

Aspen Pharmacare Holdings Ltd

Health care



Company Update Report

Future contracts, margin improvement and sterile capacity fill key to reaching management's expectations

Analyst recommendation

Table 1: Analyst recommendation

Counter	Share price	Intrinsic value	Difference
Aspen Pharmacare	R174	R206	18% Upside

18 November 2024

Executive summary

- Strong progress is being made in sterile capacity fulfilment. Additionally, the company bought a portfolio of products from Viatris for R5.3bn which is expected to boost revenue. The future fulfilment of the remaining sterile capacity, along with the contracts from GAVI, is still to be seen.
- Key points in the investment thesis are:
 - Manufacturing remains the underperformer in the portfolio, due to the heparin unwind, although this should improve in the next two years. While revenue will decline in this segment, margins will improve.
 - There are execution risks as the company relies on future contracts to drive growth. While management's outlook beyond 2025 is optimistic, it remains achievable. Contracts will have to be negotiated on top of the Novo Nordisk, Eli Lilly, Viatris and Amgen ones that have been signed.
 - The Chinese volume-based procurement policy remains uncertain; however, management sees this mitigating post 2025.
 - Debt has been effectively managed in recent years and should continue declining after the Viatris acquisition.
 - The company is trading below its five-year average multiple and looks attractive at the moment. The double-digit organic growth expected in the commercial segment is now more achievable now following the Chinese VBP issue, provided this doesn't persist in the future.
- Have an intrinsic value of R206 per share (upside of 18%) and recommend a buy position.
 - An estimated EBITDA of R15.1bn with a WACC of 12.3%.
 - Forecasted revenue growth slightly ahead of consensus due to improved EBITDA margins.
 - Upside on the current share price of R174. Pipeline deals and spare capacity should see improved margins. GLP-1 projects provide ample opportunity post FY26, however this remains uncertain at the moment.
- What would make us change our minds?
 - Price is currently well below its two year forward EV/EBITDA average of 8.3x, however, if they do not deliver on their guidance this could be warranted.
 - Failure to achieve fulfilment of the sterile capacity and EBITDA margins not improving to closer to 29%.



Table 2: Qualitative summary

Factor review	Rating	Description
Valuation		
Growth		Revenue CAGR is expected at 8% through to FY26.
Valuation		Value the company on a forward EV/EBITDA multiple with a 18% upside.
Dividend yield		Dividend yield of 1.6% which is less than peers and the industry.
Issuance		Small amount of share buybacks in the last two years.
Catalyst	<ul style="list-style-type: none"> • Fulfilment of sterile vaccine supply • Future contracts with obesity drugmakers. • Management meeting their robust guidance. • Contract from GAVI who have announced \$1bn for future vaccines. Aspen is in good standing to receive a portion of that (total amount is uncertain). • GLP-1 products post FY26 	
Quality		
Quality of earnings		High gross margins, however, EBITDA margins have seen to fluctuate over the past five years. Very few recurring abnormal line items.
Moat		Large, diversified portfolio of products and a big international presence. Barriers to entry make it difficult for any new competitors to enter the market and contracts last five-10 years.
Management and governance		Long tenured management team with the founder, Stephen Saad, still managing the company. Managements has a track record of acquisitions which have had mixed outcomes.
Balance sheet		Neutral balance sheet with net debt sitting at approximately 2.3x.
Macro and quantitative sensitivities		
Risks	Upside risk <ul style="list-style-type: none"> • Fulfilment of vacant sterile capacity which has been announced by management with more detail to be provided for FY26. 	
	Downside risk: <ul style="list-style-type: none"> • Company profits are highly susceptible to exchange rate fluctuations. • Management upped its guidance on future contracts to R8bn, however, only R4bn has currently been agreed. • Possible acquisitions which will not deliver enough value as we have seen with management in the past. 	



Regulation		The medical industry is strictly regulated with Single Exit Pricing (SEP) restricting price increase in SA. Drugs also need approval from various authorities.
ESG		Factset does not have an ESG rating for this company.
Momentum price		Price momentum is negative, share price is above both 200- and 55-day moving average.
Momentum earnings		Positive earnings momentum. In the last three months, the earnings have been revised up by 29% for the next financial year.

Source: PSG Wealth



Most recent results

On 4 September 2024, Aspen released its full year financial results for 30 June 2024.

1. Total sales increased by 10% to R44.7bn, but up only 5% when adjusted for currency.
2. EPS (cents) declined by 15% from 1163 (cents) in June 2023 to 989 (cents) in June 2024.
3. EBITDA margins decreased from 27.3% to 25.2% as the company unwinds an inventory backlog of Heparin.
4. The acquisition of a portfolio of drugs from Viartis, management of the Chinese volume-based procurement and filling of the vacant sterile contracts will lift growth going forward. Management is frustrated with a slow progress of the Gavi agreement which will focus on health care spending in Africa.

Impact

Following the results announcement on 4 September 2024, the share price saw a decline of 14% with the share trading at R202. It has since fallen to R174 as concerns about management’s ability to execute on its guidance weigh on the stock. Management has stated that it is a matter of “when” not “if” they will receive contract fulfilment orders in Africa and the majority of the Chinese volume-based procurement issues have been resolved. There is still spare capacity for fulfilment in the sterile business.

Table 3: Price performance

Price return	YTD	1M	3M	6M	1Y	2Y	3Y	5Y	10Y
Aspen Pharmacare Holdings	-15,9%	-9,9%	-25,5%	-25,5%	-0,5%	14,8%	-19,7%	44,3%	-57,0%
JSE Capped Swix Index	9,1%	-3,2%	1,2%	5,5%	14,5%	13,2%	15,8%	36,0%	35,2%
Outperformance / (Underperformance)	-25,0%	-6,8%	-26,7%	-31,1%	-15,0%	1,6%	-35,5%	8,3%	-92,2%

Source: FactSet

17 Nov 2024

Overview

In 2018 Aspen changed its segmental breakdown. Previously, the three segments were Therapeutic Focused Brands, Other Pharmaceuticals and Nutritionals. Up until FY2023 the segments were Commercial Pharmaceuticals (broken down into Sterile Focus Brands and Regional Brands) and Manufacturing. As of FY24 they have split the commercial pharmaceutical division into prescription, over-the-counter and injectables as the business updates its operating model.

