

AGP Limited

Company Overview

AGPL was formed following a merger/amalgamation of two pharma companies in 2014. In July 2014 OBS Pakistan (Private) Limited acquired AGP (Private) Limited (AGPPL) and AGP Healthcare (Private) Limited (AGPHC). Post acquisition, AGPPL and AGPHC were merged to form AGPL. This company currently operates in 6 business units and offers a total of 53 drugs with 121 variants.

Present Issue

AGPL's 2 major shareholders: OBS Pakistan and Muller & Phipps Pakistan, are collectively offering 35mn shares at a floor price of Rs80 each, comprising 12.5% of total paid up capital. 75% of the issue size, i.e. 26.25mn ordinary shares, will be issued through the Book Building process at the Floor Price. The remaining 25% of the total issue size, i.e. 8.75mn ordinary shares, will be offered to the general public through retail offer at the Strike Price determined through the Book Building process.

At present, SECP has stopped the book building process pending clarification of certain matters by the company/issuer. We await the new schedule for the book building process.

Pharmaceutical Market

Domestic pharmaceutical sector meets around 70% - 80% of local demand. Total industry revenue is estimated around Rs324bn with a 5 year CAGR of 14.2%. The sector comprises 655 players including 25 MNCs.

Future Prospect

AGPL's revenue growth is 12% backed by a portfolio of 53 products and market leadership in Ceclor (antibiotic), Rigix (anti-allergy) and Osnate (for osteoporosis). AGPL's gross profit margin has been in the region of 60% which is highest amongst listed pharmas (average gross profit margin of around 40%)

Future earnings growth is expected from: (i) plant upgradation; (ii) new product launches; and (iii) new distribution agreements

AGPL is in the process of upgrading its existing plant. Upgradation capex of around Rs573mn is being financed by internal cash generation. This project is expected to be completed in 2018 and will result in cost efficiencies and increase in bottling capacity.

AGPL is planning to enter into Nutraceuticals segment by investing Rs200mn. The plant is expected to become operational in CY19.

AGPL has entered into an agreement with Mylan — a leading generic and specialty pharmaceutical company in the world, to market its Hep.-C and cancer treatment drugs in Pakistan. In the first phase AGP will market Mylan's product and move towards local manufacturing in the next phase. Last year MyHep (Hep.-C drugs) were launched in Pakistan while additional drugs of Mylan are to be launched in coming years.

Valuation

We have looked at price-to-book value, price-to-sales, price-to-earnings and discounted cash flow to assess the fair value of AGPL. We note the following:

- AGPL's total assets of Rs8.3bn include Rs5.4bn of goodwill on acquisition made in July 2014.
- AGPL is being offered at price-to-sales ratio of 4.71x compared to sector average of 2.34x. As noted above, AGPL's gross profit margin is higher than the industry's average. On a price to gross profit ratio, AGPL is being offered at 7.85x compared to industry average of 5.77x
- On a P/Ex, AGPL is being offered at 18.87x which is broadly in line with the industry average of 19.13x
- On a discounted cash flow basis, we estimate AGPL's fair value to be in the region of Rs80.9/ share

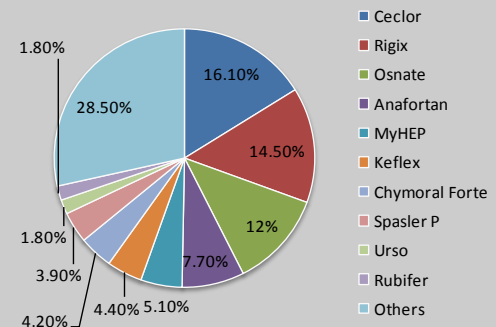
Recommendation

Recommendation	Subscribe
Floor Price	Rs80.00
Out. Shares (mn)	280mn
OFS Shares (mn)	35mn

Major Shareholders

OBS Pakistan	57.67%
Muller & Phipps	18.90%
Baltoro Growth Fund	9.57%
High Q Pharma	5.00%

Revenue Share Product wise



Source: Co. Prospectus

Peer Snapshot

SYMBOL	P.E (x)	Dividend Yield	Price/sales (x)	Price/GP (x)
ABOT	18.02	5.1%	2.83	7.27
FEROZ	18.68	1.5%	1.94	4.99
GLAXO	18.18	3.5%	1.87	6.75
HINOON	17.78	1.8%	1.89	3.95
SAPL	11.39	1.8%	1.26	3.45
SEARL	22.37	2.7%	4.23	8.20
AGPL	18.87		4.71	7.85
Avg P.E	19.13	2.7%	2.34	5.77

