

Wyeth Limited	CMP Rs. 700.0 BUY	Result Update Q2FY10
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Hiren Samani | hiren@ppfas.com

Wyeth Ltd. reported disappointing set of numbers for the second quarter ended 30th September 2009. The company reported a marginal dip of 1.7% in its top-line from Rs. 1,146.7 Mn. for Q1FY10 to Rs. 1,127.5 Mn. for Q2FY10. Other Expenditure increased from Rs. 205.1 Mn. in Q1FY10 to Rs. 262.7 Mn. in Q2FY10, leading to a Q-o-Q decline of 13.5% in Operating Profits to Rs. 336 Mn. for Q2FY10 & a drop of more than 400 bps in its OPM to 29.8%. With a Q-o-Q decline of 45.4% in Other Income & increase in Interest burden by close to 160%, Wyeth reported a Q-o-Q dip of 13.6% in its bottom-line from Rs. 291.5 Mn. for Q1FY10 to Rs. 261.9 Mn. for Q2FY10. The PAT margins also saw a decline of more than 300 bps from 25.4% in Q1FY10 to 22.3% in Q2FY10. Wyeth Ltd. reported an EPS of Rs. 11.09 for Q2FY10.

In comparison to the year ago period, the company's reported numbers were disappointing as well. The MNC pharmaceutical company saw its top-line increase by 6.9% Y-o-Y, from Rs. 1,054.4 Mn. in Q2FY09 to Rs. 1,127.5 Mn. in Q2FY10. However, it was unable to report any growth in its Net Income. The company witnessed a Y-o-Y increase of more than 31% in Cost of Materials to Rs. 324.1 Mn. in Q2FY10 from Rs. 246.7 Mn. in Q2FY09. Raw Material cost as a percentage of Sales also increased by more than 530 bps. This along with a sharp rise of 24% in Total Expenditures led to a decline of 22% in Operating Profits to Rs. 336 Mn. in Q2FY10 from Rs. 430.7 Mn. in the year ago period. With Other Income contribution declining by close to 48% Y-o-Y, the company reported a drop of more than 25% in Net Profits from Rs. 338.3 Mn. in Q2FY09 to Rs. 251.9 Mn. in Q2FY10. Wyeth witnessed significant pressures on its reported margins compared to the same quarter last year.

Wyeth Ltd. reported a double digit growth in Net Revenues for the first half of the current financial year. The company saw its top-line grow by almost 14% for H1FY10 to Rs. 2,274.2 Mn. from 1,995.9 Mn. in the same period last year. However, with significant increases in Cost of Materials & Advertising & Sales Promotion Expenses, the MNC pharma reported a 10% decline in its bottom-line from Rs. 603.8 Mn. in H1FY09 to Rs. 543.4 Mn. in H1FY10. EPS for the first half of FY2009-10 stood at Rs. 23.92 vis-à-vis Rs. 26.58 for the same period last year.

Recent Updates

In a recent announcement, Wyeth Ltd. (India) has informed the Stock Exchanges that it has now become a part of Pfizer Inc. US, following the merger of its original parent company – Wyeth Inc. with a wholly owned subsidiary of Pfizer. As a result of this merger, Pfizer is now the parent company of Wyeth & hence, the ultimate parent company of the Indian subsidiary - Wyeth Ltd. The Managing Director of the company Mr. R. R. Iyer has stepped down from the board of Wyeth Ltd. & has been replaced by Mr. Kewal Handa, who has been appointed as an additional director & MD of the company. Mr. Kewal Handa is also the MD of Pfizer's Indian listed arm, Pfizer Ltd.

As part of the USD 68 billion acquisition deal announced in January this year, Wyeth Inc. US has been merged with Wagner Acquisition Corporation, a direct & wholly owned subsidiary of Pfizer Inc. with effect from 15th October 2009. The shares of Wyeth Inc. have stopped trading on the US Stock Exchanges effective close of business as on 15th October. In its press releases, Pfizer Inc. has announced that Wyeth Inc. is now a wholly owned subsidiary of Pfizer Inc. & has also mentioned that merger of all local Wyeth & Pfizer entities within different geographies & jurisdictions would be carried out, subject to completion of various local legal & regulatory obligations.