Aspen now reports its results in these two main segments each with three sub segments:

Commercial Pharmaceuticals

- Prescription
- Over-the-counter
- Injectables

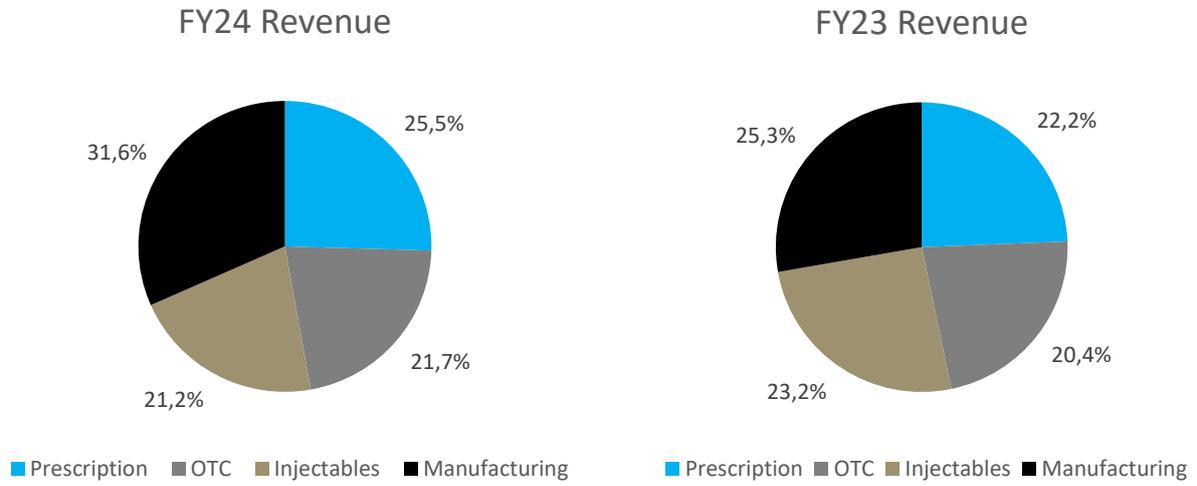
Manufacturing

- Active pharmaceutical ingredients (API)
- Finished dose form (FDF)
- Heparin

The breakdown is as follows:



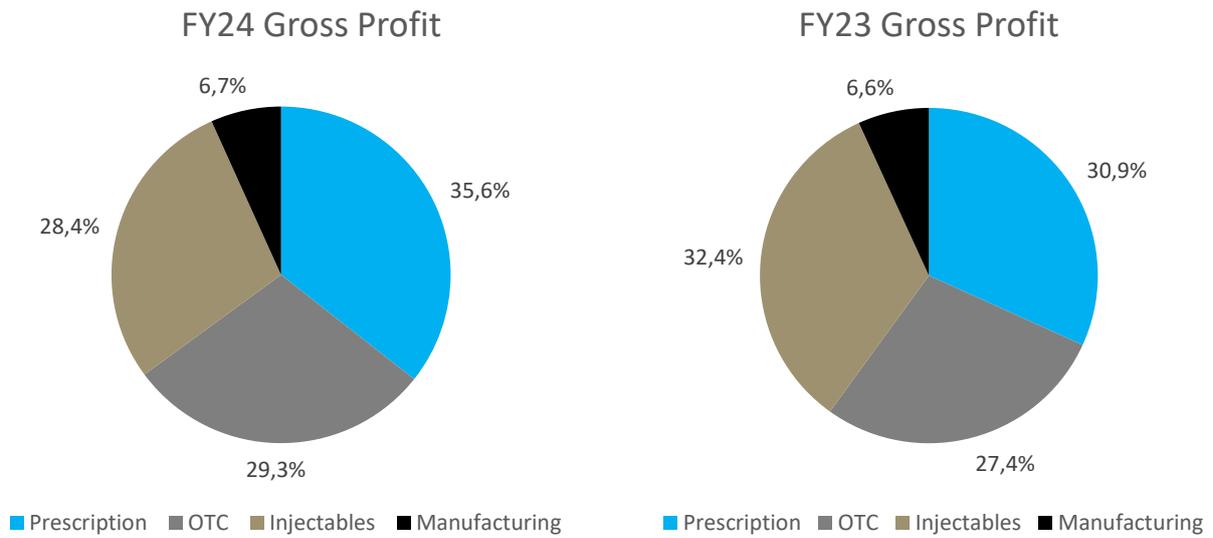
Graph 1 & 2: Revenue breakdown:



Source: Company Financials & PSG Wealth Research

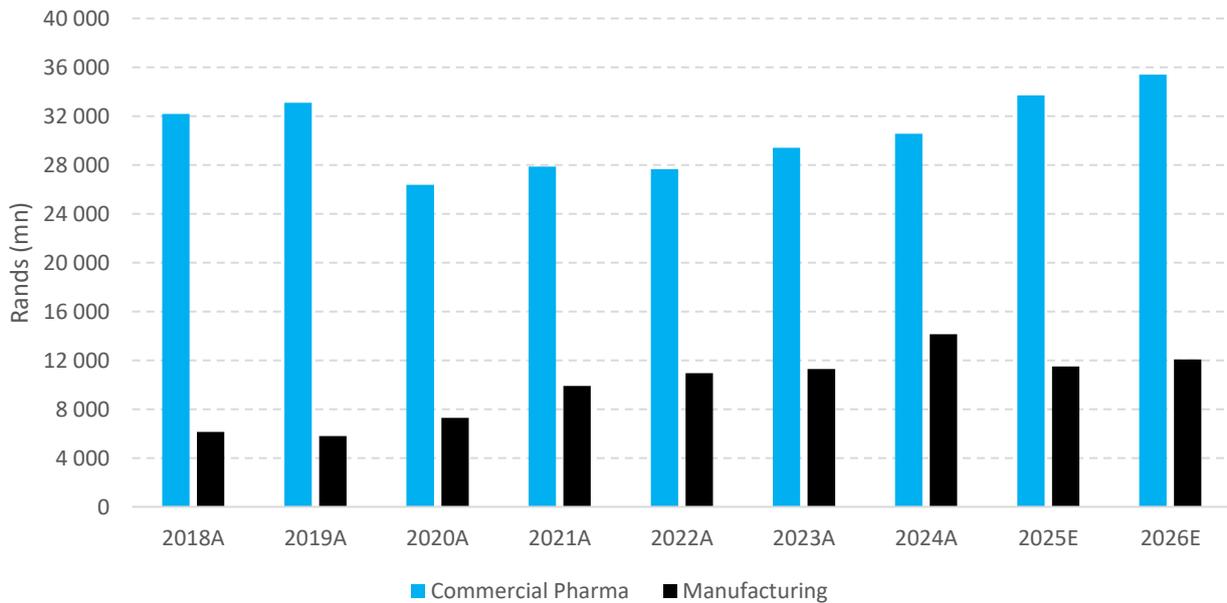


Graph 3 & 4: Gross profit breakdown:



