

Gulf Pharmaceutical Industries (Julphar)

July, 2008

Tickers:
JULPHAR UH (Bloomberg)
GPHI.AD (Reuters)

BUY

Listing:
Abu Dhabi Securities Exchange

CMP:
AED2.78 (as on July 27th, 2008)

Key Data

EPS (AED) *	0.33
BVPS (AED) *	2.14
P/E (x)*	8.38
P/BV (x)*	1.30
Avg. daily vol.	232,393
52 week Lo/Hi (AED)	1.76/2.80
Market Cap (AED bn)	1.78

Highlights

- Gulf Pharmaceutical Industries (Julphar)** recorded revenue of AED676.4mn in 2007, up 17.4% from AED576.4mn in 2006. The revenue included AED541.5mn from the parent company and AED134.9mn from subsidiaries.
- Gross profit of the Julphar was AED353.9mn for the year 2007, up 10.9% from AED319.2mn for 2006. However the gross profit margin declined to 52.3% during 2007, compared to 55.4% for 2006. The profit declined during the year due to the appreciation of major currencies especially Euro against US Dollar (to which AED is pegged).
- Net profit for the year 2007 was AED207.5mn, almost thrice of 2006 level. The net profit margin for 2007 was significantly up at 30.7%, from 12.0% in 2006. This improvement in net profit is mainly attributed to investment income and one-time income from sale of subsidiaries.
- Total revenue in 1H-2008 increased by 14.4% to reach AED308.5mn, up from AED269.8mn in 1H-2007. For 1H-2008, Julphar's operating profit increased by 11.9% to reach AED57.0mn. This translated to an operating margin of 18.5% in 1H-2008, down from 18.9% in 1H-2007. Net profit for the period was AED122.2mn, up 96.1% from 1H-2007. The net profit margin for 1H-2008 was 39.6%, up from 23.1% in 1H-2008.
- Based on the current market price of AED2.78, Julphar stock is trading at 8.59x of its 2007 earnings and 1.45x of its 2007 book value. On a one year forward basis, the stock is trading at 8.38x of 2008F earnings and 1.30x of 2008F book value. Based on a WACC of 10.0%, the DCF value of Julphar is AED3.91. On a relative valuation basis, the Company's stock value is AED3.63. Based on the combination of DCF and Relative Valuation method, we recommend a **BUY** on the stock with a price target of AED3.86, an upside of 38.7% from current levels.

*Projected (2008) and market price as on July 27, 2008
Source: Global Research

Omar M. El-Quqa, CFA
Executive Vice President
omar@global.com.kw
Phone No:(965) 2951110

Faisal Hasan, CFA
Head of Research
fhasan@global.com.kw
Phone No:(965) 2951270

Bikash Rout
Senior Financial Analyst
berout@global.com.kw
Phone No:(965) 2951279

Recent Developments

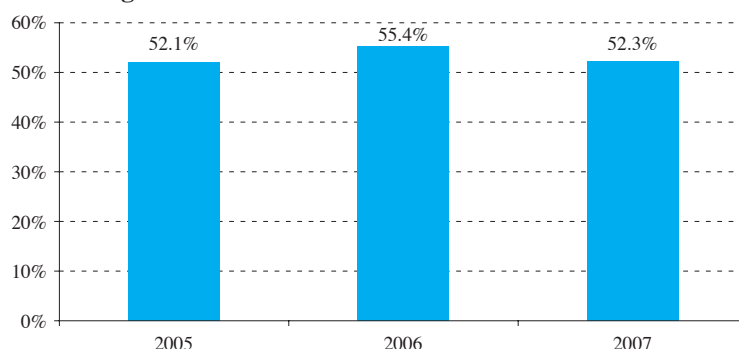
- The Chief Executive Officer of Julphar Mr. Abdul Razzaq Yousef has resigned recently. His resignation was effective as of July 11, 2008.
- In the first half of 2008, Julphar has opened two plants to produce antibiotics. The two pharmaceutical manufacturing units - Julphar 8 and 9 - which cost AED30mn will produce in the first phase over 50 kinds of antibiotics with a total capacity of 30 million syringes a year. The two facilities will produce injectable penicillin and cephalosporin. As per the Company's management, work is progressing as schedule in building seven new manufacturing plants in Ras Al Khaimah at a total cost of AED800mn.
- In December 2007, Julphar and Global Investment House 'Global' announced the formation of Planet Pharmacies LLC (Planet). Planet, a holding company established in Dubai, UAE, aims to become the largest healthcare products retailer in the MENA region through organic and inorganic growth strategies. The company was formed with a capital of AED900mn and eventually to be increased to AED3bn and has Julphar and the private equity funds managed by Global as its founders having 40% and 60% shareholding respectively. As part of the transaction, Planet has acquired existing pharmacy units (including Julphar Drug Store, Awafi Drug Store and others) of Julphar.
- In November 2007, Julphar and The Yemeni Economic Corporation (YECO) signed an agreement under which Julphar will invest in the expansion of the medicinal production of the Yemen Drug Company for Industry and Commerce (YEDCO). The plan envisions new product lines and the marketing of YEDCO's products into African countries. Julphar would also implement training for YEDCO and the Ministry of Public Health and Population at pharmaceutical plants and laboratories in the UAE.

