

#### Sector: Pharmaceuticals

<b>Target Price</b>	<b>Rs997</b>
Market cap (bn)	Rs26.9/US\$0.6
52-week range	Rs1,225/621.2
Shares in issue (mn)	29.8
6-mon avg daily vol (no of shares)	42,922
6-mon avg daily vol (mn)	Rs38.6/US\$0.9
Bloomberg	PFIZ IN
Reuters	PFIZ. BO
BSE Sensex	14183
Website	www.pfizerindia.com

#### Shareholding Pattern (%)

Promoter	41.2
FIs	4.0
MFs / FIs/ Banks	27.4
Others / Public	27.4

(As of 30 June 2006)

#### Price Performance (%)

	1M	3M	12M
Absolute	18.1	3.8	(17.3)
Relative*	12.1	(7.7)	(67.4)

\*To the BSE Sensex

#### Relative Performance



(As of 20 January 2007)

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## Clarity on CHD soon

**Pfizer reported 6% YoY growth in profits (adjusted) at Rs209 mn in 4Q CY06, much lower than our expectation of Rs256 mn and net sales remained flat at Rs1.77 bn (our expectation Rs1.92 bn). Sales and profits have primarily been impacted by trade related issues in Maharashtra, lower sales of OTC products (due to uncertainty regarding its future in light of global sell off to J&J) and higher tax rate at 34.7%. For CY06, Pfizer reported 36% YoY growth at Rs1.13 bn in PAT (adjusted) driven by 293 bps improvement in EBITDA margin at 24% driven by Leadership Excellence at Pfizer (LEAP) programme. Net sales grew 10% YoY at Rs6.89 bn in CY06 tracking the industry growth rate.**

**As one of the likely options, we see the possibility of Consumer Healthcare Division (CHD) hive off into a new company and minority shareholders getting proportionate share in the new company. However, we still have to wait for the management's clarity on the same. We believe early resolution for CHD would clear uncertainty attached with this business and remove major hang over for the stock.**

**We had earlier built Rs81 per share net of tax from CHD business in our target price. The company has also entered into an agreement for sale of Chandigarh property for which it has received an advance of Rs278 mn. We believe that net realizable value (net of tax) could be Rs50-60 per share (not factored in our target price). The stock trades at 23.6x CY07E earnings. We will soon introduce CY08E numbers post discussion with the management. Meanwhile we maintain our Buy rating on the stock with a price target of Rs997 (including Rs81 per share for CHD business). We continue to remain positive on the long-term growth driven by the pharmaceutical business and margin improvement driven by LEAP programme.**

#### Exhibit 1: Key financials

(Rs mn)

Y/E	November	2003	2004	2005	2006AE	2007E
Net Sales (Rs mn)		5,040	5,829	6,252	6,885	6,227
EBITDA (%)		12.5	15.6	20.8	24.0	25.9
Net Profit (Adj)		382	578	836	1,134	1,136
Net Profit (Reported)		275	455	681	1,057	1,048
EPS (Rs)		13.3	19.4	28.0	38.0	38.1
EPS Growth (%)		(42.2)	46.0	44.6	35.6	0.2
RoCE (%)		20.6	28.6	35.8	42.5	36.9
RoE (%)		12.4	17.8	23.3	27.8	24.3
PE (x)		67.8	46.4	32.1	23.7	23.6
Price/Book Value (x)		8.4	7.8	7.1	6.1	5.4
EV/EBITDA (x)		39.6	27.8	19.0	14.6	14.5

Source: Company, ASK Raymond James. Note: Valuations as of 20 January 2007.

## Highlights

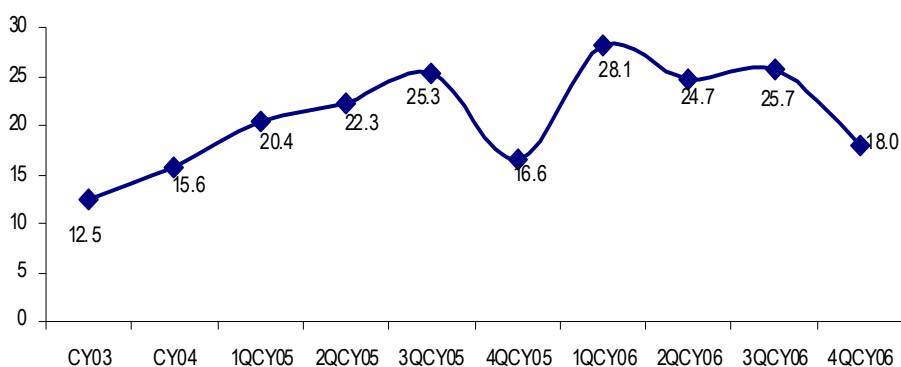
### Trade issues, slower pick up of OTCs impact sales

- Pfizer reported flat sales at Rs1.77 bn in 4Q CY06 (see Exhibit 1), lower than our expectation of Rs1.92 bn. The management indicated that this has been on account of trade related issues in Maharashtra, which impacted around three weeks sales coupled with slower pick up of the consumer healthcare brands due to uncertainty regarding its global sell off to J&J. We believe sales to the tune of Rs140-160 mn would have got impacted during 4Q CY06.

