

CARiNG Pharmacy (SELL ↔, EPS ↔)

INDUSTRY: NEUTRAL

EARNINGS EVALUATION

28 January 2016

Price Target: RM1.16 (↔)

Share Price: RM1.90

1HFY16 Results

Results

- 1HFY16 revenue of RM190.8m (+8% yoy) was translated into core net profit of RM2.9m (+11% yoy).

Deviations

- Due to higher than expected operating expenses.

Dividends

- None. Usually declared in the fourth quarter.

Highlights

- 1HFY16 YoY review...** The group charted higher turnover by 8% thanks to the contribution from the 13 newly opened outlets in FY15 and FY16. Its PBT also increased by 5% yoy from RM4.0m to RM4.2m.
- During the quarter, CARiNG closed down 1 high street outlet and opened 1 more shopping complex outlet. Currently, the group has a total of 106 community pharmacies vs. 103 in 1HFY15.
- 2QFY16 review...** PBT fell 3% yoy mainly due to lower selling prices resulting from higher market competition. We believe the following quarter would be better as historically, 3Q has been the strongest quarter for CARiNG (thanks to purchase rebate from suppliers).
- Moving forward, we expect operating expenses to remain high due to its expansion plan. We expect more downside risk on its expansion plans due to high competition and start-up costs.

Risks

- Overaggressive expansion has resulted in margin compression which may continue to drag earnings growth.
- Heightened competition from other pharmacy chains such as Guardian and Watsons.
- Slowdown in consumer discretionary spending.

Forecasts

- Unchanged.

Rating

SELL ↔, TP RM1.16

Valuation

- Positives** – Established and trusted pharmacy chain with reliable service and competitive product pricing; full-time registered pharmacists available throughout retail operating hours; benefits from economies of scale and shared services; the only pure retail pharmacy chain listed locally.
- Negatives** – High working capital and start-up costs for new outlets lengthen gestation period; overaggressive expansion; intense competition impact selling prices; shares are tightly held resulting in relatively low trading volumes.
- Maintain SELL with TP of RM1.16 based on P/E multiple of 20.9x CY17 EPS, the average of other domestic market-oriented retail pharmacy chain operators in the region. We believe the valuation is justified given CARiNG's lower market capitalisation and weak business outlook.

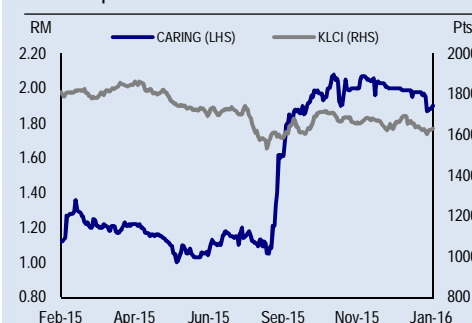
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KLCI	1,683.1
Expected share price return	-38.9%
Expected dividend return	0.9%
Expected total return	-38.0%

Share price



Information

Bloomberg Ticker	CARiNG MK
Bursa Code	5245
Issued Shares (m)	218
Market cap (RM m)	414
3-mth avg. volume ('000)	135
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	-5.0	-7.3	59.7
Relative	-3.1	-3.6	76.5

Major Shareholders

Motivasi Optima Sdn Bhd	50.4%
PNB	12.8%

Summary Earnings Table

FYE May (RMm)	2015A	2016E	2017E	2018E
Revenue	366.7	398.3	435.5	471.9
EBITDA	20.5	19.9	20.9	21.6
PBT	18.5	16.9	17.2	17.3
PATAMI	12.9	11.8	12.0	12.1
Adj PATAMI	12.9	11.8	12.0	12.1
Rep EPS (sen)	5.9	5.4	5.5	5.6
Adj EPS (sen)	5.9	5.4	5.5	5.6
DPS (sen)	1.5	1.6	1.7	1.7
Net DY (%)	0.8	0.9	0.9	0.9
PER (x)	32.1	35.1	34.5	34.2
P/Book (x)	3.4	3.2	3.0	2.8
EV/EBITDA (x)	16.5	16.8	15.9	15.2
Net D/E (%)	N Cash	N Cash	N Cash	N Cash
ROA (%)	5.9	5.2	4.9	4.6
ROE (%)	10.7	9.1	8.7	8.2