Financial Performance - 2007**Revenue:**

Julphar recorded revenue of AED676.4mn in 2007, up 17.4% from AED576.4mn in 2006. The revenue included AED541.5mn from the parent company and AED134.9mn from subsidiaries. About 90 per cent of production of Julphar is exported to 47 countries in the MENA region, US, Europe, Africa, Eastern Europe, Russia and Iran. It is pertinent to mention that during 2007, the Company transferred its ownership in Julphar Drug Store and Awafi Drug Store to newly formed Planet Pharmacies LLC for a consideration of AED150mn. However it continues to hold a 40% stake in Planet Pharmacies.

Gross Profit:

Gross profit of the Julphar was AED353.9mn for the year 2007, up 10.9% from AED319.2mn for 2006. However the gross profit margin declined to 52.3% during 2007, compared to 55.4% for 2006. The profit declined during the year due to the appreciation of major currencies especially Euro against US Dollar (to which AED is pegged). As Julphar imports most of its raw materials, due to the exchange rate fluctuation and decline in the value of US Dollar, the cost of raw materials has gone up. During the year, the cost of raw materials (which forms around 80% of cost of sales) was up by more than 30%.

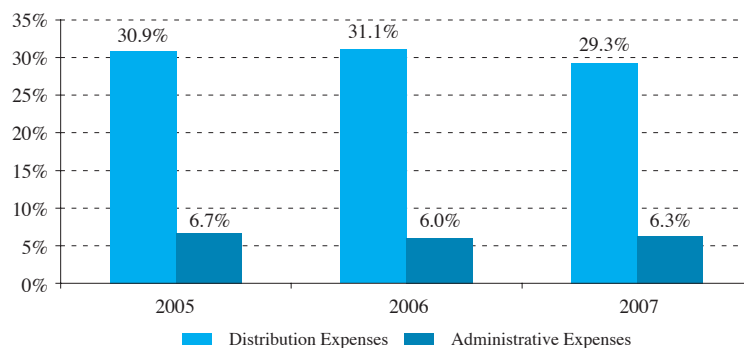
Chart 1: Gross Margins

Source: Julphar

To ensure smooth supply of raw materials and to protect itself from rising prices, Julphar tied up with an Indian company SMS Pharmaceutical in 2007 to manufacture raw materials required for its plants. It has also taken a 12.2% stake in SMS Pharmaceutical for INR300mn. SMS Pharmaceuticals is a specialist company in the synthesis of active pharmaceutical ingredients (API) in India and one of the leading producers of Ranitidine HCL in the World. SMS Pharmaceutical is an FDA approved API manufacturer and has a considerable portfolio of API. As per the management of Julphar, the Company itself was planning to own facilities for synthesis of APIs. However taking into consideration the strategic advantages of joining hands with a compatible partner instead of erecting its own facilities, and given the fact that SMS Pharmaceuticals already had FDA's approval, Julphar invested in SMS Pharmaceuticals.

Operating Expenses:

Julphar's distribution expenses increased by 10.8% in 2007 to reach AED198.5mn. This as a percentage of total revenue declined to 29.3% in 2007, down from 31.1% in 2006. The distribution expenses of the Company mainly consist of sales commission, salaries & wages, bonus goods & free samples and advertising expenses etc. During the year 2007, inflation in UAE was in double-digits which also contributed to increase in operating expenses of Julphar mainly salaries and wages (which rose by around 17%). Julphar's administrative expenses increased by 22.7% in 2007 to reach AED42.3mn. This as a percentage of total revenue increased to 6.3% in 2007, up from 6.0% in 2006.

Chart 2: Operating Expenses

Source: Julphar

Income from Associates:

As mentioned before, Julphar holds 40% stake in Planet Pharmacies which was formed in 2007. In the first year of operation of Planet Pharmacies, Julphar made an income of AED6.1mn.

