Company Note

Results Update

Tuesday, 25 November 2008

TA SECURITIES

Bloomberg : **PHRM MK** KLCI : **855.39**

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Pharmaniaga Berhad

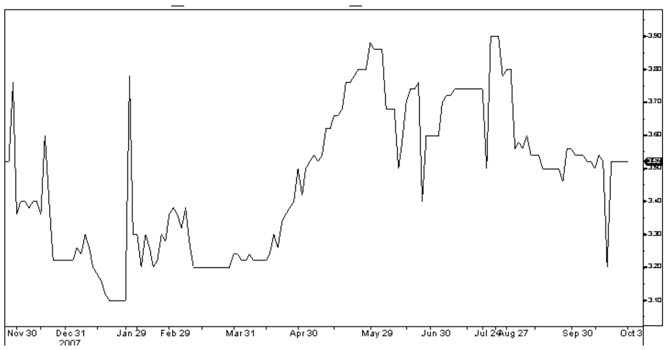
3Q08 Results : KPI target getting fade

Price (RM)	:	3.52
Target Price (RM)	:	4.10
Market Capitalisation (RMmn)	:	376.56
Board	:	Main Board
Sector	:	Trading/Service
Stock code	:	PHARMA (7081)
Recommendation	:	BUY

KEY STOCK STATISTICS

YE 31 Dec	2007	2008F
EPS	46.8	45.4
P/E	7.5	7.7
Div / Share	18.0	13.6
BV / Share	7.7	
Issued Capital	107	
52 weeks price change	4.04 / 3.10	
Major shareholders	UEM Berhad - 72.5%	

Share Price Chart



Source: Bloomberg

PER SHARE DATA

YE 31 Dec		2006	2007	2008F	2009F	2010F
Book Value	(RM)	7.3	7.7	8.0	8.5	9.2
Cash Flow	(Sen)	101.3	7.6	54.8	27.5	66.4
Earnings	(Sen)	11.7	46.8	45.4	63.4	100.7
Gross Dividend	(Sen)	15.0	18.0	13.6	19.0	30.2
Dividend Yield	(%)	4.3	5.1	3.9	5.4	8.6
PER	(x)	4.1	7.5	7.7	5.6	3.5
ROE	(%)	12.0	7.8	6.6	8.7	12.6

3Q08 Result Highlight (RM'm)

YE 31 December		2Q08	3Q08	QOQ%	Cumulative 3Q FY07	FY08	YOY%
Turnover		353.50	314.30	-11%	891.20	977.4	10%
EBIT		22.20	19.30	-13%	61.30	70.77	15%
Interest Inc/(exp)		-1.10	-1.66	51%	-7.00	-4.7	-33%
Pretax		21.10	17.64	-16%	54.30	66.1	22%
Taxation		-7.60	-6.60	-13%	-19.06	-22.6	19%
Net Profit		13.10	10.59	-19%	34.01	42.2	24%
EPS	(sen)	12.25	9.90	-19%	31.80	39.5	24%
EBIT Margin		6.3%	6.1%		6.9%	7.2%	
Pretax Margin		6.0%	5.6%		6.1%	6.8%	
Tax Rate		36.0%	37.4%		35.1%	34.2%	

P&L ANALYSIS (RM mil)

YE 31 Dec	2006	2007	2008F	2009F	2010F
Revenue	1057.8	1184.0	1338.9	1482.8	1646.6
Cost of Revenue	966.4	1080.8	1237.4	1366.8	1473.5
EBITDA	91.4	103.2	101.5	115.9	173.0
Net Interest	5.9	5.4	1.5	1.2	0.9
Depreciation	6.4	21.6	21.9	22.3	22.7
Net Profit	12.5	50.1	48.6	67.8	107.7

Review

- Pharmaniaga announced its 3Q08 yesterday that saw the company making RM10.59mn or 9.9 sen per share. This is backed by revenue of RM314.3mn. This is slightly below our expectation as EPS for this quarter covers about 16.8% of our full year forecast. On cumulative 9 month basis, the coverage is only 67%, lower than our expectation.
- QoQ, there is a huge disappointment with revenue slowed by 11%, while net income shrunk by a whopping 19%. The dip in the top line is because of slower sales recorded for its medical equipping division following the end tail of its IJN project. Apart from this, other division recorded a healthy growth. Concession sales increased 5.3% while private upped by 24.7%.
- Cumulatively, YoY, revenue grew by 10% while net income expanded by 24%.

- Its Indonesian operation is growing very strongly as mentioned in the notes. PT Millenium Pharmacon International Tbk registered an impressive 12.7% increase in its sales over the last quarter. In our previous meeting with the management, it was cited the sheer population of Indonesia provides a huge potential growth. Currently the company only has 26 distribution branches all over the country. Last quarter, it was announced that it is looking to acquire an operation plant and has set aside RM300mn for that purpose. The condition set by the management is that the plant has to have a capacity of at least RM80mn.

Impact

- The announcement made last quarter regarding the possible acquisition of a plant with a capacity of above RM80mn per year in Indonesia was not finalized yet. Hence our earnings estimate has not taken into account the possible incremental earnings flowing in from this new plant. .
- As the details are announced, we will impute it further into our model we believe, the more likely scenario is that the impact would only be felt in FY09.
- The huge difference in our estimates stems from the huge margin of IJN project, which is now completed and would not have anymore contribution towards the FY08 earnings. Our previous estimates in margin are distorted by the contribution from this project.

§ For FY08, we are scaling down our earnings for FY08 by 9.0%, as we do housekeeping. We also cut our FY09 by 28.3% to be more reflective of the economic condition.

Outlook

- As announced in the preceding quarter, the company's headline KPIs for FY08 are a) ROE of 20% and b) Revenue growth of 20%. The company has put in motion aggressive strategies to ensure that they achieve the KPIs. Last year the company only failed to achieve the target revenue growth of 20% when it actually registered a growth of 13%. As such, we are taking a rather conservative view of its top line numbers.
- However, we feel that this year, the target is getting hard to achieve. In our estimates, the growth for FY08 would only be around 13% whole for FY09 around 10%.
- On a somber note, previously we have highlighted that the company is aggressively pushing for overseas expansion by making inroads into Kazakhstan. We were very upbeat on the prospect, especially when the company signed a MoU with Visor Holdings LLP of Kazakhstan to undertake the venture. However, the MoU was mutually terminated on the 30th July. Although we took the conservative approach of wait-and-see before making any changes to our estimates on the prospect, we were very hopeful to see the venture going successfully. This event left our numbers intact without further potential upside as we have highlighted before.

Valuation

- We roll our valuation basis to FY09, pegging target PER of 6.5x from 7.4x previously. This is effectively 25% discount against its peers. The discount is justifiable given its liquidity issue. We maintain our BUY call from the previous report with a new target price RM4.10

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