

Wyeth Limited	CMP Rs. 440.0 BUY	Result Update Q3FY09
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Wyeth Ltd. announced a Q-o-Q decline of 11% & 38.5% in its top-line & bottom-line respectively, for the quarter ended December 2008. With an increase in Advertising & Sales Promotion of more than 52%, the company saw a decline in Operating Profits by almost 40% Q-o-Q. With this, the bottom-line decreased by 38.5% from Rs. 338.3 Mn. in Q2FY09 to Rs. 207.9 Mn. in Q3FY09. But this lackluster performance is not something new for the Pharmaceutical industry. Every year, the sector has seen a decline in Revenues for the quarter ended December.

However, on a Y-o-Y comparison, Wyeth reported decent set of numbers for the quarter ended 31st December 2008.

- Net Revenues stood at Rs. 940.4 Mn. for Q3FY09, an increase of 11.5% over Q3FY08.
- With Materials Cost & Advertising & Sales Promotion Expenses declining by 14.4% & 16.5% respectively, the company saw its Operating Profits grow by 16.3% Y-o-Y to Rs. 262 Mn.
- Operating Margins improved by almost 115 bps on a Y-o-Y basis.
- The company saw a jump of almost 40% in Other Income from Rs. 35.5 Mn. in Q3FY08 to Rs. 49.4 Mn. in Q3FY09.
- Reported PAT stood at Rs. 207.9 Mn. as against Rs. 175.4 Mn. in Q3FY08, registering a growth of 18.5% Y-o-Y.

For the first nine months ended December 2009, Wyeth's performance has been in line with the overall industry. The MNC managed a 13.8% top-line & a 17.1% bottom-line growth over the same period last year. EPS for nine month ended 31st December 2008 stood at Rs. 35.7 vis-a-vis Rs. 30.5 for the same period last year.

Recent buzz in the market ...

Pfizer Inc. has entered into a definitive merger agreement to acquire Wyeth Pharmaceuticals Inc. in a USD 68 billion buyout deal. Pfizer has already secured USD 22.5 billion from banks & plans to use stock & its cash reserves to fund the rest of the transaction.

The deal is expected to create a pharmaceutical behemoth with combined revenues of more than USD 75 billion & a line of blockbuster drugs including Pfizer's cholesterol drug Lipitor & Wyeth's pediatric vaccine Prevnar. Also, the deal would create billions in cost savings through the combination of back-office operations, research & development, sales & manufacturing etc. Pfizer, in the past has done such deals like the USD 100 billion buy out of Warner Lambert in 2000 & Pharmacia in 2003.

We are still awaiting more clarity on this front & hence are unable to opine about the effects of this deal on the Indian subsidiaries of the respective companies. However, we feel that even if the deal goes through successfully for Pfizer, an Open Offer might not be a mandate for the Pfizer Inc, since looking at the recent past, whereby an acquisition or takeover of the global parent company has not triggered an open offer for the Indian listed subsidiary (Example HP taking over EDS, and no open offer triggered in Mphasis EDS Ltd).

Our View

We still remain positive about Wyeth's future prospects & expect the company to grow in line with the overall industry. Besides, healthy free cash flows that the company generates & reasonable dividend yields are addition to the defensive nature of the stock. At CMP of Rs. 440, the scrip trades at 10.8x FY09E & 9.8x FY10E earnings. Maintain BUY.

