

Rich valuations; Downgrade to Hold

We downgrade Pfizer to Hold from Buy rating and retain our TP of Rs3,100 (earlier Rs2,900), based on 23x March'20E EPS of Rs134.6 due to its rich valuations. Pfizer share price has moved rapidly in the recent past necessitating the rating revision. We attended AGM of Pfizer and came out with a positive outlook. We expect the company to deliver superior performance due to strong growth in its major brands. Recently, the company launched new line extension Corex-T and Corex LS. Pfizer has launched Meronem and Neksium in India, which are acquired from Astra Zeneca Pharma. The key downside risk to our assumption is slowdown of domestic pharma market and additional brands coming under price control.

- **Strong revenue growth:** Pfizer's revenues are likely to grow faster than the market growth due to strong growth of its major brands. The growth was contributed by its major brands namely: Becosules, Ovrall-L, Corex-Dx, Wysolone, Magnex, Neksium and Dolonex. We expect the company to report better revenue growth in FY19, led by the launch of a series of products as line extensions under the Corex brand name and the recent launch of Meronem and Neksium in India. The management indicated the launch of 3-4 new products per annum. Pfizer's 17 brands are in No.1 position in the domestic market. The company has a field force of 1,700 MRs. Pfizer's top 10 brands generate 70% of its revenues.
- **Margin likely to be maintained:** Pfizer's EBITDA margin for the Q1FY19 grew 770bps YoY to 25.4% from 17.7%. The management has indicated that the margin are sustainable at the current level. Pfizer commands the highest margin among MNC pharma companies. The change in the product mix, new product launches and price revision of non-NLEM products would improve Pfizer's margins going forward.
- **Net profit set to grow:** Pfizer's net profit grew by 61%YoY in Q1FY19 to Rs918mn from Rs572mn due to margin improvement. Pfizer is a debt-free, cash-rich company with cash/share of ~Rs400 and is looking at acquisition in the domestic market. We expect the company to report superior performance led by its strong brands, sale of matured OTC brands to Piramal Enterprises, and closure of the Thane facility.
- **Recommendation and key risks:** Pfizer has closed down its Thane manufacturing facility as a rationalisation measure. We downgrade Pfizer to Hold from Buy rating due to its rich valuations and maintain TP to Rs3,100 (earlier Rs2,900) based on 23x March'20E EPS of 134.6 and a downside of 13.8%.

Target Price	Rs3,100	Key Data	
CMP*	Rs3,582	Bloomberg Code	PFIZ IN
Doenside	13.8%	Curr Shares O/S (mn)	45.7
Previous Target	Rs2900	Diluted Shares O/S(mn)	45.7
Previous Rating	Buy	Mkt Cap (Rsbn/USDbn)	163.9/2.3
Price Performance (%)*		52 Wk H / L (Rs)	3847.7/1681
	1M 6M 1Yr	5 Year H / L (Rs)	3847.7/1010
PFIZ IN	32.0 63.1 96.8	Daily Vol. (3M NSE Avg.)	79328
Nifty	0.1 11.8 15.1		

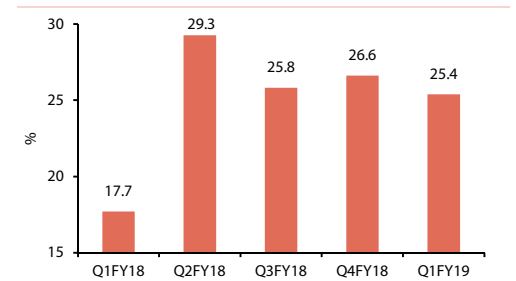
*as on 7th September 2018 Source: Bloomberg, Centrum Research

Shareholding pattern*(%)

	Jun-18	Mar-18	Dec-17	Sept-17
Promoter	63.9	63.9	63.9	63.9
FIs	3.2	3.0	3.1	2.9
DIs	12.4	11.9	11.6	11.6
Others	20.5	21.2	21.4	21.6

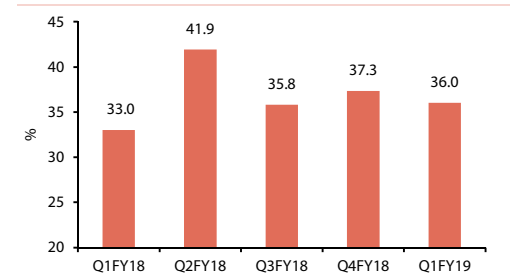
Source: BSE, *as on 7th September 2018

Trend in EBITDA margin (%)



