COMPANY UPDATE

CITI PHARMA

We recommend to subscribe the IPO with DCF based Jun-22 TP of Rs.45

Equity Research | Pharmaceuticals | Friday, 11 June, 2021

We recommend to subscribe the IPO with a DCF based Jun-22 TP of Rs.45 which provides an upside potential of 61% relative to its floor price of Rs.28

The registration process of eligible investors has already been commenced from 10th Jun 2021 and will close at 3:00 pm on 16th Jun 2021

Bidding dates are from 15th Jun 2021 to 16th Jun 2021 (From 9:00 am to 5:00 pm)

Dates of public subscription are from 23rd Jun 2021 to 24th Jun 2021 from 9:00 am to 5:00 pm

Company Overview

The principal business of Citi Pharma Limited (CPL) is the manufacturing and sale of pharmaceuticals, medical chemicals, and botanical products. The company is one of the leading Active Pharmaceutical Ingredients (API) manufacturers in Pakistan. Some of the main API products of the company are Paracetamol, Penicillin/Amoxicillin, Levofloxacin, Cefixime, Ciprofloxacin, Aspirin, and Ibuprofen.

The registered office of the Company is situated at 3.5 KM, Head Balloki Road, Phool Nagar, Kasur; while the Head Office is situated at 588 Q Block, Johar Town, Lahore.

The Company has a large client base, including many international and local pharmaceutical and healthcare companies (for e.g Glaxo Smith Kline Pakistan Limited, The Searle Company Limited, Abbott Laboratories (Pakistan) Limited, and Novartis Pharmaceuticals Pakistan, etc.).

Purpose of the Issue

The company wants to raise Rs 2.04bn by issuing 72.7mn shares at the floor price of Rs28 per share. The purpose of the new issuance is to partially fund the expansion in API and Formulation segments amid a surge in demand due to the Covid-19 pandemic. Furthermore, the remaining funds would be utilized in the building of a 50-bed, state-of-the-art healthcare facility at main Gulberg III, Lahore.

In the wake of the COVID-19 pandemic, demand for Paracetamol witnessed a surge. Moreover, health awareness and health spending have also risen. Hence, CPL intends to expand its existing capacity of 3,600 tons per annum of Paracetamol to 6,000 tons per annum. Further to this, CPL plans to add new APIs to its existing product line, i.e. (i) Ascorbic Acid, (ii) Chloroquine Phosphate, and (iii) Hydroxyl Chloroquine Sulfate; subsequently, these will also add formulation products of the same to the Company's portfolio.

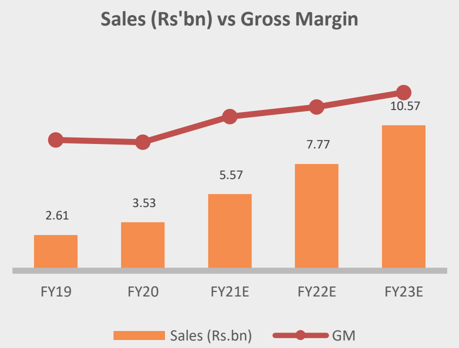
Furthermore, the Company also intends to build three manufacturing facilities having a total capacity of 200,000 vials per day, dry powder/suspension 60,000 bottles per day, capsules 4,200,000 per day, and tablets 4,500,000 per day.

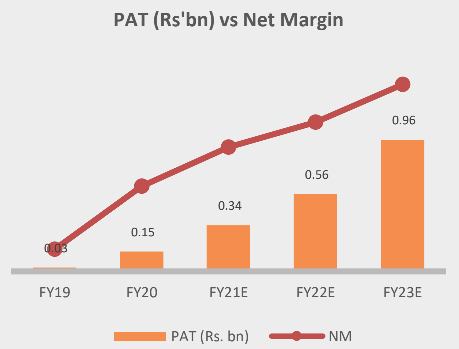
Details of the utilization of debt and equity proceeds are given below:

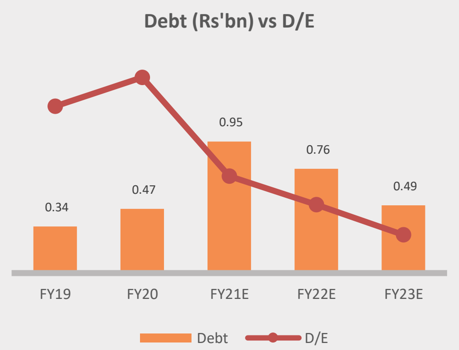
Particulars	PKR (bn)	Usage	%
IPO Proceeds	2.04	Hospital	56
Borrowings	0.50	Expansion	44
Total	**2.54**	**Total**	**100**

