

Recommendation: **HOLD**

Stock Code: 7081

Bloomberg: PHRM MK

Price: MYR4.35

12-Month Target Price: MYR4.60

Date: December 7, 2009

Board: Main

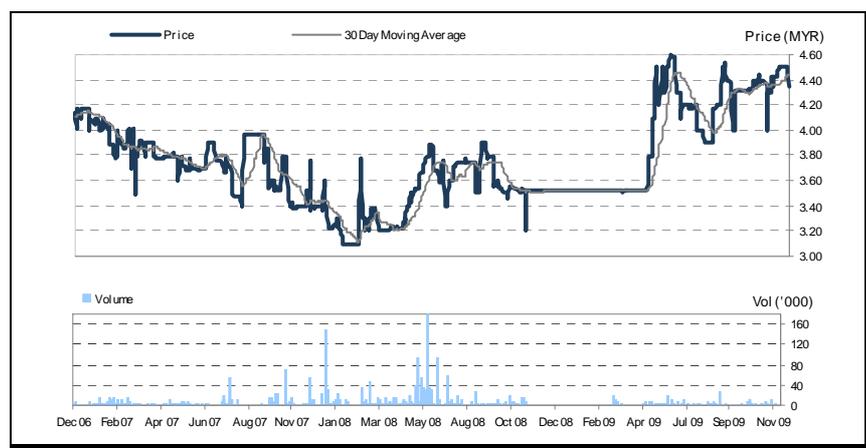
Sector: Trading/Services

GICS: Health Care/Pharmaceuticals

Market Value - Total: MYR465.4 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



Recent Developments

- The Ministry of Health has extended Pharmaniaga's concession for the supply of pharmaceuticals to government hospitals by another 10 years.
- The new terms and conditions, however, have not been finalized and will be negotiated over a period of six months from Dec. 1, 2009. In the interim, the existing concession agreement will continue on current terms.
- The extension has pretty much anticipated given Pharmaniaga's established network and long relationship with the government. The period is shorter than our expectation of 15 years (as per the previous concession period).
- The confirmation of the renewal will allow Pharmaniaga to ride on the good prospect of the country's pharmaceutical industry. We expect government spending on pharmaceutical products will continue to grow in view of, among others, the rising prevalence of chronic diseases and emergence of new epidemic diseases.

Recommendation & Investment Risks

- We maintain our Hold call with an unchanged 12-month target price of MYR4.60.
- While the confirmation of the concession renewal is positive and its dividend yield is attractive, we prefer to see the final terms and conditions of the new agreement before turning more aggressive on our recommendation on the stock.
- The target price is based on PER of 7x on projected earnings for 2010 and includes our projected 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.

Earnings Outlook

- We maintain our forecasts, which assume the terms and conditions of the concession remain relatively in tact.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	56.1	49.0
PER (x)	7.8	8.9
Dividend/Share (sen)	27.0	27.0
NTA/Share (MYR)	3.30	3.60
Book Value/Share (MYR)	3.63	3.91
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.	2006	2007	2008	2009E
Book Value (MYR)	2.96	3.27	3.63	3.91
Cash Flow (sen)	32.5	62.6	69.9	63.5
Reported Earnings (sen)	11.7	46.8	56.1	49.0
Dividend (sen)	15.0	18.0	27.0	27.0
Payout Ratio (%)	60.1	38.4	36.1	43.2
PER (x)	37.3	9.3	7.8	8.9
P/Cash Flow (x)	13.4	7.0	6.2	6.9
P/Book Value (x)	1.5	1.3	1.2	1.1
Dividend Yield (%)	3.4	4.1	6.2	6.2
ROE (%)	8.5	15.0	16.3	12.4
Net Gearing (%)	60.4	49.2	8.3	11.1

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Quarterly Performance

FY Dec. / MYR mln	3Q09	3Q08	% Change
Reported Revenue	330.0	314.3	5.0
Reported Operating Profit	10.6	20.0	-46.7
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-0.9	-1.6	-41.6
Reported Pre-tax Profit	9.4	17.6	-46.6
Reported Net Profit	6.1	10.6	-42.8
Reported Operating Margin (%)	3.2	6.4	-
Reported Pre-tax Margin (%)	2.9	5.6	-
Reported Net Margin (%)	1.8	3.4	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	1,184.0	1,305.6	1,365.8	1,454.8
Reported Operating Profit	86.7	95.1	78.0	93.6
Depreciation & Amortization	-17.6	-15.5	-16.2	-17.2
Net Interest Income / (Expense)	-9.0	-5.5	-3.1	-2.5
Reported Pre-tax Profit	77.9	90.6	74.4	91.5
Effective Tax Rate (%)	33.6	32.2	26.2	25.0
Reported Net Profit	50.1	60.0	52.4	66.0
Reported Operating Margin (%)	7.3	7.3	5.7	6.4
Reported Pre-tax Margin (%)	6.6	6.9	5.4	6.3
Reported Net Margin (%)	4.2	4.6	3.8	4.5

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

