

₹ 2440

Pfizer Ltd (PFIZER)

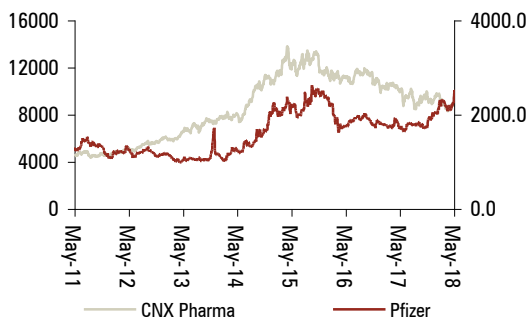
Rating Matrix

Rating	: Buy
Target	: ₹ 3000
Target Period	: 12-15 months
Potential Upside	: 23%

Stock Data

Particular	Amount
Market Capitalisation (₹ cr)	11163.1
Debt (FY18) (₹ cr)	2.5
Cash (FY18) (₹ cr)	1771.9
EV (₹ cr)	9393.7
52 week H/L (₹)	2550/1625
Equity capital (₹ cr)	45.8
Face value (₹)	10.0
MF Holding (%)	8.6
FII Holding (%)	3.0

Price Movement



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- FY18 revenues declined 3% YoY to ₹ 1980 crore mainly due to GST impact, discontinuance of Corex cough syrup and divestiture of certain brands. Q4FY18 revenues grew 15% YoY. Excluding Corex and divestiture impact FY18 and Q4FY18 revenues grew 13% and 21%, respectively
- EBITDA margins increased 817 bps to 25.3% YoY in FY18 mainly owing to better operating leverage. EBITDA margins in Q4FY18 increased 574 bps YoY to 26.6%. EBITDA increased 43% YoY to ₹ 500 crore in FY18
- Adjusted net profit increased 46% YoY to ₹ 360 crore in FY18. Q4FY18 net profit increased 54% YoY to ₹ 104 crore

Triggers

Restructuring complete; new brands report strong growth

Pfizer's revenues in FY18 declined 3% due to 1) discontinuance of Corex (Chlorpheniramine+Codeine) brand, 2) GST impact, and 3) sale of four OTC brands to Piramal Enterprises. Sales, excluding Corex and divestiture, grew 13% YoY mainly due to ~25% growth in Prevenar vaccine to ₹ 195 crore, ~45% growth in Corex Dx (Chlorpheniramine + Dextromethorphan), Corex T (Codeine) to ₹ 125 crore, acquisition of new brands (Neksium and Meronem) and new product launches (Corex T and Folvite Active). The company's Prevenar vaccine has grown at ~50% CAGR in FY14-18. Corex DX and Corex T brands have also grown at ~38% CAGR over the same period. Pfizer has a well-diversified portfolio across segment and therapeutics. Top 10 brands contribute ~52% to the overall sales (excluding discontinued of Corex brand).

Improvement in margins with healthy return ratios

Pfizer is a net debt-free company with healthy core RoE of 31% in FY18. Post restructuring and discontinuance of Corex brand, the EBITDA margins are returning to normal and were at 25% in FY18 against 17% in FY17 mainly due to better operational leverage. Strong brand recall, consistent new product launches and acquisition of new brands, volume growth in top brands and intermittent price hikes provide comfort on the return ratio front. The dividend payout was 25% in FY18 while cash per share was ₹ 387 in FY18.

Valuation & Outlook

In the backdrop of the resilience demonstrated by India focused companies despite disturbances due to demonetisation and GST implementation in the last 12-15 months, we shift our preference towards Indian formulation players, especially MNCs. The domestic pharma industry is expected to grow in the range of 10-12% per annum. The issues such as NLEM and other regulatory aspects are mostly in the price and the threat of mandatory generics prescription seems to be losing its significance for want of clear implementation plan. Pfizer, like most MNCs has outsourced some production to third parties. The only concern now will be the draft pharma policy that has mandated for lower dependence on third party manufacturing. We expect revenues, EBITDA and adjusted PAT to grow at a CAGR of 14%, 13% and 13%, respectively, in FY18-20E. Among MNCs, the stock is available at an attractive valuation of ~27x FY19E EPS of ₹ 90 and ~24x FY20E EPS of ₹ 100.