Key Statistics

Symbol	CPL
TP - Jun 22	45.00
Floor Price	28.00
Upside	61%
Free Float (mn)	73
Market Cap. (Rs.mn)	58,154



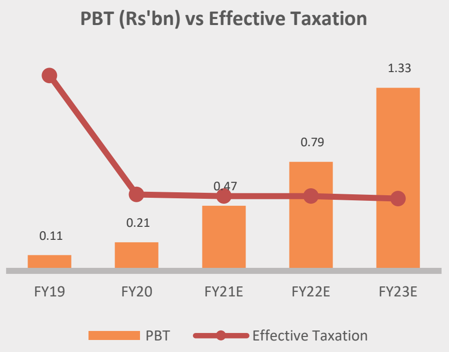




Sources: ACPL Research, Company Financials, PSX,

M. Fawad Naveed
Phone: (+92) 42 38302028; Ext: 117
Email: fawad@abbasiandcompany.com

Key Statistics



Sources: ACPL Research, Company Financials,

Industry Overview

The pharmaceutical market in Pakistan was worth approximately PKR 501 billion in 2020. In 2020, the industry witnessed a growth of 10.05% and posted a 4-year CAGR of 11.48% (2016-2020). At present, Pakistan produces a variety of medicines and meets more than 70% of the demand for domestic pharmaceutical products.

As a middle-income country, with weak healthcare infrastructure and a population of around 225 million, Pakistan's total healthcare spending is one of the lowest in the world. Cumulative health expenditures by Federal and Provincial Governments in FY19 increased to PKR 421.8 billion from PKR 416.5 billion last year, showing an increase of only 1.3%. During FY20, the total public healthcare sector expenditures contribute 1.1% of the total GDP.

During the years 2000 to 2013, the pharmaceutical companies in Pakistan were not allowed to increase the prices of medicines regardless of the increasing cost of production. However, in 2018, the government of Pakistan devised the 'Drug Pricing Policy'. Under this policy, the market retail price of pharmaceutical products has been linked to the Consumer Price Index (CPI) whereby the manufacturers and importers of medicines have been allowed to increase the prices of their medicines annually without any prior approval. This pricing policy has significantly improved the profitability of the pharma sector.

Furthermore, we expect the increased public awareness about the usage of conventional medicine in the wake of Covid-19 coupled with the government's initiative of "Sehat Sahulat Program (Health Card)" to bolster the growth of the pharma industry in near future.

Financial Performance

CPL has a promising track record of financial performance with consistent growth in revenues and profitability. The company has successfully been able to grow its revenues at a 4-year CAGR of 36.5% in FY20. As far as the bottom line is concerned, the profitability of the company grew at a 4-year CAGR of 27.7% in FY20 which depicts the financial stability of the company.

Going forward, we expect the revenues and earnings of the company to grow at a 5-year CAGR of 43% and 77% respectively on account of the planned expansion.

Valuation

The FY21E and FY22E PE of the company stands at 17.33x and 10.35x respectively at a floor price of Rs.28, as compared to the industry's average of around 18x. Therefore, we recommend to **SUBSCRIBE** the IPO with a DCF based Jun-22 TP of Rs.45 which provides an upside potential of 61% relative to its floor price of Rs.28.

Key Risks to Valuation

- Higher than expected depreciation of PKR
- Delay in expansion

Financial Projections

Rupees' millions	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E
Net sales	1,017	1,592	2,003	2,607	3,528	5,567	7,771	10,572	12,657
Cost of sale	889	1,384	1,741	2,276	3,088	4,735	6,539	8,745	10,477
Gross profit	**128**	**208**	**263**	**331**	**440**	**832**	**1,233**	**1,827**	**2,180**
Administration expenses	37	60	65	104	93	116	149	181	212
Selling and promotion expenses	25	49	62	90	88	133	177	218	257
Other operating expenses	3	6	9	8	15	48	68	86	103
Operating Profit	**63**	**93**	**127**	**128**	**243**	**535**	**839**	**1,342**	**1,610**
Other operating income	2	3	5	5	7	22	31	43	51
Finance cost	10	11	15	18	44	85	79	54	39
Profit before taxation	55	85	117	114	207	473	791	1,330	1,621
Taxation	-	-	-	86	61	137	229	372	438
Profit after taxation	**55**	**85**	**117**	**28**	**146**	**335**	**562**	**958**	**1,184**
EPS	**0.26**	**0.41**	**0.56**	**0.13**	**0.70**	**1.62**	**2.71**	**4.61**	**5.70**