Source: Reuters, AS Research

Research Department

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Earnings Estimate and Valuation

AGPL

Rs in 000	CY15A	CY16A	CY17F	CY18F	CY19F	CY20F	CY21F	CY22F	CY23F
Sales	3,747,925	4,205,750	4,753,592	5,683,942	6,724,171	7,830,607	9,180,612	10,542,334	12,103,841
Cost of Sales	(1,586,060)	(1,745,638)	(1,901,236)	(2,382,286)	(2,849,196)	(3,336,003)	(3,916,630)	(4,458,586)	(5,067,303)
Gross Profit	2,161,865	2,460,112	2,852,355	3,301,656	3,874,975	4,494,604	5,263,982	6,083,747	7,036,538
Administrative expenses	(125,606)	(108,876)	(138,546)	(159,079)	(187,337)	(212,493)	(240,018)	(270,676)	(304,447)
Marketing and selling expenses	(698,347)	(762,824)	(1,030,436)	(1,265,571)	(1,605,761)	(1,869,624)	(2,199,499)	(2,547,317)	(2,949,965)
Other expenses	(69,205)	(101,561)	(103,395)	(113,679)	(134,483)	(156,612)	(183,612)	(210,847)	(242,077)
Other income	19,749	42,028	10,000	11,000	12,000	13,000	14,000	15,000	16,000
Operating profit	1,288,455	1,528,879	1,589,979	1,774,328	1,959,394	2,268,875	2,654,852	3,069,907	3,556,049
Finance cost	(515,437)	(360,964)	(271,138)	(175,443)	(141,283)	(109,370)	(69,954)	(22,487)	(10,000)
Profit before taxation	773,018	1,167,915	1,318,841	1,598,885	1,818,110	2,159,505	2,584,898	3,047,420	3,546,049
Taxation	(129,656)	(80,835)	(147,710)	(255,822)	(327,260)	(388,711)	(516,980)	(609,484)	(709,210)
Profit after taxation	643,362	1,087,081	1,171,131	1,343,064	1,490,850	1,770,794	2,067,919	2,437,936	2,836,839
EPS	2.30	3.88	4.18	4.80	5.32	6.32	7.39	8.71	10.13
Gross Margins	57.7%	58.5%	60.0%	58.1%	57.6%	57.4%	57.3%	57.7%	58.1%
Net Margins	17.17%	25.85%	24.64%	23.63%	22.17%	22.61%	22.52%	23.13%	23.44%

Source: Co Prospectus, AS Research

Valuation	CY17F	CY18F	CY19F	CY20F	CY21F	CY22F	CY23F
Profit After Tax	1,171,131	1,343,064	1,490,850	1,770,794	2,067,919	2,437,936	2,836,839
Depreciation and amortization	135,230	185,995	202,303	215,974	227,577	238,282	247,038
Change in working capital	(57,035)	(211,857)	(217,194)	(228,276)	(274,197)	(264,774)	(299,704)
Capex	(269,910)	(845,616)	(303,000)	(303,000)	(303,000)	(303,000)	(303,000)
Interest Exp	(189,796)	(122,810)	(98,898)	(76,559)	(48,968)	(15,741)	(7,000)
Free Cash Flow	789,620	348,776	1,074,061	1,378,933	1,669,330	2,092,703	2,474,173
Net Present value	699,082	602,018	1,094,479	1,190,307	1,275,435	1,348,376	1,403,513

Source: Co Prospectus, AS Research

WACC Calculation	11/6/2017
Risk free rate	7.94%
Equity Risk Premium	5.00%
Beta	116.00%
Cost of Equity	13.74%
Debt	8.47%
Tax Rate	17.60%
Weight of Debt	27.22%
WACC	11.90%
Terminal Growth	5.0%
Net Present value	7,288,906
Terminal Value	16,937,098
Enterprise Value	24,226,004
Net Debt	(1,566,300)
Equity Value	22,659,704
Number of shares	280,000
DCF Value Rs per Share	80.93

Source: Co Prospectus, AS Research

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Valuation Methodology

To arrive at period end target price, Abbasi Securities uses different valuation methodologies:

- Comparable Method (P/E, P/B etc.)
- Discounted Cash flow Method
- Equity and Asset based valuation

Rating

BUY	Total return more than 20% from last closing of market price
HOLD	Total return is in between 10% and 20% from last closing of market price
REDUCE	Total return is less than 10% from last closing market price