Abbott Pakistan

OVERVIEW (November 27, 2012) : Employing over 70,000 people world-wide, Abbott is a global broad-based health care company which has a global presence in more than 130 countries. The product portfolio of this global company spans around the continuum of care, from nutritional products to laboratory diagnostics through medical devices and pharmaceutical therapies. Abbott Pakistan is part of the global healthcare corporation starting operations primarily as a marketing affiliate, like the common trend in the industry, and then steadily expanding to two manufacturing facilities in Korangi and Landhi in Karachi. Abbott Pakistan works across pharmaceuticals, nutrition, diagnostics, diabetes care and general health care, pain management, anesthesia, medical nutrition or anti-infective. Abbot Pakistan is engaged in manufacturing and marketing of a wide range of medicines and the likes.

INDUSTRY OVERVIEW AND CY11 HIGHLIGHTS

The pharmaceutical sector is estimated at 1.88 billion dollars with MNCs grabbing 43 percent market share while local companies accounting for the rest. Within the pharmaceutical and nutrition segment, Abbott Pakistan accounts for about six to seven percent market share. Abbott Pakistan manufactures over 150 different pharmaceutical and general health care products for the local and export markets. During the year CY11, the local affiliate of the global group was able to produce 1,862 million tablets, 93.78 million bottles of liquid products, 12.22 million tubes and 9.7 million fills of injectables. Brufen, Burnol, Rashnil are some of the most common pharmaceutical products of the company. The marketing campaign for Surbex Z was the highlight of the year. Mospel was another star of the year. Within the nutritional segment, the key brands for CY11 were Pediasure and Ensure. Abbot Pakistan was able to contribute Rs 1,780 million to the national exchequer during CY11 through government levies and taxes, compared to Rs 1,507 million in CY10.

FINANCIAL PERFORMANCE CY11

The year-on-year increase of 26 percent in sales' revenue during CY11 came on the back of relatively better product mix, volumes and Legacy Solvay brands. The gross revenue constituted of 95 percent local sales while five percent came from exports side. Sales from the pharmaceutical segment for the period under consideration contributed a chunk to the overall growth the most where it surged by 25 percent over comparable period. Within the pharmaceutical category, pain management, vitamins, cough and cold, anti-infectives and gastro preparations were the biggest contributors. Within the nutrition segment, the growth was chunkier. Higher volumes and increase in the prices of certain products led to the growth rate of around 32 percent YoY for CY11. Marketing and sales efforts of Mospel pushed up the general health care segment's performance. Over a span of five year, the gross margins of the company have dipped and risen back to pre 2008 global crisis level and so have the net margins. Though the net profits for CY11 has augmented by 40 percent compared to CY10, net margins have swayed in a narrow range.

9MCY12

During 9MCY12, the company's topline recorded a growth of 17 percent, while the cost of sales surged by 16 percent. The net effect on the gross margins was an increase of about 0.7 percentage points relative to the same period last year. For most of the last quarter, ie 3QCY12, a robust increase was seen particularly in the general healthcare, diagnostic and diabetes care category, which grew by 27 percent, mainly on account of greater sales of the mosquito repellent 'Mospel'. Selling and distribution expenses, which form a major chunk of the company's revenues, increased by 21 percent on a year-on-year basis, at the heels of rising inflation and fuel costs. The company also kept a higher provision for workers' profit participation fund, workers welfare fund and central research fund, which resulted in other charges rising by 28 percent in 9MCY12 vis-à-vis 9MCY11. Overall, the net profit after tax increased by 17 percent in 9MCY12 on a year-on-year basis, though the net margins stayed at nearly the same level as the same period last year.

Liquidity and Cash Flows

The company has a conservative approach to investment of surplus, placed as short term bank deposits. For better cash flow availability, the company has a developed cash flow monitoring system. During the year CY11, the company made capital expenditure worth Rs 715 million for various upgrade and capital projects. At the end of 9MCY12, cash flow after capex and dividend payment stood at Rs 1.73 billion versus Rs 1.15 billion during 9MCY11. Capital expenditure coupled with better profits for the last two years have kept return on capital employed inched up. The company's short term liquidity position is of no concern as the company has no long term or short term debt on its books.

Outlook

Continued cost increase on the back of energy price escalation, inflation and rupee depreciation are some key challenges faced by the pharmaceutical sector today. Further, higher fuel prices add an additional blow, which affect Abbott's selling and distribution expenses. The slashing of the customs duty on the pharmaceutical sector's 88 raw materials in the recent budget was some relief to the sector but only as long as one does not know the actual number of imported raw materials that go in the production of medicines and drugs. Amongst a thousand types of items imported by the pharmaceutical sector for the local production, many are already enjoying a custom duty of five percent. The government's recent passage of the Drug Regulatory Authority Bill, establishing the Drug Regulatory Authority (DRA) of Pakistan is a welcome step for pharmaceutical players, lifting hopes with regard to the delay of registration and pricing of the medicines and pharmaceutical products. Yet, the pricing of medicines continues to be a contention point for the pharmaceutical industry of the country, with key players arguing for a more rational and commercially feasible pricing mechanism. "Considering inflation and the creeping devaluation of the Pak Rupee, we expect the Government of Pakistan to adopt a rational and transparent pricing mechanism to ensure continued access of pharmaceutical products to the market," says the latest financial report of Abbott Pakistan.

Abbott Pakistan - selected financial indicators

	CY09	CY10	CY11	9MCY12
Profitability				
Gross margins	27%	34%	36%	38%
Net margins	7%	11%	13%	14%
ROE	19%	30%	32%	-
ROA	12%	20%	22%	-
Liquidity				
Current ratio	2.0	2.2	2.4	2.5
Interest cover	348	494	739	-

Activity -- Inventory turnover (days) 100 101 97 - Recievable turnover (days) 9 9 10 - Payable turnover (days) 47 51 46 - Total assets turnover 1.7 2.0 2.0 - Fixed assets turnover 5.2 6.2 6.1 - -- Market -- Earnings per share (Rs) 6.2 12.0 16.8 15.4 P/E 15.5 9.1 5.9 - Dividend yield 12% 5% 6% - ==

Source: Company Accounts *Copyright Business Recorder, 2012*