SANOCHEMIA Pharmazeutika AG

Close Brothers Seydler Research AG

Recommendation: BUY (BUY)

Risk: HIGH (HIGH)

Price Target: EUR 3.20 (3.20)

30 January 2012

2010/11 figures

- SANOCHEMIA Pharmazeutika AG published its 2010/11 results. As expected, both in the top line and on operating level the company achieved a strong performance. Sales increased by 26% to EUR 34.1m in 2010/11 (PY: EUR 27.1m). Overall, in terms of segment breakdown, HUMAN PHARMACEUTICALS (50%) as well as synthesis in the PRODUCTION segment (35%) accounted for the bulk of total sales. The VETERINARY PHARMACEUTICALS segment, as expected also significantly contributed to the revenue growth, which represented ~15% of total sales.

- Positive to note, that the company successfully implemented its strategy to expand its export business. Export sales in tune of ~EUR 8m represented 75% yoy growth (PY: EUR 4.5m).

- Sanochemia achieved improvement not only in the top line, but also on the operating level. EBITDA in 2010/11 almost doubled totalling EUR 5.2m (PY: EUR 2.7m). As expected EBIT turned positive and amounted to EUR 1.8m (PY: minus EUR 1.3m)

- We expect that in 2012 the company will continue to rapidly increase its sales mainly due to expansion into pharmerging markets. In 2011, the company entered several major agreements with distributors, and achieved significant large orders within the defined target markets. These orders already had a positive impact in the FY 2010/11. Overall, we expect the radiology export of the company to increase up to ~EUR 10m in 2011/12E, which will represent ~48% of Human Pharmaceuticals segment.

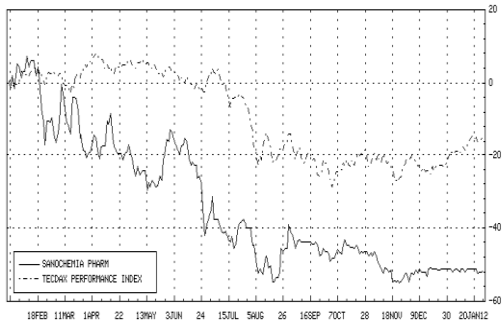
- The rapid expansion of export business will require considerable investments, which we expect to be notably higher in 2011/12 compared to prior year.

- We leave our price target at EUR 3.20 unchanged and retain our BUY recommendation.

Y/E 30.09., EUR m	2007/08	2008/09	2009/10	2010/11	2011/12E	2012/13E	2013/14E
Revenue	29.5	29.5	27.1	34.1	39.7	44.2	48.8
Operating result	-1.2	-7.1	1.2	1.8	3.4	4.1	4.8
EBT	-4.0	-14.3	1.5	0.9	2.9	3.6	4.3
Net result	-3.7	-14.3	2.1	0.9	2.2	2.8	3.8
EPS	-0.34	-1.39	0.21	0.08	0.19	0.24	0.33
CPS	0.83	-0.50	-0.45	0.31	0.01	0.64	0.55
EBIT margin	n/m	n/m	n/m	5.2%	8.5%	9.2%	9.8%
EBT margin	n/m	n/m	n/m	2.8%	7.2%	8.0%	8.8%
Net margin	n/m	n/m	n/m	2.6%	5.6%	6.3%	7.9%

Source: SANOCHEMIA Pharmazeutika AG, CBS Research AG

Share price (dark) vs. TecDAX



Source: CBS Research AG, Bloomberg

Change	2011/12E		2012/13E		2013/14E	
	new	old	new	old	new	old
Revenue	-	39.7	-	44.2	-	48.8
EBIT	-	3.4	4.1	4.0	-	4.8
EPS	-	0.19	-	0.24	-	0.33

Internet: www.sanochemia. Sector: Biotechnology
WKN: 919963 ISIN: AT0000776307
Reuters: SCPH.DE Bloomberg: sac GY

Short company profile

SANOCHEMIA Pharmazeutika AG is a fully-fledged specialty pharmaceutical company spanning the entire length of the value added chain.

