

Foundation Alert

ABOT: Analyst Briefing Takeaways

Event

- ABOT held its Analyst briefing today to discuss financial performance of the company along with its future prospects.
- Following are the key takeaways.

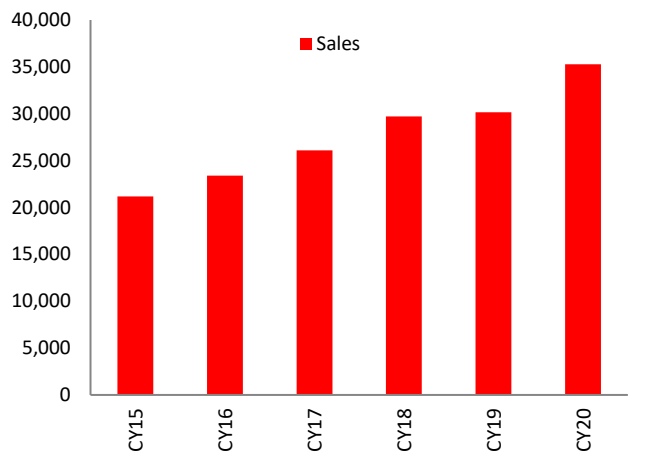
Impact

- Abbott operates in two major segments Pharmaceutical (contributing 70% to its topline) and Nutrition (contributing 20% to its topline).
- To highlight company reported revenue of Rs10.6bn in 3QCY21, compared to of Rs8.4bn in 3QCY20 (↑26.2% YoY).
- Company's profitability went up from Rs985mn in 3QCY20 (EPS 10.07) to Rs1,210mn (EPS 12.36) 3QCY21, up by 22.8% YoY.
- Abbott procures its materials (API's) from both local (26%) and imported (74%) sources. High import cost due to adverse changes in exchange rate, largely impacts their margins and hence decreasing profitability. Company is actively seeking to identify local sources for its raw materials in order to reduce its exposure to currency fluctuations.
- Company's top 10 products forms 65%-75% of total product portfolio. Top five products include Bruefen, Serbex Z, Klaricid, Duphalac and Ensure.
- Post covid company improves its supply chain management and increases sales and marketing (up by 28% YoY) activity to further enhance brand recognition.
- Government control over pharmaceutical industry make it tough for companies to pass price increase to end consumers thus affecting company margins.
- Currently, Pharma Sector face challenges related to price increase with drug regulatory authority. However Price increase could help build better profit margins but too much increase could shrink sales volume.
- Company's product portfolio composed of 60% essential and 40% non-essential that could have varying tax consequences for the company.
- Management further disclosed that infant/pediatric segment of nutrition portfolio are non-taxable, however the adult segment is taxable.
- As per management, Long delays in approval given by DRAP for launching new products in market may negatively impacts on overall margins.
- Major risks include 1) devaluation of currency, 2) smuggled/copied products could erode market share and margins and 3) rise in API prices can create demand/supply disruptions.

Outlook

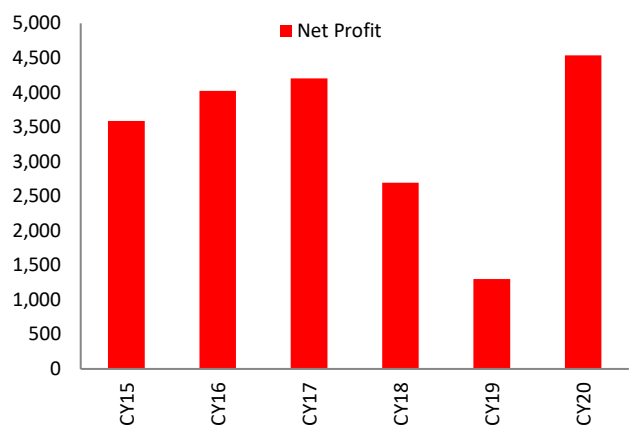
- The company is not in our formal coverage.

Fig 1: Sales increases post covid



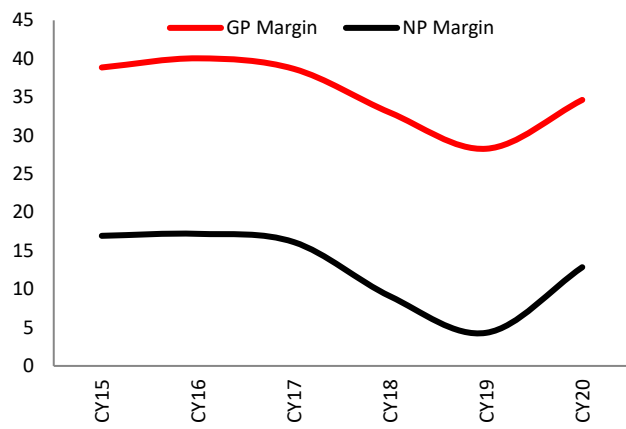
Source: PSX, Foundation Research, Dec'21

