



Aspen Pharmacare Ltd

21 September 2018



Recommendation

- Concerns over:
 - The declining ROE which is down 1.1%
 - Increasing working capital requirements
 - The groups high debt burden
 - Revenue growth is a result of Acquisitions and not organic growth
- Anesthetics and thrombosis products provide the group with expansion opportunities into China
- Several high margin products are expected to launch in the USA over the next 2 years which could have a material earnings impact
- Majority of the groups earnings are not in ZAR, therefore the exposure to currency volatility increases the forecast risk.
- Concluded on an underweight recommendation



Financial highlights

Sale of Nutritionals business

- Sold Nutritionals business to Lactalis
- Cash Consideration is R12.9bn (EUR740m)
- R1.1bn (EUR62m) will be paid to JV partners in order to buy them out prior to transaction
- Market expectation for Nutritionals realization between R15bn and R22.5bn
- Confirmation of sale price resulted in downward valuation adjustment of between R5ps and R21ps
- Proceeds from sale will be used deleverage the balance sheet

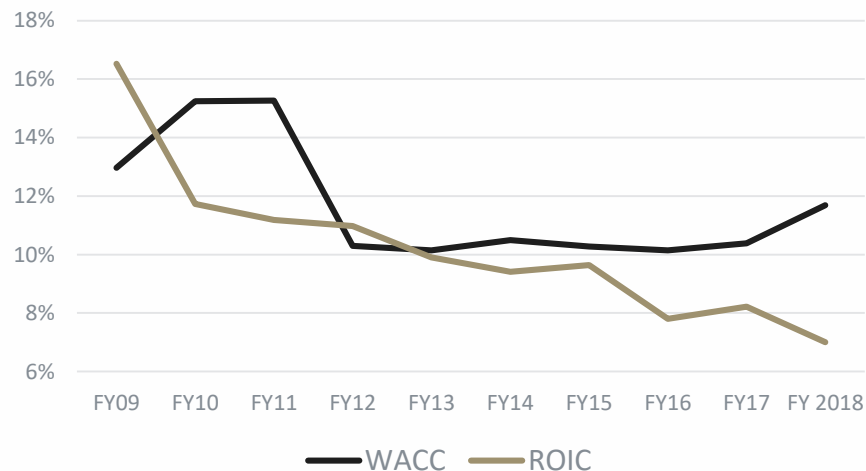


Financial Highlights

Debt

- Net debt increased by 26% to R46.8bn.
- The net debt/ebitda ratio increased to 3.8, close to the covenant ratio of 4.
- Reduced to 3.2 if Nutritionals consideration is used to delever
- WACC increased to 12%
- ROIC decreased to 7%
- EVA of -5% indicating investments are not generating sufficient earnings to recover the cost of capital used.

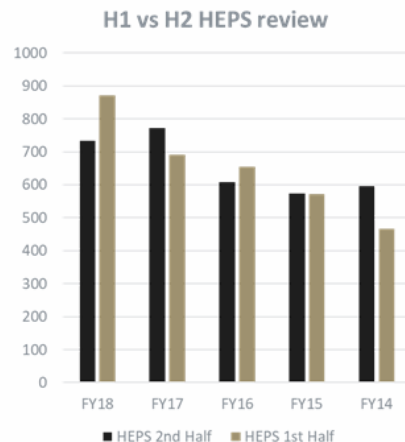
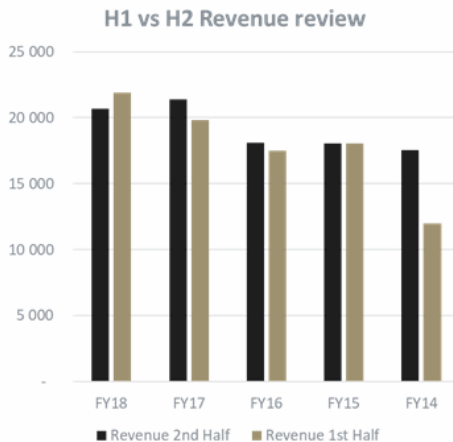
WACC vs ROIC



