

CARiNG Pharmacy (Cease Coverage)

INDUSTRY: NEUTRAL

EARNINGS EVALUATION

28 April 2016

Price Target: RM1.16 (↔)

Share Price: RM1.80

9MFY16 Results

Results	<ul style="list-style-type: none"> Below expectations - 9MFY16 revenue of RM294.2m (+9% yoy) was translated into core net profit of RM4.5m (-56% yoy). The group's earnings accounted for 39% and 37% of HLIB and consensus full year estimation, respectively.
Deviations	<ul style="list-style-type: none"> Caused by (1) lower selling price due to high competition; and (2) lower advertising and promotional income.
Dividends	<ul style="list-style-type: none"> None. Usually declared in the fourth quarter.
Highlights	<ul style="list-style-type: none"> Thanks to its promotional campaigns that were launched in the previous quarter, CARiNG managed to record a 9% yoy increase in sales. The increment is also attributed by the additional revenue generated from its newly opened outlets in FY2016. However, PATAMI plunged 56% yoy from RM10.2m to RM4.5m. We believe earnings were heavily affected by CARiNG's overaggressive expansion appetite where it opened some of its outlets in competitors' territory. CARiNG closed down 1 shopping complex outlet and opened 1 high street outlet and a shopping complex outlet. As of today, the group has 107 community pharmacies. In the future, due to higher competition, we believe the group would be affected by its lower selling prices which will ultimately affect its margins. In view of CARiNG's expansion plans, we expect more downside risk from the high start-up costs and high operating expenses.
Risks	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Unchanged.
Rating	CEASE COVERAGE <ul style="list-style-type: none"> We cease coverage on the stock due to its continuous set of disappointing results and lacklustre earnings prospects.
Valuation	<ul style="list-style-type: none"> TP is maintained at 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.

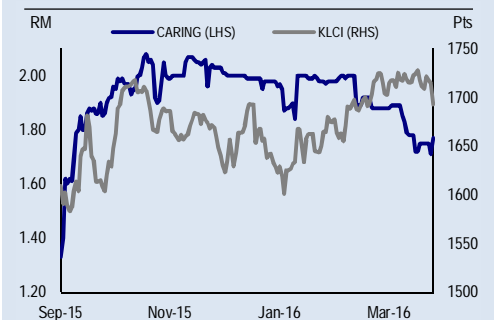
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KLCI	1,692.3
Expected share price return	-35.6%
Expected dividend return	0.9%
Expected total return	-34.7%

Share price



Information

Bloomberg Ticker	CARiNG MK
Bursa Code	5245
Issued Shares (m)	218
Market cap (RM m)	392
3-mth avg. volume ('000)	32
SC Shariah-compliant	Yes

Price Performance	1M	3M	12M
Absolute	-4.3	-2.2	50.0
Relative	-3.7	-5.5	64.4

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 (%)	0.9	0.9	0.9	0.9
PER (x)	30.5	33.2	32.6	32.4
P/Book (x)	3.3	3.0	2.8	2.7
EV/EBITDA (x)	15.5	15.7	14.9	14.2
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)	3Q15	2Q16	3Q16	YoY (%)	QoQ (%)	Comments
Revenue	93.9	98.3	103.4	10.1	5.2	Yoy/Qoq: Contributed by new outlets opened during financial year 2016.
EBITDA	11.3	3.4	3.9	(65.9)	13.7	
EBITDA Margin (%)	12.0	3.4	3.7			
EBIT	10.5	2.6	2.9	(72.7)	9.4	Filtered down from EBITDA.
PBT	10.8	2.9	3.1	(71.2)	8.9	Lower selling price due to higher competition within the market.
PAT	7.8	2.1	2.2	(71.2)	9.0	Filtered down from PBT.
PATAMI	7.6	1.9	1.6	(78.7)	(15.6)	
Adj PATAMI	7.6	1.9	1.6	(78.7)	(15.6)	
Basic EPS (sen)	3.5	0.9	0.7	(78.7)	(15.6)	
Adj basic EPS (sen)	3.5	0.9	0.7	(78.7)	(15.6)	