Wyeth: Q309 Quarterly Analysis

Earnings Statement								
YE March (Rs. Mn.)	Q3FY09	Q2FY08	Q-Q(%)	Q3FY08	Y-Y(%)	9MFY09	9MFY08	Y-Y(%)
Net Revenues	940.4	1,058.3	-11.1%	843.6	11.5%	2,940.2	2,583.6	13.8%
Cost of Materials	78.0	97.2	-19.8%	91.1	-14.4%	262.1	256.8	2.1%
Gross Profit	862.4	961.1	-10.3%	752.5	14.6%	2,678.1	2,326.8	15.1%
(Increase)/Decrease in Stocks & WIP	21.0	(72.9)		(51.3)		(36.9)	12.7	
Purchase of Traded Goods	173.9	222.4	-21.8%	161.2	7.9%	530.4	399.4	32.8%
Advt. & Sales Promotion	98.9	65.0	52.2%	118.4	-16.5%	215.1	179.6	19.8%
Employee Cost	108.5	94.1	15.3%	108.8	-0.3%	319.0	275.3	15.9%
Other Expenditure	198.1	217.9	-9.1%	190.1	4.2%	605.9	556.0	9.0%
Total Expenditure	600.4	526.5	14.0%	527.2	13.9%	1,633.5	1,423.0	14.8%
Operating Profit	262.0	434.6	-39.7%	225.3	16.3%	1,044.6	903.8	15.6%
OPM (%)	27.86%	41.07%	(1,320.5)	26.71%	115.4	35.53%	34.98%	54.6
Other Income	49.4	50.0	-1.2%	35.5	39.2%	154.5	139.9	10.4%
EBITDA	311.4	484.6	-35.7%	260.8	19.4%	1,199.1	1,043.7	14.9%
Depreciation	17.4	16.7	4.2%	16.2	7.4%	50.3	48.3	4.1%
EBIT	294.0	467.9	-37.2%	244.6	20.2%	1,148.8	995.4	15.4%
Interest	0.6	1.0	-40.0%	1.0	-40.0%	2.5	2.8	-10.7%
PBT	293.4	466.9	-37.2%	243.6	20.4%	1,146.3	992.6	15.5%
Tax	85.5	128.6	-33.5%	68.2	25.4%	334.6	299.4	11.8%
Current Tax	80.0	120.0	-33.3%	57.5	39.1%	315.0	262.5	20.0%
Fringe Benefit Tax	1.0	1.0	0.0%	1.2	-16.7%	6.0	8.2	-26.8%
Deferred tax	4.5	7.6	-40.8%	9.5	-52.6%	13.6	28.7	-52.6%
PAT	207.9	338.3	-38.5%	175.4	18.5%	811.7	693.2	17.1%
Equity Capital	227.2	227.2		227.2		227.2	227.2	
EPS	9.2	14.9	-38.5%	7.7	18.5%	35.7	30.5	17.1%
Ratio Analysis								
Profitability								
YE March	Q3FY09	Q2FY08	Q-Q(%)	Q3FY08	Y-Y(%)	9MFY09	9MFY08	Y-Y(%)
OPM (%)	27.9%	41.1%	(1,320.5)	26.7%	115.4	35.5%	35.0%	54.6
EBITDA (%)	33.1%	45.8%	(1,267.7)	30.9%	219.8	40.8%	40.4%	38.6
EBIT (%)	31.3%	44.2%	(1,294.9)	29.0%	226.9	39.1%	38.5%	54.5
PAT (%)	22.1%	32.0%	(985.9)	20.8%	131.6	27.6%	26.8%	77.6

Wyeth : Financials

Earnings Statement						
Particulars (Rs. Mn)	FY05	FY06	FY07	FY08	FY09E	FY10E
Total Revenues	2,588.2	2,872.9	2,903.8	3,313.2	3,774.3	4,264.9
- Growth (%)		11.0%	1.1%	14.1%	13.9%	13.0%
Total Expenditure	2,444.1	2,170.3	1,877.9	2,256.5	2,591.1	2,963.3
Operating Profit	144.1	702.5	1,025.8	1,056.7	1,183.2	1,301.6
Forex Gain/(Loss)	(1.5)	(2.4)	3.6	0.2	0.0	0.0
Other Income	81.1	91.1	124.5	189.0	206.7	223.9
EBITDA	223.7	791.3	1,153.9	1,246.0	1,389.8	1,525.5
Depreciation	74.8	61.6	62.1	64.7	65.3	65.3
EBIT	148.9	729.6	1,091.8	1,181.3	1,324.6	1,460.2
Interest	3.9	2.8	3.5	3.9	4.0	4.0
PBT	144.9	726.8	1,088.3	1,177.4	1,320.6	1,456.2
Tax	70.4	161.5	187.5	362.8	396.2	436.9
PAT Before EI	74.5	565.3	900.8	814.7	924.4	1,019.3
- Growth (%)		658.3%	59.4%	-9.6%	13.5%	10.3%
Extra-ordinary Items	315.5	111.9	22.7	0.1	0.0	0.0
PAT	390.1	677.2	923.6	814.8	924.4	1,019.3
Ratio Analysis						
Particulars	FY05	FY06	FY07	FY08	FY09E	FY10E
OPM (%)	5.6%	24.5%	35.3%	31.9%	31.3%	30.5%
EBITDA (%)	8.6%	27.5%	39.7%	37.6%	36.8%	35.8%
PBIT (%)	5.8%	25.4%	37.6%	35.7%	35.1%	34.2%
PAT (%)	15.1%	23.6%	31.8%	24.6%	24.5%	23.9%
Interest Cover (x)	38.0	258.4	312.1	304.5	330.8	364.7
EPS (Rs.)	17.2	29.8	40.7	35.9	40.7	44.9
P/E (x)	25.6	14.8	10.8	12.3	10.8	9.8
P/BV (x)	4.1	4.1	3.9	3.9	3.7	3.4
BVPS (Rs.)	106.8	108.0	113.0	113.7	119.3	129.1
Market Cap (Rs. Mn.)	9,996.8	9,996.8	9,996.8	9,996.8	9,996.8	9,996.8
M Cap/Sales (x)	3.9	3.5	3.4	3.0	2.6	2.3
EV (Rs. Mn.)	8,380.5	8,187.5	7,910.1	7,725.6	7,388.3	7,003.3
EV/EBITDA (x)	56.3	11.2	7.2	6.5	5.6	4.8
EV/Sales (x)	3.2	2.8	2.7	2.3	2.0	1.6
ROCE (%)	6.1%	29.4%	42.1%	45.3%	48.4%	49.4%
RONW (%)	3.1%	23.0%	35.1%	31.5%	34.1%	34.8%
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	40.0	40.0
Debtors T/o Days	19.5	24.8	24.2	24.6	24.0	24.0
Advances T/o Days	93.1	57.7	61.5	57.0	60.0	60.0
Creditors T/o Days	81.2	42.4	39.4	45.4	50.0	50.0
Working Cap T/o Days	245.2	237.0	256.5	232.9	228.7	232.3
Fixed Assets T/o (Gross)	2.9	3.8	3.8	4.3	4.9	5.6
DPS (Rs.)	20.0	25.0	30.0	30.0	30.0	30.0
Dividend Payout (%)	116.5%	83.9%	73.8%	83.7%	73.7%	66.9%
Dividend Yield (%)	4.5%	5.7%	6.8%	6.8%	6.8%	6.8%