Share data:

Share price (last closing price, EUR):	**1.94**
Shares outstanding (m):	11.56
Market capitalisation (EURm):	22.42
Enterprise value (EURm):	37.92
Ø daily trading volume (3 m., no. of shares):	9,841

Performance data:

High 52 weeks (EUR):	4.37
Low 52 weeks (EUR):	1.64
Absolute performance (12 months)	-50.8%
Relative performance: (vs. TecDAX)	
1 month	-8.3%
3 months	-12.6%
6 months	-10.9%
12 months	-42.6%

Shareholders:

Sanochemia Ltd.	60.2%
Free float	39.8%

Financial calendar:

2010/11 results — 15 February 2012

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2010/11 overview

On 26 January, SANOCHEMIA Pharmazeutika AG published its 2010/11 results. As expected, both in the top line and on operating level the company achieved a strong performance. Sales increased by 26% to EUR 34.1m in 2010/11 (PY: EUR 27.1m). The top line was mostly driven by radiology export, which increased by ~75% to ~EUR 8m (PY: EUR 4.5m). Overall in terms of segment breakdown, HUMAN PHARMACEUTICALS (50%) as well as synthesis in the PRODUCTION segment (35%) accounted for the bulk of total sales. The VETERINARY PHARMACEUTICALS segment, as expected also significantly contributed to the revenue growth, which represented ~15% of total sales. The company achieved improvement not only in the top line, but also on the operating level. EBITDA in 2010/11 almost doubled totalling EUR 5.2m (PY: EUR 2.7m). As expected EBIT turned positive and amounted to EUR 1.8m (PY: minus EUR 1.3m).

Revenues in the Human Pharmaceuticals segment amounted to EUR 17.1m (PY: 15.5m). The EBIT amounted to EUR 0.4m. Positive to note, that the company successfully implemented its strategy to expand its export business. Export sales in tune of ~EUR 8m represented 75% yoy growth (PY: EUR 4.5m).

The business segment Production reported revenues in tune of EUR 11.8m (PY TEUR 11.1m) and EBIT was positive amounting to TEUR 4.3m. The main revenue drivers in this segment were the synthesized drugs particularly Galantamin.

The business segment Veterinary Pharmaceuticals achieved revenue of EUR 5.2m as well as a positive EBIT of TEUR 176 for nine months. For the main product Alvegesic the company completed the European licensing procedure (MRP) during the reporting period. This enables the company to expand the European marketing of Sanochemia's most important product in the veterinary pharmaceuticals segment.

As expected, the business segment RESEARCH AND DEVELOPMENT did not generate any noteworthy revenues. The operating result from clinical trials came in at a minus of EUR 1.1m. The focus clearly lies on the development of successors of the own product pipeline. The priorities lie on the development of cancer diagnostics (Vidon® und Secrelux®) and an improvement of MR-contrast medium. For Vidon (bladder cancer diagnostic) the planed clinical phase IIb trial has been started. Result should come in until 2013.

Outlook 2012

We expect that in 2012 the company will continue to rapidly increase its sales mainly due to expansion into pharmerging markets. In 2011, the company entered several major agreements with distributors, and achieved significant large orders within the defined target markets. These orders already had a positive impact in the FY 2010/11. For instance, the large order in the amount of EUR 3m was received in Russia, of which EUR 1m had already contributed to the company's sales in 2011 and the rest EUR 2m are expected to be realized in the ongoing year. Sanochemia has also recently launched sales of radiology products in Libyan and Columbian.

Overall, we expect the radiology export of the company to increase up to ~EUR 10m in 2011/12E, which will represent ~48% of Human Pharmaceuticals segment.

The rapid expansion of export business will require considerable investments which we expect to be notably higher in 2011/12 compared to prior year.

Appendix

Valuation

Discounted Cash Flow Model

EUR m	PHASE 1 2011/12E	2012/13E	2013/14E	PHASE 2 2014/15E	2015/16E	2016/17E	2017/18E	2018/19E	2019/20E	2020/21E	PHASE 3 ∞
Sales	39.7	44.2	48.8	52.5	56.3	60.0	63.2	65.6	67.2	68.6	
Sales growth	46.6%	11.3%	10.3%	7.7%	7.1%	6.6%	5.4%	3.8%	2.4%	2.1%	
EBIT	3.4	4.1	4.8	5.5	6.1	6.8	7.6	8.1	8.9	9.7	
EBIT margin	8.5%	9.2%	9.8%	10.4%	10.8%	11.4%	12.1%	12.4%	13.2%	14.2%	
Income tax on EBIT	-0.7	-0.9	-1.1	-0.5	-0.9	-1.6	-1.7	-1.8	-2.0	-2.1	
Depreciation and amortisation	4.5	4.7	4.8	4.9	5.0	5.1	5.2	5.6	5.7	5.9	
Change in net working capital	1.4	-1.1	-2.0	-0.6	-1.1	-0.9	-0.8	-0.5	-0.2	-0.2	
Net capital expenditure	-3.4	-3.9	-4.2	-4.8	-5.0	-5.1	-5.2	-5.6	-5.7	-5.9	
Free cash flow	**5.1**	**2.8**	**2.3**	**4.3**	**4.0**	**4.3**	**5.2**	**5.8**	**6.7**	**7.4**	
Present values	**4.6**	**2.3**	**1.7**	**2.9**	**2.4**	**2.4**	**2.6**	**2.6**	**2.7**	**2.4**	**30.5**