Source: Company, Centrum Research

Trend in material cost (%)



Source: Company, Centrum Research

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Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Net profit	YoY (%)	DEPS Rs.	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY16	20,938	13.0	4,327	20.7	2,950	63.2	64.5	14.3	14.4	34.4	23.5
FY17	20,419	(2.5)	3,491	17.1	2,063	(30.1)	45.1	9.0	8.9	40.8	24.2
FY18	19,802	(3.0)	5,002	25.3	3,601	74.6	78.7	14.1	14.0	24.1	17.4
FY19E	25,282	27.7	6,841	27.1	5,126	42.4	112.1	17.8	17.7	32.0	24.0
FY20E	29,247	15.7	8,216	28.1	6,161	20.2	134.6	18.7	18.6	26.6	19.9

Source: Company, Centrum Research Estimates,

In the interest of timeliness, this document is not edited.

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

AGM Highlights

We attended Pfizer AGM held on 6th September'18 and came out with a positive note. The key highlights from the meeting are as follows:

Superior performance

- Pfizer had a faster growth of 13% compared to the industry growth of 6% during FY18. Even in Q1FY19, the company grew at 24%, faster than the industry growth of 10.6%.
- Pfizer reported EBIDTA margin of 25%, the highest among MNC pharma. The management indicated to sustain the margin at the current level.
- The company has strong brand franchise. Pfizer's 17 brands are in No.1 position in their respective therapeutic segment.
- Pfizer has low exposure to price control. The company derives 13% of its revenues from the price controlled products.
- The company has implemented SAP and automation for better efficiency and good audit rating.
- Pfizer has re-aligned its product offerings in three categories namely: Primary Care (generic competition products and pain management), Special Care (Women's Healthcare, Ophthalmology, CVS and CNS) and Critical Care (ICU antibiotics).

Corex line extensions

- Pfizer has launched the line extension Corex-T and Corex LS cough syrups in the domestic market and expects good growth from these products. The company already has Corex-Dx (non-codeine based) syrup.
- Corex-T is a prescription product and contains Codeine phosphate and Triprolidine HCl and used in the treatment of dry cough.

EBIDTA margin

- Pfizer's EBIDTA margin in Q1FY19 grew by 770bps YoY to 25.4% from 17.7% on a lower base in Q1FY18 due to uncertainties of GST implementation. The company has reported superior margin during the quarter.

Restructuring led to margin improvement

- Closure of Thane manufacturing unit has resulted in margin improvement.

Financials

- The company is debt-free and cash-rich, with cash/share of ~Rs400. Pfizer is looking for acquisitions in the domestic market.
- Pfizer derives its major revenues from the domestic market.
- Pfizer is not paying any royalty to the parent company.
- The company is likely to maintain its EBIDTA margin of 25%.

Ban on Oxytocin

- The ban on Pitocin (Oxytocin injection) by Government of India is likely to impact ~Rs100mn per annum revenue loss for Pfizer.

Performance of major brands

New product launches

- Pfizer launched 4 new products in FY18 namely: Meronem, Nexsium, Corex LS and Folvite DHE. Meronem is a hospital related antibiotic. Of these, Meronem, Corex LS and Nexsium had good growth. Nexsium was the first brand acquisition by Pfizer in India.
- Pfizer ranks No.1 in the hospital related antibiotics with Magnex and Meronem brands.
- The management indicated that Dolonex, Wysolone and Magnex have also done well.
- Pfizer has a field force of 1,700 MRs.
- The company is working on global brand 'Centrum'-multivitamin and mineral OTC brand of Pfizer.
- Pfizer's top 10 brands generate 70% of its revenues.

Valuations & Recommendations

Pfizer has launched Corex-T (containing Codeine Phosphate and Triprolidine HCl) in February'18 and Corex LS cough syrup (Levosulbutamol, Guafenesin and Ambroxol) in May'18 as line extension products.

We expect Pfizer to perform well due to strong growth from the launch of Meronem in Q2FY18 in the domestic market. Meronem came to Pfizer from Astra Zeneca Pharma (AZP) in line with the parent company's global acquisition of AZP's anti-infective portfolio. Meronem's sales stood at Rs819mn as per AIOCD AWACS-June'18 data. Pfizer has acquired antiulcer brand Nexsium from Astra Zeneca for Rs750mn. Nexsium had annual sales of Rs284mn.