Our View

We continue to remain positive about the future prospects of Wyeth Ltd. Even though the quarterly numbers do not look promising, we believe that the company would be able to deliver better results going forward. We understand that following the merger of their parent companies, the Indian subsidiaries of Wyeth & Pfizer should announce their merger sometime next year. This would be positive trigger for the shareholders.

At CMP of Rs. 700, the scrip trades at 13.3x FY10E earnings of Rs. 52.8. Maintain BUY on dips.

Wyeth: Q2FY10 Quarterly Analysis

Earnings Statement								
YE March (Rs. Mn.)	Q2FY10	Q1FY10	Q-Q(%)	Q2FY09	Y-Y(%)	H1FY10	H1FY09	Y-Y(%)
Net Revenues	1,127.5	1,146.7	-1.7%	1,054.4	6.9%	2,274.2	1,995.9	13.9%
Cost of Materials	324.1	333.3	-2.8%	246.7	31.4%	657.4	482.7	36.2%
Gross Profit	803.4	813.4	-1.2%	807.7	-0.5%	1,616.8	1,513.2	6.8%
Advertising & Sales Promotion	88.7	94.2	-5.8%	65.0	36.5%	182.9	116.2	57.4%
Employee Cost	116.0	125.5	-7.6%	94.1	23.3%	241.5	210.5	14.7%
Other Expenditure	262.7	205.1	28.1%	217.9	20.6%	467.8	407.8	14.7%
Total Expenditure	467.4	424.8	10.0%	377.0	24.0%	892.2	734.5	21.5%
Operating Profit	336.0	388.6	-13.5%	430.7	-22.0%	724.6	778.7	-6.9%
OPM (%)	29.80%	33.89%	(408.8)	40.85%	(1,104.7)	31.86%	39.01%	(715.3)
Other Income	27.9	51.1	-45.4%	53.9	-48.2%	79.0	109.0	-27.5%
EBITDA	363.9	439.7	-17.2%	484.6	-24.9%	803.6	887.7	-9.5%
Depreciation	18.0	18.0	0.0%	16.7	7.8%	36.0	32.9	9.4%
EBIT	345.9	421.7	-18.0%	467.9	-26.1%	767.6	854.8	-10.2%
Interest	2.6	1.0	160.0%	1.0	160.0%	3.6	1.9	89.5%
PBT	343.3	420.7	-18.4%	466.9	-26.5%	764.0	852.9	-10.4%
Tax	91.4	129.2	-29.3%	128.6	-28.9%	220.6	249.1	-11.4%
Current Tax	92.6	123.5	-25.0%	120.0	-22.8%	216.1	235.0	-8.0%
Fringe Benefit Tax	(3.0)	3.0		1.0		0.0	5.0	
Deferred tax	1.8	2.7	-33.3%	7.6	-76.3%	4.5	9.1	-50.5%
PAT	251.9	291.5	-13.6%	338.3	-25.5%	543.4	603.8	-10.0%
Equity Capital	227.2	227.2		227.2		227.2	227.2	
EPS	11.09	12.83	-13.6%	14.89	-25.5%	23.92	26.58	-10.0%
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q2FY10	Q1FY10	Q-Q(%)	Q2FY09	Y-Y(%)	H1FY10	H1FY09	Y-Y(%)
OPM (%)	29.8%	33.9%	(408.8)	40.8%	(1,104.7)	31.9%	39.0%	(715.3)
EBITDA (%)	32.3%	38.3%	(607.0)	46.0%	(1,368.5)	35.3%	44.5%	(914.1)
EBIT (%)	30.7%	36.8%	(609.7)	44.4%	(1,369.7)	33.8%	42.8%	(907.5)
PAT (%)	22.3%	25.4%	(307.9)	32.1%	(974.3)	23.9%	30.3%	(635.8)
Operational Parameters								
YE March (Rs. Mn.)	Q2FY10	Q1FY10	Q-Q(%)	Q2FY09	Y-Y(%)	H1FY10	H1FY09	Y-Y(%)
RM Consumed	28.7%	29.1%	(32.1)	23.4%	534.8	28.9%	24.2%	472.2
Advertising & Sales Promotion	7.9%	8.2%	(34.8)	6.2%	170.2	8.0%	5.8%	222.0
Employee Cost	10.3%	10.9%	(65.6)	8.9%	136.4	10.6%	10.5%	7.2
Other Expenditure	23.3%	17.9%	541.3	20.7%	263.4	20.6%	20.4%	13.8
Effective Tax rate	26.6%	30.7%	(408.7)	27.5%	(91.9)	28.9%	29.2%	(33.2)

