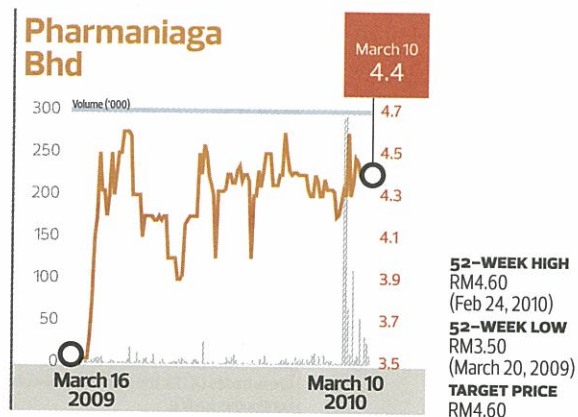


Pharmaniaga Bhd

March 10, RM4.40

S&P RESEARCH (MARCH 8) HOLD: Pharmaniaga has clarified the non-compliance issues that caused the Ministry of Health (MOH) to revoke the manufacturing licence of Pharmaniaga Manufacturing Bhd on March 1. The critical findings are on these areas of storage and segregation of rejects and quarantine materials/products, handling of reject/recall (material/products) and certain aspects of premises and equipment. Manufacturing accounted for 26% of group 2009 earnings, thus a long period of cessation of production could have a big impact on group 2010 earnings. Pharmaniaga's other core operations, including the supply of pharmaceuticals and medical products to government hospitals, are not affected.

Risks to our recommendation and target price include slower-than expected economic recovery, a delay in getting the manufacturing license re-issued and an adverse outcome from negotiations with the MOH. Our 12-month target price of RM4.60 is unchanged. The target price is based on a PER of seven times 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.



Date:

March, 15 Monday 2010

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Pharmaniaga