



CONCORDE CAPITAL

Ukraine / Pharmaceuticals

# Nord Star Pharmashare / Darnitsa

Strong 1H09 UAS financials

October 16, 2009

Current price: USD 2.5 / EUR 1.7  
12M Target: USD 5.4 / EUR 3.6

**BUY**

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- Yesterday we discussed Darnitsa's 1H09 UAS financials with company management. The interim figures imply impressive growth in full-year profits and sales, yet management estimates IFRS consolidated figures will be even higher. According to UAS, in 1H09 Darnitsa's EBITDA grew 51% yoy and net sales 15% yoy
- Darnitsa is able to boost its prices and beef up margins, thanks to increased prices for imported drugs (70% of overall market) following the hryvnya's steep depreciation
- Our target of USD 5.4 implies upside of 117%. BUY.

## Tickers

Bloomberg 4S11 GR

## Market information

Market price, USD	2.5
MCap, USD mln	138.9
52Wk Hi/Lo, USD	11.85/1.72
No of shares, mln	55.5
Free float	10.0%
Free float, USD mln	13.9

## Corporate Governance

Concorde Rating<sup>\*</sup> A

*\* The rating is based on Concorde Capital's corporate governance survey. Q denotes quality corporate governance standards, AA - above average standards, A - average, BA - below average and P - poor.*

## Shareholders

Zagorii family	90.0%
Other	10.0%

## EBITDA grew 60% in 1H09

In 1H09, Ukraine-registered Darnitsa, 86%-owned by Nord Star Pharmashare, increased its sales 15.3% yoy, EBITDA margin by 8.1 pp to 34.8%, and net margin by 10.9 pp to 29.2%, according to UAS.

in UAH ths	1H09	1H08	yoy	2008	2007	yoy
Sales	241.7	209.7	15.3%	413.3	371.1	11.4%
EBITDA	91.0	60.1	51.4%	73.4	70.8	3.6%
margin, %	37.7%	28.7%	9.0 pp	17.8%	19.1%	-1.3 pp
Net income	76.3	41.2	85.0%	37.8	20.9	80.9%
margin, %	31.6%	19.7%	11.9 pp	9.2%	5.6%	3.5 pp

Source: Company data, Concorde Capital estimates

Darnitsa continued to improve its earnings due to price growth, while keeping its costs flat. After the hryvnya's steep depreciation against the US dollar in late 2008, prices on the domestic market are up 70%, driven by increasing prices for imported drugs (~70% of the market). This has helped Darnitsa to significantly raise profitability (EBITDA increased 51.4% yoy and net income 85.0% yoy), even though revenue improvement was less pronounced due to an estimated 10-15% decline in unit sales.

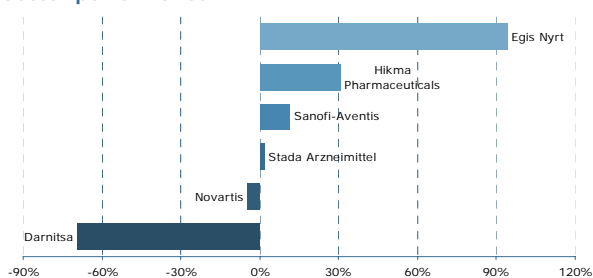
## We expect sales growth of 21% yoy in 2009

Based on the company's 1H09 financials, we now project Darnitsa's sales in 2009 at UAH 500 mln, 10% lower than our previous estimate of UAH 550 mln, and retain our forecasts for its EBITDA margin of 35% and net margin of 30%. Darnitsa's parent, Nord Star, is planning to prepare its audited consolidated financials for 2009. Based on our discussion with management, we estimate consolidated sales will be 15% higher, and its EBITDA margin 12 pp more than the respective UAS figures of Ukraine-registered Darnitsa.

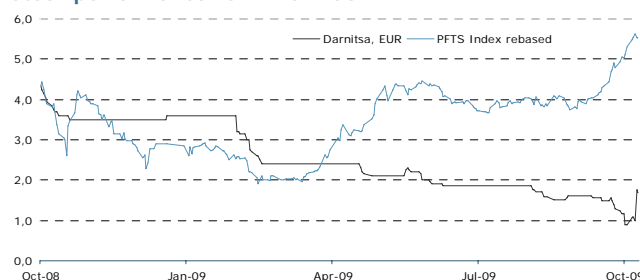
## Key advantages still low leverage, strong cash position

Darnitsa CEO Gleb Zagorii told us that the company was debt-free as of October 10. We estimate that the company's cash balance at USD 10-15 mln. We maintain that Darnitsa's low leverage and strong cash position are key competitive advantages. We see the company as having enough cash for acquisitions, well positioned to be a sector consolidator in the mid-term. We upgrade our target price to USD 5.4 (EUR 3.6) and rate the stock BUY.

