

Boustead-Pharmaniaga deal fails to excite analysts

The nature of the pharmaceutical business is that margins are not very high, says ECM Libra

by JASON NG

BOUSTEAD Holdings Bhd, a conglomerate mainly-owned by the Armed Forces Fund Board, plans to buy drug manufacturer Pharmaniaga Bhd but analysts were hardly excited following the announcement.

Under the proposed acquisition, Boustead will acquire an 86.81% stake in Pharmaniaga for RM534 million, or RM5.75 per share, from UEM Group Bhd. The purchase price represents a 12.74% premium over Pharmaniaga's last traded share price of RM5.10 on Thursday.

"The purchase price being in line with the valuation for other pharmaceutical companies, being slightly cheaper than CCM Duopharma Biotech Bhd and more expensive than the smaller Hovid Bhd," said an analyst at ECM Libra Capital Sdn Bhd.

The acquisition, which would add 5 sen per share to Boustead's earnings beginning 2011, would represent the conglomerate's first "serious entry" into the pharmaceutical business, according to Boustead's managing director Tan Sri Lodin Wok Kamaruddin last Friday.



(From left) Boustead Holdings Financial Services director Daniel Ebinesan, Lodin, Boustead Holdings chairman Tan Sri Mohd Ghazali Che Mat, UEM Group Bhd chairman Tan Sri Dr Ahmad Tajuddin Ali, UEM Group managing director/CEO Datuk Izzaddin Idris and UEM Group Corporate Finance senior general manager Lila Azmin Abdullah in a press conference following a signing ceremony in Kuala Lumpur last Friday

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Boustead's bottom line may increase by 10% in 2011, ECM Libra's analyst said.

"It's not very significant when it comes to being earnings accretive. The nature of the pharmaceutical business is that the margins are not very high," he said.

ECM Libra has a "buy" call for Boustead with target price of RM4.14 plus a 10% upside if the acquisition is completed by

end of this year as scheduled by Boustead.

Last year, Boustead recorded net profit of RM341.62 million, or 46.99 sen per share, while revenue stood at RM5.39 billion. Pharmaniaga posted a net profit of RM60.19 million, or 56.26 sen per share, with revenue of RM1.3 billion in 2009.

Boustead took into account the future earnings capability of Pharmaniaga backed by concession agreement with an income guarantee for 10 years until November 2019 for the acquisition, according to a sepa-

rate filing to Bursa Malaysia last week.

Boustead plans to maintain the listing status of Pharmaniaga and sell down its stakes once the mandatory general offer exercise is completed, Lodin said, adding that one of the options being considered include offering Pharmaniaga shares to Boustead's existing shareholders.

"Pharmaceuticals is not really exciting in Malaysia, but there will be interested parties for some stakes in pharmaceutical company," another analyst said on the proposed sell down.