

RESEARCH
[Initiation] Alembic Pharma | Target: Rs 660 | +18% | BUY

Entering into new multi-year earnings cycle – initiate with BUY

BOB Economics Research | Weekly Wrap

Spotlight on Fed and ECB

SUMMARY
Alembic Pharma

Alembic Pharma (ALPM) has underperformed the midcap and Sensex indices since 2015 due to subdued earnings. This cycle should reverse in the next 3-4 years with better yields on the US pipeline starting FY22 and higher earnings growth visibility of +20% through FY25, post full benefits of Rs 16bn in capex. Market concerns on high US capital allocation and weak margins could drive a large earnings surprise and stock rerating, in our view. Valuations are reasonable at 9.8x FY22E EV/EBITDA (10x sector avg.); initiate with BUY, Mar'21 TP Rs 660.

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

India Economics: Weekly Wrap

Global yields went up as manufacturing and services PMIs rose led by China. Not so much in US. US\$ depreciated. However, US non-farm payrolls surprised positively. Global equity markets were lower due to uncertainty over US-China trade deal after President Trump announced fresh tariffs on Brazil and Argentina. In India's case, yields went up as RBI kept policy rates on hold contrary to consensus estimate of 25bps cut as inflation has inched up. Next rate cut expected only in Q1FY20 once inflation eases.

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TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	570
ONGC	Buy	210
Petronet LNG	Buy	400
Reliance Industries	Buy	1,670
TCS	Add	2,230

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	480
PNC Infratech	Buy	245

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.84	3bps	(2bps)	(101bps)
India 10Y yield (%)	6.67	5bps	15bps	(80bps)
USD/INR	71.20	0.1	(0.7)	(0.5)
Brent Crude (US\$/bbl)	64.39	1.6	2.3	4.4
Dow	28,015	1.2	1.9	14.9
Shanghai	2,912	0.4	(2.7)	11.7
Sensex	40,445	(0.8)	0.5	13.4
India FII (US\$ mn)	5 Dec	MTD	CYTD	FYTD
FII-D	(6.1)	172.3	4,417.0	3,872.4
FII-E	61.1	(127.8)	13,244.6	6,399.4

Source: Bank of Baroda Economics Research

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BUY

TP: Rs 660 | ▲ 18%

ALEMBIC PHARMA

Pharmaceuticals

09 December 2019

Entering into new multi-year earnings cycle – initiate with BUY

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Market has two misconceptions on ALPM: (1) Higher capital allocation to US generics is risky amid deteriorating margins and ROCE – here, the market is applying similar erosion dynamics across firms. (2) Back-ended growth recovery is unlikely to trigger a big earnings surprise. We believe base US margins ex-R&D are healthy at 55%+ (FY16-FY19) and investment economics are on track.

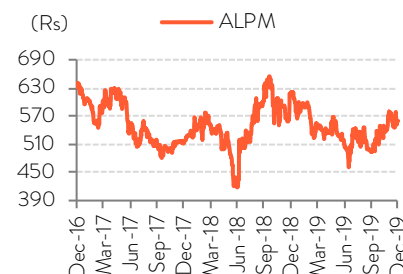
US generics – ALPM amongst first wave in next LOE cycle (2022-26): Our explicit analysis of the US pipeline suggests ALPM is best placed to participate in US\$ 20bn worth of LOE (loss of exclusivity) in the next five years – 80% are products with sizeable markets and the opportunity size gets even better after 2025. We expect US\$ 300mn in US sales by FY23 (19% CAGR over FY19).

EPS to double by FY24, good FCF record – BUY: Muted earnings and heavy capex have weighed on the stock since 2015. In the next 6-9 months, we believe markets will start to look favourably at ALPM's US product lineup (2022-26) and with capex turning productive, we see +20% EPS growth visibility over FY21-FY25 (FY21 a reset year off a high sartan base). ROIC at 23% is higher than large/mid-sized generics players, and the strong growth outlook could trigger a rerating. Our TP of Rs 660 is set at 12x FY22 EV/EBITDA (21x implied P/E).

Ticker/Price	ALPM IN/Rs 560
Market cap	US\$ 1.5bn
Shares o/s	189mn
3M ADV	US\$ 1.5mn
52wk high/low	Rs 589/Rs 530
Promoter/FPI/DII	73%/10%/6%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	31,310	39,350	42,561	46,071	51,211
EBITDA (Rs mn)	6,711	8,737	9,422	9,397	10,914
Adj. net profit (Rs mn)	4,489	5,928	6,023	5,836	6,900
Adj. EPS (Rs)	23.4	31.0	32.0	31.0	36.6
Adj. EPS growth (%)	11.0	32.4	3.2	(3.1)	18.2
Adj. ROAE (%)	21.0	23.4	20.2	16.9	17.5
Adj. P/E (x)	23.9	18.1	17.5	18.1	15.3
EV/EBITDA (x)	15.4	12.4	12.0	11.9	9.8

Source: Company, BOBCAPS Research



WEEKLY WRAP

09 December 2019

Spotlight on Fed and ECB

Global yields went up as manufacturing and services PMIs rose led by China. Not so much in US. US\$ depreciated. However, US non-farm payrolls surprised positively. Global equity markets were lower due to uncertainty over US-China trade deal after President Trump announced fresh tariffs on Brazil and Argentina. In India's case, yields went up as RBI kept policy rates on hold contrary to consensus estimate of 25bps cut as inflation has inched up. Next rate cut expected only in Q1FY20 once inflation eases.

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Markets

- **Bonds:** Global yields closed higher this week. US 10Y rose by 6bps (1.84%) after payroll data showed 266k addition, much higher than consensus. Earlier in the week, US manufacturing and services data was soft despite better than expected PMI data in China. Crude prices too rose by 3.1% (US\$ 64/bbl) over expectation of production cut of another 0.5m bbl/day (existing 1.2mn bbl/day) by OPEC+. India's 10Y yield rose the most at 20bps (6.67%) as RBI surprised and kept policy rate on hold. System liquidity surplus was at Rs 2.9tn as on 6 Dec 2019 vs Rs 2.4tn in the previous week.
- **Currency:** Global currencies ended the week higher against the dollar. DXY fell by (-) 0.6% to more than 1-month low as US macro data: ISM manufacturing and non-manufacturing was weaker than anticipated. GBP rose by 1.7% on expectations of a win for the ruling Conservative party. INR appreciated by 0.7% in the week as RBI unexpectedly kept policy rates on hold. FII inflows were muted at US\$ 22mn.
- **Equity:** Barring Nikkei and Shanghai Comp, global indices ended the week lower led by uncertainties around US-China trade agreement. European indices and Sensex (-0.9%) declined the most. Surprise decline in Germany's industrial production and RBI's unchanged policy stance impacted the markets.
- **Upcoming key events:** Markets await rate decisions of Fed, ECB and Philippines this week. In addition, CPI and retail sales in US, CPI and PPI in China, Industrial production from Japan and UK are due for release. In India, CPI, industrial production and trade data will be released.



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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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