

Pharmaniaga

Recommendation: **HOLD**

Stock Code: 7081

Bloomberg: PHRM MK

Price: MYR4.40

12-Month Target Price: MYR4.60

Date: March 8, 2010

Board: Main

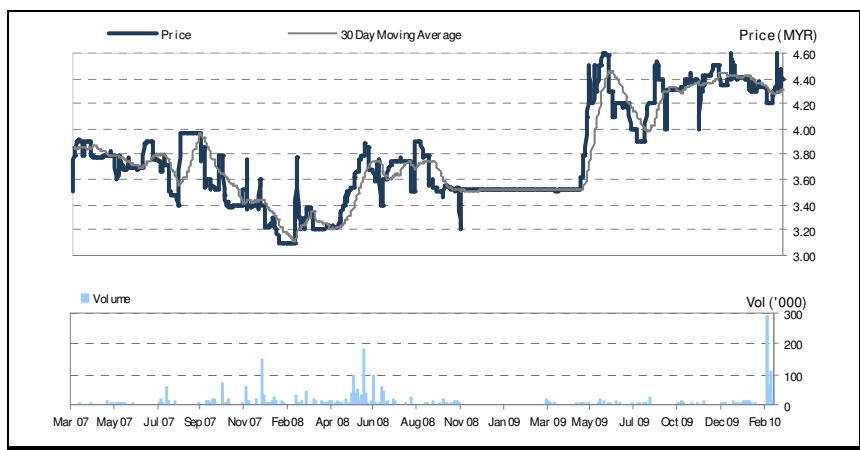
Sector: Trading/Services

GICS: Health Care/Pharmaceuticals

Market Value - Total: MYR470.7 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

- Pharmaniaga has clarified the non-compliance issues, which caused The Ministry of Health (MOH) to revoke the manufacturing license of Pharmaniaga Manufacturing Berhad on March 1, 2010. The critical findings are on these areas: (i) storage and segregation of reject and quarantine materials/products; (ii) handling of reject/recall (material/products); and (iii) certain aspects of premises and equipment.
- Pharmaniaga Manufacturing, which is Pharmaniaga's wholly owned subsidiary, will meet up with the MOH today (March 8) to present the corrective actions that have been taken to date, as well as a plan of actions to address the remaining audit issues. It will also seek the Ministry's approval to conduct a follow-up audit on the plant.
- Manufacturing accounted for 26% of group 2009 earnings, thus a long period of cessation of the production could have a big impact on group 2010 earnings, in our opinion. Pharmaniaga's other core operations, including the supply of pharmaceuticals and medical products to government hospitals, are not affected.

Recommendation & Investment Risks

- We maintain our Hold call on the stock. We expect near-term sentiment on the stock to be weak until such time that there is greater clarity on the issues and an outcome from discussions with the MOH.
- Our 12-month target price of MYR4.60 is unchanged. The target price is based on PER of 7x on projected earnings for 2010 and includes the 2009 dividend of 27 sen (yield of 6.1%). The assigned PER is the stock's average forward PER for the past three years.
- Risks to our recommendation and target price include: (i) slower-than-expected economic recovery, which could cause the government to reduce healthcare spending and request for lower product pricing; (ii) delay in getting the manufacturing license re-issued; and (iii) an adverse outcome from negotiations with the MOH.

Earnings Outlook

- We maintain our forecasts but will reassess our numbers should the re-issuance of the manufacturing license take longer than expected.

Key Stock Statistics

FY Dec.	2009	2010E
Reported EPS (sen)	56.3	61.7
PER (x)	7.8	7.1
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)	9.4	7.8	7.8	7.1
P/Cash Flow (x)	7.0	6.3	6.3	5.9
P/Book Value (x)	1.3	1.2	1.1	1.0
Dividend Yield (%)	4.1	6.1	6.1	6.1
ROE (%)	15.0	16.3	12.4	14.6
Net Gearing (%)	49.2	8.7	0.0	8.9

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Pharmaniaga

Recommendation: **HOLD**Stock Code: **7081**Bloomberg: **PHRM MK**Price: **MYR4.40**12-Month Target Price: **MYR4.60**Date: **March 8, 2010****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

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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

