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Pharmaniaga to invest up to RM700m in regional expansion

To be funded via internally generated funds, debt or equity and likely asset disposal gains

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KUALA LUMPUR: Integrated health-care firm Pharmaniaga Bhd is planning to invest between RM500 million and RM700 million through 2012 in its regional expansion, including a foray into Indochina.

Vietnam will be its doorway to the rest of Indochina, said Pharmaniaga managing director Mohamad Abdullah. "We are looking at possibly registering our products there or acquiring a manufacturing plant," he told *The Edge Financial Daily* in a recent interview.

With the registration process typically taking between 12 and 24 months, acquisition of an existing plant would give the company a more immediate entry into the market, he said, adding that a medium-sized plant would cost between RM50 million and RM100 million.

Although mindful that Vietnam was currently operating at a double-digit inflation rate, Mohamad believed the pharmaceutical industry was recession-proof.

"We are investing in a product required by the nation. We'll focus on the generic market. We'll initially target the private market and then eventually the government sector," he added.

The company's largest contributor outside Malaysia is Indonesia, where it distributes and trades pharmaceuticals, food supplements

and diagnostic products via its subsidiary PT Millennium Pharmacon International Tbk.

Last month, the company said it had set aside RM300 million to acquire a manufacturing plant in Indonesia, where it is allowed a maximum 75% stake in a local manufacturing company.

According to Mohamad, the pharmaceutical industry in Indonesia is worth US\$2.5 billion (RM8.25 billion). The market size in Vietnam is some US\$1 billion, as with Malaysia, he said.

Indonesia is currently the company's main overseas revenue contributor, making up 23% of the 30% contributed by its overseas business as of its first quarter ended March 31, 2008. The remaining 7% comes from existing export markets that include Myanmar, Papua New Guinea, Fiji and African nations, Mohamad said.

In the pipeline are also plans to export Pharmaniaga's concessionaire expertise. The company's wholly owned subsidiary Pharmaniaga Logistics Sdn Bhd holds a 15-year concession to supply and distribute pharmaceutical and medical products to hospitals and medical institutions in collaboration with the Ministry of Health. The concession business remains the company's key revenue generator.

In February, Pharmaniaga signed a memorandum of understanding with Visor Holding LLP, an investment holding company in Kazakhstan to collaborate in areas such as healthcare distribution and cross manufacturing of generic pharmaceutical products for the local and regional markets.

Pharmaniaga hopes to manage the concession model and take up as



Mohamad. Photo by Suhaimi Yusuf

much as 49% equity in a joint venture with the local partner. Discussions with Kazakhstan's government investment arm Kazyna had been promising, however, the environment was not without its risks, Mohamad said.

"There are a lot of processes that need to be put in place before this model (the concession model) can be implemented. The commercial terms must also make sense. We are giving ourselves until the end of the year, if things don't move by then, we'd move on to other markets," he said.

He added that the company was currently in preliminary talks with parties in the Middle East to offer consultancy services. "We hope that by 2009, with revenues from Indonesia and Indochina, the overseas business will contribute between 30% and 35% to group revenues," he said.

On how Pharmaniaga was funding its overseas expansion, Mohamad said it would be via a mix of internally generated funds, debt or equity funding

and possibly asset disposal gains.

"We are currently assessing the viability of consolidating our assets, including the possibility of the sale and leaseback of our factories," he said.

The company has manufacturing plants in Bangi and Puchong in Selangor and Perak. The company also has a wastewater treatment plant which it is considering selling if outsourcing is found to be more cost effective, Mohamad said. Pharmaniaga also owns warehouses in Kuching, Kota Kinabalu and Penang.

In its 2007 annual report, Pharmaniaga said it was considering outsourcing non-core services such as cleaning and laundry services, which would save it over RM15,000 annually.

It said it was contemplating outsourcing its heating and ventilation air conditioning system, boiler and waste water treatment plants, where its facilities would be maintained by a "reputable multinational company". The move would reduce costs, gaining the company an estimated RM14 million.

According to Mohamad, the company is currently reviewing its operations and identifying ways to contain its costs, as it expects some impact on bottom line from the recent fuel price hike. While it is still early days yet to tell how much the price hike will eat into earnings, Mohamad is confident that the the company's 20% revenue growth target for this year remains achievable.

He said the company would continue to focus on its concession business until it successfully penetrated more overseas markets and expected to sustain the 8% to 10% growth in concession business revenues this year.