Pfizer's pneumonia vaccine Prevenar 13 is likely to get approval from DCGI for 5-49 age group. Prevenar 13 has annual sales of Rs3,395mn grew at 12.5%. It is the largest selling vaccine in India.

Pfizer's strong portfolio of well-established brands and the closure of its Thane facility would drive future growth. The company plans to introduce Hospira's generic injectables in India.

At the CMP of Rs3,582, Pfizer trades at 32.0x FY19E EPS of Rs112.1 and 26.6x FY20E EPS of Rs134.6. We downgrade Pfizer to Hold from Buy rating due to its rich valuations and TP to Rs3,100 (earlier Rs2,900) based on 23x March'20E EPS of Rs134.6 and an downside of 13.5%.

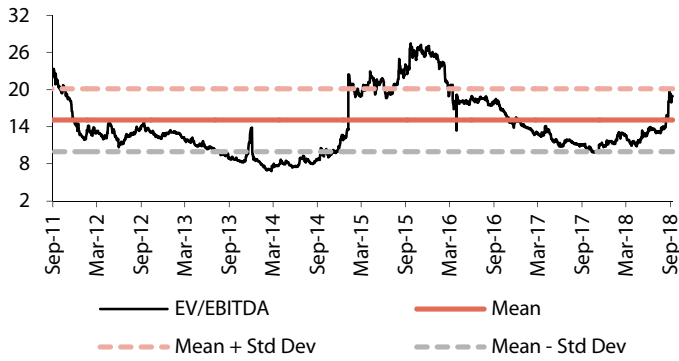
Valuation & key risks

Exhibit 1: Sensitivity Analysis

Sensitivity to key variables – FY19E	% change	% impact on EBITDA	% impact on EPS
Sales	1	3.7	4.9
Material cost	1	(1.3)	(1.8)

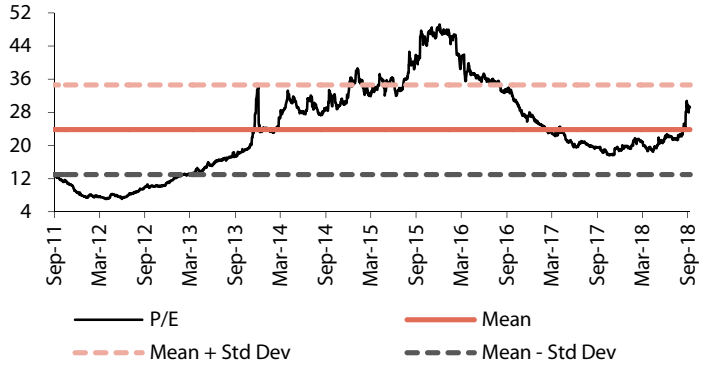
Source: Company, Centrum Research Estimates

Exhibit 2: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 3: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 4: Comparative Valuations

Sector	Mkt Cap (Rs mn)	CAGR FY18-20E (%)			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Pfizer	1,63,877	21.5	28.2	30.8	25.3	27.1	28.1	24.1	32.0	26.6	17.4	24.0	19.9	14.1	17.8	18.7	0.6	0.7	0.8
Abbott India	1,79,010	16.6	30.1	28.9	15.9	17.5	18.9	44.6	35.7	27.9	16.4	24.0	19.0	26.1	26.8	28.3	1.5	0.9	1.0
Glaxo SK Ph	2,96,196	17.1	34.7	41.9	17.5	21.0	23.1	62.6	57.2	44.2	38.7	40.1	31.2	16.4	24.5	29.5	1.7	1.4	1.5
Sanofi India*	1,51,491	15.7	26.5	34.5	21.6	24.3	25.8	30.1	31.9	25.7	16.9	20.5	16.3	16.7	22.0	24.1	2.0	1.5	1.6

Source: Company, Centrum Research Estimates, * December ending, Prices as on 7th September 2018