HLIB

Figure #1 Quarterly Results Comparison

FYE May (RMm)	2Q15	1Q16	2Q16	YoY (%)	QoQ (%)	Comments
Revenue	89.0	92.6	98.3	10.4	6.2	Yoy/Qoq: Contributed by 13 new outlets opened during financial year 2015.
EBITDA	3.4	2.1	3.4	0.7	59.2	Yoy/Qoq: Contributed by newly opened outlets which commenced operation in FY15.
EBITDA Margin (%)	3.8	2.3	3.4			
EBIT	2.6	1.1	2.6	0.5	144.7	Filtered down from EBITDA.
PBT	3.0	1.4	2.9	(3.0)	109.7	Lower selling price due to higher competition within the market.
PAT	2.1	1.0	2.1	(3.1)	109.7	Filtered down from PBT.
PATAMI	2.1	1.0	1.9	(8.4)	87.9	
Adj PATAMI	2.1	1.0	1.9	(8.4)	87.9	
Basic EPS (sen)	1.0	0.5	0.9	(8.4)	87.9	
Adj basic EPS (sen)	1.0	0.5	0.9	(8.4)	87.9	

Company Data

Figure #2 Cumulative Results Comparison

FYE May (RMm)	1HFY15	1HFY16	YoY (%)	Comments
Revenue	177.4	190.8	7.6	Yoy: Contributed by 13 new outlets opened during financial year 2015.
EBITDA	4.8	5.5	13.8	Yoy/Qoq: Contributed by newly opened outlets which commenced operation in FY15.
EBITDA Margin (%)	2.7	2.9		
EBIT	3.3	3.7	10.7	Filtered down from EBITDA.
PBT	4.0	4.2	5.1	Filtered down from EBIT.
PAT	2.9	3.0	5.1	Filtered down from PBT.
PATAMI	2.6	2.9	11.0	
Adj PATAMI	2.6	2.9	11.0	
Basic EPS (sen)	1.2	1.3	11.0	
Adj basic EPS (sen)	1.2	1.3	11.0	

Company Data

Figure #3 1HFY16 Results vs. HLIB's Estimates and Consensus

	Actual 1HFY16	HLIB FY16	Actual vs. HLIB (%)	Consensus FY16	Actual vs. Consensus (%)	Comments
Revenue	190.8	398.3	47.9%	397.0	48.1%	Within expectations.
EBITDA	5.5	19.9	27.7%	21.5	25.7%	Below expectations.
EBITDA Margin (%)	2.9	5.0		5.4		
EBIT	3.7	15.2	24.1%	19.0	19.3%	Below expectations.
PBT	4.2	16.9	25.1%	18.9	22.4%	
PAT	3.0	12.8	23.8%	12.8	23.8%	Below expectations.
PATAMI	2.9	11.8	24.9%	12.8	22.9%	
Adj PATAMI	2.9	11.8	25%	12.8	23%	Below expectations.
Basic EPS (sen)	1.3	5.4	24.9%	5.8	23.2%	Below expectations.
Adj basic EPS (sen)	1.3	5.4	24.9%	5.8	23.2%	Below expectations.

Company Data, HLIB, Bloomberg

Figure #4 HLIB Forecasts vs. Consensus

RMm	FY16E			FY17E		
	HLIB	Consensus	%	HLIB	Consensus	%
PAT	12.8	12.8	+0.1	13.0	13.4	-2.6
EPS (sen)	5.4	5.8	-6.6	5.5	6.0	-8.1

