data

FY Dec.	2005	2006	2007	2008E
Book Value (MYR)	2.94	2.96	3.27	3.67
Cash Flow (sen)	45.0	32.5	62.6	75.0
Reported Earnings (sen)	26.0	11.7	46.8	58.0
Dividend (sen)	15.0	15.0	18.0	18.0
Payout Ratio (%)	59.6	60.1	38.4	31.0
PER (x)	13.5	30.0	7.5	6.0
P/Cash Flow (x)	7.8	10.8	5.6	4.7
P/Book Value (x)	1.2	1.2	1.1	1.0
Dividend Yield (%)	4.3	4.3	5.1	5.1
ROE (%)	9.0	8.5	15.0	16.7
Net Gearing (%)	46.3	60.4	49.2	46.9

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Quarterly Performance

FY Dec. / MYR mln	2Q08	2Q07	% Change
Reported Revenue	353.5	300.2	17.7
Reported Operating Profit	21.8	14.0	55.8
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-1.2	-2.1	-45.3
Reported Pre-tax Profit	21.1	12.2	73.1
Reported Net Profit	13.1	6.6	97.4
Reported Operating Margin (%)	6.2	4.7	-
Reported Pre-tax Margin (%)	6.0	4.1	-
Reported Net Margin (%)	3.7	2.2	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	1,057.9	1,184.0	1,279.6	1,370.7
Reported Operating Profit	37.2	87.4	100.8	109.6
Depreciation & Amortization	-23.0	-17.6	-19.0	-20.3
Net Interest Income / (Expense)	-9.7	-9.0	-9.3	-9.7
Reported Pre-tax Profit	27.2	77.9	91.1	99.4
Effective Tax Rate (%)	48.2	33.6	30.0	30.0
Reported Net Profit	12.5	50.1	62.0	67.8
Reported Operating Margin (%)	3.5	7.4	7.9	8.0
Reported Pre-tax Margin (%)	2.6	6.6	7.1	7.3
Reported Net Margin (%)	1.2	4.2	4.8	4.9

Source: Company data, S&P Equity Research

Standard & Poor's Equity Research Services

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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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Required Disclosures

Recommendation and Target Price History

Date	Recommendation	Target Price
26-Jun-08	Hold	4.05