### EBITDA margin to catch up with peers

- EBITDA margin grew by 140 bps YoY at 18% in 4Q CY06 (see Exhibit 2) led by the LEAP programme undertaken by the company. For CY06, EBITDA margin expanded 293 bps YoY to 24%. We believe the margin could be sustained going forward, despite discontinuation of OTC brands deriving higher profits, on the back of successful restructuring and rationalization process. We believe Pfizer's EBITDA margin to catch up with its peers in next 2-3 years.

**Exhibit 2: Trend in EBITDA margin (%)**



Source: Company data, ASK Raymond James.

### Global CHD sell-off - clarity expected soon

- Pfizer Inc, USA sold off its CHD business to J&J for US\$16.6 bn (4x sales), which had sales of around US\$4 bn. This will have implications on the Indian subsidiary too, as it contributes around Rs1.5 bn sales and enjoys about 25% margin (major brands include Benadryl, Gelusil and Listerine). According to the company's quarterly result press communiqué, investors are likely to get clarity on the Indian CHD business soon. In our view one of the options could be CHD business hive off into a separate company and minority shareholders getting proportionate share in the new company. However, we still have to wait for the management's clarity on the same.

## Positive long-term growth

- The stock trades at 23.6x CY07E earnings. We maintain our Buy rating on the stock with a price target of Rs997 (including Rs81 per share for CHD business). We continue to remain positive on the long-term growth driven by the pharmaceutical business and margin improvement driven by LEAP programme. We believe early resolution for CHD would clear uncertainty attached with this business and remove major hang over for the stock. Further there is an upside of Rs50-60 per share on account of sale of Chandigarh unit not factored in our current target price. We will soon introduce CY08E numbers post discussion with the management.

### Exhibit 3: Quarterly financials

(Rs mn)

Y/E November	4Q CY06	4Q CY05	% chg	CY06	CY05	% chg
Product Sales	1980	1955	1.3	7659	6975	9.8
Services	56	74	(24.3)	261	267	(2.0)
Excise	271	276	(1.7)	1035	990	4.6
<b>Net Sales</b>	<b>1765</b>	<b>1753</b>	<b>0.7</b>	<b>6885</b>	<b>6252</b>	<b>10.1</b>
EBITDA	317	291	9.2	1652	1317	25.4
<b>EBITDA (%)</b>	<b>18.0</b>	<b>16.6</b>		<b>24.0</b>	<b>21.1</b>	
Other Income	64	45	41.5	214	144	49.1
Interest	1	0		1	2	
Depreciation	31	40	(22.4)	32	139	(76.6)
<b>PBT</b>	<b>350</b>	<b>296</b>	<b>18.2</b>	<b>1735</b>	<b>1321</b>	<b>31.4</b>
Tax	121	88	37.8	563	406	38.6
<b>PAT (Adj)</b>	<b>209</b>	<b>196</b>	<b>6.3</b>	<b>1134</b>	<b>836</b>	<b>35.6</b>
EO	(58.4)	(34.2)	70.8	(115.3)	(233.7)	(50.7)
<b>PAT (Rep)</b>	<b>170</b>	<b>174</b>	<b>(2.1)</b>	<b>1057</b>	<b>681</b>	<b>55.2</b>
<b>EPS (Rs)</b>	<b>7.0</b>	<b>6.6</b>		<b>38.0</b>	<b>28.0</b>	

Source: Company data, ASK Raymond James.

### Exhibit 4: Sales break-up

(Rs mn)

Y/E November	4Q CY06	4Q CY05	% chg	CY06	CY05	% chg
Pharmaceuticals	1571	1529	2.7	6036	5412	11.5
Animal Health	139	152	(9.1)	593	592	0.2
Services- clinical trials	56	71	(22.3)	257	248	3.6
<b>Net Sales</b>	<b>1765</b>	<b>1753</b>	<b>0.7</b>	<b>6885</b>	<b>6252</b>	<b>10.1</b>

Source: Company data, ASK Raymond James.

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