Operating profit:

For 2007, Julphar's operating profit increased by a 12.1% to reach AED119.1mn. This translated to an operating margin of 17.6% in 2007, down from 18.4% in 2006. The decline in operating margin reflected the decrease in gross margin.

Investment Income:

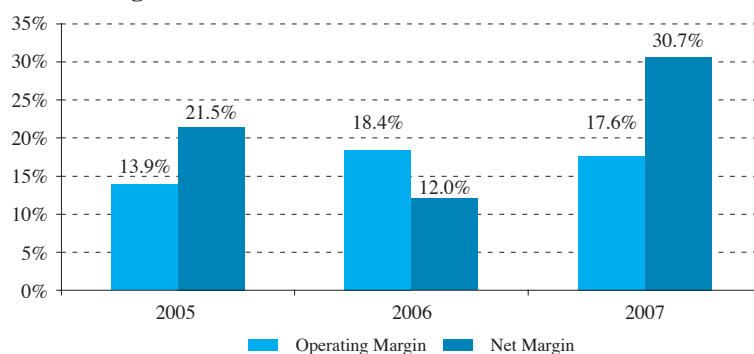
Julphar made an income of AED40.6mn from its investment activities in 2007 as compared to a loss of AED25.1mn in 2006. This was due to improvement in capital market performance in 2007. The income from investments comprised of AED38.2mn from held-for-trading activities and rest from others.

Profit from Sale of Subsidiaries:

During 2007, Julphar transferred its ownership in Julphar Drug Store (Distribution Division) – UAE and Awafi Drug Store – UAE to newly formed Planet Pharmacies LLC for a consideration of AED150mn and made one-time profit of AED62.5mn.

Net Profit:

Net profit for the year 2007 was AED207.5mn, almost thrice of 2006 level. The net profit margin for 2007 was significantly up at 30.7%, from 12.0% in 2006. This improvement in net profit is mainly attributed to investment income and one-time income from sale of subsidiaries. It is important to note that the net profit margin improved significantly in 2007 despite a decline in operating margin.

Chart 3: Profit Margins

Source: Julphar

Dividends:

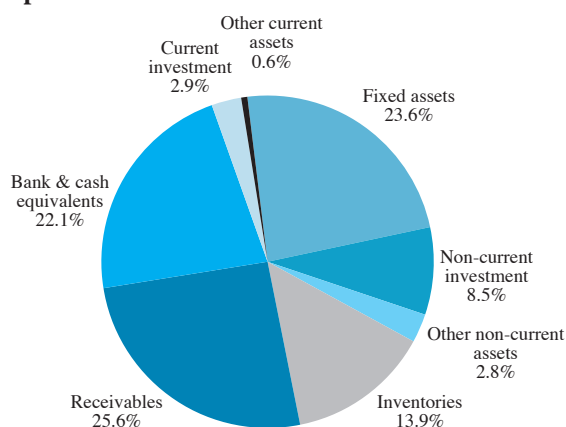
The Company declared a cash dividend of 10% and stock dividend of 5% for the year 2007

Assets and Liabilities:

The total asset base of Julphar was AED1,556.1mn at the end of 2007, compared to AED1,176.7mn at the end of 2006. Current assets constitute major share of Company's asset base. Its share in the total assets was 65.2% for 2007. Account and other receivables

as on 31st December, 2007 was AED399.1mn. For the year 2007, the average receivable period was 192 days, down from 218 days in 2006. Similarly the average inventory holding period was 215 days in 2007, down from 238 days in 2006. Inventory as on 31st December, 2007 was AED216.5mn. Held-for-trading investments portfolio of the Company stood at AED44.8mn at the end of 2007, down from AED111.7mn in 2006. Cash and bank balances of the Company stood at AED344.6mn at the end of 2007.

Chart 4: Asset Composition



Source: Julphar

The net fixed assets of Julphar were AED366.7mn at the end of 2007, up 21.2% over that at the end of 2006. During 2007, the Company has been investing its two new plants – Julphar 8 and 9 – which were commissioned in the first half of 2008 and in addition it has drawn up plans to build several new plants in UAE. Julphar’s total investment in Planet Pharmacies (where it holds 40% stake) stood at AED66.1mn at the end of 2007.

On the liabilities side, the account and other payables totaled AED119.8mn at the end of 2007. For the year 2007, the average payable period was 115 days, up from 104 days in 2006. The total borrowings of the Company have gone up to AED176.7mn at the end of 2007, compared to AED157.1mn at the end of 2006. The owners’ equity amounted to AED1,229.9mn at the end of the 2007.

