

## Results Update

Friday, 15 August 2008



Bloomberg : PHRM MK

KLCI : 1,109.43

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## Pharmaniaga Berhad

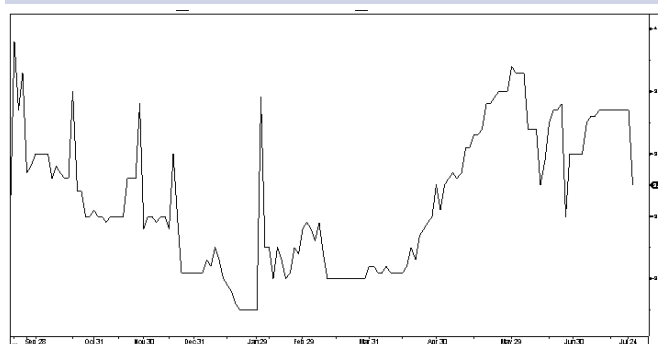
## 2Q08 Result

Price (RM) : 3.50  
 Target Price (RM) : 4.36  
 Market Capitalisation (RMmn) : 374.2  
 Board : Main Board  
 Sector : Trading/Service  
 Stock code : PHARMA (7081)  
 Recommendation : BUY

## KEY STOCK STATISTICS

YE 31 Dec		2007	2008F
EPS	(sen)	46.8	58.9
P/E	(x)	7.5	5.9
Div / Share	(sen)	18.0	17.7
BV / Share	(sen)	7.7	
Issued Capital	(mn)	107	
52 weeks price change	RM	4.04 / 3.10	
Major shareholders		UEM Berhad - 72.5%	

## Share Price Chart



Source: Bloomberg

## PER SHARE DATA

YE 31 Dec		2007	2008F	2009F	2010F
Book Value	(RM)	7.7	8.1	8.7	9.5
Cash Flow	(Sen)	7.6	61.3	49.4	95.1
Earnings	(Sen)	46.8	58.9	88.4	101.4
Gross Dividend	(Sen)	18.0	17.7	26.5	30.4
Dividend Yield	(%)	5.1	5.0	7.6	8.7
PER	(x)	7.5	5.9	4.0	3.5
ROE	(%)	7.8	8.5	11.7	12.3

## 2Q08 Result Highlight (RM'm)

YE 31 December	4Q07	1Q08	QOQ%	Cumulative 2Q		
				FY07	FY08	YOY%
Turnover	309.65	353.50	14%	556.50	663.1	19%
EBIT	29.17	22.20	-24%	27.10	51.5	90%
Interest Inc/(exp)	-1.80	-1.10	-39%	-4.70	-3.0	-36%
Pretax	27.37	21.10	-23%	22.40	48.5	117%
Taxation	-8.39	-7.60	-9%	-8.70	-16.0	84%
Net Profit	18.50	13.10	-29%	12.70	31.7	149%
EPS (sen)	17.34	12.25	-29%	11.88	29.6	149%
EBIT Margin (%)	9.4%	6.3%		7.8%	4.9%	
Pretax Margin (%)	8.8%	6.0%		7.3%	4.0%	
Tax Rate (%)	30.6%	36.0%		33.0%	38.8%	

## P&amp;L ANALYSIS (RM mil)

YE 31 Dec	2007	2008F	2009F	2010F
P&L Analysis	2007	2008F	2009F	2010F
Revenue	1184.0	1338.9	1482.8	1646.6
Cost of Revenue	1080.8	1217.3	1329.8	1473.5
EBITDA	103.2	121.6	153.0	173.0
Net Interest	5.4	1.5	1.2	0.9
Depreciation	21.6	21.9	22.3	22.7
Net Profit	50.1	63.0	94.6	108.5

## Review

- ❖ Pharmaniaga announced its 2Q08 results yesterday, that saw the company making RM13.1mn or 12.25sen EPS per share, backed by revenue of RM353.5mn. This is slightly above our expectation as EPS for this quarter has covers about 29.4% of our full year forecast. However, if we look on cumulative 6 month basis, the coverage is 50%, in line with our expectation.
- ❖ QoQ, there is a huge improvement with revenue increasing by 14%, while net income shrunk by a whopping 29%. The growth in the top line is because of higher sales in concession sales, institutional sales as well as higher billings for its hospital equipping. In addition to that, the company also mentioned that its Indonesian operation contribution has also increased compared to the previous quarter. However, due to escalating raw material prices, the tremendous drop in pre-tax margin by 2.8pp is inevitable.

- ❖ Cumulatively, YoY, revenue grew by 19% while net income expanded by 149%.
- ❖ Its Indonesian operation is growing very strongly as mentioned in the notes. PT Millenium Pharmacon International Tbk registered an impressive 11.2% increase in its sales over the last quarter. In our previous meeting with the management, it was cited the sheer population of Indonesia provides a huge potential growth. Currently the company only has 26 distribution branches all over the country. Last quarter it was announced that it is looking to acquire an operation plant and has set aside RM300mn for that purpose. The condition set by the management is that the plant has to have a capacity of at least RM80mn.

#### Impact

- ❖ The announcement made last quarter regarding the possible acquisition of a plant with a capacity of above RM80mn worth of health care products per year in Indonesia was not finalized yet. Hence our earnings estimate has not taken into account the possible incremental earnings flowing in from this new plant.
- ❖ As the details are announced, we will impute it further into our model but we believe, the more likely scenario is that the impact would only be felt in FY09.
- ❖ Given these, we are leaving our numbers unchanged.

#### Outlook

- ❖ As announced in the preceding quarter, the company's headline KPIs for FY08 are, a) ROE of 20% and, b) Revenue growth of 20%. The company has put in motion aggressive strategies to ensure that they achieve the KPIs. Last year the company only failed to achieve the target revenue growth of 20% when it actually registered a growth of 13%. As such, we are taking a rather conservative view of its top line numbers.
- ❖ Other than that we remain positive on the outlook of the company going forward.
- ❖ On a somber note, previously we have highlighted that the company is aggressively pushing for overseas expansion by making inroads into Kazakhstan. We were very upbeat on the prospect, especially when the company signed a MoU with Visor Holdings LLP of Kazakhstan to undertake the venture. However, the MoU was mutually terminated on the 30th July. Although we took the conservative approach of wait-and-see before making any changes to our estimates on the prospect, we were very hopeful to see the venture going successfully. This event left our numbers intact without further potential upside as we have highlighted before.

#### Valuation

- ❖ We maintain our target price at RM4.35, which implies PER of 7.38x FY08. However, the companies share prices retreated significantly recently. Our target price offers 24.54% potential upside, above our threshold BUY call of 15%. Together with dividend yield of about 5%, the total potential return stands at 29.54%. It is indeed a very good entering point at this level. Hence, we are revising our call to a BUY from a HOLD previously.

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