

The Verdict Is Out, Good for ISPH; Yet Downgrade to Neutral on Higher Stock Price

Analyst

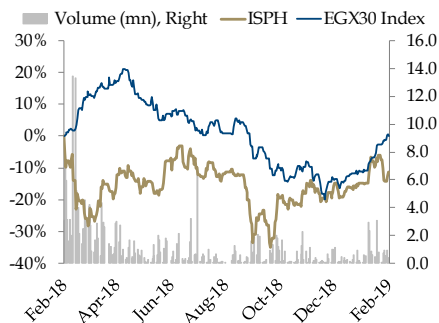
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Stock chart and data



Last Price (EGP)		10.88
52 Week Range (EGP)	8.00	12.29
6M-ADVT (EGPmn)		5.41
Market Cap (EGPmn)		7,855
No. of Shares O/S (mn) / Free float	722.0	/ 37.3%
Last price as of 19 February 2019.		

The Cairo Court of Appeal has issued yesterday a verdict fining Ibnsina Pharma (ISPH) EGP160mn on the back of an antitrust case against the firm and three other drug distributors. Noting that our 12-month price (12M PT) target did not account for any charges (i.e. we had a different scenario for it), we adjust it for the EGP160mn charge, net of taxes, yielding a 12M PT of EGP13.0/share (+20% upside off yesterday's close). However, given the stock's recent performance (up until yesterday), the corresponding rating is now Neutral, hence we downgrade the stock from Overweight.

- Impact on ISPH's 12M PT and earnings:** We reduce our 12M PT of EGP13.2/share for ISPH to EGP13.0/share, after accounting for the EGP160mn fine, net of taxes. All things considered, this fine is dramatically lower comparing to a hefty EGP2bn that ISPH had been initially mulcted for by the court. Although it's yet to be confirmed, we assumed that management will likely book in 2018 financials (yet to be released) the remainder of the EGP160mn that they have not already booked. Management had booked cumulative provisions of EGP53mn up until 30 September 2018. We had accounted for a cumulative amount of EGP55mn up until 31 December 2018 and EGP15mn in 2019 (i.e. a total of EGP70mn all in all). Page 3 reflects the updated financials.
- Three options on the table:** ISPH's management has now three scenarios to select from, ahead of the recent verdict.
 - Paying the fine of EGP160mn.** This would trim our 2018e EPS by 28% to EGP0.30 and would increase our 2019e EPS by 3% to EGP0.63.
 - Appealing again on the recent verdict.**
 - Reaching a settlement with the involved parties in the case.** Under this option, ISPH can pay a maximum of 50% of the fine or a minimum of EGP1.5mn. This would trim our 2018e EPS by 7% to EGP0.38 and would increase our 2019e EPS by 3% to EGP0.63.
- 12M PT trimmed to EGP13.0/share; rating downgraded to Neutral on higher stock price:** Whatever option the company management chooses, we view the above as positive for ISPH. We believe the antitrust case was an overhang on the stock. Going forward, we expect the news to reflect positively on the company's shares as the market factors in the new fine amount. We updated our valuation to reflect the EGP160mn fine, reaching 12M PT of EGP13.0/share. Thus, we downgrade our rating on the stock from Overweight to Neutral on the higher stock price since our initiation. Hence, the upside is now limited to 20% (based on yesterday's close) which is below the required rate of return. We note that ISPH has been a member of our EGX Model Portfolio since 20 January 2019.
- Background:** In February 2018, the Cairo Economic Court had issued a preliminary verdict against four drug distributors, including **Ibnsina Pharma, Multipharma, Ramco Pharm, and United Co. of Pharmacists (UCP)**, fining them a combined EGP5.6bn for alleged antitrust violations. The court had found that the abovementioned companies had colluded to cut credit periods and slash discounts to small- and medium-sized pharmacies, which in turn harmed the pharmacies.

Summary of Options 1 and 3 and their impact on ISPH's 2018e EPS

	Option 1 (Paying EGP160mn)	Option 3 (paying EGP80mn)
Old 12M PT	EGP13.2	EGP13.2
New 12M PT	EGP13.0	EGP13.1
Impact on our 2018 EPS *	Decrease by EGP0.097	Decrease by EGP0.011
Fine (EGPmn)	160.0	80.0
Cumulative provisions booked (SSEe) (EGPmn)	70.0	70.0
Provisions booked in 2017 (EGPmn)	22.0	22.0
Provisions booked in 2018 (SSEe) (EGPmn)	33.0	33.0
Provisions booked in 2019 (SSEe) (EGPmn)	15.0	15.0
Remaining provisions (pre-tax) (EGPmn)	90.0	10.0
Remaining provisions (net of tax) (EGPmn)	69.8	7.8
No. of shares (mn)	722.0	722.0
Cumulative impact on EPS (EGP)	(0.097)	(0.011)
<u>Assuming provisions reflected in 2018 financials</u>		
2018 EPS (EGP)	0.410	0.410
Booked in 2018 (cumulative) (SSEe)	55.00	55.00
Remaining	105.00	25.00
Remaining (net of tax)	81.38	19.38
Impact on EPS (EGP)	(0.113)	(0.027)
2018 EPS - adjusted (EGP)	0.297	0.383
% change	-28%	-7%
2019 EPS (EGP)	0.612	0.612
Booked in 2019	15.00	15.00
Remaining (net of tax)	11.63	11.63
Impact on EPS (EGP)	0.016	0.016
2019 EPS - adjusted (EGP)	0.629	0.629
% change	3%	3%