Source: Company Financials & PSG Wealth Research

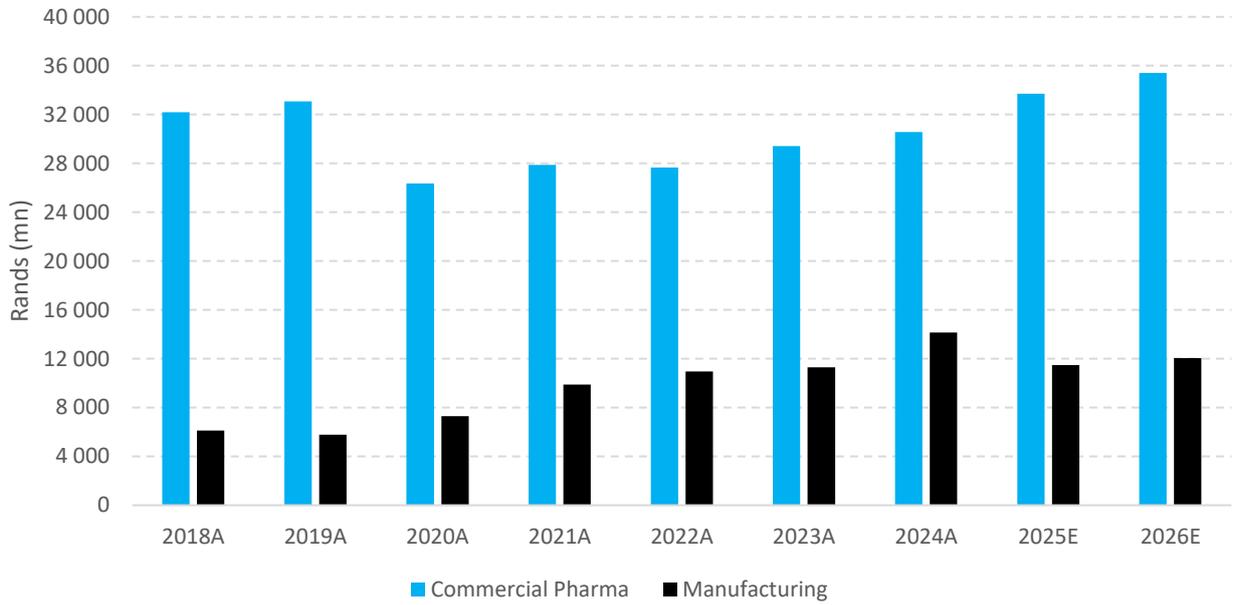
Graph 5: Revenue breakdown:



Source: Company Financials & PSG Wealth Research



Graph 6: Gross profit breakdown:

