



CONCORDE CAPITAL

Ukraine / Pharmaceuticals

# Nord Star Pharmashare / Darnitsa

Robust 1Q09 results

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**HOLD**

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Today, in a telephone conversation with us, Darnitsa's management confirmed plans to grow sales 49% yoy in 2009 to UAH 615.1 mln. In 1Q09, Darnitsa improved its UAS financials: sales increased 11.1% yoy, while its EBITDA margin was boosted by 24.5 pp to 46.8%, and net margin by 27.7 pp to 41.3%. The drug maker's low leverage and strong cash position are considerable competitive advantages in the current environment. We recommend HOLD.

**Tickers**

Bloomberg 4SI1 GR

**Market information**

Market price, USD 3.11  
MCap, USD mln 173.4  
52Wk Hi/Low, USD 11.85/2.79  
No of shares, mln 55.5  
Free float 10.0%  
Free float, USD mln 17.3

**Shareholders**

Zagorii family 90.0%  
Other 10.0%

**Ratios 2009E**

EBITDA margin 35.0%  
Net margin 30.0%

**Net income more than tripled, EBITDA doubled yoy in 1Q09**

While Darnitsa's consolidated management accounts are not yet available, according to the company's 1Q09 UAS financials, it increased net revenue 11.1% yoy to UAH 117.3 mln, its EBITDA margin jumped to 46.8% (up 24.5 pp yoy) and net margin surged to 41.3% (up 27.7 pp yoy). We expect that the drug producer's managerial financials will reveal revenue close to the UAS accounts, while margins should be somewhat higher than under UAS.

in UAH ths	1Q09	1Q08	yoy	2008	2007	yoy
Sales	117.3	105.6	11.1%	413.3	371.1	11.4%
EBITDA	54.8	23.5	133.7%	73.4	70.8	3.6%
margin, %	46.8%	22.2%	24.5 pp	17.8%	19.1%	-1.3 pp
Net income	48.5	14.4	235.9%	37.8	20.9	80.9%
margin, %	41.3%	13.7%	27.7 pp	9.2%	5.6%	3.5 pp

Source: Company data, Concorde Capital estimates

The main reason for the improvement in Darnitsa's earnings was price growth against a backdrop of flat costs. Following 65% hryvnya depreciation against the US dollar in September–December 2008, prices on the domestic market, dominated by imported drugs (over 70% in value terms), surged by nearly 70%. This enabled Darnitsa, whose costs are hryvnya-denominated, to significantly raise profitability (EBITDA increased 133.7% yoy and net income was up 235.9% yoy), even though revenue improvement was less pronounced due to an estimated 10-15% decline in unit sales.

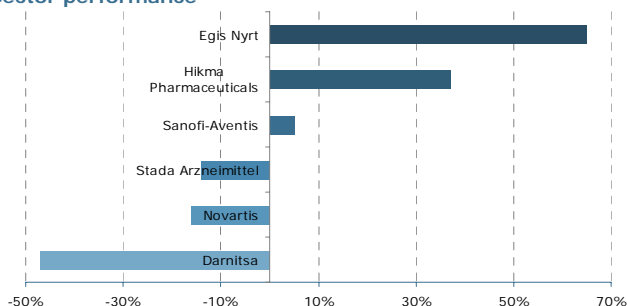
**Management targets increasing sales 49% yoy in 2009**

According to management, Darnitsa is targeting sales of UAH 615.1 mln in 2009, or up 49% yoy. Our view is more conservative, we expect net sales of UAH 550 mln (+33% yoy), an EBITDA margin of 35% and net margin of 30%.

**Low leverage and strong cash position**

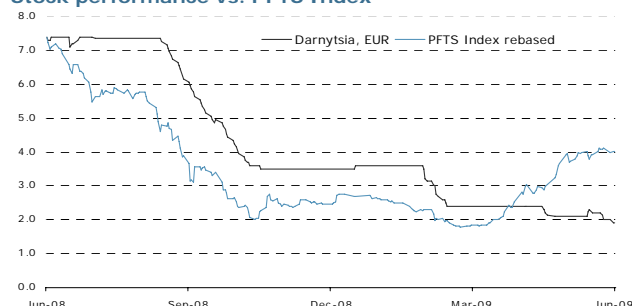
As of April 01, 2009, Darnitsa's financial debt amounted to only UAH 53.0 mln, less than one third of EBITDA '09E, and its debt/equity ratio was 0.36. At the same time, the company's cash on balance totaled UAH 41.4 mln. In our view, the drug maker's low leverage and strong cash position are considerable competitive advantages in the current financial environment. The company has ample room to use its cash for acquisitions and is well positioned to become a sector consolidator in the midterm. We rate the stock as a HOLD.

