

Pfizer

22 June 2020

Reuters: PFIZ.NS; Bloomberg: PFIZ IN

COVID pandemic impacts performance

Pfizer reported revenue of Rs5,5020mn in 4QFY20, 14% below ours and consensus estimate. On YoY basis, revenue was down 6.3%. The sales have been impacted by divestiture of rights and interests in certain brands & COVID-19. Adjusting for the above, the growth for the quarter and year ended March 31, 2020 would have been 3.5% and 5.8% respectively. Gains from divested brands include Rs310mn and is booked as part of other income. As we understand, post lockdown was imposed inventory levels at most wholesalers had significantly dipped which indicate primary sales lagged secondary sales during the quarter. While Q1FY21 should partially make up for this loss, but the same should be more than offset by lower demand seen in Q1. AIOCD AWACS report suggests sharp decline in Q1 FY21 sales so far. Since Pfizer does not have a chronic portfolio, the impact is likely to be steeper. We also estimate demand for vaccination has also been impacted on account of lockdown which should impact Pfizer largest portfolio product – Pevnar. During the year (FY21), Pfizer would also see the impact of loss in sales from 5 brands (Lyrica, Amlogard, Daxid, Viagra, Fumycin and Dilantin), which are part of the divestment that Pfizer India will make as part of the proposed merger of Mylan and Upjohn. These brands are currently part of reported revenue as the transaction is not yet closed. These brands together comprise 5% of Pfizer revenue.

EBITDA for the quarter stood at Rs1,087mn, below our/consensus estimates by 35.6%/42.9%, respectively. EBITDA declined by 28% YoY and 18.5% QoQ. 4QFY20 margin was down QoQ due to higher-than-expected raw material costs, employee costs and other expenses.

Net profit for the quarter stood at Rs1,030mn, which was below our/consensus estimates by 33.9%/29.9%, respectively. The effective tax rate stood at 20.5%. On a sustainable basis, the effective tax rate will stand at 25%. Net profit declined by 25.9% QoQ and increased by 5.9% YoY. Net profit margin at 20.5% was down by 532bps QoQ.

We revise our estimates and value the company at 27x FY22E EPS to arrive at a Target Price of Rs3,512 (Rs4,287 from earlier) with sell rating (accumulate earlier).

Outlook and valuation: We expect Pfizer's revenue to grow at 10% outperforming the IPM. We expect EBITDA to grow faster, while PAT should grow slower largely because of lower other income due to onetime dividend of Rs320 resulting in lower cash on balance sheet. The key revenue drivers will be its flagship brands such as Becosules, Corex and Pevnar. Among the recent new launches, we believe Eliquis and Xeljanz have the potential to scale up and become power brands over time. However, recently we have seen generic competition coming up for Eliquis, which can potentially affect the peak potential opportunity for Pfizer. Natco Pharma has launched a copy of Eliquis at 66% discount. The revenue trajectory can accelerate if Pfizer is able to source new launches from its parent portfolio. Faster-than-expected expansion of the universal immunisation programme against pneumonia is the key risk to Pfizer because the same can have implication on its largest portfolio drug – Pevnar.

SELL

Sector: Pharmaceuticals

CMP: Rs3,999

Target Price: Rs3,512

Downside: 12%

Vishal Manchanda

Research Analyst

vishal.manchanda@nirmalbang.com

+91 9737437148

Gaurang Sakare

Research Associate

gaurang.sakare@nirmalbang.com

+9122 6273 8093

Key Data

Current Shares O/S (mn)	45.7
Mkt Cap (Rsbn/US\$bn)	183.7/2.4
52 Wk H / L (Rs)	4,999/2,612
Daily Vol. (3M NSE Avg.)	83,627

Price Performance (%)