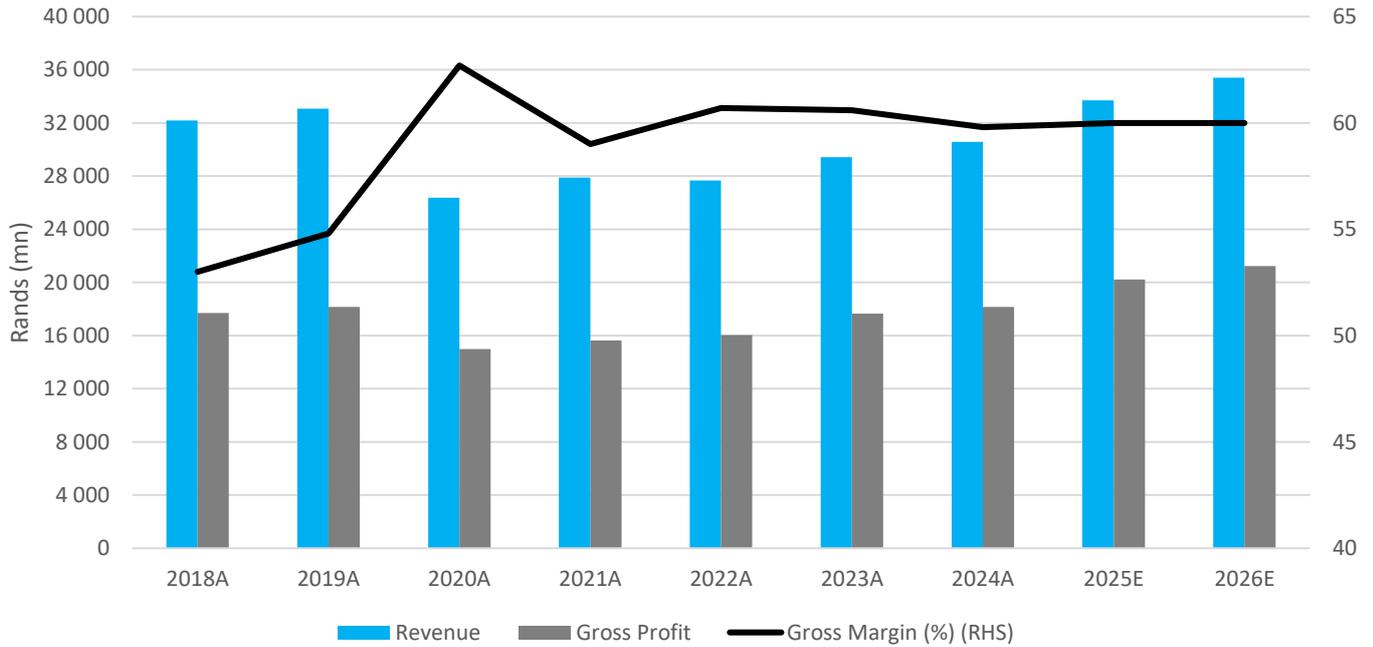


Source: Company Financials & PSG Wealth Research



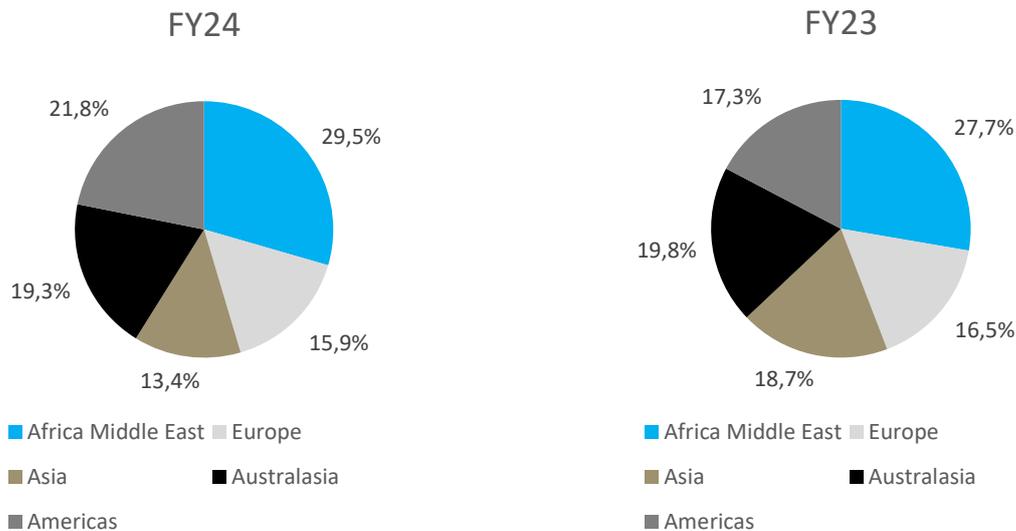
Commercial Pharmaceuticals: This segment used to be separated into sterile focus brands and regional brands. It is now broken down into prescription, OTC and injectables. This segment produces a range of sterile pharmaceutical products such as injectable drugs and intravenous (IV) solutions and niche medicines across anesthetics and thrombosis therapies. It also includes all its drug sold over the counter. In 2024, commercial pharmaceuticals contributed 68% to group revenue and 93% to gross profit.

Graph 7: Commercial Pharmaceuticals breakdown:



Source: Company Financials & PSG Wealth Research

Graph 8 and 9: Geographic revenue breakdown:

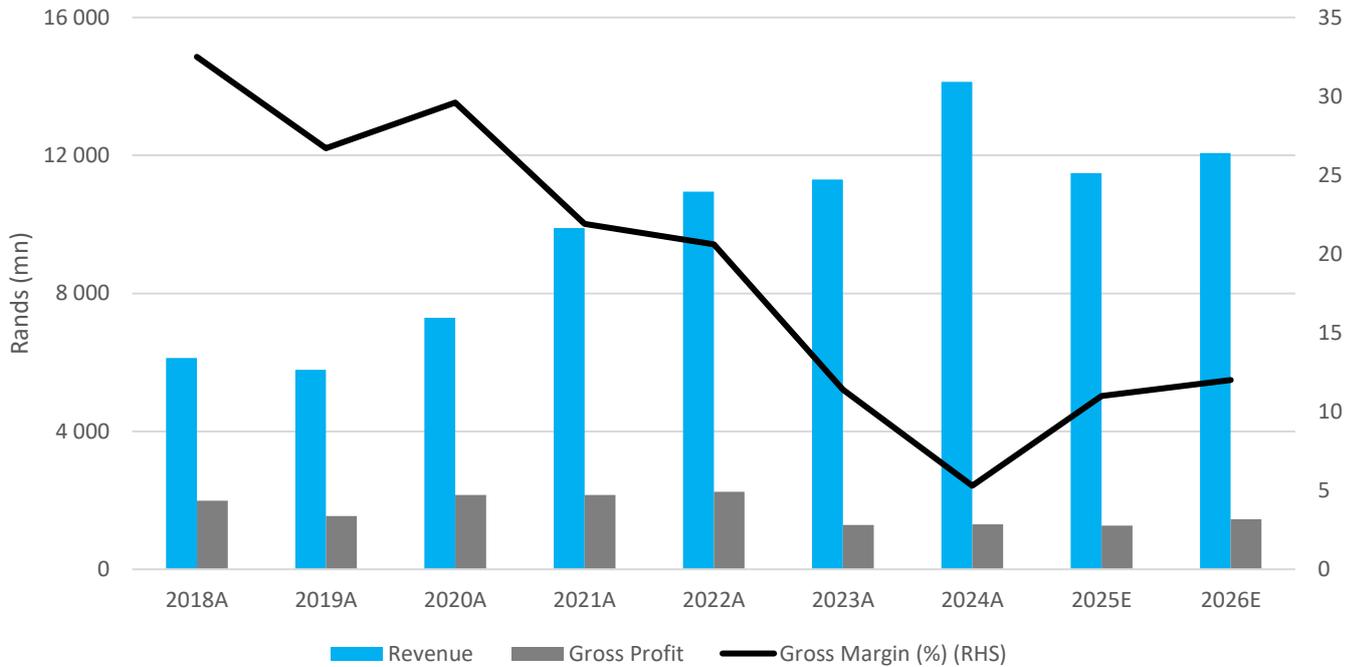


Source: Company Financials & PSG Wealth Research



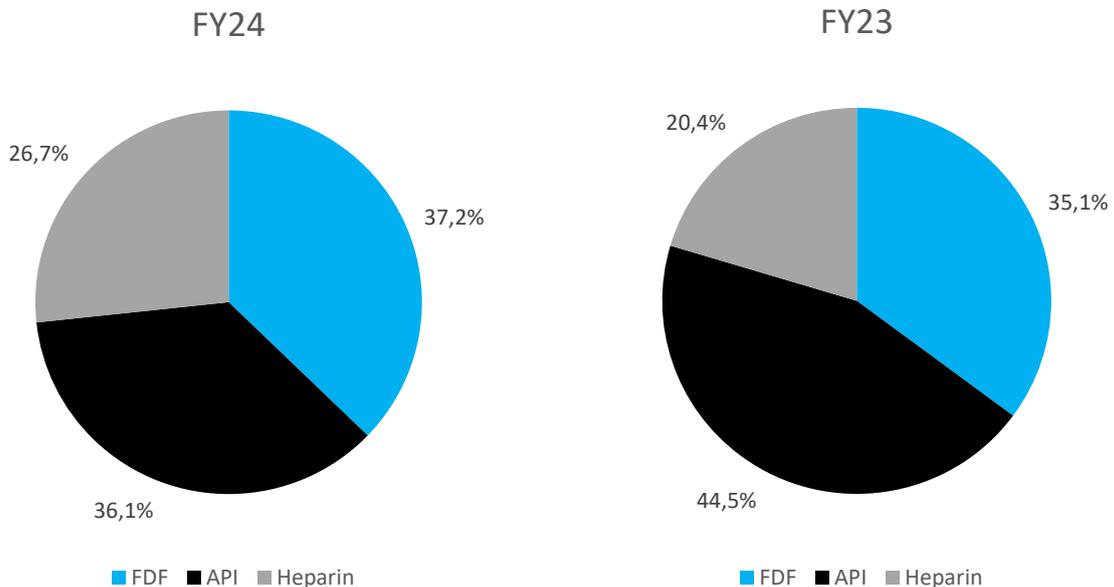
Manufacturing: Through this segment, Aspen manufactures a wide variety of product types including sterile, oral solid dose, liquids, semi-solids, biologicals and APIs. It has 23 manufacturing facilities across 15 sites. This division contributes 32% of group revenue and 7% of gross profit.

