



BIMB SECURITIES RESEARCH MARKET INSIGHT

Thursday, 28 January, 2016
Results Review

PP16795/03/2013(031743)

2QFY16

Caring Pharmacy

SELL ◀ ▶

Below

Still off-target

Price:

RM1.90

Target Price:

(-38.4%) RM1.17

Stock Data

Bloomberg Ticker	Caring MK	Altman Z-score	n.a.
Market Cap	413.6	YTD price chg	-4.5%
Issued shares	217.7	YTD KLCI chg	-3.6%
5-week range (H)	2.14	Beta	0.8
52-week range (L)	1.00	Major Shareholders	
3-mth avg daily volume	134,616	Motivasi Optima	50.4%
Free Float	31.6%	Perbadanan Nasional	12.8%
Shariah Compliant	Y	Jitumaju SB	5.3%

	1mth	3mth	12mth
Absolute	(5.0)	(7.3)	61.3
vs. KLCI	(3.1)	(3.6)	76.5

Consensus

	2016	2017
Net Profit	12.8	13.4
EPS (sen)	5.8	6.0

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	400.8	440.4
EBIT	29.9	23.1	18.7	17.2	19.2
Pretax profit	29.8	22.9	18.5	16.9	18.9
Net Profit	20.6	15.1	12.9	11.9	13.3
EPS (sen)	9.4	6.9	5.9	5.5	6.1
PER (x)	20.1	27.4	32.1	34.8	31.1
DPS (sen)	0.0	1.5	1.5	1.5	1.5
Div. Yield (%)	0.0%	0.8%	0.8%	0.8%	0.8%
EBIT margin	9.9%	6.8%	5.1%	4.3%	4.4%
Pretax margin	9.9%	6.8%	5.0%	4.2%	4.3%
Effective tax rate	25.1%	28.6%	29.6%	29.0%	29.0%
ROE	41.2%	14.1%	11.0%	11.0%	14.9%
ROA	23.4%	8.0%	6.1%	6.0%	8.0%
Net Gearing (x)	net cash	net cash	net cash	net cash	net cash

Growth ratios

Turnover	21.4%	12.2%	8.5%	9.2%	9.9%
EBIT	10.8%	-22.6%	-19.0%	-8.2%	11.6%
Pretax profit	10.7%	-23.4%	-19.0%	-8.4%	11.6%
Net profit	12.5%	-26.4%	-14.9%	-7.5%	11.6%
EPS growth (%)	12.5%	-26.4%	-14.9%	-7.5%	11.6%

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Caring's 1HFY16 net earnings of RM2.9m make up only 22% of both our full-year forecast and that of consensus. This reflects a -8.4% YoY change. Though not meeting projection, net earnings showed a YTD improvement of 11% on the back of a 7.6% YTD change in revenue from RM 177.4m to RM190.8m. The improved sales came from the same total number of 106 community pharmacies countrywide as in the 1QFY16. Following the poor 1H earnings, we have revised our FY16 and FY17 net earnings forecast to RM11.9m and RM13.3m respectively. Rolling forward our valuation to FY17, our new target price comes to RM1.17. Retain SELL.

QoQ. Net profit for the quarter showed QoQ improvement of 87.9% to RM1.9m from RM1m. This was at the back of a 6.2% QoQ change in revenue to RM98.3m. The improved performance was due to higher sales arising from Warehouse Sale launched during September 2015 and higher advertising and promotion income arising from marketing and promotional activities.

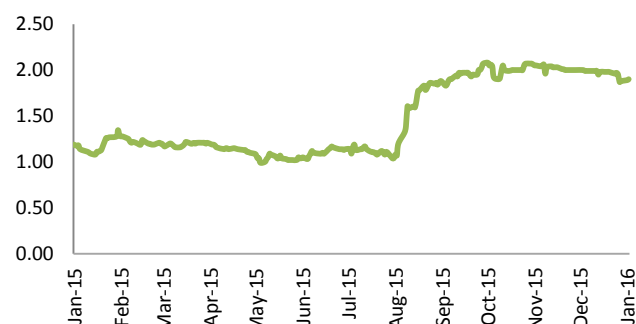
Margin under pressure. Caring's profit margin is expected to be under pressure due to the various negative headwinds such as rising cost of living, declining consumer sentiment to 63.8 points and longer gestation period for new pharmacy outlets (from 12-18 months to 18-24 months). All these negative economic factors are making consumers extra cautious in their spending behaviour.

Dividend. No dividend was declared during the current quarter.

Revised earnings. Alluding to the continued depressed state of the domestic economy which is fostering rising cost of living and declining consumer sentiment, we have revised our FY16 and FY17 net earnings forecasts to RM11.9m (-9%) and RM13.3m (-6%) respectively.

Valuation. Based on 3 year weighted average sector (retail and pharmaceutical) PER of 19.1x rolled over to FY17 EPS, we have derived a new target price of RM1.17. Maintain SELL.

Share Price Chart



Quarterly figures

FYE 31 May (RMm)	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	QoQ Chg	YoY Chg	1HFY15	1HFY16	YTD Chg
Revenue	89.0	93.9	95.4	92.6	98.3	6.2%	10.4%	177.4	190.8	7.6%
EBIT	2.6	10.5	3.3	1.1	3.3	207.8%	26.4%	3.3	4.3	31.0%
Pretax profit	3.0	10.8	3.6	1.4	2.9	109.7%	-3.0%	4.0	4.2	5.1%
Taxation	(0.8)	(3.0)	(1.3)	(0.4)	(0.8)	109.9%	-2.9%	(1.1)	(1.2)	5.2%
Minority Interest	(0.0)	(0.2)	0.3	0.0	(0.1)	-522.9%	289.5%	(0.3)	(0.1)	-55.9%
Net Profit	2.1	7.6	2.6	1.0	1.9	87.9%	-8.4%	2.6	2.9	11.0%
EPS (sen)	1.0	3.5	1.2	0.5	0.9	87.9%	-8.4%	1.2	1.3	11.0%
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 (%)	2.9%	11.1%	3.5%	1.2%	3.3%	189.8%	14.5%	1.9%	2.3%	21.8%
PBT margin (%)	3.3%	11.5%	3.8%	1.5%	2.9%	97.5%	-12.2%	2.3%	2.2%	-2.3%
Net profit margin (%)	2.3%	8.1%	2.8%	1.1%	1.9%	77.0%	-17.0%	1.5%	1.5%	3.2%
Effective tax rate (%)	28.0%	28.0%	36.3%	28.0%	28.0%	0.1%	0.1%	28.0%	28.0%	0.1%

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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