	1 M	6 M	1 Yr
Pfizer	(7.7)	(1.9)	34.7
Nifty Index	8.1	(18.8)	(15.3)

Source: Bloomberg

Y/E March (Rsmn)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Revenues from operations	5,357	5,382	5,020	(6.3)	(6.7)	20,815	21,517	3.4
Raw material costs	1,838	2,008	1,912	4.0	(4.8)	7,479	7,924	5.9
% of revenues	34.3	37.3	38.1	377 bps	77 bps	35.9	36.8	90 bps
Staff costs	815	900	1,007	23.6	11.9	3,238	3,645	12.6
% of revenues	15.2	16.7	20.0	484 bps	333 bps	15.6	16.9	138 bps
Other expenses	1,194	1,140	1,015	(15.0)	(10.9)	4,446	4,222	(5.0)
% of revenues	22.3	21.2	20.2	(208) bps	(96) bps	21.4	19.6	(174) bps
EBITDA	1,510	1,334	1,087	(28.0)	(18.5)	5,652	5,726	1.3
EBITDA margin (%)	28.2	24.8	21.7	(653) bps	(314) bps	27.2	26.6	(54) bps
Other income	355	582	452	27.6	(22.3)	1,674	1,840	9.9
Interest costs	6	25	36	0.0	47.2	13	109	741.1
Depreciation	176	247	284	61.3	15.0	714	1,032	44.6
PBT	1,682	1,645	1,219	(27.5)	(25.9)	6,599	6,425	(2.6)
Tax	588	254	189	(67.8)	(25.7)	2,309	1,334	(42.2)
Tax rate (%)	34.9	15.5	15.5	(1943) bps	3 bps	35.0	20.8	(1423) bps
PAT	1,095	1,391	1,030	(5.9)	(25.9)	4,291	5,091	18.7
PAT margin (%)	20.4	25.8	20.5	8 bps	(532) bps	20.6	23.7	305 bps

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Actual performance versus our estimates, Bloomberg consensus estimates

(Rsmn)	Actual	NBIE estimate	Var.(%)	Consensus estimate	Var.(%)
Revenues	5,020	5,839	(14.0)	5,834	(14.0)
EBITDA	1,087	1,687	(35.6)	1,904	(42.9)
EBITDA margin (%)	21.7	28.9	(724) bps	32.6	(1095) bps
PAT	1,030	1,558	(33.9)	1,470	(29.9)
PAT margin (%)	20.5	26.7	(617) bps	25.2	(468) bps

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Key financials

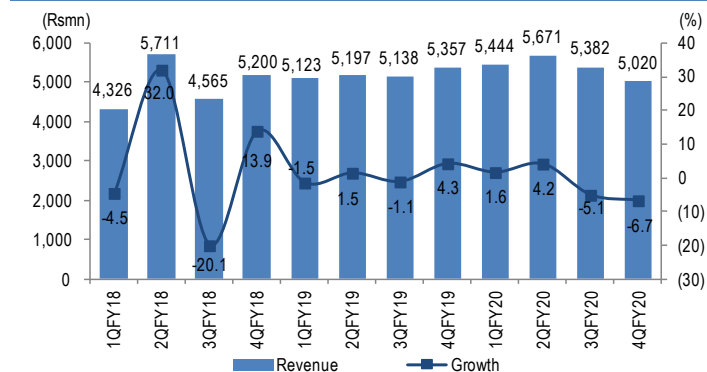
Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net sales	19,802	20,815	21,517	23,668	26,035
EBITDA	5,003	5,652	5,726	6,848	7,903
Net profit	3,601	4,290	5,091	4,922	5,950
EPS (Rs)	78.7	93.8	111.3	107.6	130.1
EPS growth (%)	6.9	19.2	18.7	(3.3)	20.9
EBITDA margin (%)	25.3	27.2	26.6	28.9	30.4
P/E (x)	50.8	42.6	35.9	37.2	30.7
P/BV (x)	6.8	6.1	5.4	7.7	6.2
EV/EBITDA (x)	33.0	29.0	28.1	24.8	20.8
RoCE (%)	17.0	17.3	14.6	20.2	26.0
RoE (%)	14.1	15.1	15.9	17.1	22.4