Financial Performance in the 1H-2008

Total revenue in 1H-2008 increased by 14.4% to reach AED308.5mn, up from AED269.8mn in 1H-2007. During the period, Julphar transferred its ownership in entities like Julphar Drug Store (Pharmacies Division) – UAE, Scientific Pharmacy – Oman and Fujairah Medical Trading Company – UAE to Planet Pharmacies LLC. So revenue for the period excluded all pharmacy and trading related revenues.

Gross profit of Julphar was AED180.9mn for the period 1H-2008, up 14.5% from AED158.1mn for 1H-2007. The gross profit margin was almost constant as previous period at 58.6%.

Julphar’s distribution expenses increased by 12.8% to reach AED111.9mn. This as a percentage of total revenue declined to 36.3% in 1H-2008, down from 36.8% in 1H-2007. The Company’s administrative expenses increased by 27.9% to reach AED14.5mn. This as

a percentage of total revenue increased to 4.7% in 1H-2008, up from 4.2% in 1H-2007. For 1H-2008, Julphar's operating profit increased by 11.9% to reach AED57.0mn. This translated to an operating margin of 18.5% in 1H-2008, down from 18.9% in 1H-2007.

Table 1: Performance in 1H-2008

<i>In AED mn</i>	1H-2007	1H-2008	% change
Sales	269,758	308,546	14.4%
Less: Cost of sales	111,705	127,599	14.2%
Gross profit	158,053	180,947	14.5%
Add: Other income	3,336	2,380	-28.7%
Less: Distribution expenses	99,144	111,870	12.8%
Less: Administrative Expenses	11,303	14,457	27.9%
Operating profit	50,942	57,000	11.9%
(Loss)/Income in investment in shares	13,273	11,068	-16.6%
Less: Finance costs	4,900	3,386	-30.9%
Add: Profit on sale of subsidiaries	-	57,562	-
Net profit	62,336	122,244	96.1%

Source: Julphar

Julphar made a profit of AED11.1mn from its investment activities during the period as compared to a profit of AED13.3mn in 1H-2007. On account of sale of its subsidiaries like Julphar Drug Store (Pharmacies Division) – UAE, Scientific Pharmacy – Oman and Fujairah Medical Trading Company – UAE to Planet Pharmacies LLC, Julphar made a one-time profit of AED57.6mn during the period. Net profit for the period was AED122.2mn, up 96.1% from 1H-2007. The net profit margin for 1H-2008 was 39.6%, up from 23.1% in 1H-2007.

The total asset base of Julphar was AED1,598.8mn at the end of 1H-2008. Account and other receivables as on 30th June, 2008 was AED405.4mn. Inventory as on 30th June, 2008 was AED207.2mn. The fixed assets were AED477.4mn at the end of 1H-2008, significantly up from end-2007 level. Due to transfer of assets to Planet Pharmacies during the period, its investment in associates was AED293.6mn as compared to AED66.1mn at the end of 2007. On the liabilities side, the account and other payables totaled AED78.7mn at the end of 1H-2008. The total borrowings of Julphar have increased during the period to AED201.3mn in order to fund the expansion plans of the company. The owners' equity amounted to AED1,280.4mn at the end of the 1H-2008.

Outlook and Valuation

The healthcare and pharmaceutical sector in GCC countries have been growing at a healthy rate over the past few years. This is due to factors like increase in population, rising purchasing power on the back of record oil revenues, the expansion of the private healthcare sector and increase in healthcare insurance. The private healthcare sector has been expanding in recent years in the region as some of the Governments no longer provide free medical assistance to expatriates. Linked to private-sector healthcare growth is the steady increase in lifestyle-related diseases (more commonly reported in Western countries) which will increase demand for high-value treatments for diseases such as cancer and heart disease. The region is also witnessing one of the fastest growing populations in the World, and this will drive market value upwards in the long term.

All these factors are also expected to drive pharmaceutical market in coming years. Julphar is well-positioned to take benefit of the situation being one of the largest regional players in pharmaceutical sector. The Company has charted out its growth plan to meet the growing demand and has been investing in new plants. In the first half of 2008, Julphar commissioned two plants in UAE and there are a few more plants are under construction which will be completed in the next three years. With the completion of these projects, Julphar will have 14 plants in the UAE.

