



Faes

Outlook is good... but not that good.

Hold

(Downgrade from Add)

EUR 14.26

Target EUR 14.0

Mkt Cap:

EUR 634.8m / USD 812.9m

Reuters: FAE.MC

Bloomberg: FAE SM EQUITY

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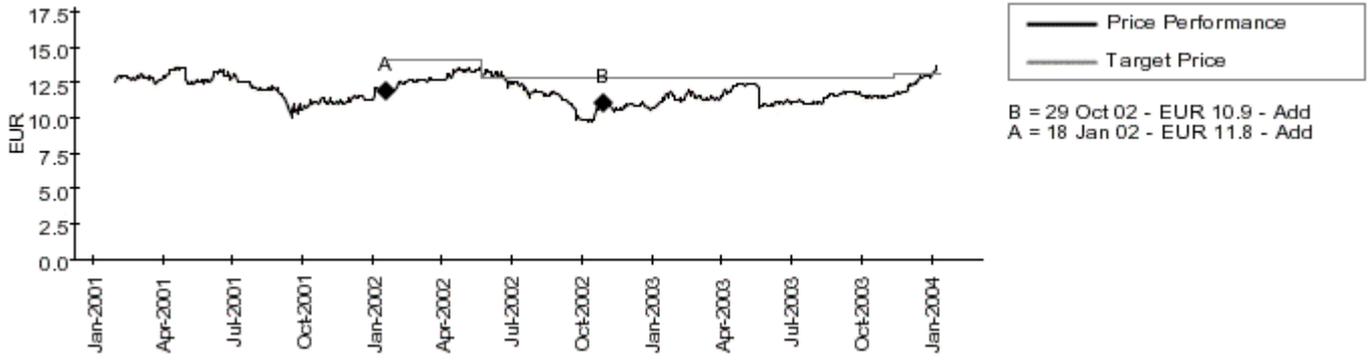
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The spiralling demand for prescription pharmaceuticals leads us to increase our target to €14.0 from €13.1. But the recent rally has already taken the share price beyond this level. We therefore downgrade our recommendation to Hold.

- Despite Health Ministry efforts to cut the pharma spending, the ageing population and rising immigration have raised the number of prescriptions 5.7% and the health bill by 11.1% in the 11 months to end-Nov 03, over double the target.
- We expect these trends to drive sales growth for Faes of approximately 6% in 2004 and have raised our 2005 estimated growth rate to 4% (below the 2004 rate due to patent expiry of respiratory compound Beglan).
- The measure by the Health Ministry to slow growth in prescription costs by adding 2000 drugs to the reference pricing list should not have a major impact on Faes. Only Motivan (10.8% of total sales) has been significantly impacted.
- Even with Motivan, refocusing the marketing onto the 56-capsule pack rather than the 28-capsule, Faes should limit the drop in sales to below 5%. After the reference pricing impact we still expect Motivan to show growth of 4% in 2004.
- The core prescription pharmaceuticals business retains its highly defensive and steady, if low growth profile. Potential for enhancing this growth comes from the possible acquisition of new drug licences but while we expect deals to be reached over the next couple of years we have left these out of our forecasts. We also remain cautious over the in-house R&D drug pipeline and prefer to leave this as possible future upside to our target rather than include it directly at this stage - the only compound with relatively short term (possible market registration in 2005) truly promising potential is antihistamine Bilastina which the company has stated continues to show encouraging results in ongoing Phase III trials although no details have been released. The annual analyst meeting in March should shed some more light on the development of this compound.

We apply a 15% liquidity discount to our DCF based valuation to reach our target price of €14.0. With the share price having rallied strongly over the last couple of sessions to beyond this level we downgrade our recommendation to Hold.

Faes Stock Performance



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DRESDNER KLEINWORT WASSERSTEIN RESEARCH - RECOMMENDATION DEFINITION

(Except as otherwise noted, expected performance over next 12 months)

Buy	10% or greater increase in share price	Reduce	5-10% decrease in share price
Add	5-10% increase in share price	Sell	10% or more decrease in share price
Hold	+5%/-5% variation in share price		

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	All covered companies		Companies where a DrKW company has provided investment banking services (in the last 12 months)	
Buy/Add	315	49%	55	56%
Hold	201	32%	34	34%
Sell/Reduce	122	19%	10	10%
Total	638		99	

Source: DrKW Equity research