

Pharmaceuticals - Spain

UNDERWEIGHT

FAES

CURRENT PRICE: €12.30

TARGET PRICE: €11.90

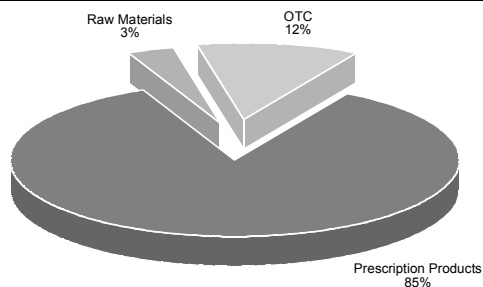
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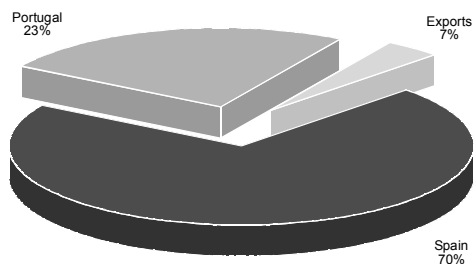
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Faes is a healthcare group specialising in the research, manufacture and sale of prescription pharmaceuticals, OTC products and fine chemicals. A high-yield stock, Faes has market shares of 1.7% in Spain and 2% in Portugal. The company produces and distributes its own drugs (50% of total revenues), as well as third-party drugs under licence agreements. Faes has a strong R&D department (93 employees out of a total workforce of 808) with promising products in the pipeline, including *Lerisetron* (an anti-emetic in phase III clinical trials), *Bilastina* (an antihistamine in phase III clinical trials) and *Ovarex* (an anti ovarian cancer treatment in phase II trials).

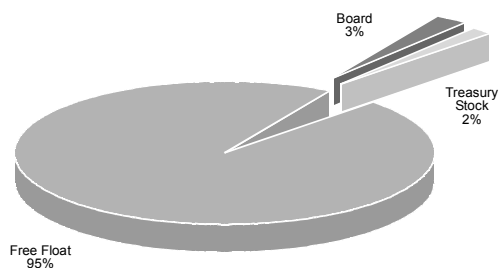
Sales Breakdown, 2003



Geographical Breakdown, 2003



Shareholders



Source: Faes and Santander Central Hispano Bolsa estimates.

INVESTMENT CASE

- We see Faes as a cash cow and a safe investment, although expensive at current prices. The company follows a consistent and prudent growth policy focused on its extensive pharmaceutical distribution network in the Iberian Peninsula.
- The company acquires both exclusive and non-exclusive pharma rights for maturing compounds that the pharma majors do not want to continue distributing directly or are obliged to dispose of due to competition requirements. Faes usually acquires these licences at very attractive prices, allowing it to increase the product IRR. The markets for these medicines generally mature rapidly and Faes is obliged to acquire other medications to continue growing.
- We do not expect major acquisitions of licences in 2004E or 2005F. Consequently, we are reducing our 2004E EBITDA growth estimates to reflect flat growth.
- Regulatory risks are mounting as the higher demand for medicines has prompted the Spanish and the Portuguese governments to increase the number of generics under 'state' prescription (with lower prices). Faes is trying to acquire OTC products in order to offset this effect.
- The visibility of the drugs in the pipeline remains low. Faes does not expect to have either *Lerisetron* or *Bilastina* in the market before 2H06 and the company is looking for a partner to distribute both drugs in the US. *Ovarex*, is not expected to reach the market before 2007.
- We used a DCF valuation for Faes and compared it with other pharmaceuticals and other pharma distributors. We arrived at a fair value of €14.50/share, which yields a target price of €12.30/share after applying a 15% small cap discount. We have an Underweight recommendation on the stock.

LATEST NEWS

- 1H04 sales were down 1.3%, EBITDA fell 3.8% and net profit was up 12.1% due to higher financial income.

Last full report/note dated February 6, 2004.



FAES

Company Data, August 27, 2004

	EPS (€)	P/E (x)	P/CF (x)	P/BV (x)	GDY (%)	EV/ Sales	EV/ EBITDA	FCF Yield (%)
2002	0.40	39.0	20.1	5.6	2.3	4.0	17.6	-0.9
2003	0.48	29.3	19.0	5.3	2.4	3.1	14.5	0.4
2004E	0.49	26.0	16.8	4.9	2.5	2.9	13.4	1.2
2005F	0.53	23.4	15.0	4.5	2.6	2.7	12.3	1.5
2006F	0.55	22.3	14.3	4.2	2.8	2.5	11.7	1.3

Reuters code	FAE.MC
Bloomberg code	FAE SM
Website	www.faes.es
Outst shares (mn)	49.5
Market cap (€ mn)	608.4
Free float (%)	95.0
Avg daily vol (€ mn)	0.5
12-month range (€)	11.40-14.48

Source: Santander Central Hispano Bolsa estimates and forecasts.