The Company is also planning to set up another seven manufacturing plants outside the UAE. These plants will be located in countries like Afghanistan, India, Morocco, Sudan, Lebanon, Yemen and Iran. The expansion plan of Julphar will be supported by their local agents in respective countries who will become business partners in these projects. Julphar has estimated total investment for these projects to be AED2bn. Julphar will transfer the technology and invest AED1.2bn and local partners will invest AED800mn. As per the Company's management, the plant in Afghanistan will start production in 2008. The plants in Sudan and Morocco will be ready by 2009 and the projects in Yemen, Iran and Lebanon will be ready by 2010.

About 90 per cent of production of Julphar is exported to 47 countries in the MENA region, US, Europe, Africa, Eastern Europe, Russia and Iran. Going forward, Julphar has indicated that they will focus more on MENA and Asia region rather than US and Europe. In fact looking at the countries identified by Julphar for its expansion, pharmaceutical industries in these countries are not competitive except India. This offers a good opportunity for Julphar to grow. With its expansion plans in place, we believe the Company is well-placed to grow strongly in coming years.

We also believe that the formation of Planet Pharmacies is a step in the right direction as there is a lot scope to grow in the current fragmented and unorganized retail pharmaceutical sector in MENA region. In recent times, the Company has been facing a rise in the cost of raw materials due to the appreciation of major currencies especially Euro against US Dollar (to which AED is pegged). The tie-up with SMS Pharmaceutical is expected to mitigate this risk to some extent.

However in order to be successful in new markets, the Company has to adapt different strategies as they are quite different markets as compared to UAE or GCC markets. In fact most of the countries where Julphar plans to expand are quite price-conscious unlike UAE or GCC markets. The Company also has to contend with increased competition on its home turf as more and more foreign companies are looking forward to strengthen their presence here looking at the attractiveness of the market.

Based on the current market price of AED2.78, Julphar stock is trading at 8.59x of its 2007 earnings and 1.45x of its 2007 book value. On a one year forward basis, the stock is trading at 8.38x of 2008F earnings and 1.30x of 2008F book value. Based on a WACC of 10.0%, the DCF value of Julphar is AED3.91. On a relative valuation basis, the Company's stock value is AED3.63. Based on the combination of DCF and Relative Valuation method, we recommend a **BUY** on the stock with a price target of AED3.86, an upside of 38.7% from current levels.

Balance Sheet

	Gulf Pharmaceutical Industries (Julphar)						
Amount in AED ('000)	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)
Assets:							
Land	2,815	1,734	1,734	3,099	3,099	3,099	3,099
Property, plant and equipment	302,849	300,800	364,963	466,568	543,165	609,142	656,119
Advance payments against plant and equipment	1,182	15,963	26,549	42,712	43,994	44,905	46,024
Intangible assets	3,612	5,356	16,326	-	-	-	-
Investment in associates	-	-	66,100	316,730	359,489	422,399	517,439
Investment in land	5,050	6,060	6,060	6,060	6,060	6,060	6,060
Available-for-sale investments	16,717	340	32,248	28,013	28,013	28,013	28,013
Held-to-maturity investments	-	27,713	28,099	27,712	27,712	27,712	27,712
Total Non-current Assets	332,225	357,966	542,079	890,894	1,011,531	1,141,330	1,284,466
Inventories	172,240	163,090	216,536	220,501	245,540	293,306	350,080
Accounts receivable	344,725	144,059	182,880	191,740	233,263	277,869	331,655
Other receivables	31,764	167,322	216,243	223,731	234,918	246,664	271,330
Held-for-trading investments	106,248	111,743	44,811	80,660	108,891	136,113	170,142
Discontinued operation assets	-	92,026	8,913	8,913	8,913	8,913	8,913
Fixed deposits	-	50,801	20,162	21,573	23,083	24,699	26,428
Cash and bank balances	38,684	89,734	324,463	65,116	77,889	75,644	78,595
Total Current Assets	693,661	818,775	1,014,008	812,235	932,498	1,063,208	1,237,143
Total Assets	1,025,886	1,176,741	1,556,087	1,703,129	1,944,029	2,204,538	2,521,610
Liabilities:							
Share capital	385,200	516,016	610,516	641,042	641,042	641,042	641,042
Reserves	230,365	284,029	396,396	417,664	437,972	463,956	463,956
Change in fair value of investment in shares	6,323	275	642	(8,374)	(8,374)	(8,374)	(8,374)
Retained earnings	129,596	109,488	222,205	320,393	405,352	541,407	743,949
Differences from translation of foreign currencies	2,044	-	140	140	140	140	140
Total Shareholder's equity	753,528	909,808	1,229,899	1,370,866	1,476,132	1,638,171	1,840,713
End of service benefit obligation	7,831	8,789	12,003	13,753	15,993	18,810	22,173
Medium term bank loans	35,955	27,474	5,000	-	-	-	-
Total Non-current Liabilities	43,786	36,263	17,003	13,753	15,993	18,810	22,173
Trade payables and others	64,363	82,898	119,827	91,115	116,411	146,035	174,303
Unclaimed dividends	14,139	11,479	13,561	14,239	14,951	15,699	16,483
Short term borrowings and current portions of MTL	150,070	129,666	171,660	209,020	316,405	381,686	463,800
Discontinued operation liabilities	-	6,627	4,137	4,137	4,137	4,137	4,137
Total Current Liabilities	228,572	230,670	309,185	318,511	451,904	547,557	658,723
Total Liabilities	1,025,886	1,176,741	1,556,087	1,703,129	1,944,029	2,204,538	2,521,610

