



KSE 100 Index statistics

Date	9-Dec-13
Close	24,998.89
Change	128.34
Volume	151.46mn

www.kse.com.pk

Alert on pharma sector:

PPMA members to meet with authorities on 12th December 2013 on the issues

“As per the news reports a meeting is scheduled between Pakistan Pharmaceutical Manufacturers with relevant authorities on 12th December to discuss the issue of drug prices.”

Analyst:

Rajesh Kumar Maheshwari

Tell: 111-111-721 Ext.116

www.scstrade.com

Valuation table is on next page...

Report could also be retrieved from Capital IQ – Blue Matrix

Pharmaceutical industry - in search of amicable solution -

Pharmaceutical industry is one of the key industries in the country – we are laying focus on GLAXO, ABOT, SEARL, FERROZ & ICI.

The industry is trying to dictate terms wherein it is locked horns with the government to increase prices of medicines. The Prime Minister has asked the authorities to withdraw the notification of 10% - 12% price increase. We expect some amicable solution wherein MNCs dominated industry may play tactics of withdrawing key medicines from the market – thriving case for counterfeit or black market. We also expect government to present a long term solution which is also being presented in other sectors. (see our table of valuations on companies)

Caveats:

- ✓ Meeting between government and industry participants;
- ✓ MNCs to outwit government, since medicine quality is an important issue and price increase has already been done;
- ✓ Product withdrawal threat;
- ✓ The MNCs are claiming that drug prices in Pakistan are lower than the other counties.

Multinational companies withdrew key drugs:

We have come to know that local managements of MNCs have been asked by the parent companies to withdraw key products if required price increase is not allowed by the authorities and government. The companies are vying for pre-2001 formula where they are undertaking to expand.

Vanishing key products in peak winter season

The demand of Anti- infectives , Anti-Viral and analgesic drugs usually increase in winter season, but our pharmaceutical market is facing acute shortage of these drugs like Panadol CF, Panadol Extra, Actifid P , Cofcol, Calpol , Panadol syrup, Xanax, Laxotanil, Sancos, Migril tablets, Ativan, Phenobarbiton, Arinac Forte, Decadron Inj., Marax Dihydan and Neuberol etc (as per our market survey. This situation creates a wide gap for the local un-registered products to fill this gap and making profit. Some of these brands belong to listed companies such as GLAXO, ABOT, SEARL etc.

Pharmaceutical industry increase drugs' prices unilaterally:

Beside rejection of demand of price revision by federal government the pharmaceutical industry players have increased the drug prices by more than 20%.

The price of Panadol syrup is increased to Rs 51 which was previously selling at Rs 35. Likewise prices of Calpol syrup is expected to increase because supplier and wholesaler had vanished the product from market and expected to resume its supply with new price (*Calpol & Pandol both are GLAXO products*).

Putting consumer's life on duplicate local drugs

Our observation is that in order to put pressure on the government for increase in drugs prices, MNCs and national registered companies have stopped supplying key drugs to market. This created a gap for un-registered and duplicate drug manufacturer to enter in the market and supply their products. These duplicate products have many side effects which may lead to death of the patients.

We have already observed these type cases in Punjab due to use of these types of low quality drugs. The crisis could balloon and snowball to other province.

Valuation; decipher; that ABOT, SEARL and FERROZ still attractive – don't forget ICI

Table given below illustrates valuations of pharmaceutical industry;

- ✓ GLAXO yields highest PE of 27x with mere 3% dividend yield;
- ✓ SEARL & FERROZ yield lower PE of 8.6x and 8.3x (as per industry benchmarks; please also refer to our web portal www.scstrade.com pharma sector multiples in advance search).
- ✓ Wherein ABOT stands out as the strong company which is reporting highest cash per share of Rs 31.10 based on 9MCY13 results and yielding a PE of 16x which is attractive than GLAXO.
- ✓ ABOT is having a roaring success in nutritional segment which brackets it with companies such as NESTLE (PE 70x)
- ✓ Another company which comes to light is ICI for life sciences (report already released deciphering PE of 16x).

Pharmaceutical sector- snapshot

Based on latest result

Script	9MCY13	Exp PE*	Dividend Yield	GP margin	EBIT margin	NPAT margin	Cash per share (Rs)	Book Value	PBV
GLAXO	2.95	26.7	3.0%	26%	10%	6%	5.50	38.2	3.5
ABOT	17.92	16.1	1.7%	37%	21%	14%	31.10	76.3	5.5
SAPL	13.77	22.9	3.0%	30%	10%	6%	2.44	213.0	2.0
SEARL	2.41(1Q)	8.6	1.9%	46%	20%	10%	0.21	43.3	2.4
FERROZ	3.22(1Q)	8.3	3.3%	51%	19%	23%	0.92	78.1	1.7

Source: www.scstrade.com

*Our estimations