Graph 10: Revenue and margin breakdown:



Source: Company Financials & PSG Wealth Research

Graph 11 & 12: Manufacturing revenue breakdown:





Source: Company Financials & PSG Wealth Research

Valuation summary

We value Aspen using an EV/EBITDA multiple with a WACC of 12.3%. The assumptions follow a 7% revenue growth rate with an additional R500m flowing in FY2024 and R3bn in FY2025 due to the fulfilment of the sterile capacity. An additional R1.5bn comes from the contract for Sandoz products from China. EBITDA margins have contracted in FY24 due to the unwinding of the heparin inventory and then normalise closer to 27% in FY25 and 29% in FY26. The additional revenue from GAVI has not been included and we still await any further announcement with regards to additional contract fulfilment

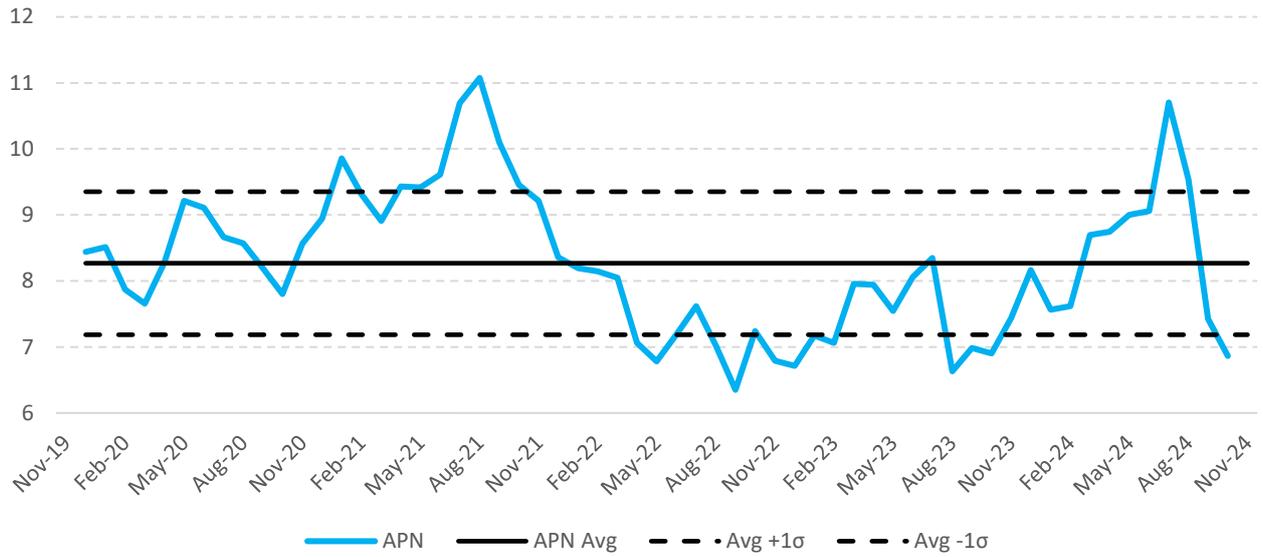
The multiple has been assumed as 8x in the base case, which is below its long-term average, however we see this as artificially inflated due to the Covid period. A peer comparison is difficult due to their not being any local competitors whilst international counterparts Viatrix and Bayer AG trade at multiples closer to 6x. Aspen has historically not traded below 6.7x in the past 10 years.

Table 4: Valuation Summary

	Bear	Base	Bull
2026 EBITDA (R'm)	15 121	15 121	15 121
Consensus EBITDA (R'm)	15 067	15 067	15 067
EV/EBITDA multiple assumptions (x)	7	8	9
Discounted enterprise value (R'm)	102 894	117 593	132 292
Net debt/(Cash) (R'm)	24 118	24 118	24 118
Equity value (R'm)	78 776	93 475	108 174
Shares in Issue	446	446	446
Intrinsic value per case (R)	176,63	209,59	242,54
Upside/downside per case	0,9%	19,8%	38,6%
Case weight	30%	50%	20%
Intrinsic value (R)		R 206,29	
Current share price		R 174,99	
Upside/(downside)		17,9%	