Present value Phase 1	8.6
Present value Phase 2	18.0
Present value Phase 3	30.5
Total present value	57.1
Excess cash	1.6
Financial debt	-19.6
Fair value of equity	**39.1**
Number of shares (m)	11.6
Fair value per share (EUR)	**3.38**

Risk free rate	3.5%	Target equity ratio	70.0%
Equity risk premium	6.0%	Beta (fundamental)	1.50
Debt risk premium	2.6%	**WACC**	**10.14%**
Tax shield	23.0%	**Terminal growth**	**2.0%**

Sensitivity analysis

		Terminal growth (Phase 3)				
		1.0%	**1.5%**	**2.0%**	**2.5%**	**3.0%**
	9.1%	4.09	4.31	4.57	4.87	5.21
	9.6%	3.69	3.88	4.10	4.35	4.63
WACC	**10.1%**	3.34	3.51	**3.38**	3.89	4.13
	10.6%	3.03	3.17	3.33	3.50	3.70
	11.1%	2.75	2.87	3.01	3.15	3.32

Source: CBS Research AG

Key figures and ratios

	2008/09	2009/10	2010/11	2011/12E	2012/13E	2013/14E
Valuation multiples and dividend yield						
EV / Sales (x)	1.3	1.4	1.1	0.9	0.9	0.8
EV / EBITDA (x)	n.m.	7.3	7.2	4.8	4.3	4.0
EV / EBIT (x)	n.m.	n.m.	21.3	11.2	9.3	7.9
P/E (x)	n.m.	n.m.	25.1	9.9	7.9	5.7
P/B (Price to book ratio) (x)	0.05	0.04	0.04	0.04	0.04	0.03
Per share data (in EUR)						
EPS (Basic earnings per share)	-1.39	0.21	0.08	0.19	0.24	0.33
CPS (Operating cash flow per share)	-0.45	0.33	0.02	0.64	0.55	0.56
Free cash flow per share	-1.38	0.41	-0.11	0.34	0.21	0.20
Book value per share (excl. minorities)	4.05	4.28	4.45	4.42	4.66	4.99
Cash and cash equivalent per share	0.62	0.09	0.14	0.42	0.63	0.82
Growth rates						
Sales (%)	0.0%	-8.3%	25.9%	16.4%	11.3%	10.3%
Gross profit (%)	-8.0%	-4.1%	21.7%	18.8%	11.8%	10.3%
EBITDA	n.m.	n.m.	n.m.	51.1%	10.8%	9.4%
EBIT (%)	n.m.	n.m.	n.m.	89.7%	20.6%	17.8%
Net income (%)	n.m.	n.m.	n.m.	154.7%	24.5%	39.2%
Profitability						
Gross margin (%)	75.9%	85.5%	69.2%	72.1%	72.0%	71.9%
EBITDA margin (%)	0.1%	19.0%	15.3%	19.8%	19.7%	19.5%
EBIT margin (%)	-24.2%	4.6%	5.2%	8.5%	9.2%	9.8%
EBT margin (%)	-48.5%	5.4%	2.8%	7.2%	8.0%	8.8%
Net margin (%)	-48.3%	7.6%	2.6%	5.6%	6.3%	7.9%
ROCE	-11.9%	2.4%	3.3%	5.9%	6.8%	7.6%
ROE	-30.1%	4.9%	1.9%	4.5%	5.3%	6.9%
Solvency						
Net debt (EUR m)	15.5	14.7	12.8	9.1	6.7	4.4
Equity ratio (%)	52.1%	63.1%	62.5%	64.0%	65.1%	66.7%
Interest coverage ratio (x)	0.0	7.8	8.9	14.2	15.9	17.4
Fixed assets/ CAPEX						
Fixed assets turnover ratio (x)	0.7	0.5	0.7	0.8	0.9	1.0
CAPEX (EUR m)	16.0	3.5	1.4	3.4	3.9	4.2
CAPEX / Depreciation (%)	342.5%	89.1%	39.7%	75.6%	83.7%	88.3%
CAPEX / Sales (%)	54.2%	12.9%	4.0%	8.6%	8.8%	8.6%
Depreciation/ Sales (%)	15.8%	14.4%	10.4%	11.3%	10.5%	9.7%
Working capital						
Net working capital (EUR m)	11.1	9.9	17.9	16.2	17.2	19.1
Working capital turnover (x)	2.3	2.6	2.5	2.3	2.6	2.7
Receivables turnover (x)	3.3	4.2	4.0	3.6	4.2	4.4
Inventory turnover (x)	1.4	1.2	1.6	1.6	1.7	1.7
Payables turnover (x)	1.8	2.9	5.3	4.0	4.0	4.5
Days of sales outstanding (days)	*111.5*	*87.4*	*90.3*	*100.1*	*85.9*	*82.4*
Days of inventory on hand (days)	*267.8*	*293.8*	*225.4*	*228.2*	*220.3*	*214.9*
Number of days of payables (days)	*200.6*	*126.6*	*68.3*	*90.6*	*92.0*	*81.7*
Cash conversion cycle (days)	*178.7*	*254.6*	*247.4*	*237.7*	*214.3*	*215.5*