Fig 2: Profitability increases as sales increase



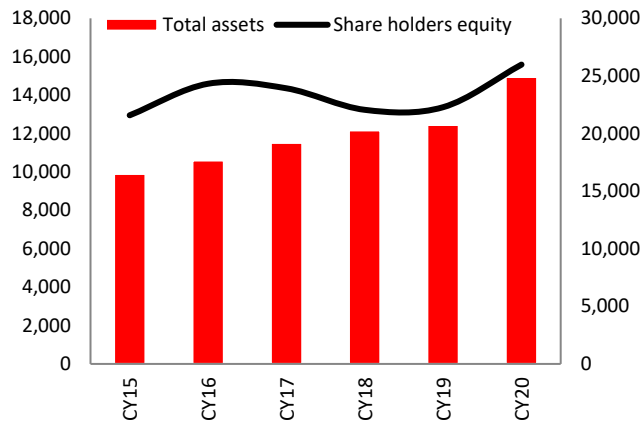
Source: PSX, Foundation Research, Dec'21

Fig 3: recovery in margins...



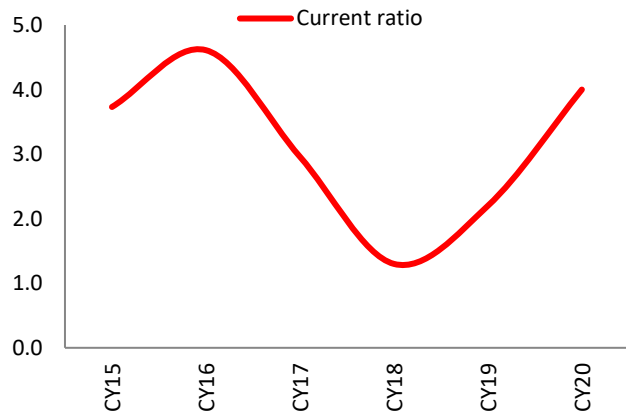
Source: PSX, Foundation Research, Dec'21

Fig 4: Shareholder equity increase with assets



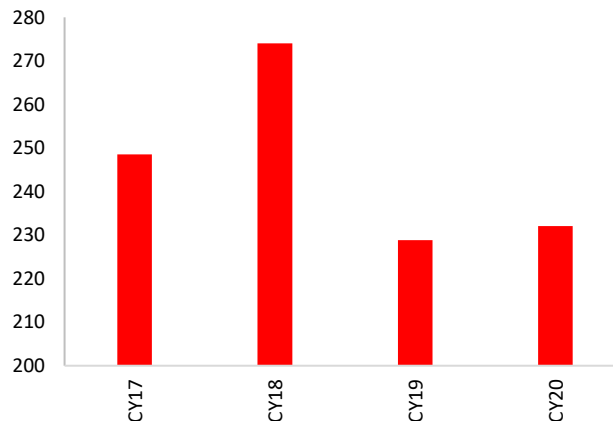
Source: PSX, Foundation Research, Dec'21

Fig 5: Current ratio trend



Source: PSX, Foundation Research, Dec'21

Fig 6: Actual production (no. of mn units)



Source: PSX, Foundation Research, Dec'21

Table 1: Product line of Abot Laboratories

Segment	Description	Products
ESTABLISHED PHARMACEUTICALS (EPD)	EPD offers high-quality, branded-generic medicines to help treat some of the most common health conditions nationwide. There are more than 150 product SKUs in EPD’s portfolio.	Arinac Brufen Cecon Citro-Soda Froben Surbex Z etc
NUTRITION (ANI)	Abbott Nutrition has been offering science-based nutrition products for several decades. Abbott Nutrition’s goal is to support people through all stages of life, from infancy to childhood to adulthood.	Similac PediaSure, Pedialyte, Ensure, Glucerna
DIAGNOSTICS (ADD)	The innovative instrument systems and tests help monitor a range of health conditions. From automated lab diagnostic systems and blood analysers to sophisticated molecular diagnostics and point-of-care devices, technologies providing healthcare professionals with information they need to make the best treatment decisions.	Immunossay Analysers Clinical Chemistry Analysers Lab Automation Solution AlinIQ Services IT solution Hematology Analyzers Coagulation Analyzers
DIABETES CARE (ADC)	The company develop products to reduce the discomfort and inconvenience of blood glucose monitoring; introducing systems that are easier to use, require less blood and provide faster results.	Personal meters Hospital monitors