Source: Company, Nirmal Bang Institutional Equities Research

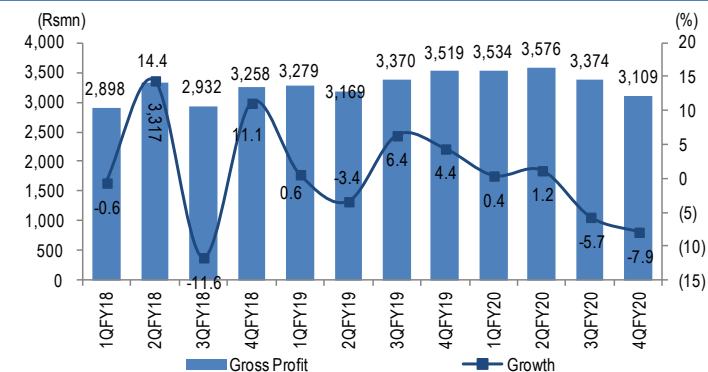
Exhibit 3: Revised Estimates

Rsmn	New estimates		Old estimates		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net sales	23,668	26,035	25,466	28,013	(7.1)	(7.1)
EBITDA	6,848	7,903	8,167	9,328	(16.1)	(15.3)
Margin (%)	28.9	30.4	32.1	33.3	(314) bps	(294) bps
PAT	4,922	5,950	6,409	7,264	(23.2)	(18.1)
Margin	20.8	22.9	25.2	25.9	(437) bps	(307) bps
EPS	107.6	130.1	140.1	158.8	(23.2)	(18.1)

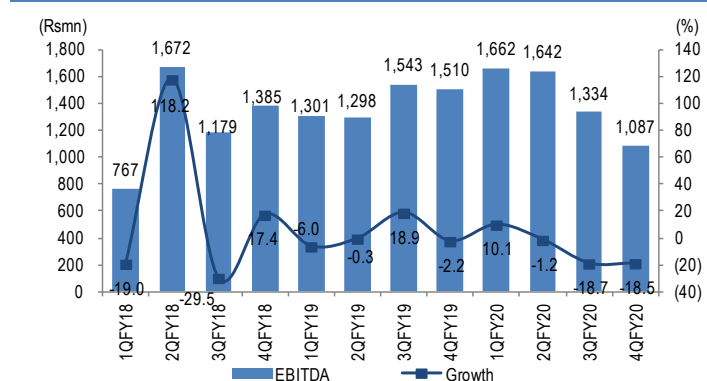
Source: Nirmal Bang Institutional Equities Research

Exhibit 4: Revenue and growth trend


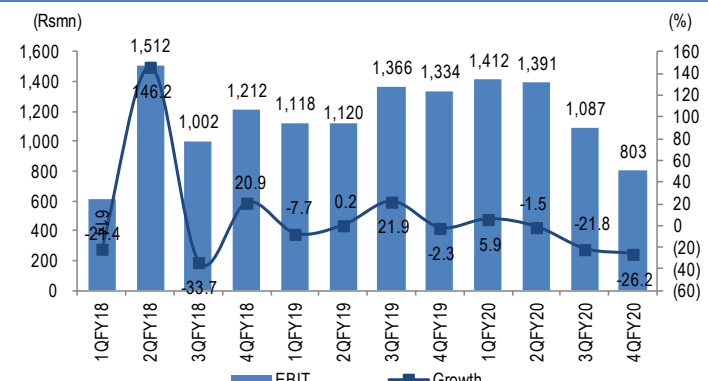
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Gross profit and growth trend


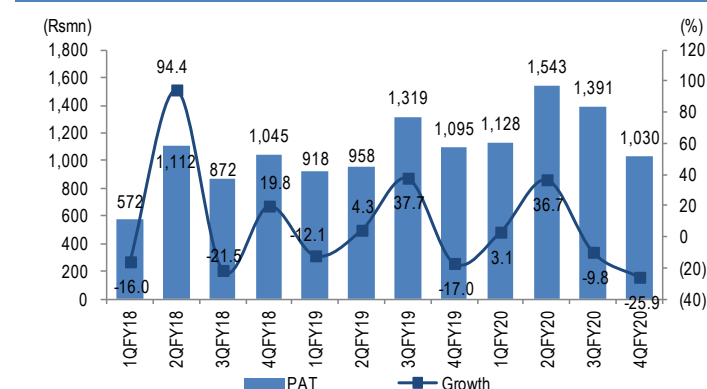
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: EBITDA and growth trend