Source: CBS Research AG

Sygnis Pharma AG

Profit and loss account

IFRS EUR 1,000	2007/08	2008/09	2009/10	2010/11	2011/12E	2012/13E	2013/14E
Sales revenues	**29,531.0**	**29,527.0**	**27,090.0**	**34,113.0**	**39,702.9**	**44,200.3**	**48,767.7**
YoY growth	*0%*	*0%*	*-8%*	*26%*	*16%*	*11%*	*10%*
Other income	3,547.0	3,091.0	5,228.0	2,703.0	3,000.0	3,150.0	3,465.0
Reversal of investment grants	177.0	180.0	207.0	212.0	220.0	230.0	240.0
Change in inventory	-704.0	146.0	49.0	-264.0	400.0	500.0	500.0
Own work capitalised	1,389.0	1,725.0	1,144.0	834.0	1,100.0	1,210.0	1,331.0
Operating performance	**33,940.0**	**34,669.0**	**33,718.0**	**37,598.0**	**44,422.9**	**49,290.3**	**54,303.7**
COGS	-10,775.0	-12,268.0	-10,547.0	-13,983.0	-15,786.1	-17,451.3	-19,254.6
Personnel expenses	-9,052.0	-9,590.0	-7,960.0	-8,899.0	-10,253.7	-11,415.2	-12,594.7
Depreciation and amortisation	-4,892.0	-7,172.0	-3,914.0	-3,431.0	-4,500.0	-4,657.0	-4,754.9
Other expenses	-10,446.0	-12,777.0	-10,054.0	-9,512.0	-10,521.3	-11,713.1	-12,923.4
Operating result	**-1,225.0**	**-7,138.0**	**1,243.0**	**1,772.0**	**3,361.9**	**4,053.8**	**4,776.1**
Interest payments	-1,079.0	-1,815.0	-663.0	-587.0	-554.9	-548.0	-548.0
Interest receipts	1,366.0	980.0	577.0	42.0	47.1	47.1	47.1
Other financial income /expenses	-3,086.0	-6,361.0	319.0	2.0	0.0	0.0	0.0
Financial result	**-2,799.0**	**-7,196.0**	**233.0**	**-825.0**	**-507.8**	**-500.9**	**-500.9**
EBT	**-4,024.0**	**-14,334.0**	**1,476.0**	**947.0**	**2,854.1**	**3,552.9**	**4,275.2**
Income tax expense	315.0	69.0	593.0	-210.0	-632.9	-787.9	-427.5
Net result	**-3,709.0**	**-14,265.3**	**2,069.0**	**872.0**	**2,221.2**	**2,765.1**	**3,847.7**
Shareholders of the parent company	-3,449.0	-14,087.3	2,134.0	822.0	2,221.2	2,765.1	3,847.7
	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	-260.0	-178.0	-65.0	50.0	0.0	0.0	0.0
Weighted average number of shares outstanding (in thousands)	10,156	10,156	10,156	10,856	11,556	11,556	11,556
EPS (diluted and basic)	**-0.34**	**-1.39**	**0.21**	**0.08**	**0.19**	**0.24**	**0.33**

