

Purchase to give Boustead a 7th division

► Recommendation:

Buy

Target Price: RM4.48

By ECMLibra Investment Research (June 14)

Buying Pharmaniaga For RM534m

LAST Friday, Boustead announced a proposal to buy UEM Group's 86.81% stake in Pharmaniaga bhd for a sum of RM534 million translating into a price of RM5.75 per share.

Funding for the acquisition would be through a combination of cash and borrowings. Cash will be from the recent sale of Boustead Insurance which raised the group some RM360 million.

The group estimates that the acquisition once complet-

► BOUSTEAD HOLDINGS BHD				
	2009	2010F	2011F	2012F
REVENUE (RM mil)	5,392.0	5,455.2	6,544.5	6,951.1
NET PROFIT (RM mil)	341.6	418.3	533.5	532.1
EPS (sen)	36.3	44.5	56.7	56.6
P/E (x)	9.9	8.0	6.3	6.3

ed by year end will add 5 sen to group Earnings Per Share starting FY11.

Healthcare Will Make The 7th Division

This purchase will give Boustead a 7th division. We see it a good business to go expand into given its inelastic demand and hence defensive nature.

Albeit not as profitable as

palm oil plantations, it still holds long term potential and the concession agreement will provide recurring income.

Following the acquisition, Boustead hopes to grow the business, expanding regionally to Thailand and Indonesia.

Fair Price Paid

In terms of valuation com-

pared to peers, Pharmaniaga currently trades at a historical P/E of 9.1 times which is in line with peer average historical P/E of 9.1 times.

The highest P/E within the sector is CCM Duopharma at 11.2 times.

Boustead's purchase price of RM5.75 translates to P/E of 10.2 times based on FY09 Earnings Per Share.

Annualising 1QFY10 Earnings Per Share gives a P/E of 16.5 times which appears quite high but then again Pharmaniaga had a weak 1Q due to the temporary revocation of their manufacturing licence.

Using Consensus

FY10 Earnings Per Share of 68.5 sen gives a more reasonable P/E of 8.4 times. Based on this, we view the purchase price paid to be fair.

Adjusting FY11 Estimates Onward

Incorporating Pharmaniaga's contribution into our estimates, FY11 Earnings Per Share rises by 9.6% and FY12 by 8.5%. In Earnings Per

Share, we added 4.9 sen to FY11 numbers, slightly more conservative than management's 5 sen estimates.

Maintain 'Buy', TP raised to RM4.48.

With the Earnings Per Share adjustment, our target price rises to RM4.48 from RM4.14 previously. Again, this is based on a historical P/E average of 8 times pegging FY11 Earnings Per Share.

We view there to be more in store for the group in their plantations, heavy industries as well as property segments going forward.

Pharmaniaga is essentially the sole government concessionaire for the supply of pharmaceuticals to government hospitals.