

PLASMASELECT AG

GERMANY / HEALTH CARE & PHARMACEUTICALS

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

RATING: Hold

PRICE TARGET: €2.20

RISK RATING: High

FY 2006 RESULTS AND FUTURE PERSPECTIVES

COMPANY PROFILE

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

KEY POINTS

On 29 March, Plasmaselect published FY 05/06 results that were slightly below our expectations. However, this underperformance had already been signalled by the company in preliminary figures reported two weeks earlier. In publishing its results, Plasmaselect said it had FY 05/06 revenues of €69.40m (our forecast: €69.82m). Operating profit was €3.7m and the operating margin was 5.3% (our estimates: €4.0m and 5.7%).

The core injectable generics business showed moderate growth of 7.1%, hemmed in by price pressure in the German market. Despite this influence, the unit delivered stable operating performance with an EBIT margin of 25.6%. We continue to believe the "Generics" business has promising perspectives, which will be strengthened by its expansion through licensing and acquisitions. However it will take time until all the acquired products are commercialised and can gain critical mass.

Disappointingly, weakness continued in the infusions solutions business, and sales declined by 4.4%, triggering an operating loss of €1.2m. We believe the infusions business will remain highly competitive, which will hinder a quick recovery of Plasmaselect's operating performance.

As a result, we have downgraded our projections for FY 06/07 and FY 07/08, since we believe short-term, organic- and acquisition-driven growth in generics will not overcome weakness in the infusions business as we had expected. We forecast FY 06/07 sales of €72.22m (€75.49m), an operating profit of €4.62m (€5.97m) and an EPS of €0.14. To offer a better baseline comparison, we show 2006 results for operations in our financial results summaries, excluding the €20.6m extraordinary write-off for discontinuing the Renaselect business.

RECOMMENDATION

We see few positive catalysts from published FY 05/06 results and our outlook remains cautious. Weakness in the "Infusion and Rinsing Solutions" unit continues to erode Plasmaselect's margins and it is difficult to predict how much cost-cutting or the launch of new generic product will compensate for short-term price pressure.

As a result, we have lowered our forecasts for FY 06/07 and beyond. Our new 2007 EPS estimate is €0.14 (previously €0.21) and our new 2008 estimate is €0.18 (previously €0.25). Based on our DCF valuation model, we have derived a new fair value of €2.20 (previously €2.50). This represents a 2008 P/E of 12x, which still implies a discount of roughly 25% to the pharma and healthcare peer group (16x) and is in our view warranted. We anticipate quarterly results in 2007 to progressively improve, boosted by new generics launches that we expect will have a stronger positive impact in the second half than in the first half. We believe this will bolster market sentiment and stabilise the share price. As a result, we reiterate our Hold recommendation and reduce our price target from €2.50 to €2.20.

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 (04.04.07)	€34.52m
Shares Outstanding	16.92m
Closing Price (04.04.07)	€2.04
52-Week Range	€1.99 / 5.05
Free Float (According to Deutsche Börse)	61%
Average Daily Share Volume (year)	50,732

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	28.3	14.7	11.2

COMPANY DATA (as of 30 November 2006 unless noted)

Liquid Assets	€0.66m
Current Assets	€44.71m
Intangible Assets	€5.51m
Total Assets	€29.11m
Current Liabilities	€26.87m
Total Shareholders' Equity	€6.67m

ANALYST INFORMATION

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FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of Publication	Previous Day Closing Price	Recommendation	Target Price	Interim High	% Change to High
Initial Report	28 January 2005	€4.30	Strong Buy	€8.00	-	-
2...8	↓	↓	↓	↓	↓	↓
9	19 April 2006	€4.69	Buy	Buy	€5.05	7.7%
10	7 August 2006	€3.06	Hold	€3.50	€3.67	19.9%
11	6 November 2006	€2.25	Hold	€2.50	€2.78	23.6%
12	Today	€2.04	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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