

RESEARCH

Sun Pharma | Target: Rs 470 | +4% | REDUCE

Q4 miss; near-term outlook subdued – REDUCE

SUMMARY

Sun Pharma

Sun Pharma (SUNP) posted a 6% EBITDA miss on in-line sales, driven by higher staff cost (+7% QoQ), lower gross margins (-115bps QoQ) and lower R&D cost (6.4% of sales). The miss on US sales ex-Taro was offset by healthy India revenue (+8% YoY on adj. base). A 7% QoQ rise in Q4 global specialty sales to US\$ 126mn is positive and Ilumya booked US\$ 94mn in FY20 sales. SUNP expects softening of revenue in the near term due to Covid-19, and will give FY21 guidance in Q1-end. We cut FY21/FY22 EPS by 11% each and revise our TP to Rs 470 (vs. Rs 445).

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	3,000
Cipla	Buy	690
Eicher Motors	Buy	18,100
GAIL	Buy	140
Petronet LNG	Buy	330

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	145
Laurus Labs	Buy	630
Muthoot Finance	Buy	950
Transport Corp	Buy	255

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.70	4bps	10bps	(157bps)
India 10Y yield (%)	5.97	1bps	(20bps)	(118bps)
USD/INR	75.66	0.4	1.0	(8.6)
Brent Crude (US\$/bbl)	36.17	1.8	68.7	(48.4)
Dow	24,995	2.2	5.1	(1.4)
Shanghai	2,847	1.0	1.4	(2.2)
Sensex	30,609	(0.2)	(2.3)	(23.0)
India FII (US\$ mn)	22 May	MTD	CYTD	FYTD
FII-D	(40.7)	(2,369.5)	(13,713.2)	(3,953.7)
FII-E	(27.2)	686.2	(5,947.3)	655.7

Source: Bank of Baroda Economics Research

BOBCAPS Research

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REDUCE

TP: Rs 470 | ▲ 4%

SUN PHARMA

Pharmaceuticals

27 May 2020

Q4 miss; near-term outlook subdued – REDUCE

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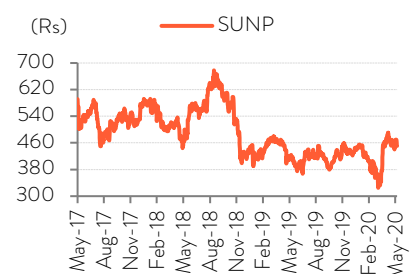
Higher cost fuels EBITDA miss: Q4 EBITDA stood at Rs 14bn (-15% QoQ) with margins at 17.3%. SUNP's ex-Taro margins have dropped 310bps QoQ to 14.5%. The sequential decline in EBITDA and margins is disappointing given better India sales, a higher specialty mix and cost control focus. Management stated that lower margins are an aberration and expects to exceed 21-22% levels in coming quarters. Further cuts in promotional spends for the US specialty business are unlikely and management retains its higher R&D guidance of <9% of sales for FY21 vs. 6.0% in FY20.

Ticker/Price	SUNP IN/Rs 451
Market cap	US\$ 14.3bn
Shares o/s	2,399mn
3M ADV	US\$ 80.5mn
52wk high/low	Rs 505/Rs 312
Promoter/FPI/DII	54%/17%/16%

Source: NSE

India strong, US a miss ex-Taro with no respite on generic pricing: US sales ex-Taro were flat QoQ, but majorly driven by higher contribution from Ilumya, Cequa and Yonsa, followed by seasonal products (Absorica, Levulan). Management sees no respite on US generic pricing for the portfolio, at least in the midterm. India and ROW grew 8% YoY led by pre-buying in chronic drugs, though prescription generation in the acute segment in India remains impacted.

STOCK PERFORMANCE



Source: NSE

Other takeaways: (1) Material savings in annual cost structure due to Covid-19 unlikely. (2) FY20 specialty R&D at US\$ 61mn (22% of R&D spends). (3) Halol OAI: SUNP believes FDA has guidelines in place to issue clearance if physical inspection is difficult. (4) Digitally engaging with doctors across key markets.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	260,680	286,906	323,880	359,378	401,176
EBITDA (Rs mn)	55,630	60,746	69,823	77,825	86,281
Adj. net profit (Rs mn)	33,666	36,484	40,453	49,485	55,981
Adj. EPS (Rs)	14.0	15.2	16.9	20.6	23.3
Adj. EPS growth (%)	(50.7)	8.4	10.9	22.3	13.1
Adj. ROAE (%)	8.1	8.4	8.7	9.8	10.2
Adj. P/E (x)	32.1	29.6	26.7	21.9	19.3
EV/EBITDA (x)	18.1	16.5	14.6	12.9	11.2

Source: Company, BOBCAPS Research



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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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