HLIB, Bloomberg

Figure #5 Regional Peers Comparison

Company	FYE	Price (Local)	Market Cap (m)			P/E (x)		P/B (x)		ROE (%)		Gross DY (%)
			(Local)	(USD)		2016	2017	2016	2017	2016	2017	2016
Malaysia												
Caring Pharmacy	May	MYR	1.90	413.64	97.27	35.2	34.5	3.2	3.0	9.1	8.7	0.9
Apex Healthcare	Dec	MYR	3.70	433.44	101.93	13.2	13.2	N/A	N/A	11.0	11.4	2.7
YSP Southeast Asia	Dec	MYR	2.57	345.93	81.35	16.1	15.1	N/A	N/A	N/A	N/A	N/A
Average						14.6	14.2	N/A	N/A	11.0	11.4	2.7
Foreign												
Tsuruha	Apr	JPY	9,790.0	476,294.0	4,017.3	24.2	21.0	3.1	2.8	13.8	14.2	1.0
Sugi	Feb	JPY	6,130.0	388,218.0	3,274.4	26.1	23.7	2.8	2.6	11.4	11.5	0.7
Medical System Network	Mar	JPY	521.0	15,572.5	131.3	10.7	10.4	1.6	1.5	N/A	N/A	N/A
Nihon Chouzai	Mar	JPY	4,600.0	73,710.4	621.7	12.0	10.8	2.2	1.9	N/A	N/A	N/A
Cosmos Pharmaceutical	May	JPY	17,340.0	346,806.9	2,925.2	28.4	24.8	4.5	3.9	16.9	17.0	0.4
Jintian Pharmaceutical	Dec	HKD	2.5	4,940.0	633.7	9.2	8.3	1.6	1.4	18.9	18.3	1.3
Walgreen	Aug	USD	78.5	84,627.7	84,627.7	17.5	15.5	2.6	2.5	14.3	15.3	1.9
CVS Caremark	Dec	USD	94.3	104,464.3	104,464.3	18.3	16.2	2.9	2.7	15.2	16.5	1.5
Rite Aid	Feb	USD	7.7	8,089.2	8,089.2	46.0	28.6	13.7	8.4	55.0	42.3	0.0
Raia Drogasil	Dec	BRL	39.0	12,868.5	3,131.1	34.9	28.4	4.9	4.4	14.6	16.2	1.0
Jean Coutu	Feb	CAD	19.1	3,586.3	2,546.2	16.3	16.7	3.1	2.9	19.9	17.2	2.3
Protek	Dec	RUB	65.0	34,264.3	438.8	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Corporativo Fragua	Dec	MXN	246.0	24,940.2	1,351.8	25.8	21.3	N/A	N/A	N/A	N/A	N/A
Average						22.4	18.8	3.9	3.2	20.0	18.7	1.1
Overall Average						22.7	19.5	3.9	3.2	18.2	17.1	1.2
HLIB, Bloomberg												

CARiNG Pharmacy Group Bhd (SELL, TP: RM1.16, CP: RM1.90)

Income Statement

FYE 31 May (RMm)	2014A	2015A	2016E	2017E	2018E
Revenue	338.3	366.7	398.3	435.5	471.9
COGS	(313.0)	(346.2)	(378.4)	(414.6)	(450.2)
EBITDA	25.4	20.5	19.9	20.9	21.6
D&A	(3.6)	(3.4)	(4.7)	(5.4)	(6.1)
EBIT	21.8	17.1	15.2	15.5	15.5
Net Interest Income	1.0	1.4	1.6	1.7	1.7
Other income	0.0	0.0	0.0	0.0	0.0
PBT	22.8	18.5	16.9	17.2	17.3
Tax	(6.5)	(5.5)	(4.0)	(4.1)	(4.1)
Net Profit	16.3	13.0	12.8	13.0	13.1
MI	(1.2)	(0.1)	(1.0)	(1.0)	(1.1)
PATAMI	15.1	12.9	11.8	12.0	12.1
Exceptionals	0.0	0.0	0.0	0.0	0.0
Adj PATAMI	15.1	12.9	11.8	12.0	12.1
Basic Shares (m)	217.7	217.7	217.7	217.7	217.7
Rep EPS (sen)	6.9	5.9	5.4	5.5	5.6
Adj EPS (sen)	6.9	5.9	5.4	5.5	5.6
Adj FD EPS (sen)	6.9	5.9	5.4	5.5	5.6

Balance Sheet

FYE 31 May (RMm)	2014A	2015A	2016E	2017E	2018E
Cash	77.9	86.2	90.0	91.7	94.1
Receivables	6.1	7.8	8.7	9.5	10.3
Inventories	79.9	83.5	82.3	89.9	97.4
Investment	0.0	0.0	0.0	0.0	0.0
PPE	32.9	36.5	42.1	48.7	54.6
Intangibles	2.9	2.9	2.9	2.9	2.9
Other Assets	1.8	1.5	1.8	1.8	1.8
Total Assets	201.4	218.5	227.8	244.6	261.2
Payables	69.7	82.1	78.1	85.4	92.5
ST borrowings	0.1	1.5	0.1	0.1	0.1
LT borrowings	9.8	9.9	9.8	9.8	9.8
Other Liabilities	4.5	4.2	4.5	4.5	4.5
Total Liabilities	84.1	97.7	92.5	99.8	106.9
Shareholders' Funds	114.1	120.0	130.2	138.6	147.1
MI	3.2	0.8	5.2	6.2	7.3
Total S/H Equity	117.3	120.8	135.4	144.8	154.3
Ttl Liab&S/H Funds	201.4	218.5	227.8	244.6	261.2

