

CCM Duopharma Biotech

Recommendation: **HOLD**

Stock Code: 7148

Bloomberg: CCMD MK

Price: MYR2.65

12-Month Target Price: MYR2.80

Date: August 29, 2007

Board: Main

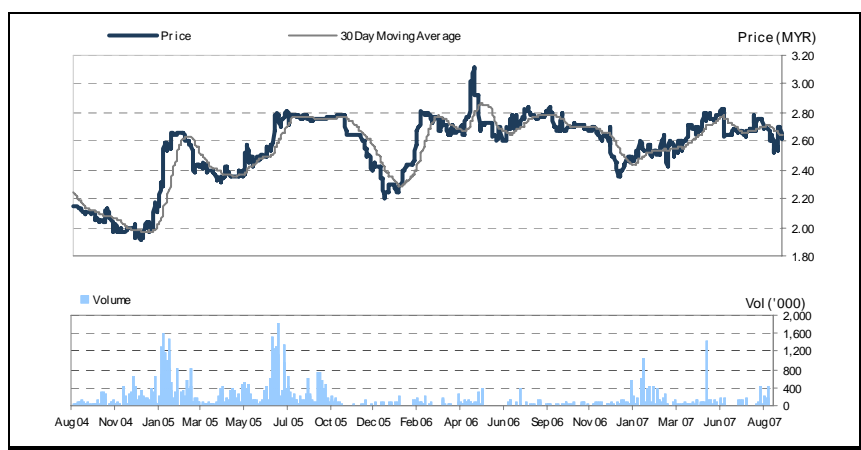
Sector: Consumer Products

GICS: Health Care/Pharmaceuticals

Market Value - Total: MYR369.4 mln

Summary: CCM Duopharma Biotech (Duopharma) is a local pharmaceutical company whose niche is primarily in the manufacture of small volume injectables (SVIs). It has an estimated 85% market share of SVIs manufactured in the country.

Analyst: Desmond Ch'ng, ACA



Results Review & Earnings Outlook

- Duopharma's 2Q07 results were below expectations, mainly on account of slower-than-expected sales. Overall net profit accounted for 46% of our full-year forecast.
- Revenue in 2Q07 came in at MYR27.7 mln, relatively flat YoY but down 1.5% QoQ. This was largely due to slower private sector and export sales.
- Overall EBIT margin came in at 37.8% in 2Q07, slightly lower than the 38.7% reported in 1Q07 and 38.1% in 2Q06.
- In view of the weaker sales thus far and since we expect sales to be seasonally weaker in 2H07, we are lowering our revenue forecast by 18% for 2007. In view of an expected stabilization in margins at current levels, however, the cut in our net profit forecast for 2007 is a lower 10.9%. We are lowering our 2008 net profit forecast by 15.1%, also on the back of a cutback in our revenue projection.
- What has surprised on the upside is the company's proposed interim DPS of 14 sen, which is double the 2006 interim DPS of 7 sen. This represents a net payout ratio of 91%. We have assumed that the company retains its final DPS of 15 sen as per 2006.

Recommendation & Investment Risks

- We are downgrading our recommendation to Hold from Buy previously, for the stock appears to be fairly valued for now. With the earnings revision, our 12-month target price is lowered to MYR2.80 from MYR3.20 previously.
- Our target price continues to be based on a target PER of 11.2x, in line with the sector average, and includes our 2007 net DPS of 21 sen. What is positive is that dividend yields for the stock are still attractive at 10.9% and should provide support to Duopharma's share price, in our opinion.
- Risks to our recommendation and target price include increased competition from both domestic and foreign players, as well as potentially lower-than-expected margins from overseas sales, as management plans to step up its export business, particularly in ASEAN.

Key Stock Statistics

FY Dec.	2006	2007E
Reported EPS (sen)	20.8	21.7
PER (x)	12.7	12.2
Dividend/Share (sen)	21.5	29.0
NTA/Share (MYR)	1.04	1.05
Book Value/Share (MYR)	1.04	1.05
No. of Outstanding Shares (mln)	139.4	
52-week Share Price Range (MYR)	2.35 - 2.84	
Major Shareholders:	%	
Chemical Company of Malaysia	73.8	

Per Share Data

FY Dec.	2004	2005	2006	2007E
Book Value (MYR)	0.78	0.99	1.04	1.05
Cash Flow (sen)	17.2	20.3	18.1	14.2
Reported Earnings (sen)	17.2	17.5	20.8	21.7
Dividend (sen)	9.0	17.5	21.5	29.0
Payout Ratio (%)	37.6	74.7	75.1	97.5
PER (x)	15.4	15.1	12.7	12.2
P/Cash Flow (x)	15.4	13.0	14.6	18.7
P/Book Value (x)	3.4	2.7	2.5	2.5
Dividend Yield (%)	3.4	6.6	8.1	10.9
ROE (%)	23.9	19.5	20.5	20.7
Net Gearing (%)	0.0	0.0	0.0	0.0

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Quarterly Performance

FY Dec. / MYR mln	2Q07	2Q06	% Change
Reported Revenue	27.7	27.5	0.7
Reported Operating Profit	10.5	10.5	0.1
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	10.5	10.5	0.1
Reported Net Profit	7.6	7.7	-2.4
Reported Operating Margin (%)	37.8	38.1	-
Reported Pre-tax Margin (%)	37.8	38.0	-
Reported Net Margin (%)	27.3	28.2	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2005	2006	2007E	2008E
Reported Revenue	94.3	105.1	108.1	113.7
Reported Operating Profit	32.5	38.1	39.7	41.8
Depreciation & Amortization	-3.7	-3.3	-3.7	-4.1
Net Interest Income / (Expense)	0.6	0.0	0.1	0.0
Reported Pre-tax Profit	33.5	38.1	39.8	41.8
Effective Tax Rate (%)	29.7	23.9	24.0	24.0
Reported Net Profit	23.5	29.0	30.3	31.8
Reported Operating Margin (%)	34.4	36.3	36.8	36.8
Reported Pre-tax Margin (%)	35.5	36.2	36.9	36.8
Reported Net Margin (%)	24.9	27.6	28.0	28.0

Source: Company data, S&P Equity Research

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Glossary

Strong Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

Strong Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
New	Hold	2.80
23-May-07	Buy	3.20
8-Feb-07	Buy	2.90
23-Nov-06	Hold	2.95
1-Aug-06	Hold	3.05
19-May-06	Buy	3.00
28-Feb-06	Hold	3.00
21-Feb-06	Hold	2.98

