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PETALING JAYA: Pharmaniaga Bhd's operating profit may be affected due to a drop in manufacturing activities following the revocation of its manufacturing licence by the Health Ministry.

Analysts that have Pharmaniaga in their coverage universe said it was operating profit and not revenue that would see a deeper impact from the revocation of the licence.

TA Securities Holdings Bhd research head Kaladher Govindan said that based on the financial year ended Dec 31, 2009 (FY09) results, the impact from a drop in manufacturing activity was minimal if compared to total sales since manufacturing only contributed RM140.51mil compared to total turnover of RM1.3bil.

However, he told *StarBiz* the impact could be felt at the operating profit level and the timeframe to get the licence back was crucial.

In an announcement on Wednesday, Pharmaniaga said its

Operating profit may take a hit

Pharmaniaga's manufacturing licence revoked on March 1

wholly-owned subsidiary Pharmaniaga Manufacturing Bhd's manufacturing licence had been revoked by the Health Ministry effective March 1 after a routine check of the Bangi plant brought to light several non-compliance issues.

The company had also said the cessation of production was not expected to have a significant financial impact as the other businesses were not affected with manufacturing contributing about 10% to revenue based on FY09 figures.

"Last year, manufacturing contributed 23% to operating profit before unallocated corporate expenditures, so I believe the impact will be felt at this level since it will affect the bottomline," Kaladher said.

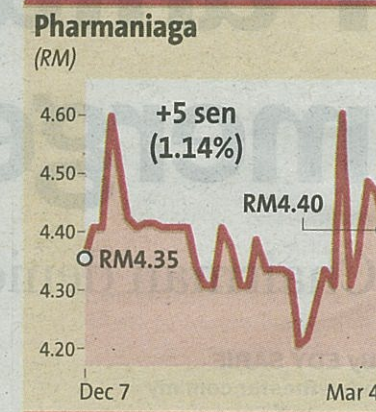
He added that there were implications for the distribution side of the business as well since the division contributed to the bulk of the revenue.

"How this works is that the distribution side of the business sells the products from the manufacturing

side, and there is a mark-up, therefore if this is included, that will add to a lot more," Kaladher said.

In statement yesterday to *StarBiz*, Pharmaniaga managing director Mohamad Abdullah said the company believes it would be able to address the audit issues brought up by the Health Ministry "within a relatively short time" and expects minimal impact on the company's revenue.

"We trust we'll be able to meet the authorities' requirement and return



to business as usual quickly," he said, adding that the management was taking the necessary steps to rectify the situation.

Pharmaniaga's stock fell 6 sen from the opening yesterday and closed at RM4.40 per share. It is also 8 sen lower than its most recent high of RM4.48 on March 2.