Operating Statement

Amount in AED ('000)	Gulf Pharmaceutical Industries (Julphar)						
	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)
Sales	544,601	576,382	676,428	699,852	896,222	1,126,912	1,345,045
Less: Cost of sales	261,008	257,204	322,485	302,336	386,272	484,572	578,369
Gross profit	283,593	319,178	353,943	397,516	509,950	642,340	766,676
Add: Other operating income	3,326	5,632	9,657	7,657	8,422	10,458	12,338
Add: Profit from investment in associates	-	-	6,100	23,135	42,759	62,910	95,040
Less: Distribution expenses	168,110	179,187	198,481	244,948	315,918	394,419	470,766
Less: Administrative expenses	36,399	34,512	42,342	31,493	40,330	50,711	60,527
Less: Other operating expenses	6,662	4,869	9,798	10,078	11,651	13,523	14,795
Operating profit	75,748	106,242	119,079	141,788	193,232	257,055	327,965
Add: Income from investment in shares	40,937	(25,094)	40,571	26,833	28,231	27,223	34,028
Add: Profit on sale of subsidiaries	-	-	62,500	57,562	-	-	-
Less : Finance costs	6,888	11,501	10,144	13,499	18,390	24,433	29,592
Profit Before Tax	109,797	69,647	212,006	212,684	203,073	259,845	332,401
Less: Taxes	110	-	-	-	-	-	-
Net profit from continued operation	109,687	69,647	212,006	212,684	203,073	259,845	332,401
Add: Profit/(loss) from discontinued operations	7,189	(226)	(4,545)	-	-	-	-
Net profit	116,876	69,421	207,461	212,684	203,073	259,845	332,401
P&L Appropriation Account:							
Op Balance of Retained Earnings	87,936	129,596	109,488	222,205	320,393	405,352	541,407
Add: Net profit	116,876	69,421	207,461	212,684	203,073	259,845	332,401
Less: Appropriated to reserves	23,376	13,332	41,492	21,268	20,307	25,984	-
Less: Cash dividends	25,200	-	-	61,052	96,156	96,156	128,208
Less: Bonus shares	25,200	77,040	-	30,526	-	-	-
Less: Board of Directors Remuneration	1,440	1,650	1,650	1,650	1,650	1,650	1,650
Less: Transfer to unclaimed dividends	-	-	51,602	-	-	-	-
Foreign exchange translation adjustments	-	2,493	-	-	-	-	-
CI Balance of Retained Earnings	129,596	109,488	222,205	320,393	405,352	541,407	743,949