Wyeth : Main Financials

Earnings Statement						
Particulars (Rs. Mn.)	FY05	FY06	FY07	FY08	FY09	FY10E
Total Revenues	2,588.2	2,872.9	2,903.8	3,313.2	3,826.5	4,271.0
- Growth (%)		11.0%	1.1%	14.1%	15.5%	11.6%
Total Expenditure	2,444.1	2,170.3	1,877.9	2,256.5	2,504.3	2,692.6
Operating Profit	144.1	702.5	1,025.8	1,056.7	1,322.2	1,578.4
Forex Gain/(Loss)	(1.5)	(2.4)	3.6	0.2	(40.7)	0.0
Other Income	81.1	91.1	124.5	189.0	213.7	212.8
EBITDA	223.7	791.3	1,153.9	1,246.0	1,495.2	1,791.2
Depreciation	74.8	61.6	62.1	64.7	68.5	72.5
EBIT	148.9	729.6	1,091.8	1,181.3	1,426.7	1,718.7
Interest	3.9	2.8	3.5	3.9	4.0	4.0
PBT	144.9	726.8	1,088.3	1,177.4	1,422.7	1,714.7
Tax	70.4	161.5	187.5	362.8	426.9	514.4
PAT Before EI	74.5	565.3	900.8	814.7	995.8	1,200.3
- Growth (%)		658.3%	59.4%	-9.6%	22.2%	20.5%
Extra-ordinary Items	315.5	111.9	22.7	0.1	0.9	0.0
PAT	390.1	677.2	923.6	814.8	996.7	1,200.3

Ratio Analysis						
Particulars	FY05	FY06	FY07	FY08	FY09	FY10E
OPM (%)	5.6%	24.5%	35.3%	31.9%	34.6%	37.0%
EBITDA (%)	8.6%	27.5%	39.7%	37.6%	39.1%	41.9%
PBIT (%)	5.8%	25.4%	37.6%	35.7%	37.3%	40.2%
PAT (%)	15.1%	23.6%	31.8%	24.6%	26.0%	28.1%
Interest Cover (x)	38.0	258.4	312.1	304.5	361.0	429.3
EPS (Rs.)	17.2	29.8	40.7	35.9	43.9	52.8
P/E (x)	40.8	23.5	17.2	19.5	16.0	13.3
P/BV (x)	6.6	6.5	6.2	6.2	5.9	5.2
BVPS (Rs.)	106.8	108.0	113.0	113.7	119.6	134.4
Market Cap (Rs. Mn.)	15,904.0	15,904.0	15,904.0	15,904.0	15,904.0	15,904.0
M Cap/Sales (x)	6.1	5.5	5.5	4.8	4.2	3.7
EV (Rs. Mn.)	14,287.8	14,094.7	13,817.3	13,632.8	13,689.4	12,911.1
EV/EBITDA (x)	96.0	19.3	12.7	11.5	9.6	7.5
EV/Sales (x)	5.5	4.9	4.8	4.1	3.6	3.0
ROCE (%)	6.1%	29.4%	42.1%	45.3%	52.0%	55.8%
RONW (%)	3.1%	23.0%	35.1%	31.5%	36.7%	39.3%
Debt/Equity Ratio (x)	0.0	0.0	0.0	0.0	0.0	0.0
Inventory T/o Days	68.2	55.6	58.1	43.5	53.4	40.0
Debtors T/o Days	19.5	24.8	24.2	24.6	23.4	24.0
Advances T/o Days	93.1	57.7	61.5	57.0	79.5	60.0
Creditors T/o Days	81.2	42.4	39.4	45.4	56.9	50.0
Working Cap T/o Days	245.2	237.0	256.5	232.9	219.2	231.9
Fixed Assets T/o (Gross)	2.9	3.8	3.8	4.3	4.8	5.3
DPS (Rs.)	20.0	25.0	30.0	30.0	32.5	32.5
Dividend Payout (%)	116.5%	83.9%	73.8%	83.7%	74.1%	61.5%
Dividend Yield (%)	2.9%	3.6%	4.3%	4.3%	4.6%	4.6%

