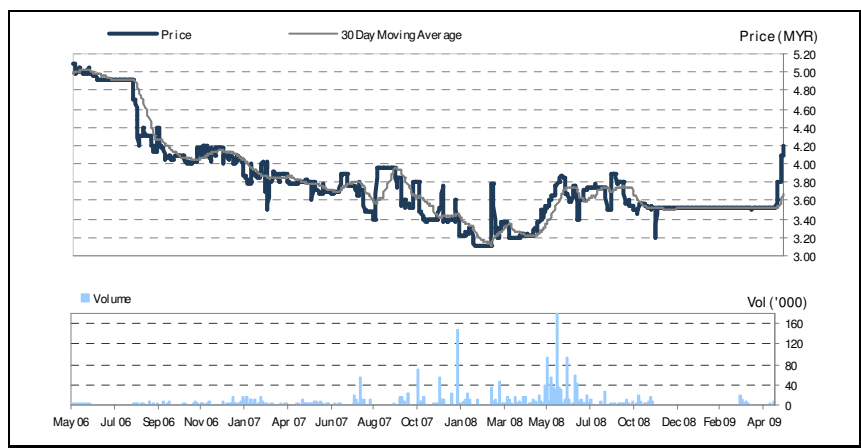


Pharmaniaga

Recommendation: **HOLD**Stock Code: **7081**Bloomberg: **PHRM MK**Price: **MYR4.20**12-Month Target Price: **MYR4.20**Date: **May 11, 2009****Board:** Main**Sector:** Trading/Services**GICS:** Health Care/Pharmaceuticals**Market Value - Total:** MYR449.3 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 posted weaker results for 1Q09 but the performance was within our expectations. Net profit declined 21.7% YoY and 18.4% QoQ to MYR14.5 mln and accounted for 25.4% of our previous 2009 forecast.
- The group's results were negatively affected by a contraction in private sector sales which offset the increase in concession revenue and better contribution from its Indonesian subsidiary, PT Millennium Pharmacon International (MPI) (SDPC IJ, IDR108, Not Ranked). Meanwhile, margins were reduced by an increased mix of lower-margin products and higher raw material costs.
- We have fine-tuned our numbers and made a 3.9% upward adjustment to our net profit forecasts for 2009-2010. We project a flat revenue growth in 2009 as we expect government hospitals and consumers to continue to be prudent in spending. Sales should pick up in 2010 on our expectations of a recovery in the global economy.
- Negotiations of the concession renewal are still in progress. We believe there is a high possibility of the concession being extended, given Pharmaniaga's long track record and the extensive infrastructure that has been put in place in the hospitals. Our forecast already assumes the concession agreement will be renewed without significant changes in the terms.

Recommendation & Investment Risks

- We maintain our Hold recommendation. Overall, defensive and lower beta stocks, such as Pharmaniaga, may lag the broader market in the current market rally. However, expectations of an announcement of a renewal of the concession will generate interest in the stock, in our opinion. Its decent dividend yield is another attraction for the stock.
- We revise our 12-month target price to MYR4.20 (from MYR3.70) following the earnings adjustment and after rolling over our valuation to 2010 earnings. The target price is based on a PER of 7x (unchanged), which is the stock's average one-year forward multiple.
- Risks to our recommendation and target price include: (i) Pharmaniaga not successfully renewing its concession or renewing it on less favorable terms; and (ii) weaker-than-expected recovery in the global economy, which will continue to dampen demand for pharmaceutical products.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	56.1	55.4
PER (x)	7.5	7.6
Dividend/Share (sen)	27.0	27.0
NTA/Share (MYR)	3.30	3.66
Book Value/Share (MYR)	3.63	3.98
No. of Outstanding Shares (mln)	107.0	
52-week Share Price Range (MYR)	3.20 - 4.20	
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	3.98
Cash Flow (sen)	32.5	62.6	69.9	70.0
Reported Earnings (sen)	11.7	46.8	56.1	55.4
Dividend (sen)	15.0	18.0	27.0	27.0
Payout Ratio (%)	60.1	38.4	36.1	36.5
PER (x)	36.0	9.0	7.5	7.6
P/Cash Flow (x)	12.9	6.7	6.0	6.0
P/Book Value (x)	1.4	1.3	1.2	1.1
Dividend Yield (%)	3.6	4.3	6.4	6.4
ROE (%)	8.5	15.0	16.3	14.6
Net Gearing (%)	60.4	49.2	8.3	13.9

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Pharmaniaga

Recommendation: **HOLD**Stock Code: **7081**Bloomberg: **PHRM MK**Price: **MYR4.20**12-Month Target Price: **MYR4.20**Date: **May 11, 2009****Quarterly Performance**

FY Dec. / MYR mln	1Q09	1Q08	% Change
Reported Revenue	313.7	309.7	1.3
Reported Operating Profit	20.7	29.0	-28.7
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-0.8	-1.6	-48.6
Reported Pre-tax Profit	20.2	27.4	-26.3
Reported Net Profit	14.5	18.5	-21.7
Reported Operating Margin (%)	6.6	9.4	-
Reported Pre-tax Margin (%)	6.4	8.8	-
Reported Net Margin (%)	4.6	6.0	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	1,184.0	1,305.6	1,374.7	1,460.2
Reported Operating Profit	86.7	95.1	85.0	91.3
Depreciation & Amortization	-17.6	-15.5	-16.3	-17.2
Net Interest Income / (Expense)	-9.0	-5.5	-2.6	-2.6
Reported Pre-tax Profit	77.9	90.6	83.9	90.2
Effective Tax Rate (%)	33.6	32.2	27.5	27.5
Reported Net Profit	50.1	60.0	59.3	63.8
Reported Operating Margin (%)	7.3	7.3	6.2	6.3
Reported Pre-tax Margin (%)	6.6	6.9	6.1	6.2
Reported Net Margin (%)	4.2	4.6	4.3	4.4

Source: Company data, S&P Equity Research

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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.

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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	4.20
25-Nov-08	Hold	3.70
26-Jun-08	Hold	4.05