## Sector performance



## Stock performance vs. PFTS Index



Sources: PFTS, Deutsche Bourse

## Key financials & multiples, USD mln

	Revenue	EBITDA margin	Net margin	EV/S	EV/EBITDA	P/E
2009E, Darnitsa	68.8	35%	30%	--	--	--
2009E, Nord Star Pharmashare	79.0	47%	41%	1.75	3.74	4.28

FLASH NOTE

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## Peer valuation

	MCap USD mln	EV/EBITDA 2009E	P/E 2009E
<b>International peer group</b>			
KRKA	3,783.5	6.77	14.48
RICHTER GEDEON NYRT.	3,849.5	n/a	15.07
PHARMSTANDARD-CLS	1,795.1	8.00	12.67
EGIS PLC	833.6	10.09	9.31
RANBAXY LABORATORIES LTD	3,595.5	n/a	n/m
ZHEJIANG HISOAR PHARM -A	176.3	n/a	26.43
SANOFI-AVENTIS	97,571.5	5.55	8.35
STADA ARZNEIMITTEL AG	1,614.6	4.68	11.85
HIKMA PHARMACEUTICALS PLC	1,395.4	n/a	18.08
TEVA PHARMACEUTICAL IND LTD	46,894.5	11.23	15.57
MYLAN INC	4,906.7	3.84	9.49
KING PHARMACEUTICALS INC	2,588.1	3.41	11.01
ONO PHARMACEUTICAL CO LTD	6,039.9	13.77	19.80
SHIONOGI & CO LTD	7,987.8	9.31	20.12
TOWA PHARMACEUTICAL CO LTD	825.5	8.39	16.11
SAWAI PHARMACEUTICAL CO LTD	888.6	8.24	23.92
<b>Median</b>		<b>8.12</b>	<b>15.07</b>
<b>Nord Star (Darnitsa)</b>	138.9	3.7	4.3
Price, USD			
implied by peer median		5.43	8.80
<u>Upside/Downside</u>		<u>117%</u>	<u>252%</u>

Source: Company data; Bloomberg

## Quarterly financial statements

### Income statement summary, UAH mln

	2007	2008	1H08	1H09
<b>Net Revenues</b>	<b>371.1</b>	<b>413.3</b>	<b>209.7</b>	<b>241.7</b>
Cost Of Sales	-253.7	-257.5	-115.2	-103.2
Gross Profit	117.3	155.8	94.5	138.5
<i>Gross margin</i>	<i>31.6%</i>	<i>37.7%</i>	<i>45.1%</i>	<i>57.3%</i>
Other Operating Income/Costs, net	23.0	75.0	2.1	-23.3
SG&A	-53.1	-72.0	-36.5	-24.1
<b>EBITDA</b>	<b>70.8</b>	<b>73.4</b>	<b>60.1</b>	<b>91.0</b>
<i>EBITDA margin</i>	<i>19.1%</i>	<i>17.8%</i>	<i>28.7%</i>	<i>37.7%</i>
Depreciation	26.0	30.3	-15.0	-15.6
<b>EBIT</b>	<b>44.8</b>	<b>43.1</b>	<b>45.0</b>	<b>75.4</b>
<i>EBIT margin</i>	<i>12.1%</i>	<i>10.4%</i>	<i>21.5%</i>	<i>31.2%</i>
Interest Expense	-1.6	-3.1	-1.4	-1.9
Financial income/(expense)	1.1	0.5	0.1	5.7
Other income/(expense)	0.4	0.2	0.1	1.0
<b>PBT</b>	<b>44.5</b>	<b>40.6</b>	<b>44.0</b>	<b>80.2</b>
Tax	-23.5	-2.8	-2.7	-3.9
<b>Net Income</b>	<b>20.9</b>	<b>37.8</b>	<b>41.2</b>	<b>76.3</b>
<i>Net Margin</i>	<i>5.6%</i>	<i>9.2%</i>	<i>19.7%</i>	<i>31.6%</i>

Source: Company data

### Balance sheet summary, UAH mln

	2007	2008	1H09
<b>Current Assets</b>	<b>197.2</b>	<b>264.9</b>	<b>346.7</b>
Cash & Equivalents	3.5	25.3	59.4
Trade Receivables	100.1	115.9	120.8
Inventories	87.4	114.1	128.7
Other current assets	6.2	9.6	37.8
<b>Fixed Assets</b>	<b>336.7</b>	<b>345.3</b>	<b>343.0</b>
PP&E, net	324.9	316.4	326.0
Other Fixed Assets	11.8	28.9	17.0
<b>Total Assets</b>	<b>533.9</b>	<b>610.2</b>	<b>689.7</b>
<b>Shareholders' Equity</b>	<b>390.7</b>	<b>428.6</b>	<b>505.1</b>
Share Capital	179.5	179.5	179.5
Reserves and Other	172.7	172.6	249.1
Retained Earnings	38.6	76.5	76.5
<b>Current Liabilities</b>	<b>124.1</b>	<b>164.6</b>	<b>167.8</b>
ST Interest Bearing Debt	25.0	53.0	26.5
Trade Payables	93.5	98.9	118.0
Accrued Wages	1.9	1.3	1.4
Accrued Taxes	1.7	1.5	2.8
Other Current Liabilities	2.0	16.2	19.1
<b>LT Liabilities</b>	<b>19.1</b>	<b>16.8</b>	<b>16.8</b>
LT Interest Bearing Debt	0.0	0.0	0.0
Other LT	19.1	16.8	16.8
<b>Total Liabilities &amp; Equity</b>	<b>533.9</b>	<b>610.2</b>	<b>16.8</b>

Source: Company data

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