

PFIZER LTD.

BSE Code	: 500680
Time Duration	: 18 months
CMP	: ₹4415.00 (as on 23 April 2020)
Target Price	: ₹5350



**Swiftest Performers
Among Heavy Weights**

Large Rhino pick for the month of April 2020 is Pfizer Limited that began its operations in India in 1950. It is the third-largest multi-national pharmaceutical company in India. The company has a portfolio of over 150 products, across 15 therapeutic areas. Its top brands include Prevenar 13, Lyrica, Corex-Dx, Dolonex, Enbrel, Becosules, Gelusil and Folvite among others. Pfizer Limited has a manufacturing facility in Goa that produces more than a billion tablets annually.

Pfizer continues to enjoy a leadership position in the pneumococcal vaccines market with a share of 59 per cent. With its continuing preference among pediatricians, Prevenar 13 is now the twelfth-ranked brand in Indian Pharma Industry. In the inflammation & immunology vertical, it makes medicines to patients suffering from chronic diseases related to the immune system. The company's internal medicine unit focusses on a broad range of products in the multiple therapy areas including, respiratory, multi-vitamins, gastric, neuroscience, cardiovascular and women's healthcare among others. Pfizer enjoys almost seven per cent market share in the respiratory segment and continues its focus on the prescription-led growth. The company's flagship brand-Corex Dx has maintained a leadership position with a market share of 17 per cent.

Alertness on the adult vaccine to drive vaccine business

Pneumococcal disease, in India and globally, is one of the major vaccine-preventable causes of death in children under five years of age. It is equally a significant public health concern for adults as well as the elderly, particularly those with co-morbid conditions such as chronic kidney disease, increased blood sugar levels, respiratory diseases and chronic obstructive pulmonary disease. Pfizer has been the market leader in the pneumococcal vaccines market with a share of 59 per cent. This business majorly focusses on Prevenar 13 (16-17 per cent of revenue) and the product is used by both children between six weeks and 17 years as well as adults above 50 years of age, with a lower penetration in adult vaccines. Revenue share of adult vaccines has increased substantially from six per cent in Q1FY20 to 12 per cent currently of Prevenar 13 revenue. Given the large unmet need that still exists and also, to increase an access to the vaccine, the company has implemented a number of initiatives such as parent education, healthcare professional engagement and awareness building, including programs for paramedics, in both pediatric and elderly settings. Going ahead, the rising awareness of adult vaccines is likely to increase the use of the above vaccine in India and at the global level. Further, the company has planned to launch Prevenar 20, the 20-valent variant of the vaccine in India in the near future. Notably, the company has maintained its market share, despite having competitors, as it's available at a comparatively lower price.

Launch of Xeljanz would benefit inflammation & immunology business

The inflammation & immunology vertical (which contributes seven per cent of the total revenue) makes available medicines to patients suffering from chronic diseases related to the immune system. Under this business, the company has launched two products: Enbrel and Xeljanz. Enbrel is used to treat autoimmune diseases including rheumatic arthritis. Enbrel is the market leader in psoriatic arthritis with a market share of 30 per cent. In rheumatoid arthritis, Enbrel has a market share of 10 per cent. Xeljanz (launched in 2019) is used to treat rheumatoid arthritis, psoriatic arthritis and ulcerative colitis. Xeljanz's market share increased from one per cent to four per cent with \$ 2 billion sales in US. Pfizer's Xeljanz is protected from any biosimilar competition till 2025 and it could see sales' growth in the near-term. Xeljanz's has no generic player till date and is not expected to come as well in the near future. Thus, going forward, this division is expected to aid revenue growth in the foreseeable future.

Pfizer Inc BioNTech COVID-19 vaccine cleared for human tests

Pfizer India's parent company-Pfizer Inc and BioNTech secured an approval for Germany's first human clinical trials of a possible Coronavirus vaccine. This trial will be initially conducted on 200 healthy people aged 18 to 55 years in the first stage and on additional

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high-risk candidates in the second stage. Also, the companies are likely to win an approval for testing in US shortly. Though there is still a long way to comment on the success of these trials but if the company succeeds in the human trial, then it will be a huge catalyst for the parent's company as the entire world is going through an unprecedented time and millions of people are suffering from the disease and economic activities are at a standstill. Notably, due to a strong parental support, Pfizer India is also expected to be a key beneficiary if any positive development comes through.