**Sector performance**



Sources: PFTS, Deutsche Bourse

**Stock performance vs. PFTS Index**



**Key financials & ratios, USD mln**

	Revenue	EBITDA margin	Net margin	EV/S	EV/EBITDA	P/E
2007	371.1	19.1%	5.6%	0.5	2.4	8.3
2008	413.3	17.8%	9.2%	0.4	2.4	4.6
2009E	550.0	35.0%	30.0%	0.3	0.9	1.1

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## Quarterly financial statements

### Income statement summary, USD mln

	2007	2008	1Q08	1Q09
<b>Net Revenues</b>	<b>371.1</b>	<b>413.3</b>	<b>105.6</b>	<b>117.3</b>
Cost Of Sales	-253.7	-257.5	-69.7	-57.7
Gross Profit	117.3	155.8	35.9	59.6
<i>Gross margin</i>	<i>31.6%</i>	<i>37.7%</i>	<i>34.0%</i>	<i>50.8%</i>
Other Operating Income/Costs, net	23.0	75.0	3.3	0.4
SG&A	-53.1	-72.0	-16.8	-12.9
<b>EBITDA</b>	<b>70.8</b>	<b>73.4</b>	<b>23.5</b>	<b>54.8</b>
<i>EBITDA margin</i>	<i>19.1%</i>	<i>17.8%</i>	<i>22.2%</i>	<i>46.8%</i>
Depreciation	26.0	30.3	7.3	7.7
<b>EBIT</b>	<b>44.8</b>	<b>43.1</b>	<b>16.1</b>	<b>47.1</b>
<i>EBIT margin</i>	<i>0.1</i>	<i>0.1</i>	<i>0.2</i>	<i>0.4</i>
Interest Expense	-1.6	-3.1	-0.6	-0.9
Financial income/(expense)	1.1	0.5	0.1	2.3
Other income/(expense)	0.4	0.2	0.1	1.4
<b>PBT</b>	<b>44.5</b>	<b>40.6</b>	<b>15.7</b>	<b>49.9</b>
Tax	-23.5	-2.8	-1.3	-1.4
<b>Net Income</b>	<b>20.9</b>	<b>37.8</b>	<b>14.4</b>	<b>48.5</b>
<i>Net Margin</i>	<i>5.6%</i>	<i>9.2%</i>	<i>13.7%</i>	<i>41.3%</i>

Source: Company data

### Balance sheet summary, USD mln

	2007	2008	1Q09
<b>Current Assets</b>	<b>197.2</b>	<b>264.9</b>	<b>651.4</b>
Cash & Equivalents	3.5	25.3	41.4
Trade Receivables	100.1	115.9	129.9
Inventories	87.4	114.1	119.5
Other current assets	6.2	9.6	8.4
<b>Fixed Assets</b>	<b>336.7</b>	<b>345.3</b>	<b>348.3</b>
PP&E, net	324.9	316.4	331.5
Other Fixed Assets	11.8	28.9	16.8
<b>Total Assets</b>	<b>533.9</b>	<b>610.2</b>	<b>647.5</b>
<b>Shareholders' Equity</b>	<b>390.7</b>	<b>428.6</b>	<b>477.3</b>
Share Capital	179.5	179.5	179.5
Reserves and Other	172.7	172.6	172.6
Retained Earnings	38.6	76.5	125.2
<b>Current Liabilities</b>	<b>124.1</b>	<b>164.6</b>	<b>153.4</b>
ST Interest Bearing Debt	25.0	53.0	51.7
Trade Payables	93.5	98.9	78.6
Accrued Wages	1.9	1.3	1.5
Accrued Taxes	1.7	1.5	2.7
Other Current Liabilities	2.0	16.2	18.9
<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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