Cash Flow Statement

	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)
Amount in AED ('000)							
Gulf Pharmaceutical Industries (Julphar)							
Operating							
Net profit for the year	116,876	69,421	207,461	212,684	203,073	259,845	332,401
Add: Depreciation	27,408	28,792	33,150	37,419	45,438	51,854	56,937
Add: Amortisation of intangible assets	1,409	511	-	-	-	-	-
Add: End of service benefit obligation	1,434	1,439	3,214	1,750	2,241	2,817	3,363
Add: Provision	1,124	884	11,026	-	-	-	-
Less: Increase in fair value of investments in land	1,010	1,010	-	-	-	-	-
Change in fair value of investments	25,261	(35,941)	28,469	-	-	-	-
Add: Finance cost	6,888	11,501	10,144	13,499	18,390	24,433	29,592
Less: Profit on sale of investment in shares	15,676	10,847	12,489	-	-	-	-
(Loss)/profit from discontinued operation	(7,189)	226	4,545	-	-	-	-
Less: Profit on sale of subsidiaries	-	-	62,500	57,562	-	-	-
Less: Profit from investment in associates	-	-	6,100	-	-	-	-
Less: Interest income	-	2,340	5,088	-	-	-	-
Operating profit before working capital changes	106,003	134,518	154,894	207,790	269,141	338,949	422,292
Less: Increase in current assets	87,315	(25,684)	141,188	20,314	77,748	104,117	135,227
Add: Increase in current liabilities	(3,793)	3,855	20,118	(28,712)	25,296	29,625	28,268
Net cash provided by operating activities	14,895	164,057	33,824	158,764	216,688	264,457	315,333
Investing							
Less: Purchase of land	1,734	-	-	1,365	-	-	-
Less: Purchase of property, plant and equipment	30,367	36,106	93,676	139,024	122,035	117,830	103,915
Less: Advance payments	(1,006)	14,781	10,586	16,163	1,281	912	1,119
Less: Increase in intangible assets	3,000	2,430	10,970	(16,326)	-	-	-
Less: Purchase of investments	111,214	215,474	171,263	40,243	28,231	27,223	34,028
Less: Investments in associates	-	-	60,000	250,630	42,759	62,910	95,040
Less: Net investments in fixed deposits	-	50,801	(30,639)	1,411	1,510	1,616	1,729
Add: Proceeds from disposal of plant and equipment	72	18	26	-	-	-	-
Add: Proceeds from investments	38,707	166,875	250,778	-	-	-	-
Add: Profit on sale of subsidiaries	-	-	62,500	57,562	-	-	-
Add: Dividends Received	245	626	1,940	-	-	-	-
Add: Interest income	-	2,340	5,088	-	-	-	-
Add: Net proceeds from discontinued assets and liabilities	26,278	(11,891)	72,415	-	-	-	-
Net cash from investing activities	(80,007)	(161,624)	76,891	(374,948)	(195,816)	(210,491)	(235,830)
Financing							
Add: Proceeds from increase in capital	-	53,776	94,500	-	-	-	-
Add: proceeds from share premium	-	40,332	70,875	-	-	-	-
Add: Increase/ (Decrease) in short term borrowing	87,117	(44,337)	35,056	24,554	61,385	64,454	62,152
Less: Dividend paid to the shareholders	21,845	2,660	49,520	60,374	95,444	95,409	127,423
Less: Paid for Board of Directors remuneration	1,440	1,650	1,650	1,650	1,650	1,650	1,650
Add: Increase/ (Decrease) in medium term bank loans	23,292	16,152	(15,536)	7,806	46,000	827	19,961
Less: Finance cost paid	6,865	11,223	9,851	13,499	18,390	24,433	29,592
Net cash from financing activities	80,259	50,390	123,874	(43,162)	(8,099)	(56,211)	(76,552)
Effects of exchange rate change on cash and cash equivalents	(492)	-	140	-	-	-	-
Cash at the beginning of the year	24,029	36,911	89,734	324,463	65,116	77,889	75,644
Add: Net increase in cash	14,655	52,823	234,729	(259,347)	12,773	(2,245)	2,951
Cash at the end of the year	38,684	89,734	324,463	65,116	77,889	75,644	78,595

