FINANCIAL DAILY
Corporate Communications

Pharmaniaga growth depends on Vietnam and Indonesia

by **Loong Tse Min**
FD@bizedge.com

KUALA LUMPUR: Boustead Holding Bhd's proposed acquisition of an 86.81% stake in Pharmaniaga Bhd from UEM Group Bhd for RM534 million cash should be a positive investment for the former, but growth will depend on expansion plans in Vietnam and Indonesia, analysts said.

"It will be the seventh division of the Boustead group and based on estimates it will certainly not be as big as plantations. It is already very diversified, so there's really not much reason for the group to enter the healthcare sector, which is not the most exciting sector in Malaysia.

"But if you are talking about Vietnam and Indonesia, then growth and profitability could potentially be significant," said an analyst covering the stock.

Boustead expects a five sen per year contribution to the group's earnings per share (EPS) beginning FY2011, translating to about 10.6% of FY09 EPS.

Pharmaniaga is the largest local integrated healthcare company in the country with businesses in the manufacturing of generic pharmaceuticals, research and development, as well as warehousing and distribution of pharmaceutical and medical products.

Boustead expects to benefit from cost improvements in the streamlining and optimisation of manufacturing facilities, production capacities and cross fertilisation with Pharmaniaga, which holds a 10-year concession to supply its products to government hospitals in the country.

Pharmaniaga also has operations internationally, including Indonesia and Vietnam.

Boustead deputy chairman and group managing director Tan Sri Lodin Wok Kamaruddin said last Friday that the group planned to expand "by seizing opportunities in Asean's biggest market, namely Indonesia, via Pharmaniaga's existing logistics operations network there".

Boustead will trigger a mandatory general offer (MGO) but intends to maintain Pharmaniaga's listing status.

The acquisition for RM5.75 per Pharmaniaga share represents a 12% premium to its last traded price last Thursday of RM5.10, and a 39.9% premium to its net tangible assets per share at March 31, 2010 of RM4.11.

Another analyst said the consideration looked reasonable in terms of price-to-earnings ratio (PER) when comparing Pharmaniaga to similar injectibles and capsule pharmaceutical players trading on Bursa Securities.

She said based on the 2010 financial year consensus-estimated earnings, the consideration worked out to a price-to-earnings ratio (PE) of about 8.4 times which was considerably lower than CCM Duopharma Biotech Bhd's 14.37 times and Hovid Bhd's 6.94 times.

Looking at FY11 earnings forecasts, Pharmaniaga's PE of 6.57 times is comparable to Hovid at 5.97 times but still cheaper compared with Duopharma's 13.14 times.

Boustead would part finance the acquisition from the RM363 million proceeds derived from its sale of BH Insurance (M) Bhd to AXA Affin General Insurance Bhd and the rest from bank loans.

To avoid a delisting, Boustead will need to comply with the 25% minimum public shareholding spread in Pharmaniaga.

Boustead and Pharmaniaga will resume trading today. Boustead's was last traded at RM3.58 last Thursday, prior to its suspension on Friday.

Date: June 14, Monday 2010

Placement In Publication ; Home Business – Page 10

File : Pharmaniaga