

CY09 witnessed better operating performance

- 4QCY09 adjusted net profit flat:** Pfizer reported 4QCY09 adjusted net profit of Rs302mn (excluding Rs44mn VRS charge) which was down 3% YoY. Traditionally, 4Q is the weakest of all the quarters. Sales at Rs 1.95bn were up 11% YoY with strong upsides in animal health (+22%) and domestic pharmaceuticals (+9% YoY). The service income from parent at Rs67mn was down 18% YoY. The decline in non-operating income also impacted net profits. CY09 sales were up 13% YoY. Adjusted net profit (excluding profits from sales of brands to JNJ in 2008 and VRS) at Rs1.5bn was up 6% YoY.
- Domestic performance hinges on growth in new launches:** Pfizer has launched c. 10-12 products over last 2-3 years (4 in CY09). These new product launches contribute c. 7-8% to sales (new products over 1-2years contribute c. 4-5% to sales). The large part of sales growth of c. 13% in CY09 comes from volume (c.10%) and rest by price increases. Top 8-10 brands contribute 60% to sales. The company's leading brands Corex and Becosul continue to grow at double digit growth rates. In addition, new line extensions in Magnex and Minipress are supporting higher sales. Within consumer health, Gelusil was up 18%.
- 4Q margin improves on lower costs:** 4QCY09 EBITDA at Rs225mn was up 23% YoY with margins improving by c. 110bps on account of lower raw material to sales. Raw material to sales declined by c.400bps YoY on account of favorable pricing of vitamin C. However, this was partially offset by higher other expenses due to increase advertising and promotional spending on newer brand launches. In addition, staff costs have increased over time with addition of personnel. The company has added c. 200-300 people in CY09 and expects to add another 200 in 1QCY10. On full year basis, EBITDA growth was flat with margins at c. 17.3% (excluding service income) due to net increase in material costs and higher staff costs (AS-15 accounting impact).
- Pfizer-Wyeth merger "next catalyst" in waiting:** The management stated that the integration process impending Wyeth merger is ongoing. The company expects it to complete by end of CY10. The merger will bring Pfizer at second position (behind Glaxo) among MNC players in domestic market with a competitive basket of products. The company expects to keep its momentum of new launches from parent (>4 planned in CY10) and also tap rural market. The net cash of Rs4.8bn gives Pfizer comfortable room for any in-licensing/partnership opportunities in India. However, we believe that key driver for the stock would be improvement in its operating margins on back of high margin product launches to bridge the gap with Glaxo.
- At current market price stock is trading at 17.4x CY10E and 15.4x CY11E consensus EPS.**

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Exhibit 1: CY09 quarterly performance

Y/e November, Rs mn	1Q09	2Q09	3Q09	4Q08	4Q09	% chg (YoY)	CY08	CY09	% chg (YoY)
Sales	1,860	1,859	2,048	1762	1949	11	6,817	7,723	13
Expenditure									
RM+change in stock	503	508	497	490	574	17	1,652	2,086	26
Trading Purchase	209	267	261	150	53	-64	750	791	6
Staff Costs	295	319	301	299	325	9	1,021	1,239	21
Other expenditure	450	503	531	640	772	21	2,101	2,269	8
Total expenditure	1,457	1,597	1,590	1,579	1,725	9	5,524	6,385	16
Operating Profit	403	262	459	183	225	23	1,293	1,338	3
Margin (%)	21.6	14.1	22.4	10.4	11.5		19.0	17.3	
Depreciation	20	21	20	44	21	-52	111	83	-25
Service Income	40	64	52	82	67	-19	229	244	6
Non-operating Income	186	225	158	204	160	-21	701	711	1
Profit Before Tax	609	529	649	425	430	1	2,112	2,209	5%
Taxation	212	172	216	114	129	13	721	729	1%
Tax Rate (%)	35	33	33	27	30		34%	33%	
Adjusted profit after tax	397	357	432	310	302	-3	1,392	1,480	6%
Extraordinaries*	-	44	21	8	44		(1,603)	109	
Reported Net Profit	397	313	412	302	257	-15	2,995	1,371	-54%

Source: JM Financial (*includes income related to divestment of brands to JNJ in CY08, VRS payments in CY09)

Exhibit 2: Raw material + trading purchase to sales decline in 4Q09

% to net sales	1Q09	2Q09	3Q09	4Q08	4Q09	CY08	CY09
Raw material	27.0	27.4	24.3	27.8	29.5	24.2	27.0
Staff cost	15.9	17.1	14.7	17.0	16.7	15.0	16.0
Trading Purchase	11.3	14.4	12.7	8.5	2.7	11.0	10.2
Other expenditure	24.2	27.1	25.9	36.3	39.6	30.8	29.4

Source: JM Financial

Exhibit 3: Domestic pharma sales growth below industry, animal health momentum strong

Sales split	1Q09	2Q09	3Q09	4Q08	4Q09	% chg	CY08	CY09	% chg
Pharmaceutical (inc. Services)	1,583	1,596	1,784	1,554	1,696	9%	5,968	6,661	12%
Animal Health (inc. Services)	279	263	264	209	254	22%	852	1,062	25%
Services (Inc. Clinical Dev.)	40	64	50	81	67	-18%	216	221	2%
Total	1,903	1,923	2,098	1,845	2,016	9%	7,036	7,944	13%

Source: JM Financial

Exhibit 4: Recent launches yet to contribute

CY06/07	CY08	CY09
Caduet (atorvastatin + amlodipine)	Cyklokapron (tranexamic acid)	Targit w/HCT (telmisartan)
Lyrica (pregabalin)	Trulimax (azithromycin)	Above 5 (rabeprazole)
	Champix (varenicline)	Minipress – line extension
	Acupil w/HCT (quinapril)	Magnex – line extension
	Bovical (animal health)	
	Corex T cough syrup (line extension)	

Source: JM Financial

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