Fact Sheet

	Gulf Pharmaceutical Industries (Julphar)						
	2005	2006	2007	2008 (F)	2009 (F)	2010 (F)	2011 (F)
Profitability							
- Gross Profit Margin	52.1%	55.4%	52.3%	56.8%	56.9%	57.0%	57.0%
- Operating Profit Margin	13.9%	18.4%	17.6%	20.3%	21.6%	22.8%	24.4%
- Net Profit Margin	21.5%	12.0%	30.7%	30.4%	22.7%	23.1%	24.7%
- Return on Average Equity	16.5%	8.3%	19.4%	16.4%	14.3%	16.7%	19.1%
- Return on Average Assets	12.6%	6.3%	15.2%	13.1%	11.1%	12.5%	14.1%
Turnover ratios							
- Inventory turnover	1.6	1.5	1.7	1.4	1.7	1.8	1.8
- Receivables turnover	1.6	1.7	1.9	1.7	2.0	2.3	2.4
- Creditors turnover	3.9	3.5	3.2	2.9	3.7	3.7	3.6
- NFA turnover	1.8	1.9	2.0	1.7	1.8	1.9	2.1
- Total Asset turnover	0.6	0.5	0.5	0.4	0.5	0.5	0.6
Growth ratios							
- Asset growth	24.7%	14.7%	32.2%	9.4%	14.1%	13.4%	14.4%
- Equity growth	13.9%	20.7%	35.2%	11.5%	7.7%	11.0%	12.4%
- Sales growth	11.6%	5.8%	17.4%	3.5%	28.1%	25.7%	19.4%
- Gross profit growth	17.8%	12.5%	10.9%	12.3%	28.3%	26.0%	19.4%
- Operating profit growth	7.6%	40.3%	12.1%	19.1%	36.3%	33.0%	27.6%
- Net profit growth	74.2%	-40.6%	198.8%	2.5%	-4.5%	28.0%	27.9%
Leverage Ratios							
- Debt/Total Assets	0.2	0.1	0.1	0.1	0.2	0.2	0.2
- Debt/Equity	0.2	0.2	0.1	0.2	0.2	0.2	0.3
Ratios used for valuation							
- EPS (AED)	0.18	0.11	0.32	0.33	0.32	0.41	0.52
- Market Price (AED)*	3.33	1.81	2.26	2.78	2.78	2.78	2.78
- Market Cap (AED bn)	2.13	1.16	1.45	1.78	1.78	1.78	1.78
- P/E	18.26	16.71	6.98	8.38	8.78	6.86	5.36
- Book value/share (AED)	1.18	1.42	1.92	2.14	2.30	2.56	2.87
- P/BV	2.83	1.28	1.18	1.30	1.21	1.09	0.97

* Market Price for 2008 and subsequent years is as on 27th July, 2008

The following is a comprehensive list of disclosures which may or may not apply to all our researches. Only the relevant disclosures which apply to this particular research has been mentioned in the table below under the heading of disclosure.

Disclosure Checklist

Company	Recommendation	Ticker	Price	Disclosure
Gulf Pharmaceutical Industries (Julphar)	Buy	JULPHAR UH (Bloomberg) GPHI.AD (Reuters)	AED2.78	1, 10

1. Global Investment House did not receive and will not receive any compensation from the company or anyone else for the preparation of this report.
2. The company being researched holds more than 5% stake in Global Investment House.
3. Global Investment House makes a market in securities issued by this company.
4. Global Investment House acts as a corporate broker or sponsor to this company.
5. The author of or an individual who assisted in the preparation of this report (or a member of his/her household) has a direct ownership position in securities issued by this company.
6. An employee of Global Investment House serves on the board of directors of this company.
7. Within the past year, Global Investment House has managed or co-managed a public offering for this company, for which it received fees.
8. Global Investment House has received compensation from this company for the provision of investment banking or financial advisory services within the past year.
9. Global Investment House expects to receive or intends to seek compensation for investment banking services from this company in the next three months.
10. Please see special footnote below for other relevant disclosures.

Global Research: Equity Ratings Definitions

Global Rating	Definition
Buy	Fair value of the stock is >10% from the current market price
Hold	Fair value of the stock is between +10% and -10% from the current market price
Reduce	Fair value of the stock is between -10% and -20% from the current market price
Sell	Fair value of the stock is < -20% from the current market price

This material was produced by Global Investment House KSCC ('Global'), a firm regulated by the Central Bank of Kuwait. This document is not to be used or considered as an offer to sell or a solicitation of an offer to buy any securities. Global may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities ('securities'), perform services for or solicit business from such issuer, and/or have a position or effect transactions in the securities or options thereof. Global may, to the extent permitted by applicable Kuwaiti law or other applicable laws or regulations, effect transactions in the securities before this material is published to recipients.

Information and opinions contained herein have been compiled or arrived by Global from sources believed to be reliable, but Global has not independently verified the contents of this document. Accordingly, no representation or warranty, express or implied, is made as to and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. Global accepts no liability for any loss arising from the use of this document or its contents or otherwise arising in connection therewith. This document is not to be relied upon or used in substitution for the exercise of independent judgement. Global shall have no responsibility or liability whatsoever in respect of any inaccuracy in or omission from this or any other document prepared by Global for, or sent by Global to any person and any such person shall be responsible for conducting his own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this or other such document.

Opinions and estimates constitute our judgment and are subject to change without prior notice. Past performance is not indicative of future results. This document does not constitute an offer or invitation to subscribe for or purchase any securities, and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person.

Neither this report nor any copy hereof may be distributed in any jurisdiction outside Kuwait where its distribution may be restricted by law. Persons who receive this report should make themselves aware of and adhere to any such restrictions. By accepting this report you agree to be bound by the foregoing limitations.