Wyeth : Main Financials

Balance Sheet						
Particulars (Rs. Mn.)	FY05	FY06	FY07	FY08	FY09	FY10E
Equity Capital	227.2	227.2	227.2	227.2	227.2	227.2
Reserves	2,199.1	2,227.2	2,339.4	2,356.8	2,489.6	2,826.0
Shareholders Funds	2,426.3	2,454.4	2,566.6	2,584.0	2,716.8	3,053.2
Minority Interest						
Borrowed Funds	25.0	25.0	25.0	25.0	25.0	25.0
Deferred Tax Liability	(186.3)	(138.1)	(108.2)	(73.3)	(55.4)	(38.3)
Total Liabilities	2,265.1	2,341.2	2,483.5	2,535.7	2,686.4	3,040.0
Fixed Assets	526.5	473.6	440.3	419.3	388.7	326.2
Investments	0.0	2.4	2.4	2.4	0.0	0.0
Current Assets						
Inventory	483.5	437.4	462.4	395.2	559.9	468.1
Sundry Debtors	138.5	195.4	192.7	223.7	245.0	280.8
Loans & Advances	659.9	453.9	489.0	517.7	833.4	702.1
Cash & Bank Balance	1,641.3	1,834.3	2,111.7	2,296.2	2,239.6	3,018.0
Current Liabilities						
Sundry Creditors	576.1	333.8	313.4	412.0	596.1	585.1
Provisions	608.4	721.9	901.6	906.8	984.1	1,170.1
Net Current Assets	1,738.6	1,865.3	2,040.8	2,114.1	2,297.7	2,713.8
Miscellaneous Expenditure						
Total Assets	2,265.1	2,341.2	2,483.5	2,535.7	2,686.4	3,040.0

Cash Flow						
Particulars (Rs. Mn.)	FY05	FY06	FY07	FY08	FY09	FY10E
Opening Cash & Bank	1,116.8	1,641.3	1,834.3	2,111.7	2,296.2	2,261.5
Profit After Tax	390.1	677.2	923.6	814.8	996.7	1,200.3
Investment Income	(81.1)	(91.1)	(124.5)	(189.0)	(213.7)	(212.8)
Interest Paid	3.9	2.8	3.5	3.9	4.0	4.0
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	74.8	61.6	62.1	64.7	68.5	72.5
Deferred Taxation	(84.2)	48.1	37.0	34.9	17.9	17.1
Others	325.0	(140.3)	(44.0)	(9.7)	0.0	0.0
Change in Working Cap	369.0	66.3	101.9	111.2	(240.3)	362.3
CF - Operating Activities	997.5	624.7	959.5	830.7	633.1	1,443.5
Change in Fixed Assets	(31.4)	131.5	8.2	(33.9)	(16.0)	(10.0)
Change in Investments	0.0	(2.4)	0.0	0.0	2.4	0.0
Investment Income	81.1	91.1	124.5	189.0	213.7	212.8
CF - Investing Activities	49.6	220.3	132.7	155.1	200.0	202.8
Increase in Equity	0.0	(1.5)	(13.8)	0.0	0.0	(0.0)
Changes in Borrowings	0.0	0.0	0.0	0.0	0.0	0.0
Interest Paid	(3.9)	(2.8)	(3.5)	(3.9)	(4.0)	(4.0)
Dividend Paid	(518.7)	(647.7)	(797.4)	(797.4)	(863.9)	(863.9)
CF - Financing Activities	(522.6)	(652.0)	(814.8)	(801.3)	(867.8)	(867.9)
Net Change in Cash	524.5	193.0	277.4	184.5	(34.7)	778.4
Closing Cash & Bank Balance	1,641.3	1,834.3	2,111.7	2,296.2	2,261.5	3,039.9

Disclaimer

Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
3. PMS ownership of the scrip

Wyeth Limited

NO
YES
YES

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Contact

Ridhim Thapar	Institutional Sales	ridhim@ppfas.com	91 22 2284 6555 Extn 312
Hiren Samani	Analyst - Investment Research	hiren@ppfas.com	91 22 2284 6555 Extn 206

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Parag Parikh Financial Advisory Services Limited

130/132, Great Western Building, 1st Floor, S. B. Marg, Near Lion Gate, Fort, Mumbai - 400 001.

Tel : 91-22-2284 6555 Fax : 91-22-2284 6555, e-mail : researchcall@ppfas.com

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