Exhibit 1: Financials Performance

(Year-end March)	FY14	FY15	FY16	FY17	FY18P
Revenues (₹ crore)	1,111.8	1853.32	2,012.3	1,966.3	1,980.2
EBITDA (₹ crore)	239.3	303.3	432.9	350.1	500.3
EBITDA Margins (%)	21.5	16.4	21.5	17.8	25.3
Net Profit (₹ crore)	220.9	69.8	305.0	336.8	360.1
Adjusted net profit (₹ crore)	220.9	69.8	305.0	336.8	360.1
Balance Sheet					
Net worth (₹ crore)	658.4	1973.0	2,163.5	2,418.9	2,683.2
Debt (₹ crore)	0.0	2.5	2.5	2.5	2.5
Cash (₹ crore)	307.8	609.3	1,024.7	1,523.1	1,771.9
Ratios					
RoE (%)	33.5	3.5	14.1	13.9	13.4
Core RoE (%)	43.2	1.9	21.9	29.8	31.3
Asset turnover (x)	9.7	1.4	2.1	2.0	1.8
Earnings per share (₹)	48.3	15.3	66.7	73.6	78.7
Adjusted earning per share (₹)	48.3	15.3	66.7	73.6	78.7
Dividend Payout (%)	2,806.4	98.28	22.5	27.2	25.4
P/E (x)	50.5	159.9	36.6	33.1	31.0

Source: Company, Capita Line, ICICI Direct Research; P= Projected

Exhibit 2: Key Brands (₹ crore)

BRAND	Therapeutic	FY14	FY15	FY16	FY17	FY18	CAGR FY14-18
Becosules	Vitamin	228.4	243.8	228.6	222.8	230.9	0.3
Magnex	Anti-Infection	111.6	131.4	146.1	138.3	154.9	8.5
Dolonex	Pain	109.3	126.9	134.5	141.6	143.7	7.1
Minipress XI	CVS	145.0	143.9	121.0	146.7	141.7	-0.6
Gelusil Mps	GI	104.3	130.2	139.5	134.4	136.8	7.0
Prevenar 13	Vaccine	18.2	29.3	38.8	102.1	124.6	61.7
Mucaine	GI	72.5	85.5	103.5	115.2	118.0	12.9
Wysolone	Anti-Allergy	67.2	87.6	96.3	115.0	101.7	10.9
Corex Dx	Cough Syrup	34.0	49.1	59.3	80.3	93.3	28.8
Dalacin C	Antibiotic	62.7	70.7	74.1	70.0	76.5	5.1
Corex T	Cough Syrup	0.8	0.4	0.3	6.3	32.0	149.5
Prevenar 7	Vaccine	19.8	43.3	47.8	53.9	70.0	37.1

Source: AIOCD, ICICI Direct Research

Exhibit 3: Therapeutic Bifurcation (₹ crore)

Therapeutic	FY14	FY15	FY16	FY17	FY18	CAGR FY14-18
Anti-Infectives	340.6	382.7	414.9	375.4	409.4	4.7
GI	217.3	264.4	294.0	298.1	298.5	8.3
Vitamins	278.0	301.0	292.5	284.8	288.4	0.9
Hormones	191.1	234.4	251.5	277.1	270.2	9.0
Gynaecological	157.6	187.3	221.9	245.1	261.1	13.5
Cardiac	211.0	223.5	190.6	215.5	197.7	-1.6
CNS	147.2	177.4	209.5	202.9	194.9	7.3
Vaccines	38.0	72.7	86.6	156.0	194.6	50.4
Pain	155.3	179.9	187.0	190.9	192.5	5.5
Respiratory	280.7	297.9	390.7	326.6	150.3	-14.5
Anti-Neoplastics	30.3	36.3	37.5	52.5	92.6	32.3
Blood Related	67.4	70.5	85.2	81.8	78.7	3.9
Ophthal	30.5	37.2	45.2	45.7	44.9	10.1
Sex Stimulants	13.1	16.1	20.0	27.1	35.4	28.1
Urology	18.1	23.1	27.2	29.0	34.1	17.2
Derma	27.4	32.2	29.5	28.5	26.4	-0.9

Source: AIOCD, ICICI Direct Research

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