Company Data

Figure #2 Cumulative Results Comparison

FYE May (RMm)	9MFY15	9MFY16	YoY (%)	Comments
Revenue	271.3	294.2	8.5	Yoy: Contributed by new outlets opened during financial year 2016.
EBITDA	16.2	9.4	(42.0)	Yoy: Affected by lower selling price and high operating expenses.
EBITDA Margin (%)	6.0	3.2		
EBIT	13.8	6.5	(52.7)	Filtered down from EBITDA.
PBT	14.9	7.4	(50.5)	Filtered down from EBIT.
PAT	10.7	5.3	(50.5)	Filtered down from PBT.
PATAMI	10.2	4.5	(55.6)	
Adj PATAMI	10.2	4.5	(55.6)	
Basic EPS (sen)	4.7	2.1	(55.6)	
Adj basic EPS (sen)	4.7	2.1	(55.6)	

Company Data

Figure #3 9MFY16 Results vs. HLIB's Estimates and Consensus

	Actual 9MFY16	HLIB FY16	Actual vs. HLIB (%)	Consensus FY16	Actual vs. Consensus (%)	Comments
Revenue	294.2	398.3	73.9%	397.3	74.1%	Within expectations.
EBITDA	9.4	19.9	47.1%	21.5	43.7%	Below expectations.
EBITDA Margin (%)	3.2	5.0		5.4		
EBIT	6.5	15.2	42.8%	19.0	34.3%	Below expectations.
PBT	7.4	16.9	43.6%	18.3	40.3%	
PAT	5.3	12.8	41.3%	12.4	42.7%	Below expectations.
PATAMI	4.5	11.8	38.6%	12.4	36.7%	
Adj PATAMI	4.5	11.8	39%	12.4	37%	Below expectations.
Basic EPS (sen)	2.1	5.4	38.6%	5.6	37.3%	Below expectations.
Adj basic EPS (sen)	2.1	5.4	38.6%	5.6	37.3%	Below expectations.

Company Data, HLIB, Bloomberg

Figure #4 HLIB Forecasts vs. Consensus

RMm	FY16E			FY17E		
	HLIB	Consensus	%	HLIB	Consensus	%
PAT	12.8	12.4	+3.4	13.0	13.1	-0.4
EPS (sen)	5.4	5.8	-3.3	5.5	5.9	-6.5

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		
Malaysia												
Caring Pharmacy	May	MYR	1.80	391.87	100.09	33.3	32.7	3.0	2.8	9.1	8.7	0.9
Apex Healthcare	Dec	MYR	3.79	443.98	113.41	13.1	12.2	N/A	N/A	11.5	11.2	2.9
YSP Southeast Asia	Dec	MYR	2.32	312.31	79.77	13.6	N/A	N/A	N/A	N/A	N/A	N/A
Average						13.4	12.2	N/A	N/A	11.5	11.2	2.9
Foreign												
Tsuruha	Apr	JPY	10,650.0	518,355.4	4,649.3	25.7	22.5	3.4	3.1	14.1	14.5	0.9
Sugi	Feb	JPY	5,460.0	345,786.4	3,101.5	21.6	19.9	2.3	2.1	11.2	11.0	0.9
Medical System Network	Mar	JPY	658.0	19,667.4	176.4	13.5	13.1	2.1	1.8	N/A	N/A	N/A
Nihon Chouzai	Mar	JPY	3,690.0	59,128.6	530.3	9.6	8.7	1.8	1.6	N/A	N/A	N/A
Cosmos Pharmaceutical	May	JPY	18,800.0	376,007.5	3,372.6	30.5	27.3	4.9	4.2	16.9	16.9	0.3
Jintian Pharmaceutical	Dec	HKD	0.7	1,480.0	190.8	3.2	2.8	N/A	N/A	16.3	15.0	4.3
Walgreen	Aug	USD	81.6	88,104.8	88,104.8	18.3	16.1	2.9	2.7	14.4	16.7	1.8
CVS Caremark	Dec	USD	102.7	112,177.9	112,177.9	17.7	15.7	3.0	2.9	16.1	17.7	1.6
Rite Aid	Feb	USD	8.1	8,471.1	8,471.1	34.2	28.2	11.6	17.2	41.4	N/A	0.0
Raia Drogasil	Dec	BRL	55.0	18,164.6	5,150.0	39.5	30.9	6.3	5.6	16.5	19.4	0.9
Jean Coutu	Feb	CAD	18.9	3,509.6	2,787.6	16.4	15.7	2.9	2.6	17.3	19.5	2.5
Protek	Dec	RUB	93.6	49,340.6	758.6	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Corporativo Fragua	Dec	MXN	220.0	22,302.2	1,289.0	19.0	17.0	N/A	N/A	N/A	N/A	N/A
Average						20.8	18.2	4.1	4.4	18.2	16.3	1.5
Overall Average						21.1	18.8	4.0	4.2	16.8	15.1	1.6
HLIB, Bloomberg												

