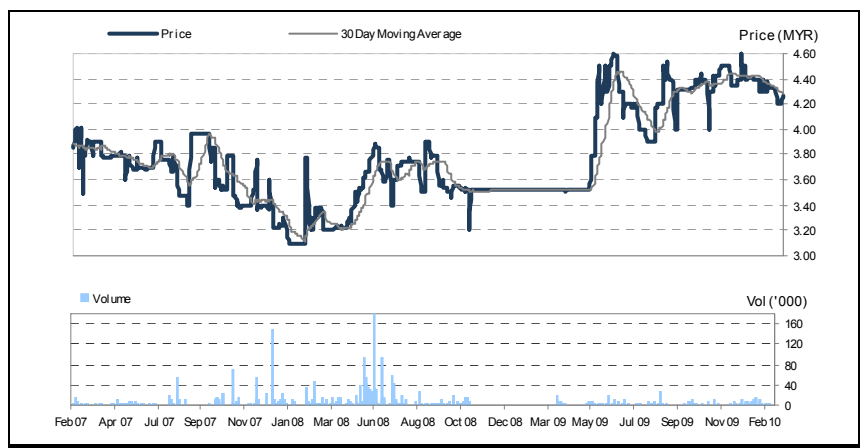


Pharmaniaga

Recommendation: **HOLD**Stock Code: **7081**Bloomberg: **PHRM MK**Price: **MYR4.27**12-Month Target Price: **MYR4.60**Date: **February 22, 2010****Board:** Main**Sector:** Trading/Services**GICS:** Health Care/Pharmaceuticals**Market Value - Total:** MYR456.8 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 4Q09 net profit of MYR21.9 mln (vs MYR6.1 mln in 3Q) included MYR7.2 mln gain from the disposal of two lots of land. Excluding the gain, the results were in line with our expectations.
- Revenue declined 1.8% QoQ because of lower sales from its Indonesian subsidiary. However, Pharmaniaga posted a higher profit QoQ as: (i) the manufacturing division, which incurred losses in 3Q due to start-up expenses for the new plant in Puchong, turned around; and (ii) margins for the trading and distribution operations improved.
- For the full year, recurring net profit was down 15.5% YoY at MYR50.7 mln (Pharmaniaga realized another MYR2.3 mln gain from disposal of assets in 2Q09). The decline was mainly attributable to lower manufacturing profit.
- Going forward, we expect Pharmaniaga to ride on the good growth prospect of the country's pharmaceutical industry driven by, among others, the improving economic environment, the rising prevalence of chronic diseases and emergence of new epidemic diseases. The Puchong plant, which focuses on higher-margin small volume injectable products, will be another growth driver for 2010, in our opinion.
- We maintain our projected net profit of MYR66.0 mln for 2010 and introduce 2011 profit of MYR69.8 mln.

Recommendation & Investment Risks

- We maintain our Hold call with an unchanged 12-month target price of MYR4.60.
- We believe earnings growth will return in 2010 although the still ongoing negotiations of the terms and conditions of the extended concession could affect the share price performance in the near term. Nonetheless, we continue to like Pharmaniaga for its attractive dividend yield. The board has recommended a final dividend of 27 sen per share (less 25% tax), which was in line with our projections.
- The target price is based on PER of 7x on projected earnings for 2010 and includes the dividend of 27 sen. The assigned PER is the stock's average forward PER for the past three years.
- Risks to our recommendation and target price include slower-than-expected economic recovery, which could cause the government to reduce healthcare spending and request for lower product pricing. Margins could also be compromised should competitions, particularly in the private segment, intensify further.

Key Stock Statistics

FY Dec.	2009	2010E
Reported EPS (sen)	56.3	61.7
PER (x)	7.6	6.9
Dividend/Share (sen)	27.0	27.0
NTA/Share (MYR)	3.72	4.14
Book Value/Share (MYR)	4.03	4.44
No. of Outstanding Shares (mln)	107.0	
52-week Share Price Range (MYR)	3.50 - 4.60	
Major Shareholders:	%	
UEM Group Berhad	86.8	

* Stock deemed Shariah compliant by the Securities Commission.

Per Share Data

FY Dec.	2007	2008	2009	2010E
Book Value (MYR)	3.27	3.63	4.03	4.44
Cash Flow (sen)	62.6	69.9	70.0	75.1
Reported Earnings (sen)	46.8	56.1	56.3	61.7
Dividend (sen)	18.0	27.0	27.0	27.0
Payout Ratio (%)	38.4	36.1	42.7	32.8
PER (x)	9.1	7.6	7.6	6.9
P/Cash Flow (x)	6.8	6.1	6.1	5.7
P/Book Value (x)	1.3	1.2	1.1	1.0
Dividend Yield (%)	4.2	6.3	6.3	6.3
ROE (%)	15.0	16.3	12.4	14.6
Net Gearing (%)	49.2	8.7	0.0	8.9

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Quarterly Performance

FY Dec. / MYR mln	4Q09	4Q08	% Change
Reported Revenue	323.9	328.2	-1.3
Reported Operating Profit	29.0	24.8	17.0
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-0.9	-1.2	-24.1
Reported Pre-tax Profit	27.5	24.5	12.2
Reported Net Profit	21.9	17.8	23.2
Reported Operating Margin (%)	9.0	7.6	-
Reported Pre-tax Margin (%)	8.5	7.5	-
Reported Net Margin (%)	6.8	5.4	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	1,305.6	1,300.8	1,270.4	1,335.1
Reported Operating Profit	95.1	85.9	93.3	98.1
Depreciation & Amortization	-15.5	-15.4	-15.1	-15.8
Net Interest Income / (Expense)	-5.5	-3.6	-3.3	-3.0
Reported Pre-tax Profit	90.6	81.4	90.5	95.6
Effective Tax Rate (%)	32.2	24.2	25.0	25.0
Reported Net Profit	60.0	60.2	66.0	69.8
Reported Operating Margin (%)	7.3	6.6	7.3	7.3
Reported Pre-tax Margin (%)	6.9	6.3	7.1	7.2
Reported Net Margin (%)	4.6	4.6	5.2	5.2

Depreciation & amortization are our estimates

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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Recommendation and Target Price History

Date	Recommendation	Target Price
25-Aug-09	Hold	4.60
11-May-09	Hold	4.20
25-Nov-08	Hold	3.70
26-Jun-08	Hold	4.05

