

PLASMASELECT AG

GERMANY / HEALTH CARE & PHARMACEUTICALS

Primary Exchange: Frankfurt Symbol: PM3
Prime Standard ISIN: DE0005471809

RATING: Hold

PRICE TARGET: €2.20

RISK RATING: High

Q2/07 RESULTS

COMPANY PROFILE

Plasmaselect AG, based in Munich, Germany, is a specialist in the production and distribution of generic injectables, infusion and rinsing solutions, with a goal to become a European leader in healthcare products and services.

KEY POINTS

On 31 July, Plasmaselect published Q2/07 results which came in weaker than Q2/06 results. Nevertheless, overall Q2/07 figures showed a slight improvement compared with Q1/07, suggesting that we may still see a stronger H2/07. Group revenues declined 9.5% y-o-y to €16.2m. EBIT also declined 43.5% y-o-y to €0.7m from €1.2m in Q2/06. The company posted a net loss of €0.2m, compared with a net profit of €1.1m in Q2/06.

Plasmaselect's problem child continues to be its infusion and rinsing solutions unit, where sales declined 12.7% y-o-y to €7.2m. Price pressure continues to burden this business significantly. The operating margin was still weak at -7.5% (Q1/07: -7.8%; Q2/06: -3.7%). Cost-cutting measures taken by management to bring margins back to profitability have proved unsuccessful for yet another quarter. We believe management is now under strong pressure to either radically restructure production sites or to conduct a partial or total sale of its infusion and rinsing solutions business.

Sales in the generics unit declined slightly by 3.3% y-o-y due to strong competition in Germany. According to IMS, the German generics market declined by some 16% in Q1 and the weakness continued into Q2. This explains the almost flat sales performance of Plasmaselect's generics business. The company expects to accelerate growth with the expansion of newly licensed and acquired products. The unit's operating margin remained strong at 25.5% (Q2/06: 24.6%).

RECOMMENDATION

Q2/07 results published on 31 July were, on the whole, slightly weaker than we expected, primarily due to the delayed introduction of new generic products. Weakness of the company's infusion and rinsing solutions business continues to significantly erode Plasmaselect's margins. We therefore believe the company will take radical restructuring measures soon, which may include a partial or total sale of this loss-making business.

We anticipate quarterly results to progressively improve from Q3/07 onwards, boosted by the launch of new generic products. In addition, speculation over a potential disposal of the infusions and rinsing solutions business could contribute positively to market sentiment and stabilise the share price. Importantly, such a transaction would unlock substantial value embedded in the company's generics business. In our view, Plasmaselect is fairly valued at current levels. We therefore reiterate our Hold recommendation and €2.20 price target.

RISKS

Main risks to our price target include development, marketing and intellectual property risks, as well as changes in the legal environment and corporate governance concerns.

IMPORTANT DISCLOSURES ARE AT THE BACK OF THIS REPORT

TRADING DATA

Market capitalisation (01.08.07)	€33.84m
Shares outstanding	16.92m
Closing price (01.08.07)	€2.00
52-week range	€1.69 / 3.67
Free float (according to Deutsche Börse)	61%
Average daily share volume (year)	54,819

STOCK OVERVIEW



FINANCIAL HISTORY & PROJECTIONS

	FY 04/05	FY 05/06	FY 06/07E	FY 07/08E
Revenue €m	69.05	69.44	72.22	77.11
Yr/Yr growth	14.6%	0.6%	4.0%	6.8%
Operating profit €m	3.15	3.68	4.62	5.73
Operating margin	4.6%	5.3%	6.4%	7.4%
Net income €m	4.64	1.14	2.19	2.88
EPS €	0.29	0.07	0.14	0.18
P/E	6.9	28.6	14.3	11.1

COMPANY DATA (as of 31 May 2007 unless noted)

Liquid assets	€1.29m
Current assets	€5.40m
Intangible assets	€6.06m
Total assets	€129.55m
Current liabilities	€28.27m
Total shareholders' equity	€66.38m

ANALYST INFORMATION

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FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target	Interim high	% change to high
Initial Report	28 January 2005	€4.30	Strong Buy	€8.00	-	-
2...10	↓	↓	↓	↓	↓	↓
11	6 November 2006	€2.25	Hold	€2.50	€2.78	23.6%
12	5 April 2007	€2.04	Hold	€2.20	€2.33	14.2%
13	3 May 2007	€2.17	Hold	€2.20	€2.50	15.2%
14	Today	€2.00	Hold	€2.20	-	-

Source: Bloomberg & First Berlin

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BUY: Expected return greater than 15%

HOLD: Expected return between 0% and 15%

SELL: Expected negative return

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

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