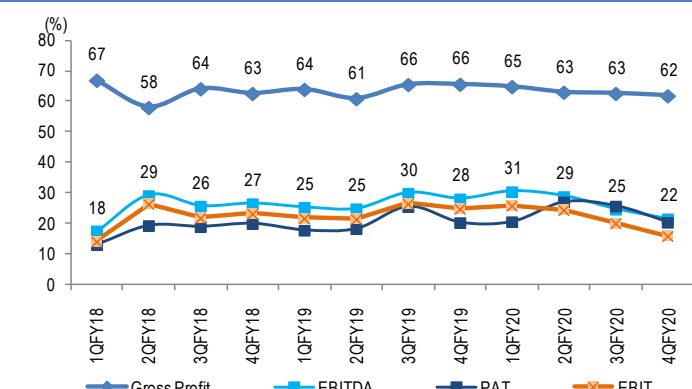
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: EBIT and growth trend


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: PAT and growth trend


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Margin trend


Source: Company, Nirmal Bang Institutional Equities Research

Financial statements

Exhibit 10: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net sales	19,802	20,815	21,517	23,668	26,035
% growth	(3.0)	5.1	3.4	10.0	10.0
Raw material costs	7,397	7,479	7,924	8,521	9,373
Staff costs	3,143	3,238	3,645	3,937	4,252
Other expenses	4,259	4,446	4,222	4,363	4,508
Total expenditure	14,799	15,163	15,791	16,820	18,132
EBITDA	5,003	5,652	5,726	6,848	7,903
% growth	43.3	13.0	1.3	19.6	15.4
EBITDA margin (%)	25.3	27.2	26.6	28.9	30.4
Other income	1,143	1,674	1,840	838	1,158
Interest costs	4.2	12.9	108.5	96.9	96.9
Gross profit	12,405	13,336	13,593	15,148	16,662
% growth	(0.4)	7.5	1.9	11.4	10.0
Depreciation	663	714	1,032	1,012	1,012
Profit before tax	5,479	6,599	6,425	6,578	7,952
% growth	6.0	20.4	(2.6)	2.4	20.9
Tax	1,878	2,309	1,334	1,656	2,001
Effective tax rate (%)	34	35	21	25	25
Net profit	3,601	4,291	5,091	4,922	5,950
% growth	6.9	19.2	18.7	(3.3)	20.9
Adjusted EPS (Rs)	78.7	93.8	111.3	107.6	130.1
% growth	6.9	19.2	18.7	(3.3)	20.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Equity		458	458	458	458
Reserves	26,375	29,656	33,497	23,323	28,816
Net worth	26,832	30,113	33,955	23,780	29,273
Total loans	25	25	25	25	25
Deferred tax liabilities	146	22	0	0	0
Other non-current liabilities	378	347	1,366	1,366	1,366
Total liabilities	27,381	30,508	35,345	25,171	30,664
Fixed assets including CWIP	825	714	2,153	424	269
Goodwill & intangible Assets	8,351	7,824	7,274	7,274	7,274
Long-term loans & advances	433	318	319	319	319
Other non-current assets	3,123	3,377	3,826	3,826	3,826
Inventories	2,971	3,867	4,306	4,630	5,093
Debtors	1,548	1,717	1,720	1,850	2,035
Cash and cash equivalents	507	738	17,638	12,638	12,638
Bank balance	17,211	18,405	4,561	712	5,668
Other current assets	1,793	2,303	1,906	1,906	1,906
Total current assets	24,030	27,030	30,131	21,736	27,340
Creditors	4,956	4,359	4,268	4,260	4,218
Other current liabilities/provisions	4,563	4,533	4,441	4,499	4,499
Total current liabilities	9,519	8,892	8,709	8,759	8,717
Net current assets	14,511	18,138	21,422	12,977	18,624
Asset held for sale	137	137	352	352	352
Total assets	27,380	30,508	35,345	25,171	30,664

