



Spain/ Equity

26 Feb 2004 2:59 PM

Pharmaceuticals - Mid Cap

Faes

Results for FY

Hold (Unchanged)

EUR 14.09

Target EUR 14.0

Mkt Cap:

EUR 627.3m / USD 781.6m

Reuters: FAE.MC

Bloomberg: FAE SM EQUITY

Inline with forecasts

No change to estimates expected

Stephen Hughes

+34 91 745 8240

stephenhughes@drkw.com

Results just a fraction below estimates. Sales increased by 14.1% to €173.3m, EBITDA by 19.4% to €41.36m, driven by new drug acquisitions. High payout unlikely to change with another 1X9 scrip also likely. Steady defensive play.

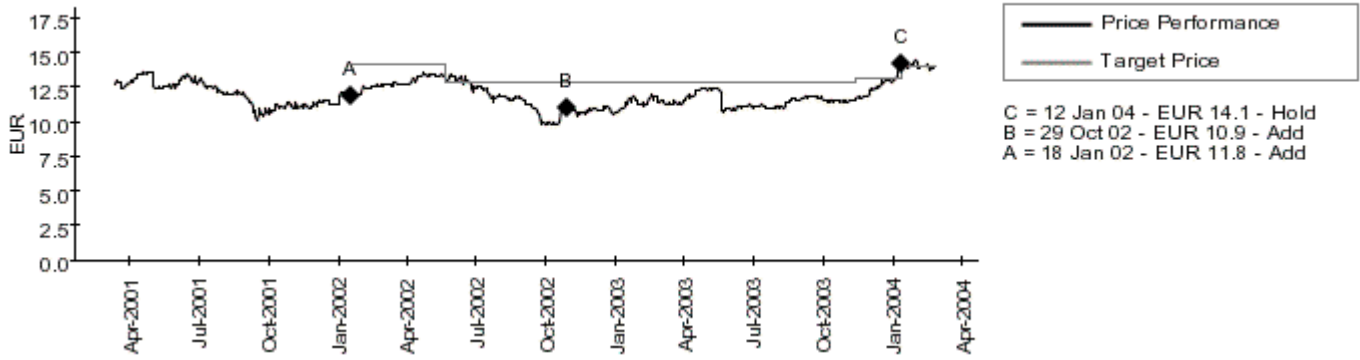
- Sales increased by 14.1% versus our forecast 16.1% although this has been driven by acquisitions of new drugs rather than like for like growth which was only 3.5%. Spanish growth was strong at 19% while Portugal only grew 3.5%.
- EBIT only advanced 2.5% to €24.7m due to the heavy increase in depreciation charges from €9.5m to €15.7m following the investment in new licenses for Dezacor and Claversal in late 2002 and early 2003 respectively.
- This was offset by lower net financial costs down from €5.11m to just €0.05m on the back of the better performance of financial investments which facilitated a 29.8% increase in PBT to €24.72m.
- With extraordinary provisions of €2.26m relating to antiemetic Lerisetron and prior year adjustments being offset by the low tax rate of just 13% due to R&D incentives, net profit ended at €19.53m, up 25.3% vs our forecast of €20.93m.
- The core prescription pharmaceuticals business retains its highly defensive and steady, if low like-for-like growth profile. Potential for enhancing this comes through the acquisition of drugs and marketing licenses as seen in these results. We firmly expect Faes to close current negotiations on at least one new product acquisition this year but cannot rule out more than one given the strong cash generation and low gearing (net debt/equity of just 6.4%).

The strategy to invest in R&D remains committed. Management confirms Bilastina exhibits high efficacy in controlling allergy symptoms in Phase III trials on a par to the best antihistamines available. These trials included 720 patients in 8 countries. Nonetheless, we remain sceptical as to just how much market share Bilastina will be able to achieve in such a competitive market as allergy treatment. Also, Faes has no experience of drug development and we are reluctant to reflect the pipeline in valuation until an international pharma company gets on board through a licensing deal. Management is confident this will happen this year which offers additional upside beyond our DCF based target of €14.

	Most Recent Figures	DrKW Forecast	Diff from DrKW	Prev FY to 31 Dec 2002	Change year on year %	Consensus (Mean)	Consensus (Low)	Consensus (High)	Diff from Consensus %
Sales (EUR m)	173.343	176.4	-1.7	154.2	12.4	180.1	171.8	196.1	-3.8
EBITDA (EUR m)	41.355	42.5	-2.7	34.6	19.5				
Net income (reported) (EUR m)	19.529	20.89	-6.5	15.6	25.2	21.8	17.1	27.7	-10.4
Act EPS incl except incl gw (EUR)	0.439	0.469	-6.4	0.350	25.4				
DPS (EUR)		0.366		0.273		0.378			

Source: Company data, DrKW research estimates

Faes Stock Performance



Dresdner Bank AG, Paseo de la Castellana, 95, Edificio Europa - planta 16, 28046 Madrid. Telephone: +34 91 745 82 00 Fax: + 34 91 745 82 22
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DrKW or an affiliate regularly holds trading positions in the securities of Faes.

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(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		

Distribution of DrKW Equity research recommendations as of 31 December 2003

	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