Cashflow Analysis

FYE 31 May (RMm)	2014A	2015A	2016E	2017E	2018E
EBITDA	25.4	20.5	19.9	20.9	21.6
Tax Paid	(8.5)	(5.4)	(4.0)	(4.1)	(4.1)
WC Changes	(13.2)	7.0	(1.0)	(1.2)	(1.2)
Other	2.0	(0.3)	(0.5)	(0.5)	(0.5)
CFO	5.6	21.9	14.4	15.1	15.8
FCF	(2.2)	14.5	4.4	3.1	3.8
CAPEX	(7.8)	(7.4)	(10.0)	(12.0)	(12.0)
PPE sales / disposal	0.2	0.2	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0
Other	1.5	1.8	2.1	2.2	2.2
CFI	(6.2)	(5.4)	(7.9)	(9.8)	(9.8)
Dividend paid	(3.3)	(3.3)	(3.5)	(3.6)	(3.6)
Debt changes	(0.1)	1.4	0.0	0.0	0.0
Other	40.3	(1.3)	0.0	0.0	0.0
CFF	36.9	(3.2)	(3.5)	(3.6)	(3.6)
Net Cashflow	36.4	13.3	2.9	1.7	2.4

Quarterly Financial Summary

FYE 31 May (RMm)	2Q15	3Q15	4Q15	1Q16	2Q16
Revenue	89.0	93.9	95.4	92.6	98.3
COGS	(85.6)	(82.6)	(91.1)	(90.4)	(94.9)
EBITDA	3.4	11.3	4.3	2.1	3.4
D&A	(0.8)	(0.8)	(1.0)	(1.1)	(0.8)
EBIT	2.6	10.5	3.3	1.1	2.6
Net Interest Income	0.4	0.4	0.3	0.3	0.3
Other income	0.0	0.0	0.0	0.0	0.0
PBT	3.0	10.8	3.6	1.4	2.9
Tax	(0.8)	(3.0)	(1.3)	(0.4)	(0.8)
Net Profit	2.1	7.8	2.3	1.0	2.1
MI	(0.0)	(0.2)	0.3	0.0	(0.1)
PATAMI	2.1	7.6	2.6	1.0	1.9
Exceptionals	0.0	0.0	0.0	0.0	0.0
Adj PATAMI	2.1	7.6	2.6	1.0	1.9
Basic Shares (m)	217.7	217.7	217.7	217.7	217.7
Rep EPS (sen)	1.0	3.5	1.2	0.5	0.9
Adj EPS (sen)	1.0	3.5	1.2	0.5	0.9
Adj FD EPS (sen)	1.0	3.5	1.2	0.5	0.9

Valuation Ratios

FYE 31 May (RMm)	2014A	2015A	2016E	2017E	2018E
PER (x)	27.4	32.1	35.1	34.5	34.2
Adj PER (x)	27.4	32.1	35.1	34.5	34.2
FD PER (x)	27.4	32.1	35.1	34.5	34.2
DPS (sen)	3.0	1.5	1.6	1.7	1.7
Net DY (%)	1.6	0.8	0.9	0.9	0.9
Book/share (sen)	52.4	55.1	59.8	63.7	67.5
P/Book (x)	3.6	3.4	3.2	3.0	2.8
FCF/share (sen)	(1.0)	6.7	2.0	1.4	1.8
FCF yield (%)	(0.5)	3.5	1.1	0.7	0.9
Mkt Cap	413.6	413.6	413.6	413.6	413.6
Net Cash(Debt)	68.0	74.9	80.1	81.8	84.2
EV	345.6	338.7	333.5	331.9	329.5
EV/EBITDA (x)	13.6	16.5	16.8	15.9	15.2
ROE (%)	13.2	10.7	9.1	8.7	8.2
Current Ratio (x)	2.3	2.1	2.3	2.2	2.2
Quick Ratio (x)	1.2	1.1	1.3	1.2	1.1
Interest Cover (x)	77.3	61.6	54.9	55.8	56.1

Other Ratios

FYE 31 May (RMm)	2014A	2015A	2016E	2017E	2018E
Sales Growth (%)	36.3	8.4	8.6	9.3	8.3
EBITDA Growth (%)	-8.7	(19.2)	(2.9)	4.9	3.6
EBIT Growth (%)	-18.6	(21.7)	(10.9)	1.6	0.5
PBT Growth (%)	-15.3	(18.9)	(8.8)	1.8	0.7
Net Profit Growth (%)	-10.9	(20.0)	(1.5)	1.8	0.7
EBITDA Margin (%)	7.5	5.6	5.0	4.8	4.6
EBIT Margin (%)	6.4	4.7	3.8	3.6	3.3
PBT Margin (%)	6.7	5.0	4.2	3.9	3.7
Net Profit Margin (%)	4.8	3.5	3.2	3.0	2.8
Net Debt/Equity (%)	N Cash	N Cash	N Cash	N Cash	N Cash
CAPEX/Sales (%)	2.3	2.0	2.5	2.8	2.5

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
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Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.