Source: SANOCHEMIA Pharmazeutika AG, CBS Research AG

SANOCHEMIA Pharmazeutika

Balance Sheets

IFRS 1,000	2007/08	2008/09	2009/10	2010/11	2011/12E	2012/13E	2013/14E
Assets							
Noncurrent assets	**42,777**	**49,177**	**52,245**	**54,080**	**53,693**	**53,056**	**52,631**
as % of total assets	48.1%	62.9%	76.7%	70.0%	67.3%	64.2%	60.9%
Property, Plant and Equipment	17,799	29,043	28,954	28,035	27,735	27,635	27,635
Total Intangible Assets	21,956	19,491	21,726	24,744	24,458	23,801	23,246
Other financial assets	2,346	0	0	0	0	0	0
Deferred tax assets	676	643	1,565	1,301	1,500	1,620	1,750
Total Current Assets	**46,091**	**29,023**	**15,884**	**23,151**	**26,070**	**29,638**	**33,804**
as % of total assets	51.9%	37.1%	23.3%	30.0%	32.7%	35.8%	39.1%
Inventory	8,783	9,221	7,759	9,510	10,228	10,843	11,831
Accounts receivable trade	5,519	5,724	3,634	9,239	7,215	8,595	9,414
Accounts receivable-affiliated companies	4,849	1,941	1,673	2,332	3,000	2,000	2,000
Other financial receivables	284	94	500	8	0	0	0
Other receivables and assets	1,092	1,707	1,230	240	600	700	800
Income tax receivables	296	13	6	27	0	0	0
Receivables from research grants	250	613	123	231	150	180	180
Available for sale securities	10,722	3,381	21	68	70	70	70
Cash and cash equivalents	14,296	6,329	938	1,495	4,808	7,250	9,510
Total assets	**88,868**	**78,200**	**68,129**	**77,231**	**79,763**	**82,694**	**86,435**
Shareholders´ equity and liabilities							
Shareholders´ equity	**54,109**	**40,733**	**42,987**	**48,303**	**51,038**	**53,803**	**57,651**
as % of total equity and liabilities	60.9%	52.1%	63.1%	62.5%	64.0%	65.1%	66.7%
Issued capital	10,156	10,156	10,156	11,555	11,555	11,555	11,555
Share premium	24,768	14,443	14,443	17,023	17,023	17,023	17,023
Net gain/loss on available for sale securities	-440	-118	1	1	0	0	0
Currency translation differences	463	1,030	1,096	1,230	1,230	1,230	1,230
Profit and loss account	18,863	15,622	17,756	18,494	21,230	23,995	27,843
Minority interests	299	-400	-465	0	0	0	0
Current liabilities	**18,094**	**29,386**	**16,070**	**21,891**	**21,375**	**21,491**	**21,384**
as % of total equity and liabilities	20.4%	37.6%	23.6%	28.3%	26.8%	26.0%	24.7%
Financial liabilities	8,433	21,088	10,266	10,610	10,000	10,000	10,000
Accounts payable trade	5,034	5,739	3,126	3,218	4,225	4,241	4,134
Other financial liabilities	2,521	0	835	5,212	5,000	5,000	5,000
Other liabilities and accruals	1,061	1,644	1,289	2,177	1,500	1,600	1,600
Deferred income	721	626	330	430	400	400	400
Investment grants	144	149	207	225	200	200	200
Income tax liabilities	180	140	16	18	50	50	50
Noncurrent liabilities	**16,665**	**8,081**	**9,072**	**7,037**	**7,350**	**7,400**	**7,400**
as % of total equity and liabilities	18.8%	10.3%	13.3%	9.1%	9.2%	8.9%	8.6%
Financial liabilities	11,720	4,080	5,375	3,742	4,000	4,000	4,000
Employee benefit provisions	1,308	1,097	1,209	1,408	1,450	1,500	1,500
Deferred income	2,442	1,459	1,282	848	900	900	900
Investment grants	1,195	1,445	1,206	1,039	1,000	1,000	1,000
Total equity and liabilities	**88,868**	**78,200**	**68,129**	**77,231**	**79,763**	**82,694**	**86,435**

Source: SANOCHEMIA Pharmazeutika AG, CBS Research AG

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17 November 2011	BUY (Initial Coverage)	EUR 1.93	EUR 3.20
19 December 2011	BUY (Update)	EUR 1.95	EUR 3.20
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