*Assuming that the fine will be charged on 2018

Source: SHUAA Securities Egypt

The Financial Model

Income Statement (EGPmn)						
FY End: Dec	FY2016a	FY2017a	FY2018e	FY2019e	FY2020e	FY2021e
Total Revenue (Net)	7,206	9,586	12,401	15,555	19,133	23,160
COGS	(6,637)	(8,760)	(11,344)	(14,213)	(17,466)	(21,142)
GP	569	826	1,058	1,342	1,667	2,017
Other operating (exp.)/ Inc.	(340)	(419)	(537)	(661)	(799)	(949)
EBITDA	229	407	521	681	868	1,069
Depreciation & Amortization	(27)	(31)	(38)	(51)	(58)	(62)
Interest expense	(74)	(116)	(59)	(43)	(39)	(32)
Non-operating expenses	(4)	(38)	(161)	(1)	-	-
Net non-operating income, taxes	(23)	(53)	(49)	(132)	(173)	(219)
NP Before XO & MI	102	170	214	454	598	756
XO & Minority Interest	-	-	-	-	-	-
Net Income	102	170	214	454	598	756

Balance Sheet (EGPmn)						
FY End: Dec	FY2016a	FY2017a	FY2018e	FY2019e	FY2020e	FY2021e
Current Assets						
Cash & Cash Equivalent	44	165	416	624	884	1,140
Marketable securities	-	-	-	-	-	-
Trade & other receivables	1,946	2,459	2,888	3,623	4,456	5,394
Inventory	614	1,051	1,075	1,347	1,655	2,004
Other Current Assets	214	267	268	336	413	500
Total Current Assets	2,818	3,942	4,648	5,930	7,408	9,038
Fixed Assets (net)	219	372	458	508	535	532
Other Non-Current Assets	18	20	20	20	20	20
Total Assets	3,056	4,334	5,126	6,458	7,964	9,589
Liabilities & Equity						
Short-Term Debt	69	7	12	20	25	41
Current Portion of LT Debt	13	26	16	13	11	8
Accounts Payable	2,520	3,701	3,978	4,945	6,077	7,241
Other Current Liabilities	81	131	154	187	224	267
Total Current Liabilities	2,683	3,864	4,161	5,166	6,338	7,556
Long-Term Debt	30	25	16	13	11	7
Other Non-Current Liabilities	32	28	152	290	373	465
Total Liabilities	2,744	3,918	4,329	5,469	6,722	8,028
Minority Interest	-	-	-	-	-	-
Total Equity	312	416	797	989	1,241	1,561
Total Liabilities & Equity	3,056	4,334	5,126	6,458	7,964	9,589

Cash Flow Statement (EGPmn)						
FY End: Dec	FY2016a	FY2017a	FY2018e	FY2019e	FY2020e	FY2021e
Cash from Operating	216	436	99	431	607	650
Cash from Investing	(79)	(196)	(124)	(101)	(86)	(58)
Cash from Financing	(125)	(119)	277	(122)	(261)	(335)
Net Change in Cash	65	918	252	208	260	256
Capex	(82)	(197)	(124)	(101)	(86)	(58)

Per-Share Data						
	FY2016a	FY2017a	FY2018e	FY2019e	FY2020e	FY2021e
Price	5.80	8.30	10.15	10.88	10.88	10.88
# Shares (WA, in mn)	672	672	722	722	722	722
EPS	0.15	0.25	0.30	0.63	0.83	1.05
DPS	0.10	-	0.15	0.31	0.41	0.52
BVPS	0.46	0.62	1.10	1.37	1.72	2.16

Valuation Indicators						
	FY2016a	FY2017a	FY2018e	FY2019e	FY2020e	FY2021e
PER (x)	38.3x	32.8x	34.2x	17.3x	13.1x	10.4x
PBV (x)	12.5x	13.4x	9.2x	7.9x	6.3x	5.0x
EV/Sales (x)	0.6x	0.6x	0.6x	0.5x	0.4x	0.3x
EV/EBITDA (x)	17.3x	13.4x	13.4x	10.7x	8.1x	6.3x
Dividend Payout Ratio	64.4%	0.0%	50.0%	50.0%	50.0%	50.0%
Dividend Yield	1.7%	0.0%	1.5%	2.9%	3.8%	4.8%