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Cash flow

Y/E March(Rsmn)	FY18	FY19	FY20	FY21E	FY22E
PBT	5,479	6,599	6,425	6,578	7,952
(Inc./dec. in working capital	708	-2,202	-229	-404	-691
Cash flow from operations	6,187	4,397	6,196	6,174	7,261
Other income	-1,169	-1,661	-1,732	-741	-1,061
Depreciation	663	714	1,032	1,012	1,012
Tax paid (-)	-1,878	-2,309	-1,334	-1,656	-2,001
Net cash from operations	3,803	1,018	4,141	4,789	5,211
Capital expenditure (-)	-1,015	-76	-1,921	717	-858
Net cash after capex	2,787	942	2,220	5,506	4,353
Other investment activities	680	1,535	1,390	838	1,158
Cash from financial activities	-980	-1,052	-555	-15,194	-554
Change in cash balance	2,487	1,425	3,056	-8,849	4,956
Opening cash balance	15,231	17,719	19,143	22,199	13,350
Closing cash balance	17,718	19,144	22,199	13,350	18,306

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Key ratios

Y/E March	FY18	FY19	FY20	FY21E	FY22E
Profitability & return ratios					
EBITDA margin (%)	25.3	27.2	26.6	28.9	30.4
EBIT margin (%)	21.9	23.7	21.8	24.7	26.5
Net profit margin (%)	18.2	20.6	23.7	20.8	22.9
RoE (%)	14.1	15.1	15.9	17.1	22.4
RoCE (%)	17.0	17.3	14.6	20.2	26.0
Working capital & Liquidity ratios					
Receivables (days)	25.4	28.6	29.2	27.5	27.2
Inventory (days)	152.7	166.8	188.2	191.4	189.3
Payables (days)	220.4	227.3	198.7	182.7	165.1
Working capital days	-42.3	-31.9	18.7	36.3	51.5
Current ratio (x)	2.6	2.8	3.2	3.0	2.8
Quick ratio (x)	2.2	2.4	2.8	2.5	2.2
Valuation ratios					
EV/Sales (x)	8.3	7.9	7.5	7.2	6.3
EV/EBITDA (x)	33.0	29.0	28.1	24.8	20.8
P/E (x)	50.8	42.6	35.9	37.2	30.7
P/BV (x)	6.8	6.1	5.4	7.7	6.2

Source: Company, Nirmal Bang Institutional Equities Research

PE Chart

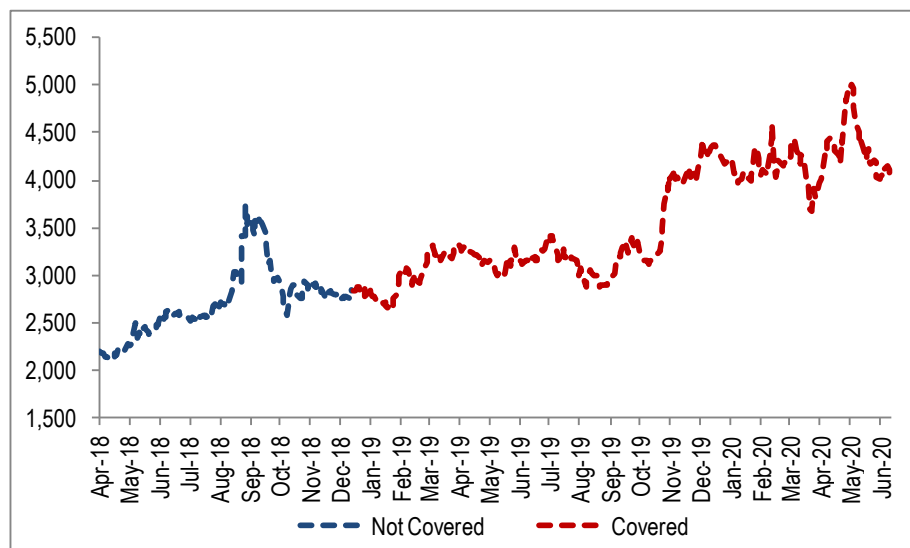


Source: BSE, Bloomberg, Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price	Target price (Rs)
14 December 2018	Accumulate	2,772	2,737
25 January 2019	Accumulate	2,681	2,963
5 April 2019	Accumulate	3,251	2,963
29 May 2019	Sell	3,281	3,181
13 August 2019	Accumulate	2,920	3,181
23 September 2019	Buy	3,288	3,886
29 October 2019	Accumulate	3,495	3,886
17 February 2020	Sell	4,193	3,886
27 March 2020	Accumulate	3,892	4,287
23 April 2020	Accumulate	4,178	4,287
22 June 2020	Sell	4,082	3,512

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.
 Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010