

CEE pharmas to post positive growth in 2009 and remain safe haven investments

- **Upcoming reporting season anticipated to confirm CEE pharmas' solid performance and their high resilience to recession**
- **Due to their defensive nature, CEE pharmas are expected to retain their appeal for investors**
- **Richter and Krka keep their competitive edge, Egis' valuation gap narrower, but still attractive**

The CEE equity markets experienced a revival in 2Q, but economic fundamentals will take more time to recover and the optimism of market participants is likely to remain fragile in the upcoming period. On the other hand, the continuing volatility creates interesting trading opportunities. The top CEE pharma companies posted solid 1Q09 results. This demonstrated that pharma markets in the region still offer room for growth and the impact of the economic slowdown on the pharma business is rather limited. The good performance, alongside investors' uplifted sentiment prompted a nice recovery in 2Q09 for the share prices of CEE pharma stocks.

The defensive nature of the pharma industry makes it one of the few poised to post a positive growth rate and face limited risks of downward forecasts revisions. This should provide CEE pharma stocks a solid shield from the still volatile CEE equity market conditions, as it has already been proved by the 2009 interim results. Additionally, specific factors such as the aging population and broadening availability of more modern therapies will keep CEE pharmas business performance on track and largely compensate for the dire economic conditions in the coming period. *"We continue to believe that, despite the slowing economic growth, the CEE pharmaceutical markets should see a rise, while the catch-up effect in narrowing the gap in healthcare (and drug) spending between the CEE region and the EU-15 average is still in place in the long run,"* explains Vladimíra Urbánková, pharma sector analyst at Erste Group.

Erste Group analysts believe that while equity markets remain volatile, sentiment is gradually improving and the bottom has been reached already. *"While the increasing risk appetite will turn the attention of investors towards cyclical stocks, pharma companies retain their appeal as safe haven investments and should keep their firm positions in investment portfolios,"* Urbánková also points out. The upcoming 2Q reporting season will confirm that top CEE pharmas are well placed to weather the financial crisis, with generics remaining in high demand and sound balance sheets boding well for the CEE pharma companies' investment plans. Moreover, the external indebtedness of CEE pharma companies is minimal and they can finance their investment plans without tapping financial markets. Consequently, they are not negatively hit by the still tight availability of credit resources.

According to Erste Group analysts, the top CEE pharmas represent a sound long-term value-based investment and remain a healthy option for those wanting to play it safe and keep a longer-term horizon in mind.

Valuation summary:

24/07/2009	Rep. Curr.	Mcaph (EURmn)	Price Current (LC)	Price Target	Recommendation	Performance (EUR terms)			
Company						1M	3M	6M	12M
A&D Pharma	EUR	69.3	2.1	2.9	Hold	5.1%	40.5%	-7.6%	-9.6%
Bioton	PLN	1,455.6	0.31	0.31	Hold	14.8%	3.3%	55.0%	-27.9%
Egis	HUF	143,724	18,460	21,785	Accumulate	6.1%	53.8%	51.7%	26.3%
Intercell	EUR	1,160.5	25.5	39.5	Buy	4.1%	15.5%	0.8%	-14.6%
Krka	EUR	2,477.0	69.9	106.5	Buy	2.8%	34.8%	29.9%	-25.1%
Richter Gedeon	HUF	687,723	36,900	41,900	Accumulate	12.5%	30.2%	24.7%	13.2%
Sanochemia	EUR	21.2	2.1	1.8	Reduce	17.4%	1.0%	-15.7%	-67.3%
Teva Pharmaceutical	ILS -	31,408	-	-	-	5.0%	7.0%	10.8%	20.4%
Mylan Inc.	USD	2,975	-	-	-	2.3%	-9.5%	13.0%	15.3%
Watson Pharmaceuticals	USD	2,563	-	-	-	2.4%	1.0%	21.8%	28.2%
Stada Arzneimittel AG	EUR	1,001	-	-	-	-2.4%	15.9%	-9.1%	-63.6%
Ranbaxy Laboratories	INR -	1,716	-	-	-	8.3%	53.3%	40.9%	-43.8%
Recordati	EUR	955	-	-	-	6.1%	5.8%	20.0%	-0.8%
Dr Reddy Laboratories	INR -	2,007	-	-	-	4.5%	42.2%	78.1%	24.2%

Erste Group Research, Factset. Based on closing prices as of July 24, 2009

- The new target prices - **HUF 21,785 per share for Egis and HUF 41,900 per share for Richter** - point to interesting upside potential. Nevertheless, with respect to their hefty recent gains, both stocks have approached previous target prices. Erste Group analysts thus **cut their recommendations from Buy to Accumulate for both Egis and Richter**. Given the steeper stock rally of Egis, as well as Richter's long-term strategic edge, analysts stick to their stronger preference for the latter stock.
- Although **Krka** cannot expect to get backup from the currency side (rather the opposite) Erste Group analysts believe that the company's profitability margins and top line growth will remain superior, beating its regional rivals in 2009. With the newly updated **target price arriving at EUR 106.5** (only slightly revised from the earlier target of EUR 105.0) per share, analysts stick to **Buy recommendation** on the stock.
- Factoring in the worse than anticipated 1Q09 results, along with the dilutive effect from the recent additional capital injection, but improving long-term prospects in the core insulin business, **the new 12-month target price for Bioton is PLN 0.31 per share**. Erste Group analysts **raise their recommendation from Reduce to Hold**. Should the future outlook become rosier, with the company delivering the first tangible results of its rebound, change of recommendation could be considered.

Group Research:

Vladimíra Urbánková (Pharma Equity Sector Analyst)

Tel: +43 50100 - 17343

E-Mail: vladimira.urbankova@erstegroup.com

Press department:

Alina Costache (Group Press Officer)

Tel: +43 50100 - 11681

E-Mail: alina.costache@erstegroup.com

Erste Group, 1010 Wien, Graben 21, Fax: +43 50100 - 19849

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