Profitability & Growth Ratios						
	FY2016a	FY2017a	FY2018e	FY2019e	FY2020e	FY2021e
Revenue Growth	35%	33%	29%	25%	23%	21%
EBITDA Growth	52%	78%	28%	31%	27%	23%
EPS Growth	77%	67%	17%	112%	32%	26%
GPM	8%	9%	9%	9%	9%	9%
EBITDA Margin	3%	4%	4%	4%	5%	5%
Net Margin	1%	2%	2%	3%	3%	3%
ROAE	36%	47%	35%	51%	54%	54%
ROAA	4%	5%	5%	8%	8%	9%

Liquidity & Solvency Multiples						
	FY2016a	FY2017a	FY2018e	FY2019e	FY2020e	FY2021e
Net Debt (Cash)	68	(107)	(372)	(578)	(837)	(1,083)
Net Debt/Equity	22%	(26%)	(47%)	(58%)	(67%)	(69%)
Net debt to EBITDA	0.3x	-0.3x	-0.7x	-0.8x	-1.0x	-1.0x
Debt to Assets	0.04x	0.01x	0.01x	0.01x	0.01x	0.01x
Current ratio	1.1x	1.0x	1.1x	1.1x	1.2x	1.2x

Consensus Estimates (EGPmn)			
	FY2018e	FY2019e	FY2020e
Revenues	12,478	16,474	20,432
SHUAA Securities Egypt vs. Consensus	-0.6%	-5.6%	-6.4%
Net Income	278	401	535
SHUAA Securities Egypt vs. Consensus	-22.8%	13.1%	11.8%
Fwd PER (x), Last Price	34.2x	17.3x	13.1x
Fwd PER (x), 12M - Price Target	43.8x	20.7x	15.7x
Fwd DY (%), Last price	1.4%	2.9%	3.8%

Source: Company data, SHUAA Securities Egypt estimates

a = Actual; e = Estimated

Share price at 19-Feb-19

Disclosure Appendix

METHODOLOGY: When setting an investment and risk ratings, we utilize all publicly-available sources to build an understanding of the issuer's business model and hence its intrinsic value based on one or more valuation methods. To reach a valuation, we assess factors that we deem relevant, including—but not limited to—macro, sector, and company-specific aspects.

INVESTMENT RATING: Depending on each issuer's business model, we may use (1) an income approach, (2) a markets-based approach, (3) an asset-based approach, and/or (4) sum-of-the-parts approach. In certain cases where we do not have our own financial and valuation models, we may present the consensus rating/view. For all securities actively covered, we assign one of three investment ratings (Overweight, Neutral, or Underweight) depending on the security's expected total return (price + yield) over a 12-month investment horizon as compared to the security's Required Rate of Return (RRR) as calculated using the Capital Asset Pricing Model (CAPM) and adjusted for the Risk Rating we assign to the security. Please read below for more details about our Risk Rating. Our assigned fair values are subjective and are estimates of the analysts where the security(ies) covered will trade within the next 12 months. The assigned investment rating/fair value is only valid for a maximum of three months from the date it was set.

RISK RATING: Based on the overall risk profile of each issuer/security covered, we assign one of three risk ratings (High, Moderate, or Low). The risk rating is a function of a weighted assessment of the issuer's (1) sector, (2) corporate profile, and (3) security and related volatility. The assigned risk rating is only valid for a maximum of three months from the date it was set.

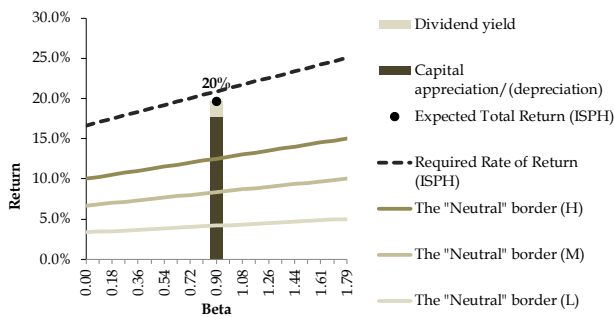
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Return / Risk Profile



	If Total Return is ...	Investment Rating		
		Overweight	Neutral	Underweight
Risk Rating	Low	Higher than RRR	Between RRR and 20% of RRR	Lower than 20% of RRR
	Moderate	Higher than RRR	Between RRR and 40% of RRR	Lower than 40% of RRR
	High	Higher than RRR	Between RRR and 60% of RRR	Lower than 60% of RRR
	Not Rated (NR)	We have decided not to publish a rating on the stock due to certain circumstances related to the company (i.e. special situations).		
	Not Covered (NC)	We do not currently cover this stock or we are restricted from coverage for regulatory reasons.		

Investment Rating & Price Target History



Rating history

From	To	Date	Analyst
NC	Overweight / Moderate Risk	25-Nov-18	Mohamed Sobol
Overweight / Moderate Risk	Neutral / Moderate Risk	20-Feb-19	Mohamed Sobol

12-month price target history

From	To	Date	Analyst
None	13.20	25-Nov-18	Mohamed Sobol
13.20	13.00	20-Feb-19	Mohamed Sobol

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