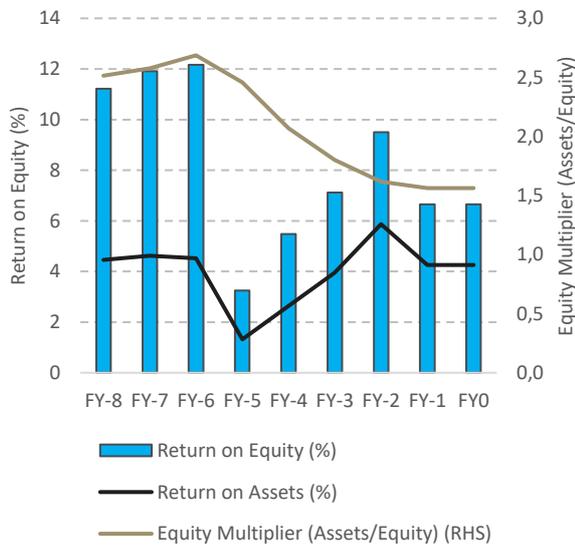
Graph 13: EV/EBITDA FY2 Multiple



Source: Factset

DuPont

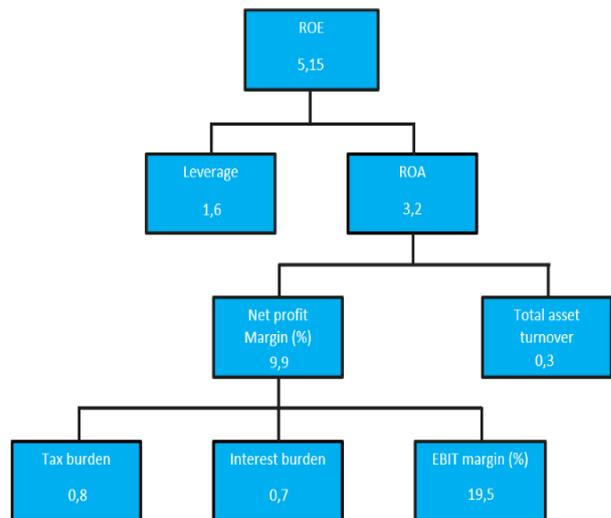
Graph 14: Return on equity



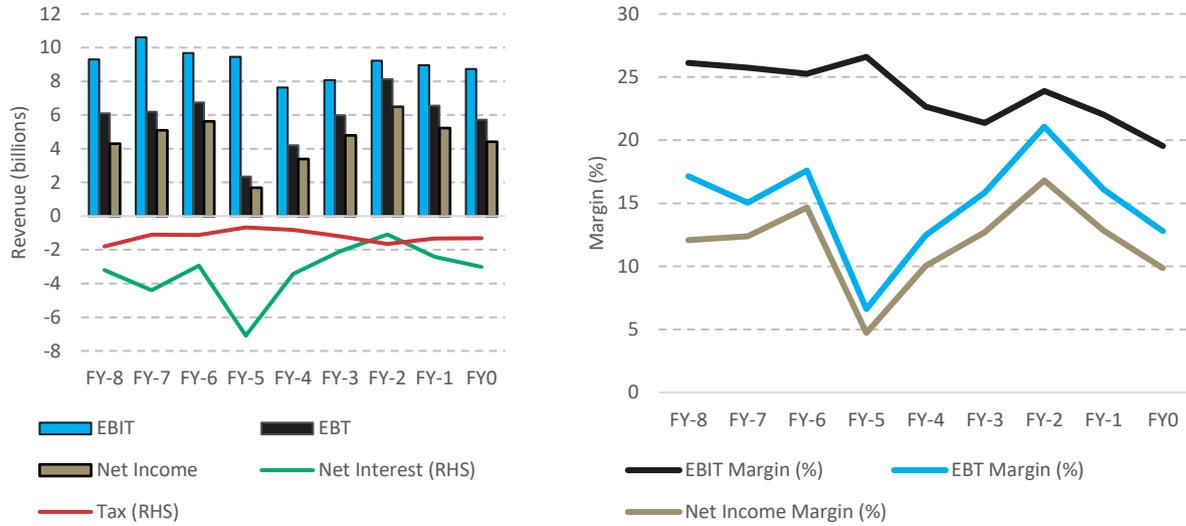
Source: Factset

Graph 16: EBIT, EBT and Net Income

Graph 15: Dupont analysis summary

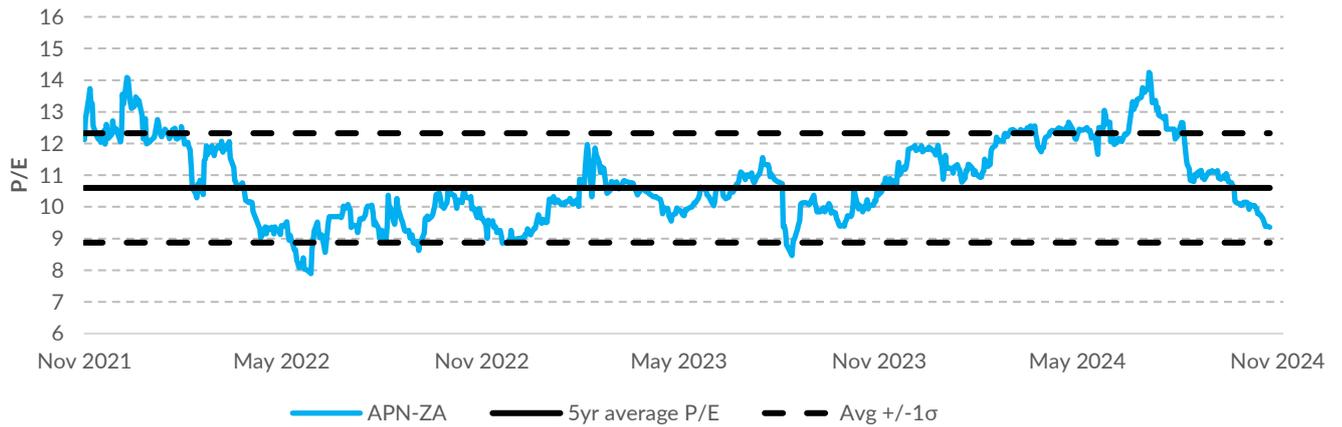


Graph 17: Margins



Source: Factset

Graph 18: P/E History



Source: Factset

Financial analysis

Table 5: Share price information

52-week high	R253,0
52-week low	R170,1
Market value (bn)	R76,7
Price momentum	Negative
3m earnings revision	29,3%
Fiscal year end	2025/06/30
Beta (3Y, daily)	0,69

Source: FactSet

Table 6: Valuation multiples



Multiple	Latest:	Last note:
	Nov-2024	Aug-2024
P/E	9,4x	12,7x
P/S	1,5x	2,1x
P/B	0,8x	1,1x
P/CF	13,6x	12,3x
EV/EBITDA	7,2x	9,4x
EV/EBIT	8,5x	11,1x
EV/SALES	2,0x	2,5x
Dividend yield	2,5%	1,8%
FCF yield	-	-

Source: FactSet

Graph 19: Share price history vs benchmark



Source: FactSet

Table 7: Performance versus benchmark

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
Aspen Pharmacare Holdings	-15,9%	-4,1%	-25,5%	-25,5%	-0,5%	14,8%	-19,7%	44,3%	-57,0%
JSE Capped SWIX	9,1%	-1,8%	1,2%	5,5%	14,5%	13,2%	15,8%	36,0%	35,2%