Quarterly financials, Operating Metrics and Key Performance Indicators

Exhibit 5: Quarterly Financials

PARTICULARS (Rs mn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
P & L								
Revenues	5,577	5,102	4,532	4,326	5,711	4,565	5,200	5,123
Material cost	2,352	2,037	1,617	1,428	2,395	1,634	1,941	1,845
Personnel expenses	808	876	599	808	793	656	886	806
Other expenses	1,505	1,568	1,371	1,324	851	1,096	988	1,171
Total Expenses	4,665	4,481	3,587	3,560	4,039	3,386	3,815	3,822
EBIDTA	912	621	945	766	1,672	1,179	1,385	1,301
Other income	243	265	288	273	237	321	312	306
PBDIT	1,155	886	1,233	1,039	1,909	1,500	1,697	1,607
Interest	2	2	1	2	2	2	(1)	2
Depreciation	161	154	164	152	160	177	173	183
Profit before tax	992	730	1,068	885	1,747	1,321	1,525	1,422
Tax provision	406	297	388	313	636	448	480	504
PAT before EO items	586	433	680	572	1,111	873	1,045	918
EO items	677	190	0	89	0	0	0	0
PAT after EO items	1263	623	680	483	1111	873	1045	918
Growth (%)								
Revenues	5.1	(3.1)	(15.3)	(17.0)	2.4	(10.5)	14.7	18.4
EBIDTA	(21.0)	(22.9)	(23.0)	(24.4)	83.3	89.9	46.6	69.8
Net profit before EO items	(23.4)	(27.6)	(22.0)	(23.4)	89.6	101.6	53.7	60.5
Margin (%)								
EBIDTA	16.4	12.2	20.9	17.7	29.3	25.8	26.6	25.4
Profit before tax	17.8	14.3	23.6	20.5	30.6	28.9	29.3	27.8
Net margin before EO items	10.5	8.5	15.0	13.2	19.5	19.1	20.1	17.9

Source: Company, Centrum Research

Exhibit 6: Key performance indicators

Key performance indicator	FY16	FY17	FY18	FY19E	FY20E
Revenue growth (%)	13.0	(2.5)	(3.0)	27.7	15.7
Material cost (%)	37.6	39.0	37.4	36.3	35.7

Source: Centrum Research Estimates

Financials-standalone

Exhibit 7: Income Statement

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenues	20,938	20,419	19,802	25,282	29,247
Material cost	7,871	7,964	7,397	9,171	10,440
% of revenues	37.6	39.0	37.4	36.3	35.7
Employee cost	2,774	3,039	3,143	3,940	4,550
% of revenues	13.2	14.9	15.9	15.6	15.6
Other Expenses	5,966	5,925	4,260	5,330	6,041
% of revenues	28.5	29.0	21.5	21.1	20.7
EBIDTA	4,327	3,491	5,002	6,841	8,216
EBIDTA margin (%)	20.7	17.1	25.3	27.1	28.1
Depreciation & Amortisation	579	629	662	730	765
EBIT	3,748	2,862	4,340	6,111	7,451
Interest Expenses	14	10	4	5	5
PBT from operations	3,734	2,852	4,336	6,106	7,446
Other income	870	1,012	1,143	1,420	1,615
PBT	4,604	3,864	5,479	7,526	9,061
Tax provision	1,654	1,801	1,878	2,400	2,900
Effective tax rate (%)	35.9	46.6	34.3	31.9	32.0
Net profit	2,950	2,063	3,601	5,126	6,161
EO items	99	1,304	-	-	-
Reported net profit	3,049	3,367	3,601	5,126	6,161
Adj. Net profit	2,950	2,063	3,601	5,126	6,161

