



BIMB SECURITIES RESEARCH MARKET INSIGHT

Thursday, 28 April, 2016
Results Review

PP16795/03/2013(031743)

3QFY16

Caring Pharmacy

SELL ◀ ▶

Below

Disappointing results

Price: RM1.80

Target Price: (-48.9%) RM0.92

Stock Data

Bloomberg Ticker	Caring MK	Altman Z-score	5.0
Market Cap	391.9	YTD price chg	-9.5%
Issued shares	217.7	YTD KLCI chg	0.0%
5-week range (H)	2.14	Beta	0.8
52-week range (L)	1.00	Major Shareholders	
3-mth avg daily volume	32,571	Motivasi Optima	50.4%
Free Float	31.6%	Perbadanan Nasional	12.8%
Shariah Compliant	Y	Jitumaju SB	5.3%

	1mth	3mth	12mth
Absolute vs. KLCI	n.a	(5.3)	51.5
	(3.6)	(8.7)	64.8

Consensus

	2016	2017
Net Profit	12.4	13.1
EPS (sen)	5.6	5.9

Historical Price Ratio (x)

	FY2013	FY2014	FY2015
Price Earnings	n.a.	28.4	20.4
Price to Book	n.a.	4.0	2.6

Financial Highlights

FYE 30 May	2013	2014	2015	2016E	2017E
Turnover	301.4	338.3	367.0	385.3	415.6
EBIT	29.9	23.1	18.7	9.6	13.9
Pretax profit	29.8	22.9	18.5	9.4	13.6
Net Profit	20.6	15.1	12.9	6.6	9.6
EPS (sen)	9.4	6.9	5.9	3.0	4.4
PER (x)	19.1	25.9	30.5	59.6	41.0
DPS (sen)	0.0	3.5	2.0	1.0	2.0
Div. Yield (%)	0.0%	1.9%	1.1%	0.6%	1.1%
EBIT margin	9.9%	6.8%	5.1%	2.5%	3.3%
Pretax margin	9.9%	6.8%	5.0%	2.4%	3.3%
Effective tax rate	25.1%	28.6%	29.6%	29.0%	29.0%
ROE	41.2%	14.1%	11.0%	8.1%	12.8%
ROA	23.4%	8.0%	6.1%	4.4%	6.8%
Net Gearing (x)	net cash	net cash	net cash	net cash	net cash

Growth ratios

Turnover	21.4%	12.2%	8.5%	5.0%	7.9%
EBIT	10.8%	-22.6%	-19.0%	-48.7%	44.5%
Pretax profit	10.7%	-23.4%	-19.0%	-49.4%	45.5%
Net profit	12.5%	-26.4%	-14.9%	-48.9%	45.5%
EPS growth (%)	12.5%	-26.4%	-14.9%	-48.9%	45.5%

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Caring's 9MFY16 net earnings of RM4.6m make up only 39% and 37% of our and consensus full year forecast respectively. The negative growth in earnings came about despite revenue posting a positive 8.5% increase. The higher revenue was attributed to higher sales achieved by aggressive and extensive promotion campaign generated from its 107 existing and new outlets opened during FY16. Based on its poor 9MFY16 performance, we have revised our FY16 and FY17 net earnings forecast to RM6.6m and RM9.6m respectively. Our new target price is RM0.92. **Maintain SELL.**

QoQ. Revenue for the quarter showed a 5.2% QoQ increase to RM103.4m. This was due to higher sales generation by its outlets where there were 2 new outlets opened and 1 closed. PAT also improved by 8.9% to RM3.1m. This was contributed by higher sales with higher gross profit margin attributable through materialization of annual purchase rebates from suppliers. However, lower selling price as a result of market competition has impacted its current quarter profits. As a result, net earnings showed a 15.6% drop QoQ to RM1.6m.

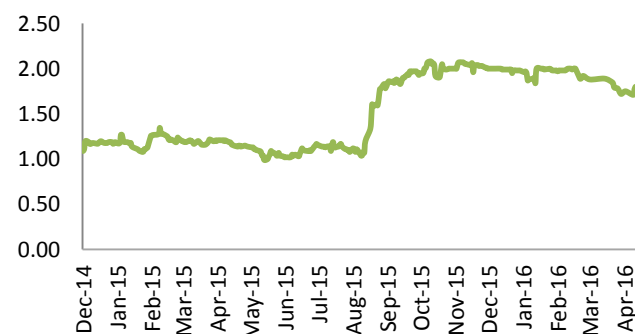
Prospects. The operating environment for Caring remains challenging and competitive. Consumer sentiment is still low and the company is in the midst of a price war. Margins have been sacrificed (i.e. offering lower prices) to generate sales and this has exerted pressure on its operating profits.

Dividend. No dividend was declared during the current quarter.

Revised forecast. We have revised our FY16 and FY17 net earnings forecasts to RM6.6m (-45%) and RM9.6m (-28%) respectively.

Valuation. Based on 3 years sector weighted average (retail and pharmaceutical) PER of 21x, we have derived a new target price of RM0.92. **Maintain SELL.**

Share Price Chart



Quarterly figures

FYE 31 May (RMm)	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	QoQ Chg	YoY Chg	9MFY15	9MFY16	YTD Chg
Revenue	93.9	95.4	92.6	98.3	103.4	5.2%	10.1%	271.3	294.2	8.5%
EBIT	10.5	3.3	1.1	3.3	3.2	-3.6%	-69.8%	13.8	7.5	-45.5%
Pretax profit	10.8	3.6	1.4	2.9	3.1	8.9%	-71.2%	14.9	7.4	-50.5%
Taxation	(3.0)	(1.3)	(0.4)	(0.8)	(0.9)	8.5%	-71.3%	(4.2)	(2.1)	-50.5%
Minority Interest	(0.2)	0.3	0.0	(0.1)	(0.6)	327.7%	204.3%	(0.5)	(0.7)	60.8%
Net Profit	7.6	2.6	1.0	1.9	1.6	-15.6%	-78.7%	10.2	4.6	-55.6%
EPS (sen)	3.5	1.2	0.5	0.9	0.7	-15.6%	-78.7%	4.7	2.1	-55.6%
Net gearing (x)	net cash	net cash	net cash	net cash	net cash	n.a	n.a	net cash	net cash	n.a
EBIT margin (%)	11.1%	3.5%	1.2%	3.3%	3.1%	-8.4%	-72.6%	5.1%	2.5%	-49.8%
PBT margin (%)	11.5%	3.8%	1.5%	2.9%	3.0%	3.5%	-73.9%	5.5%	2.5%	-54.4%
Net profit margin (%)	8.1%	2.8%	1.1%	1.9%	1.6%	-19.8%	-80.7%	3.8%	1.5%	-59.0%
Effective tax rate (%)	28.0%	36.3%	28.0%	28.0%	27.9%	-0.4%	-0.2%	28.0%	28.0%	0.0%

Source: BIMB Securities

DEFINITION OF RATINGS

BIMB Securities uses the following rating system:

STOCK RECOMMENDATION

BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
NEUTRAL	Share price may fall within the range of +/- 10% over the next 12 months
TAKE PROFIT	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
TRADING SELL	Share price may fall by more than 15% in the next 3 months.
SELL	Share price may fall by more than 10% over the next 12 months.
NOT RATED	Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
NEUTRAL	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
UNDERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

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