

Day Break

Friday, 11 June 2021

Initial Public Offering

Company: Citi-pharma Limited

Symbol: CPL

Floor Price: PKR 28/share

Total Shares: 72mn

Freefloat post IPO: 35%

Expansion details:

	In PKRmn	%
Civil Works	1067	42%
-- for API	150	6%
-- for Formulation	250	10%
-- for Hospital	668	26%
Plant & Machinery	968	38%
-- for API	405	16%
-- for Formulation	308	12%
-- for Hospital	255	10%
		0%
IPO Proceeds	2035	80%
Long Term Debt	503	20%
Total capital	2538	100%

Recommendation: Subscribe

Pharmaceutical

Citi-Pharma Limited: 'Subscribe'

- Citi Pharma Limited (CPL) has filed for an Initial Public Offering (IPO) to raise PKR 2.0bn equity capital, the book building component of which is scheduled on 15th and 16th June, 2021.
- The Company is offering 72mn shares (35% of total post-IPO paid-up capital) at a floor price of PKR 28/share.
- We recommend a 'Subscribe' to the offer on Citi-Pharma Limited up to PKR 37/share.

Citi-Pharma to raise PKR 2.0bn for expanding API segment and venturing into formulation segment and hospital business

Citi Pharma Limited (CPL) has filed for an Initial Public Offering (IPO) to raise PKR 2.0bn equity capital, the book building component of which is scheduled on 15th and 16th June, 2021. The Company is offering 72mn shares (35% of total post-IPO paid-up capital) at a floor price of PKR 28/share.

Exhibit: Utilization of IPO Proceeds		
Description	Funds Rqd.	% Allocation
Civil Work of API Segment	150	6%
Civil Work of Formulation Segment	250	10%
Procurement of Plant & Machinery for API segment	405	16%
Procurement of Plant & Machinery for formulation segment	308	12%
Civil work of Hospital Building	668	26%
Plant & Machinery for Hospital	255	10%
IPO Proceeds	2,035	80%
Long Term Debt	503	20%
Total capital	2,538	100%

Source: CPL Prospectus

'Based on our initial industry analysis, we recommend a 'subscribe to the offer' up to PKR 37/share.'

We recommend a '**Subscribe**' to the offer on Citi-Pharma Limited up to PKR 37/share. From valuation stand point, the Company is currently trading at a Forward P/E of 11x and 9.9x for FY21 and FY22 against the pharmaceutical sector multiple of ~45x. Therefore, we advise investor to subscribe the issue up to 37.

Analyst

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About the issue

The total expansion project is estimated to cost PKR 2.5bn out of which IPO proceeds are expected to cover 80% or PKR 2.0bn at a floor price of PKR 28/share.

Exhibit: About the issue	
About the Issue	Details
Total Issue Size: (mn shares)	72.69
Free float shares:	35% of Post IPO Paid-Up Capital
Floor Price (PKR/share):	28.00
Total IPO Amount to be raised:	PKR 2.03bn -- 2.85bn
Post IPO Market Capitalization	PKR 5.8bn -- 8.1bn
Shariah Status	Shariah Compliant (at June 2020)

Source: CPL Prospectus

About the Company and expansion

Citi Pharma operational since 2013 and is amongst the few Active Pharmaceutical Ingredients (API) producer in Pakistan. As of current company's product portfolio includes Paracetamol, Penicillin, Ciprofloxacin and Cefixime.

The company plans to expands its current api business and will add formulation segment to its portfolio. With future vision to build a 50-bed hospital.

- **Active Pharmaceutical Ingredient:** The Company plans to add new Products to its API portfolio. Along with its current capacity of Paracetamol from current 3,600 tons per day to 6,000 tons per day in the wake of upsurge in demand in the wake of Covid19.
- **Formulations:** The Company plans to expand its formulation segment by increasing capacity of Tablets, Capsules and suspension and to add Vial manufacturing segment. Key product portfolio Ascorbic Acid, Chloroquine Phosphate, Hydroxychloroquine sulphate.