Source: FactSet

Table 8: Key competitors

Code	Price (local)	Market Cap (Rbn)	Sales FY0 (Rbn)	EBIT FY0 (\$bn)	Net Income FY0 (\$bn)	EV/EBIT	P/E (NTM)	Price % (3mo)	Price % (1YR)
APN-ZA	171,1	77	45	7	4	8,5x	9,4x	-25,5%	-0,5%
AIP-ZA	67,0	11	10	1	1	8,2x	10,9x	17,6%	23,2%
BAYN-DE	20,3	381	980	205	161	7,9x	4,1x	-31,6%	-52,9%
VTRS-US	12,8	279	297	91	68	6,9x	4,8x	12,1%	34,8%

Source: FactSet



Factset Consensus

Table 9: Statement summary

Income statement (Rbn)	2019	2020	2021	2022	2023	2024	5Yr CAGR	2025E	2026E
Sales	38,9	38,6	37,8	38,6	40,7	44,7	2,8%	48,1	52,5
Y/Y growth (%)	-	-0,6	-2,3	2,2	5,4	9,8		7,7	9,1
Gross income	19,7	19,3	17,8	18,3	18,9	19,5	-0,3%	23,0	25,1
Y/Y growth (%)	-	-1,9	-8,0	2,9	3,4	2,7		18,2	9,4
EBITDA	10,4	9,8	8,7	10,7	11,1	11,3	1,5%	13,3	15,1
Y/Y growth (%)	-	-6,1	-11,2	22,8	3,8	1,4		17,8	13,6
EBIT	5,5	8,2	7,1	8,7	7,8	7,0	4,8%	11,1	12,8
Y/Y growth (%)	-	48,8	-14,0	22,6	-9,8	-10,5		59,0	15,2
Net income	2,7	6,7	4,8	6,5	5,2	4,4	10,2%	7,3	8,8
Y/Y growth (%)	-	146,2	-28,1	35,0	-19,4	-15,8		65,8	20,1
EPS	14,1	14,6	10,5	14,3	14,1	13,6	-0,8%	17,1	20,2
Y/Y growth (%)	-	3,5	-28,0	35,9	-1,9	-3,5		25,8	18,4

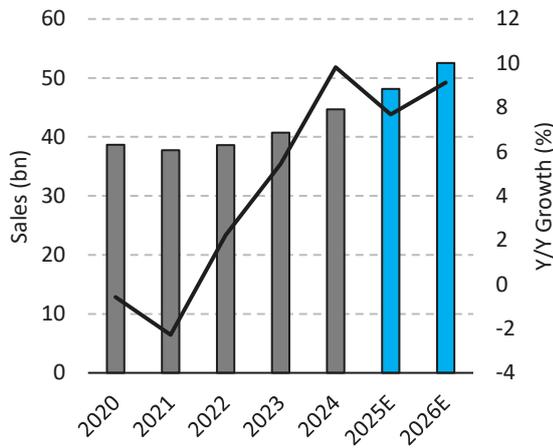
Balance sheet and cash flow (Rbn)	2019	2020	2021	2022	2023	2024	5Yr CAGR	2025E	2026E
Capex	3,5335	2,3645	3,018	2,5345	3,181	4,326	4,1%	3,4	3,2
Cash from operations	6,0	11,2	10,0	6,9	5,5	11,0	12,9%	11,2	12,3
Free cash flow	9,2	11,1	12,9	4,3	2,4	0,2	-53,1%	5,7	6,7
Y/Y growth (%)	-	20,9	16,0	-66,7	-43,7	-91,4		2650,2	17,7
Cash and ST investments	9,0	7,1	8,5	6,2	10,9	12,3	6,6%	16,2	19,9
Total assets	123,0	133,2	109,7	111,4	134,3	139,2	2,5%	148,4	156,1
ST debt	8,2	6,3	24,6	11,7	7,9	11,3	6,5%	12,7	14,1
LT debt	39,7	36,0	0,3	10,6	21,4	25,1	-8,7%	25,1	25,1

Ratios (Rbn)	2019	2020	2021	2022	2023	2024	5Yr CAGR	2025E	2026E
Gross margin (%)	50,7	50,0	47,1	47,4	46,5	43,5	46,9	47,8	47,9
EBIT margin (%)	14,2	21,3	18,7	22,5	19,2	15,7	19,5	23,1	24,4
Net income margin (%)	7,0	17,3	12,7	16,8	12,8	9,9	13,9	15,2	16,7
Current ratio	1,8	2,0	0,9	1,5	1,9	1,8	1,6	-	-
Total debt to equity	88,5	61,1	37,9	31,4	34,0	43,0	41,5	-	-
Total debt to assets	39,2	31,8	22,7	20,0	21,8	26,2	24,5	-	-
ROA (%)	1,3	2,6	4,0	5,9	4,3	3,2	4,0	-	-
ROE (%)	3,2	5,5	7,1	9,5	6,7	5,1	6,8	-	-