CARiNG Pharmacy (Cease Coverage, TP: RM1.16, CP: RM1.80)

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)	3Q15	4Q15	1Q16	2Q16	3Q16
Revenue	93.9	95.4	92.6	98.3	103.4
COGS	(82.6)	(91.1)	(90.4)	(94.9)	(99.5)
EBITDA	11.3	4.3	2.1	3.4	3.9
D&A	(0.8)	(1.0)	(1.1)	(0.8)	(1.0)
EBIT	10.5	3.3	1.1	2.6	2.9
Net Interest Income	0.4	0.3	0.3	0.3	0.3
Other income	0.0	0.0	0.0	0.0	0.0
PBT	10.8	3.6	1.4	2.9	3.1
Tax	(3.0)	(1.3)	(0.4)	(0.8)	(0.9)
Net Profit	7.8	2.3	1.0	2.1	2.2
MI	(0.2)	0.3	0.0	(0.1)	(0.6)
PATAMI	7.6	2.6	1.0	1.9	1.6
Exceptionals	0.0	0.0	0.0	0.0	0.0
Adj PATAMI	7.6	2.6	1.0	1.9	1.6
Basic Shares (m)	217.7	217.7	217.7	217.7	217.7
Rep EPS (sen)	3.5	1.2	0.5	0.9	0.7
Adj EPS (sen)	3.5	1.2	0.5	0.9	0.7
Adj FD EPS (sen)	3.5	1.2	0.5	0.9	0.7

Valuation Ratios

FYE 31 May (RMm)	2014A	2015A	2016E	2017E	2018E
PER (x)	26.0	30.5	33.2	32.6	32.4
Adj PER (x)	26.0	30.5	33.2	32.6	32.4
FD PER (x)	26.0	30.5	33.2	32.6	32.4
DPS (sen)	3.0	1.5	1.6	1.7	1.7
Net DY (%)	1.7	0.9	0.9	0.9	0.9
Book/share (sen)	52.4	55.1	59.8	63.7	67.5
P/Book (x)	3.4	3.3	3.0	2.8	2.7
FCF/share (sen)	(1.0)	6.7	2.0	1.4	1.8
FCF yield (%)	(0.6)	3.7	1.1	0.8	1.0
Mkt Cap	391.9	391.9	391.9	391.9	391.9
Net Cash(Debt)	68.0	74.9	80.1	81.8	84.2
EV	323.9	316.9	311.7	310.1	307.7
EV/EBITDA (x)	12.8	15.5	15.7	14.9	14.2
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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Equity rating definitions

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.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
NOT RATED	No research coverage, and report is intended purely for informational purposes.

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.