Source: Company, Centrum Research Estimates

Exhibit 8: Key Ratios

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Growth Ratios (%)					
Revenues	13.0	(2.5)	(3.0)	27.7	15.7
EBIDTA	13.0	(19.3)	43.3	36.8	20.1
Adj. Net Profit	63.2	(30.1)	74.6	42.4	20.2
Margin Ratios (%)					
EBIDTA margin	20.7	17.1	25.3	27.1	28.1
PBT from operations margin	17.8	14.0	21.9	24.2	25.5
Adj. PAT margin	14.1	10.1	18.2	20.3	21.1
Return Ratios (%)					
RoCE	14.4	8.9	14.0	17.7	18.6
RoE	14.3	9.0	14.1	17.8	18.7
RoC	19.5	14.7	30.9	42.9	49.2
Turnover ratios (days)					
Gross Block Turnover (x)	1.6	1.5	1.4	1.6	1.7
Debtors	25	20	29	26	26
Creditors	59	69	91	139	121
Inventories	63	58	55	69	54
Cash Conversion Cycle	29	8	-8	-44	-41
Solvency Ratio					
Debt-Equity	0.0	0.0	0.0	0.0	0.0
Net Debt-Equity	(0.5)	(0.6)	(0.7)	(0.7)	(0.7)
Current Ratio	2.8	2.9	2.8	2.6	2.8
Interest Coverage Ratio	0.0	0.0	0.0	0.0	0.0
Gross Debt/EBIDTA	0.0	0.0	0.0	0.0	0.0
Per Share (Rs)					
FDEPS (adjusted)	64.5	45.1	78.7	112.1	134.6
CEPS	77.1	58.8	93.2	128.0	151.4
Book Value	472.9	528.7	586.5	669.0	768.3
Dividend	15.0	20.0	20.0	25.0	30.0
Dividend Payout (%)	27.1	32.1	30.0	26.3	26.3
Valuations (x) (Avg Mkt Cap)					
PER	34.4	40.8	24.1	32.0	26.6
P/BV	4.7	3.5	3.2	5.4	4.7
EV/EBIDTA	23.5	24.2	17.4	24.0	19.9
Dividend Yield (%)	0.4	0.6	0.6	0.7	0.8
5-yr Avg AOCF/EV yield(%)	1.3	3.4	5.1	7.0	9.6

Source: Company, Centrum Research Estimates

Exhibit 9: Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Share capital	458	458	458	458	458
Reserves & surplus	21,176	23,731	26,375	30,151	34,692
Total shareholders Funds	21,634	24,189	26,832	30,609	35,150
Total Debt	25	25	25	25	25
Minority interest	-	-	-	-	-
Deferred tax Liab.	282	176	146	180	190
Total Liabilities	21,941	24,390	27,003	30,814	35,365
Gross Block	12,654	14,074	15,098	16,940	18,140
Less: Acc. Depreciation	3,044	4,936	5,595	6,321	7,081
Net Block	9,611	9,138	9,503	10,619	11,059
Capital WIP	33	39	10	20	25
Net Fixed Assets	9,644	9,177	9,513	10,639	11,084
Investments	-	-	-	-	-
Inventories	3,607	3,219	2,971	4,745	4,320
Debtors	1,423	1,103	1,548	1,800	2,100
Loans & Advances	553	591	713	608	750
Cash & Bank Balance	10,246	15,231	17,718	20,672	24,920
Other assets	3,405	3,290	4,436	4,830	5,390
Total Current Assets	19,234	23,434	27,386	32,655	37,480
Trade payable	3,379	3,880	4,956	9,600	9,700
Other current Liabilities	1,815	3,310	3,928	1,500	1,830
Provisions	1,743	1,031	1,012	1,380	1,670
Net Current Assets	12,297	15,213	17,490	20,175	24,281
Total Assets	21,941	24,390	27,003	30,814	35,365

Source: Company, Centrum Research Estimates

Exhibit 10: Cash Flow

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
CF before WC changes	2,757	3,890	4,233	5,890	6,935
Working Capital Changes	679	2,069	210	269	143
CF from Operations	3,436	5,959	4,443	6,159	7,078
Adj OCF (OCF-Interest)	4,000	5,959	4,443	6,159	7,078
Change in fixed assets	1,370	(162)	(998)	(1,856)	(1,210)
Adj. FCF (AOCF-Capex)	5,370	5,797	3,445	4,303	5,868
CF from Investing	(6,991)	(162)	(998)	(1,856)	(1,210)
CF from Financing	(619)	(1,080)	(1,080)	(1,350)	(1,620)
Net change in Cash	(4,174)	4,717	2,365	2,953	4,249

Source: Company, Centrum Research Estimates

Appendix A

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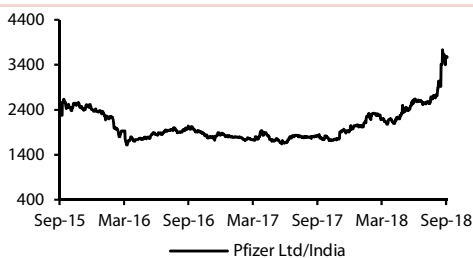
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Pfizer price chart



Source: Bloomberg, Centrum Research

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Hold	Upside between -20% to +20%	Upside between -15% to +15%	Upside between -10% to +10%
Sell	Downside > 20%	Downside > 15%	Downside > 10%

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