Financial Highlights

Earnings

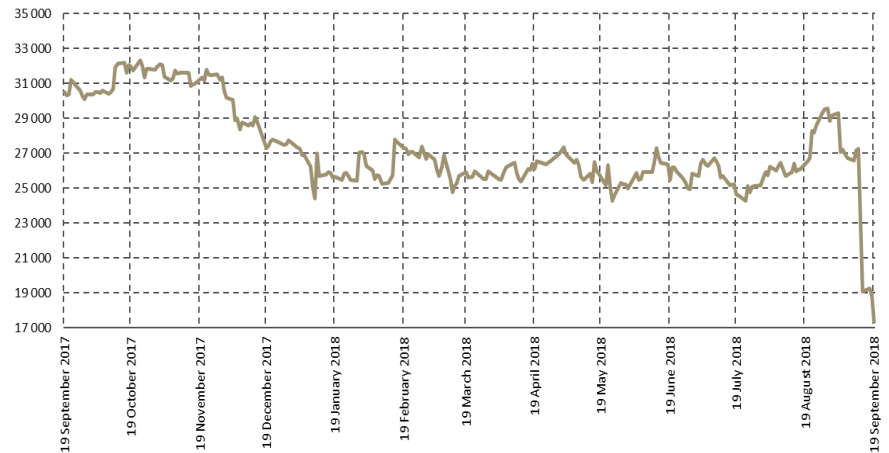
- Aspen delivered a subpar set of results for the year ending June 2018, with a weaker H2 than H1.
- Revenue increased by 3% to R42.6bn for the year
- Revenue was up 2 % in H1 and down 5% in H2
- Revenue missed estimates by 4%
- EPS missed estimates by 7%
- Declared a final dividend of 315cps



Share price reaction

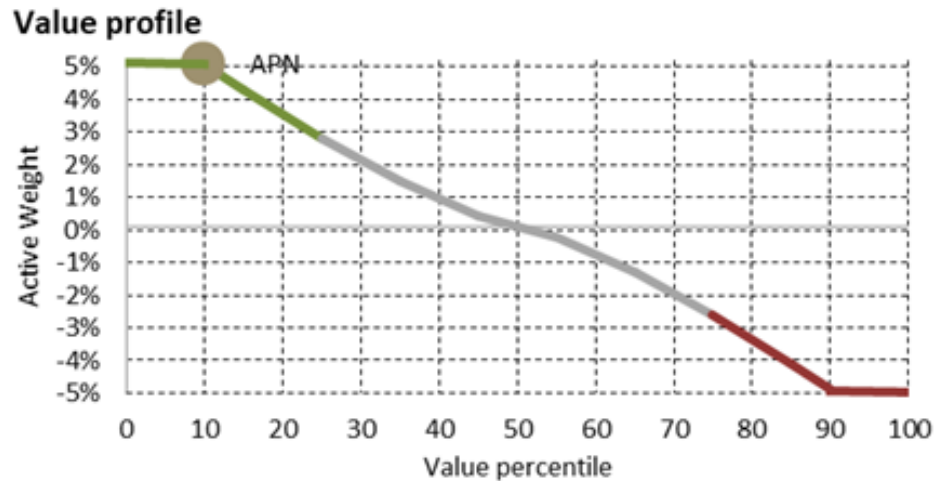
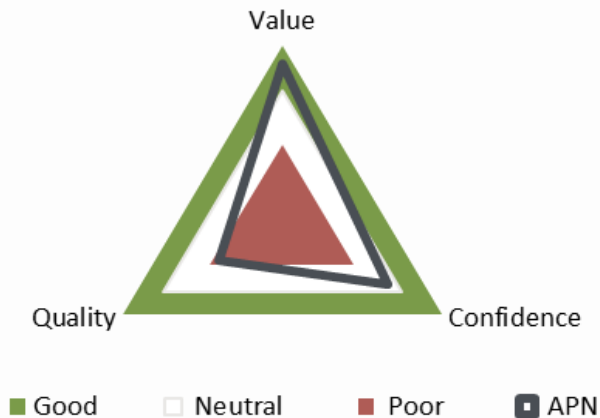
- Price decreased significantly since the publication of its full year results.
- Earnings results that missed market expectations.
- Concerns of financial leverage.
- Sale price achieved for the Nutritional business that was lower than expected.
- We feel that the predominant concern is that organic growth is weak.

APN - Share price performance



Portfolio Guidance

- Capped SWIX weighting of 1.31%
- Recommended portfolio exposure of 0%



Place a trade

To place a trade please speak to your financial adviser or contact our dealing desk.



Fraser Muller
Head of Institutional Trading

✉ Fraser.Muller@psg.co.za

📞 [+27 \(11\) 996 5204](tel:+27119965204)



Pierre Hageman
Derivative and Equity Trader

✉ Pierreh@psg.co.za

📞 [+27 \(11\) 996 5252](tel:+27119965252)



Karel De Waal
Junior Trader

✉ Karel.DeWaal@psg.co.za

📞 [+27 \(11\) 996 5435](tel:+27119965435)



Thys Van Zyl
Trader

✉ Thys.VanZyl@psg.co.za

📞 [+27 \(11\) 996 5437](tel:+27119965437)



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