Financial Data: P&L Account and Balance Sheet, 2000-06F

P&L Account (€ mn)	2000	2001	2002	2003	2004E	2005F	2006F	CAGR 2003-06F (%)
Net sales	133.7	149.1	151.9	193.6	211.9	229.0	240.4	7.5
YoY change (%)	11.1	11.5	1.8	27.5	9.5	8.0	5.0	-
Other operating income	0.5	0.3	0.8	1.0	1.1	1.2	1.2	-
Total revenues	134.2	149.4	152.7	194.6	213.1	230.2	241.6	7.5
COGS	-46.6	-51.7	-53.0	-71.9	-79.4	-86.0	-90.3	-
Gross profit	87.1	97.4	98.8	121.7	132.5	143.0	150.1	7.2
Personnel expenses	-32.6	-35.8	-36.3	-40.7	-42.9	-44.0	-46.2	-
Other operating expenses	-17.5	-19.8	-18.7	-26.2	-29.5	-32.7	-34.3	-
EBITDA	28.2	31.5	34.6	41.8	45.3	49.9	52.3	7.8
YoY change (%)	9.7	11.7	10.1	20.6	8.6	10.1	4.9	-
Depreciation and provisions	-6.6	-8.8	-10.5	-11.2	-12.8	-14.5	-15.2	-
Goodwill amortisation	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
EBIT	21.5	22.6	24.2	30.6	32.6	35.4	37.2	6.7
YoY change (%)	18.2	5.1	6.8	26.4	6.5	8.9	4.8	-
Net financial result	1.2	-3.6	-5.1	-2.8	-1.4	-0.8	-0.8	-
Equity method results	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
Extraordinary gains (losses)	5.7	-0.5	-1.2	0.0	0.0	0.0	0.0	-
Profit (loss) before taxes	28.4	18.5	17.9	27.7	31.2	34.7	36.3	9.5
Taxes	-7.8	-4.4	-2.3	-6.9	-7.8	-8.7	-9.1	-
Tax rate (%)	27.4	23.8	12.9	25.0	25.0	25.0	25.0	-
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
Net profit (loss)	20.6	14.1	15.6	20.8	23.4	26.0	27.2	9.4
YoY change (%)	-19.6	-31.6	10.5	33.3	12.5	11.2	4.8	-
Cash flow	26.7	22.9	30.3	32.0	36.2	40.5	42.6	10.0
Balance Sheet (€ mn)	2000	2001	2002	2003	2004E	2005F	2006F	CAGR 2003-06F (%)
Fixed assets	65.9	62.9	100.0	95.1	107.8	115.0	118.1	7.5
Working capital	7.3	10.8	22.7	29.4	32.4	35.3	41.5	12.2
Shareholders' equity	103.6	101.4	108.5	115.6	124.6	135.6	145.6	8.0
Capex	-34.7	-15.6	-19.7	-22.1	-23.6	-25.2	-25.2	8.6
Net financial debt (cash)	-33.0	-30.1	7.8	2.4	9.1	8.3	7.3	44.9
Financial gearing (%)	-31.8	-29.7	7.2	2.1	7.3	6.1	5.0	-

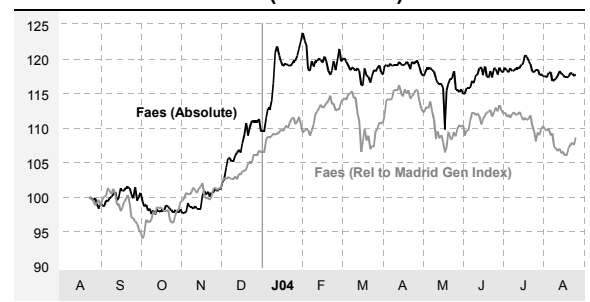
Sources: Company annual reports and Santander Central Hispano Bolsa estimates and forecasts.

Growth and Other Key Figures, 2002-06F

(%)	2002	2003	2004E	2005F	2006F
EPS growth	0.4	21.2	2.8	6.6	4.8
CFPS growth	20.2	-3.9	3.3	7.3	5.4
COGS /net sales	34.9	37.1	37.5	37.6	37.6
Person exp/net sales	23.9	21.0	20.3	19.2	19.2
EBITDA margin	22.8	21.6	21.4	21.8	21.8
EBIT margin	15.9	15.8	15.4	15.5	15.5
ROE	14.9	18.5	19.5	20.0	19.4
ROCE	18.0	18.0	17.9	17.5	16.9
Dividend pay-out	87.1	55.2	65.0	61.4	41.4
Workforce	787	802	810	815	820

Sources: Company data and SCH Bolsa estimates and forecasts.

Relative Performance (12 Months)



Source: JCF.

Performance	1M	3M	12M
Absolute	-0.1	1.7	18.6
Relative to MGI	0.1	1.9	7.2

Source: Bloomberg.