

Recommendation: **HOLD**

Stock Code: 7081

Bloomberg: PHRM MK

Price: MYR4.54

12-Month Target Price: MYR4.60

Date: August 25, 2009

Board: Main

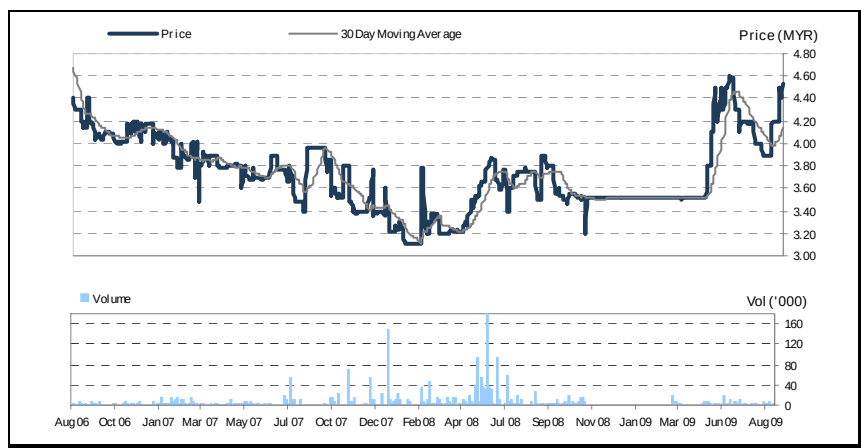
Sector: Trading/Services

GICS: Health Care/Pharmaceuticals

Market Value - Total: MYR485.7 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 & Earnings Outlook

- Pharmaniaga's 2Q09 results were above our expectations due to a better-than-expected improvement in manufacturing margins and a gain from asset disposals.
- Net profit increased 21.9% QoQ and 35% YoY. YTD net profit inched up 1.8% YoY to MYR32.2 mln in spite of a 2.4% YoY slide in revenue (due to the expiry of some tender sales and lower billings on the sale of medical equipment, which offset the higher concession sales, international sales and contributions from its Indonesian subsidiary).
- Sales to the government hospitals have recovered back to the average of MYR40 mln-MYR50 mln per month in the 2Q while that to the private sector has been slowly picking up. Increased mix of higher valued-products contributed to the better margins.
- We raise net profit for 2010 by 10.5% and for 2009 by 3.4%. Sales are traditionally stronger in the 2H. Margins could fluctuate depending on the types of medicine but given the more positive economic environment going forward, we expect the demand for higher-priced products to increase. Pharmaniaga's new manufacturing plant in Puchong, which focuses on higher-margin small volume injectable products, will commence trial run in September or October this year. The plant will support revenue growth for the group starting in 2010.

Recommendation & Investment Risks

- We maintain our Hold recommendation but with a revised 12-month target price of MYR4.60 (from MYR4.20) following the earnings adjustment.
- The target price is based on a PER of 7x, which is the average one-year forward multiple for the stock, on projected earnings for 2010 and includes our projected dividend of 27 sen.
- While its steady earnings and attractive dividend yield will provide a good support to the share price, a confirmation of a renewal of the concession will be a bigger catalyst for the stock, in our opinion. With its vast network and long established relationship with the Government, we believe chances of the supply contract (which expires in November 2009) being re-awarded to Pharmaniaga are strong. What remains to be seen, nevertheless, are the terms of the new contract.
- Risks to our recommendation and target price include Pharmaniaga not successfully renewing its concession or renewing it on less favorable terms. Slower-than-expected economic recovery could cause the government to reduce healthcare spending and request for lower product pricing.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	56.1	61.2
PER (x)	8.1	7.4
Dividend/Share (sen)	27.0	27.0
NTA/Share (MYR)	3.30	3.72
Book Value/Share (MYR)	3.63	4.04
No. of Outstanding Shares (mln)	107.0	
52-week Share Price Range (MYR)	3.20 - 4.60	
Major Shareholders:	%	
UEM Group Berhad	86.8	

* Stock deemed Shariah compliant by the Securities Commission.

Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	2.96	3.27	3.63	4.04
Cash Flow (sen)	32.5	62.6	69.9	75.6
Reported Earnings (sen)	11.7	46.8	56.1	61.2
Dividend (sen)	15.0	18.0	27.0	27.0
Payout Ratio (%)	60.1	38.4	36.1	34.4
PER (x)	38.9	9.7	8.1	7.4
P/Cash Flow (x)	14.0	7.3	6.5	6.0
P/Book Value (x)	1.5	1.4	1.3	1.1
Dividend Yield (%)	3.3	4.0	5.9	5.9
ROE (%)	8.5	15.0	16.3	15.4
Net Gearing (%)	60.4	49.2	8.3	8.0

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Quarterly Performance

FY Dec. / MYR mln	2Q09	2Q08	% Change
Reported Revenue	333.2	353.5	-5.7
Reported Operating Profit	25.5	21.8	17.1
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-0.9	-1.1	-14.8
Reported Pre-tax Profit	24.3	21.1	15.4
Reported Net Profit	17.7	13.1	35.0
Reported Operating Margin (%)	7.7	6.2	-
Reported Pre-tax Margin (%)	7.3	6.0	-
Reported Net Margin (%)	5.3	3.7	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	1,184.0	1,305.6	1,364.1	1,446.7
Reported Operating Profit	86.7	95.1	92.9	94.5
Depreciation & Amortization	-17.6	-15.5	-16.1	-17.1
Net Interest Income / (Expense)	-9.0	-5.5	-3.3	-3.2
Reported Pre-tax Profit	77.9	90.6	90.2	91.8
Effective Tax Rate (%)	33.6	32.2	24.3	25.0
Reported Net Profit	50.1	60.0	65.5	66.0
Reported Operating Margin (%)	7.3	7.3	6.8	6.5
Reported Pre-tax Margin (%)	6.6	6.9	6.6	6.3
Reported Net Margin (%)	4.2	4.6	4.8	4.6

Source: Company data, S&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	4.60
11-May-09	Hold	4.20
25-Nov-08	Hold	3.70
26-Jun-08	Hold	4.05