Source: ACPL Research, Company Financials

Horizontal Analysis

		FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E
Net sales		56.6%	25.8%	30.1%	35.3%	57.8%	39.6%	36.0%	19.7%
Cost of sale		55.7%	25.8%	30.8%	35.7%	53.3%	38.1%	33.7%	19.8%
Gross profit		**62.9%**	**26.0%**	**25.9%**	**32.9%**	**89.3%**	**48.1%**	**48.2%**	**19.3%**
Administration expenses		60.1%	9.0%	59.2%	-10.1%	23.7%	29.0%	21.5%	16.7%
Selling and promotion expenses		98.5%	26.7%	45.7%	-2.9%	51.7%	32.6%	23.5%	17.7%
Other operating expenses		136.9%	37.7%	-2.2%	78.6%	219.6%	40.4%	26.8%	19.2%
Operating Profit		**47.6%**	**35.8%**	**0.9%**	**90.2%**	**119.9%**	**56.8%**	**59.9%**	**20.0%**
Other operating income		55.3%	68.3%	0.3%	56.5%	200.0%	39.6%	36.0%	19.7%
Finance cost		9.1%	30.1%	25.5%	137.9%	93.8%	-7.2%	-31.4%	-27.9%
Profit before taxation		55.2%	37.7%	-2.2%	81.1%	128.4%	67.5%	68.1%	21.9%
Taxation		0.0%	0.0%	0.0%	-29.2%	123.7%	67.5%	62.3%	17.5%
Profit after taxation		**55.2%**	**37.7%**	**-76.2%**	**423.8%**	**130.4%**	**67.5%**	**70.5%**	**23.6%**
EPS		**55.2%**	**37.7%**	**-76.2%**	**423.8%**	**130.4%**	**67.5%**	**70.5%**	**23.6%**

Source: ACPL Research, Company Financials

This report has been prepared by Abbasi & Company (Private) Limited and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Abbasi & Company (Private) Limited and or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Abbasi & Company (Private) Limited accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Abbasi & Company (Private) Limited Research Department and do not necessarily reflect those of the company or its directors. Abbasi & Company (Private) Limited as a firm may have business relationships, including investment--banking relationships, with the companies referred to in this report. Abbasi & Company (Private) Limited does not act as a market maker in the securities of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives do not have a financial interest in the securities of the subject company to an amount exceeding 1% of the value of the securities of the subject company at the time of issuance of this report. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives are not currently serving or have served in the past three years as a director or officer of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives have not received compensation from the subject company in the previous 12 months. The subject company currently is not, or during the 12-month period preceding the date of publication or distribution of this report, was not, a client of Abbasi & Company (Private) Limited. We have not managed or co-managed a public offering or any take-over, buyback or delisting offer of securities for the subject company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company in the past 12 months. Abbasi & Company (Private) Limited does not expect to receive or intend to seek compensation for corporate advisory services or underwriting services from the subject company in the next 3 months

VALIDITY OF THE PUBLICATION OR REPORT

The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report. The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report and were based upon several estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Abbasi & Company (Private) Limited and/or its other associated and affiliated companies, that:

I. Such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
II. There is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein

DEFINITION OF TERMS

TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

I. Discounted Cash Flow Model
II. Dividend Discount Model
III. Relative Valuation Model
IV. Sum of Parts Valuation

RATINGS CRITERIA

Abbasi & Company (Private) Limited employs a three-tier ratings system to rate a stock and sector, as mentioned below, which is based upon the level of expected return for a specific stock and outlook of sector. The rating is based on the following with stated time horizon

Stock Rating	Expected Total Return
BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

RESEARCH DISSEMINATION POLICY

Abbasi & Company (Private) Limited endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time

OTHER DISCLOSURES

The research analyst is primarily involved in the preparation of this report, certifies that:

I. The views expressed in this report accurately reflect his/her personal views about the subject company/stock /sector and economy
II. No part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report

The Research Analyst is not and was not involved in issuing of a research report on any of the subject company's associated companies

RESEARCH DEPARTMENT
6 - Shadman, Lahore
Phone: (+92) 42 38302028; Ext 116, 117
Email: research@abbasiandcompany.com
web: www.abbasiandcompany.com

HEAD OFFICE
6 - Shadman, Lahore
Phone: (+92) 42 38302028
Email: info@abbasiandcompany.com
web: www.abbasiandcompany.com

BRANCH OFFICE
42 - Mall Road, Lahore
Phone: (+92) 42 37320707
Email: info@abbasiandcompany.com
web: www.abbasiandcompany.com