Key APIs include:	Unit	Current Capacity (tons)	Capacity Expansion (tons)
Paracetamol	mt/ann.	3,600	6,000
Ciprofloxacin	mt/ann.	300	300
Penicillin	mt/ann.	600	600
Cefixime	mt/ann.	168	168
Injectables	Vials/day	-	200,000
Dry Powder/Suspension	Per day	20,000	60,000
Capsules	Per day	100,000	4,200,000
Tablets	Per day	200,000	4,500,000

- **Hospital Project:** In addition company plans to build a 50-bed state of the art healthcare facility in Lahore. As part of the plan, the hospital facility will cater towards offering OPD, General operation wards, Diagnostic services.

Key clients

Company has some of the leading names as its clients including, Glaxo, AGP, Searle, Efroze, Bosch etc.

Exhibit: Citi-pharma Limited major clients



Source: CPL Prospectus

Industry Outlook

The Pharmaceutical sector of Pakistan witnessed a growth of 10.05% (posted a 4-year CAGR of 11.48% 2016-2020) and worth PKR ~501bn in 2020.

At present, Pakistan caters more than 70% demand for domestic pharmaceutical products. However, majority of the raw material for APIs or Semi-finished APIs for formulation is imported.

Given the highly competitive nature of the industry, 80% market share is held by the top 50 companies in terms of revenue. Moreover, the bifurcation of market share amongst local and MNCs is roughly 31:69 respectively.

Exhibit: Key Financial highlights (Forecast as per company's management)Price metrics using floor price of the issue: **PKR 28/share**

PKRmn

	FY17A	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F	FY24F	FY25F	FY26F
P&L										
Revenue	1,592	2,003	2,607	3,528	6,059	8,454	10,867	12,634	14,371	16,550
Gross Profit	208	263	331	440	896	1,270	1,701	1,947	2,207	2,539
Operating Profits	100	135	136	258	632	922	1,292	1,479	1,683	1,945
Finance Cost	11	15	18	44	86	80	54	39	27	16
Taxation	0	0	86	61	150	233	334	375	415	466
Profit After Taxation	85	117	28	146	367	570	859	1,013	1,182	1,397
EPS (diluted)	0.41	0.56	0.13	0.70	1.77	2.74	4.13	4.88	5.69	6.73
DPS	0.00	0.00	0.00	0.00	0.00	0.75	1.00	2.00	3.00	3.00
Margins										
Gross Margins	13%	13%	13%	12%	15%	15%	16%	15%	15%	15%
Operating Margins	6%	7%	5%	7%	10%	11%	12%	12%	12%	12%
Net Margins	5%	6%	1%	4%	6%	7%	8%	8%	8%	8%
EBITADA Margin	9%	9%	7%	9%	12%	13%	13%	13%	13%	13%
Growth										
Sales Growth (%)	57%	26%	30%	35%	72%	40%	29%	16%	14%	15%
EBITDA Growth (%)	27%	25%	-1%	70%	134%	53%	34%	13%	12%	14%
Net Profit Growth (%)	55%	38%	-76%	424%	152%	55%	51%	18%	17%	18%
Valuation										
P/Ex	68.5	49.8	209.2	39.9	15.8	10.2	6.8	5.7	4.9	4.2
PEG	124.2	132.1	-274.4	9.4	10.4	18.5	13.4	31.8	29.6	22.9
Div. Yld (%)	0.0%	0.0%	0.0%	0.0%	0.0%	2.7%	3.6%	7.1%	10.7%	10.7%
BVPS	3.3	3.9	4.0	4.7	19.7	22.2	25.3	28.7	31.9	35.6
ROE (%)	13%	16%	3%	16%	14%	13%	17%	18%	19%	20%
ROA (%)	8%	9%	2%	8%	9%	9%	12%	13%	14%	15%
Balance sheet										
Property, Plant & Equipment	501	740	736	814	1,578	3,181	3,128	2,962	2,898	2,721
Investment in Associate	0	0	172	255	255	255	255	255	255	255
Current Assets	667	737	402	1,394	4,161	3,175	3,908	4,859	5,694	6,831
Total Assets	1,177	1,486	1,318	2,471	6,002	6,619	7,299	8,085	8,855	9,815
Long Term Financing	44	23	73	165	654	446	298	175	75	0
Total Current Liabilities	431	640	344	1,251	1,177	1,487	1,662	1,871	2,077	2,337
Total Equity	693	810	838	983	4,095	4,613	5,264	5,966	6,629	7,403

Source: CPL Prospectus

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