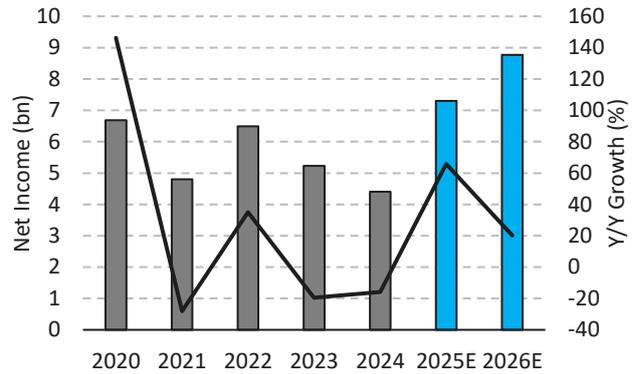
Source: FactSet



Graph 20: Annual sales

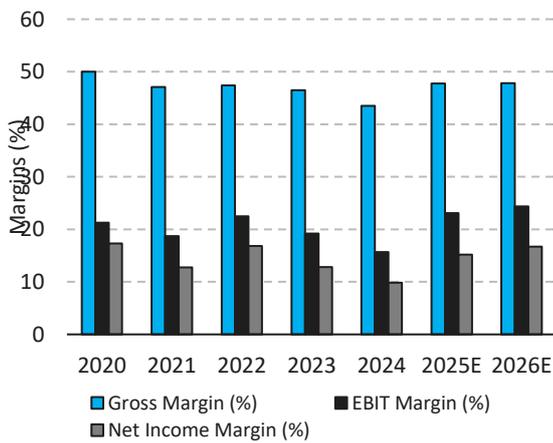


Graph 21: Annual net income

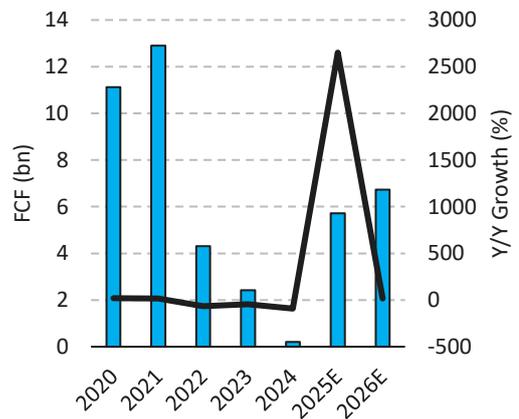


Source: FactSet

Graph 22: Gross, EBIT, net margins

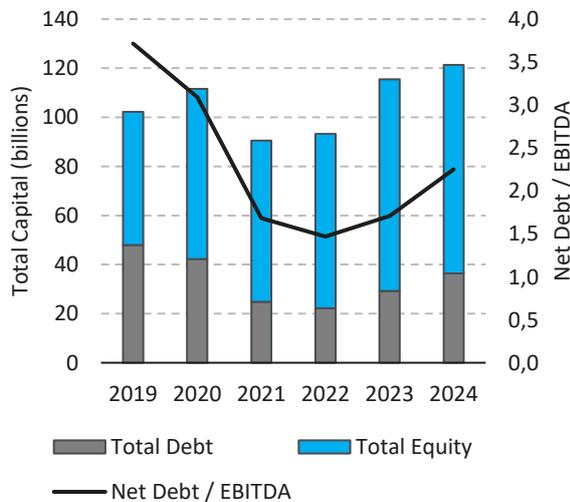


Graph 23: Free cash flow

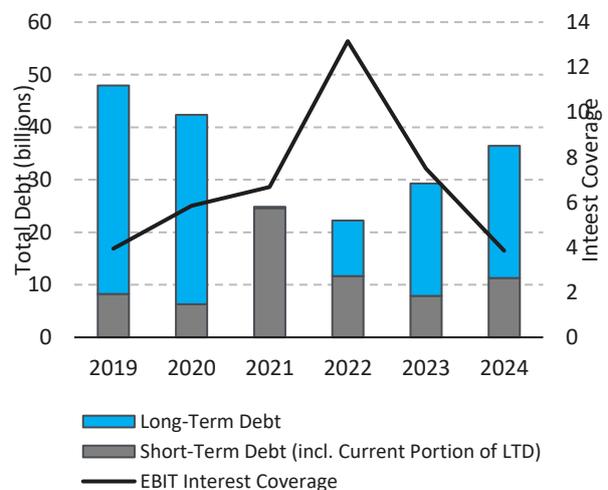


Source: FactSet

Graph 24: Capital structure and net debt/EBITDA



Graph 25: Total debt and interest coverage

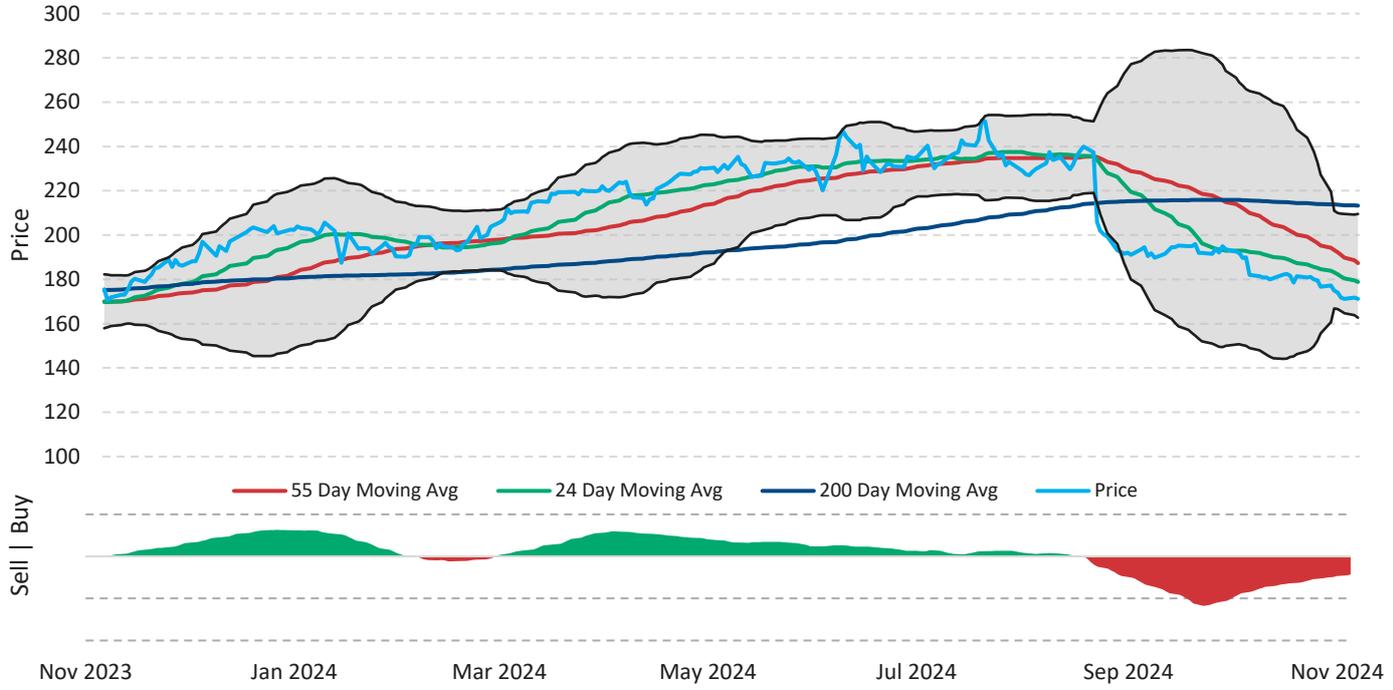


Source: FactSet



Graph 26: Price momentum

Last: 1.71 | Bollinger Bands: (50,3) [Upper/Lower]: 2.10/1.63



Source: PSG Wealth Research



Contact details

Ross van Coller

Equity Analyst
+27 (11) 996 5200
Ross.vanColler@psg.co.za

Vaughan Henkel

Head of Equity Research
+27 (11) 996 5200
Vaughan.Henkel@psg.co.za

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