

Anti-retroviral contract boost Cipla Medpro

With the R1,4bn contract to supply the state with antiretroviral (ARV) drugs, Cipla Medpro SA has found a remedy for its struggling manufacturing division - at least for the next two years.

The group received the lion's share in the sought-after tender. It was awarded 25% of the R5,9bn tender, beating its bigger rivals Aspen Pharmacare, which got 20,6% of the contract, and Adcock Ingram, which received 14%.

Though the margins are thin, the contract will boost Cipla Medpro Manufacturing (CMM), which has been battling to increase volumes in its state-of-the-art factory in Durban.

The group has invested more than R225m in the upgrade of the factory and the installation of sophisticated equipment. Things have started to improve only since the group has been getting more state tenders.

The windfall comes as Cipla directors are considering an offer by its long-term supplier, Cipla India, to acquire 51% of the local firm for R8,55 a share. The contract may influence the takeover talks.

The ARV award triggered a surge in the local firm's share. It's now trading at R8,94, higher than the offer tabled.

There are compelling reasons for the two groups to merge. Besides being the local firm's biggest supplier, Cipla India also owns 25% of CMM, a stake it acquired last year in a bid to use the business's spare capacity.

"[The proposed merger is] positive for Cipla Medpro as we believe it holds some important benefits for the local operation and addresses some key concerns for shareholders," says Aslam Dalvi, an equity analyst at Kagiso Asset Management.

"Firstly, it secures the supply agreement between Cipla Medpro and Cipla India, which is crucial to the long-term success and sustainability of the local operation.

"Secondly, we believe a closer tie-up with Cipla India alleviates some concerns around governance, leadership and strategic direction."

But other analysts have scorned the R8,55 a share offer and urged shareholders to ask for more, saying Cipla is a high-growth business.

Source: *Financial Mail* via I-Net Bridge

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