Wyeth : Financials

Balance Sheet						
Particulars (Rs. Mn)	FY05	FY06	FY07	FY08	FY09E	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	2,483.8	2,705.7
Shareholders Funds	2,426.3	2,454.4	2,566.6	2,584.0	2,711.0	2,932.9
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)	(7.3)	65.5
Total Liabilities	2,265.1	2,341.2	2,483.5	2,535.7	2,728.7	3,023.4
Fixed Assets	526.5	473.6	440.3	419.3	364.0	308.7
Investments	0.0	2.4	2.4	2.4	0.0	0.0
Current Assets						
Inventory	483.5	437.4	462.4	395.2	413.6	467.4
Sundry Debtors	138.5	195.4	192.7	223.7	248.2	280.4
Loans & Advances	659.9	453.9	489.0	517.7	620.4	701.1
Cash & Bank Balance	1,641.3	1,834.3	2,111.7	2,296.2	2,633.5	3,018.5
Current Liabilities						
Sundry Creditors	576.1	333.8	313.4	412.0	517.0	584.2
Provisions	608.4	721.9	901.6	906.8	1,034.0	1,168.5
Net Current Assets	1,738.6	1,865.3	2,040.8	2,114.1	2,364.7	2,714.7
Miscellaneous Expenditure						
Total Assets	2,265.1	2,341.2	2,483.5	2,535.7	2,728.7	3,023.4
Cash Flow						
Particulars (Rs. Mn)	FY05	FY06	FY07	FY08	FY09E	FY10E
Opening Cash & Bank	1,116.8	1,641.3	1,834.3	2,111.7	2,296.2	2,633.5
Profit After Tax	390.1	677.2	923.6	814.8	924.4	1,019.3
Investment Income	(81.1)	(91.1)	(124.5)	(189.0)	(206.7)	(223.9)
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	65.3	65.3
Deferred Taxation	(84.2)	48.1	37.0	34.9	66.0	72.8
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	86.7	35.0
CF - Operating Activities	997.5	624.7	959.5	830.7	939.7	972.5
Change in Fixed Assets	(31.4)	131.5	8.2	(33.9)	(10.0)	(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	206.7	223.9
CF - Investing Activities	49.6	220.3	132.7	155.1	199.0	213.9
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)	(797.4)	(797.4)
CF - Financing Activities	(522.6)	(652.0)	(814.8)	(801.3)	(801.4)	(801.4)
Net Change in Cash	524.5	193.0	277.4	184.5	337.3	385.0
Closing Cash & Bank Balance	1,641.3	1,834.3	2,111.7	2,296.2	2,633.5	3,018.5

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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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