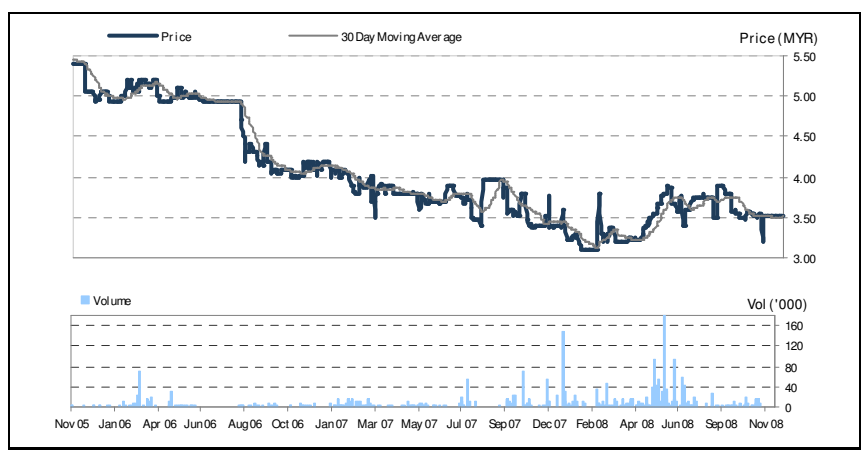


Pharmaniaga

Recommendation: **HOLD**Stock Code: **7081**Bloomberg: **PHRM MK**Price: **MYR3.52**12-Month Target Price: **MYR3.70**Date: **November 25, 2008****Board:** Main**Sector:** Trading/Services**GICS:** Health Care/Pharmaceuticals**Market Value - Total:** MYR376.6 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 a larger-than-expected decline in 3Q08 results with net profit plunging 50.3% YoY and 19.2% QoQ to MYR10.6 mln. Lower orders from government hospitals (which reflect the government's cautious spending due to the economic uncertainty) and high effective tax rate of 37.3% (vs. our estimate of 26%) were the main reasons for the discrepancy.
- YTD profit was 24.2% higher YoY at MYR42.2 mln and accounted for 68.1% of our original full-year forecast. Driving the growth were increased sales from the private sector (up 24.7% YoY) and its Indonesia subsidiary, PT Millennium Pharmacon International (SDPC ID, IDR100.0, Not Ranked) (up 12.7% YoY). Lower sales in 3Q08 reduced the YTD increase in concession sales to 5.3%. The price hike in October 2007 (for products under the government concession), tight cost control and lower interest rates contributed to an improvement in margins.
- We cut our projected net profit for 2008 by 11.3% and for 2009 by 15.8% after imputing lower government orders for 4Q08 and 2009, and higher effective tax rate of 35%. Our 2009 forecast assumes its concession agreement will be renewed without any changes in the terms.

Recommendation & Investment Risks

- We maintain our Hold call but have revised the 12-month target price to MYR3.70 (from MYR4.05) following the earnings downgrade. 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 expires in October 2009.
- We continue to value the stock at 7x PER and have rolled over our valuation to projected earnings for 2009. 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	51.5
PER (x)	7.5	6.8
Dividend/Share (sen)	18.0	18.0
NTA/Share (MYR)	2.93	3.27
Book Value/Share (MYR)	3.27	3.60
No. of Outstanding Shares (mln)	107.0	
52-week Share Price Range (MYR)	3.10 - 3.90	
Major Shareholders:	%	
UEM Group Berhad	86.8	

* 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	3.60
Cash Flow (sen)	45.0	32.5	62.6	68.4
Reported Earnings (sen)	26.0	11.7	46.8	51.5
Dividend (sen)	15.0	15.0	18.0	18.0
Payout Ratio (%)	59.6	60.1	38.4	35.0
PER (x)	13.5	30.2	7.5	6.8
P/Cash Flow (x)	7.8	10.8	5.6	5.1
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	15.0
Net Gearing (%)	46.3	60.4	49.2	49.2

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Quarterly Performance

FY Dec. / MYR mln	3Q08	3Q07	% Change
Reported Revenue	314.3	334.7	-6.1
Reported Operating Profit	20.0	34.5	-42.1
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-1.6	-2.1	-25.3
Reported Pre-tax Profit	17.6	31.9	-44.7
Reported Net Profit	10.6	21.3	-50.3
Reported Operating Margin (%)	6.4	10.3	-
Reported Pre-tax Margin (%)	5.6	9.5	-
Reported Net Margin (%)	3.4	6.4	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	1,057.9	1,184.0	1,275.9	1,367.6
Reported Operating Profit	37.2	87.4	92.8	96.5
Depreciation & Amortization	-23.0	-17.6	-18.9	-20.3
Net Interest Income / (Expense)	-9.7	-9.0	-5.7	-5.5
Reported Pre-tax Profit	27.2	77.9	86.7	90.6
Effective Tax Rate (%)	48.2	33.6	34.5	35.0
Reported Net Profit	12.5	50.1	55.0	57.1
Reported Operating Margin (%)	3.5	7.4	7.3	7.1
Reported Pre-tax Margin (%)	2.6	6.6	6.8	6.6
Reported Net Margin (%)	1.2	4.2	4.3	4.2

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
New	Hold	3.70
26-Jun-08	Hold	4.05