Healthy growth opportunities in other top brands

Corex: It has maintained a market share of 17 per cent. The launch of Corex extensions helped revive the brand revenues in FY19. We expect Corex to grow further, in addressing the needs of the patients and physicians.

Multi-vitamin portfolio: It majorly comprises of its flagship brand-Becosules (12 per cent of the total revenue) which enjoys a market share of 71.2 per cent supported by certain channel initiatives. Going forward, we expect Becosules to grow, supported by the launch of pediatric variants-Becosules Junior, multivitamin syrup for children.

New Launch-Zavicefta: Zavicefta is used for the management of hospital-acquired pneumonia. The medicine has been launched in May 2019 and has registered revenue of Rs 25 crore in just five months. The emergence and spread of carbapenemase-producing pathogens is a concern and has highlighted the urgent need for the same. Overall, all these would help the company to report decent numbers in the coming quarters.

Financial performance

In December 2019-ended quarter, the company reported ~5 per cent revenue growth from the corresponding quarter of the previous year to Rs 538.2 crore. However, EBITDA during the same period dipped ~14 per cent YoY to Rs 133.4 crore with a corresponding margin contraction of 524 bps. EBITDA margin for the quarter was at 24.8 per cent. Higher raw material and employee cost dragged margins lower. But, lower tax outgo resulted in PAT of Rs 139.1 crore for Q3FY20, improved from Rs 131.9 crore in Q3FY19. PAT margin too improved to 25.8 per cent in the quarter.

Valuation and outlook

With a strong parental support and domestic focus as well as favourable market dynamics with doctor prescription stickiness to the forefront, Pfizer is expected to report a healthy performance during this challenging time. The company's focus on legacy power brands has helped it to be the market leader in 10 of its top 20 brands. Thus, a strong growth track in power brands and the capability of consistent new launches gives us a confidence in the growth trajectory of the company. The company has shown its ability to not just survive but also, grow amid stiff competition and regulatory hurdles. In the last few years, the company has been maintaining a healthy and positive operating cash flow and has been consistent in paying dividends as well. The company has a strong balance sheet with no debt and healthy cash & bank balance of ~Rs 1914 crore. The company's return ratio stands strong at 23.22 per cent ROCE and 15.1 per cent ROE. The stock is available at a PE multiple of 39.2 on TTM earnings. Considering all the above factors, we recommend a BUY on the stock with a target price of 5350, representing a potential upside of 21 per cent.

Inc/Exp Statement (Standalone)

Description	201903	201803	201703	201603	201503
Net Sales	2081.5	1968.51	1966.26	2012.34	1853.32
Total Income	2248.89	2082.8	2067.42	2099.33	1925.03
Total Expenditure	1515.87	1467.87	1616.13	1579.46	1473.98
PBIDT	733.02	614.93	451.29	519.87	451.05
PAT	429.05	360.07	336.78	304.98	69.82
Dividend %	225	200	200	150	125
Adj. EPS(Rs)	93.78	78.7	73.61	66.67	15.26

Quarter On Quarter (Standalone)

Particulars	201912	201909	Q on Q Var %	201812	Y on Y Var %
Net Sales	538.18	567.06	-5.09	513.79	4.75
Total Expenditure	404.74	402.88	0.46	359.46	12.6
PBIDT (Excl OI)	133.44	164.18	-18.72	154.33	-13.54
PAT	139.06	154.25	-9.85	131.94	5.4
PBIDTM% (Excl OI)	24.79	28.95	-14.37	30.04	-17.48
PBIDTM%	35.61	36.84	-3.34	42.56	-16.33
PATM%	25.84	27.2	-5	25.68	0.62
Adj. EPS(Rs)	30.4	33.72	-9.85	28.84	5.41

Stock vs. Index



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