Source: Company Accounts, Foundation Research, Dec’21

Table 2: ABOT Key financial and operational ratios

Rs mn		CY15	CY16	CY17	CY18	CY19	CY20
Sales		21,170	23,388	26,088	29,719	30,156	35,283
GP		8,227	9,367	10,089	9,801	8,528	12,222
PBT		5,006	5,587	5,842	4,344	2,511	6,244
Net Profit		3,587	4,022	4,205	2,694	1,300	4,535
Share capital		979	979	979	979	979	979
Shareholders equity		12,949	14,593	14,356	13,235	13,372	15,590
Fixed assets - net		4,017	4,443	5,419	7,192	8,268	9,070
Total assets		16,488	17,645	19,188	20,281	20,753	24,916
Dividend	Rs/sh	30.0	40.0	40.0	20.0	7.5	40.0
RATIOS:							
PROFITABILITY							
GP Margin	%	38.9	40.1	38.7	33.0	28.3	34.6
PBT Margin	%	23.6	23.9	22.4	14.6	8.3	17.7
NP Margin	%	16.9	17.2	16.1	9.1	4.3	12.9
RETURN TO SHAREHOLDERS							
ROE before tax	%	38.7	38.3	40.7	32.8	18.8	40.0
ROE after tax	%	27.7	27.6	29.3	20.4	9.7	29.1
EPS	Rs	36.6	41.1	43.0	27.5	13.3	46.3
Sales to fixed assets		5.3	5.3	4.8	4.1	3.6	3.9
Sales to total assets		1.3	1.3	1.4	1.5	1.5	1.4
LIQUIDITY/LEVERAGE							
Current ratio		-	-	-	1.3	2.2	4.0
Debt-to-Equity ratio		0.0	0.1	0.1	0.1	0.1	0.1
Breakup value per share		132.3	149.1	146.6	135.2	136.6	159.3

Source: Company accounts, Foundation Research, December 2021

Table 3: Earnings Preview

Income Statement (Rs mn)	3QFY21	3QFY20	YoY	2QFY21	QoQ	9MFY21	9MFY20	YoY
Net Sales	10,649	8,438	26%	10,907	-2%	31,447	24,972	26%
COGS	(6,755)	(5,537)	22%	(6,461)	5%	(19,315)	(16,311)	18%
Gross Profit	3,894	2,901	34%	4,446	-12%	12,132	8,661	40%
Administrative And General Expenses	(216)	(166)	30%	(164)	32%	(551)	(481)	15%
Selling and Marketing Expenses	(1,699)	(1,325)	28%	(1,527)	11%	(4,885)	(3,662)	33%
Other Income	146	116	26%	241	-39%	526	583	-10%
other expense	(331)	(159)	108%	(321)	3%	(753)	(566)	33%
EBIT	1,794	1,366	31%	2,675	-33%	6,470	4,535	43%
Finance Cost	(9)	(13)	-31%	(16)	-42%	(50)	(41)	22%
PBT	1,785	1,353	32%	2,659	-33%	6,419	4,494	43%
Tax	(575)	(367)	56%	(819)	-30%	(1,927)	(1,389)	39%
Net Profit	1,210	985	23%	1,839	-34%	4,492	3,106	45%
EPS	12.36	10.07		18.79		45.88	31.72	
Gross Margins	36.57%	34.38%		40.76%		38.58%	34.68%	
Net Margins	11.36%	11.68%		16.86%		14.28%	12.44%	

Source: Company Accounts, Foundation Research, December 2021

About the company

Abbott Laboratories (Pakistan) Limited is a public limited company incorporated in Pakistan on July 02, 1948. The Company is principally engaged in the manufacture, import and marketing of branded generic pharmaceutical, nutritional, diagnostic, diabetes care, molecular devices, hospital and consumer products.

Auditor: EY Rhodes

Table 4: ABOT Pattern of shareholding

Pattern of shareholders	Shares	Holding
M/S. ABBOTT ASIA INVESTMENTS LIMITED	76,259	78%
Modarabas and Mutual Funds	3,757	4%
Insurance Companies	3,521	4%
others	14,363	15%
Free float	21,058	22%

Source; Company Accounts, Foundation research, Dec 2021

Table 5: ABOT key personal and management

Key Personnel	Name	Designation
Board of Directors	Munir A. Shaikh	Chairman
	Syed Anis Ahmed	Chief Executive Officer
	Ehsan Ali Malik	Director
	Ayla Majid	Director
	Mohsin Ali Nathani	Director
	Muhammad Anjum Latif Rana	Director
	Seema Khan	Director
Management	Syed Anis Ahmed	Chief Executive Officer
	Mr. Humayun Altaf	Company Secretary
	Syed Tabish Aseem	Chief Financial Officer

Source; Company Accounts, Foundation research, Dec 2021

Important disclosures:

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Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.