



4QFY16

## Caring Pharmacy

**Sell** ◀ ▶

**Inline**

**Managing a difficult year**

Price:

RM1.67

Target Price:

(-29.3%) RM1.18

### Stock Data

Bloomberg Ticker	caring MK	Altman Z-score	6.0
Market Cap	363.6	YTD price chg	-16.1%
Issued shares	217.7	YTD KLCI chg	-2.3%
52-week range (H)	2.14	Beta	0.7
52-week range (L)	1.05	<b>Major Shareholders</b>	
3-mth avg daily	11,245	Motivasi Optima	50.4%
Free Float	31.6%	Perbadanan Nasional	12.8%
Shariah Compliant	Y	Jitumaju SB	5.3%

### Share Performance (%)

	1mth	3mth	12mth
Absolute	(1.8)	(6.7)	48.0
vs. KLCI	(2.4)	(5.6)	46.7

### Consensus

	2016	2017
Net Profit	6.3	10.6
EPS (sen)	3.0	4.7

### Historical Price Ratio (x)

	FY 2013	FY 2014	FY 2015
Price Earnings	28.4	20.4	28.4
Price to Book	4.0	2.6	4.0

### Financial Highlights (RMm)

FY 31 May	2014	2015	2016	2017E	2018E
Turnover	338.3	364.1	402.6	442.4	485.3
EBIT	23.1	18.7	12.4	16.2	19.0
Pretax profit	22.9	18.5	12.2	16.0	18.8
<b>Net Profit</b>	<b>15.1</b>	<b>12.9</b>	<b>7.3</b>	<b>9.5</b>	<b>11.6</b>
EPS (sen)	6.9	5.9	3.3	4.4	5.3
PER (x)	24.0	28.3	49.9	38.1	31.4
DPS (sen)	3.5	2.0	1.5	1.5	2.0
Div. Yield (%)	2.1%	1.2%	0.9%	0.9%	1.2%

EBIT margin	6.8%	5.1%	3.1%	3.7%	3.9%
Pretax margin	6.8%	5.1%	3.0%	3.6%	3.9%
Effective tax	28.6%	29.6%	30.1%	30.0%	30.0%
ROE	14.1%	11.0%	6.0%	11.3%	11.9%
ROA	8.0%	6.1%	3.3%	6.1%	6.2%
Net Gearing (x)	net cash	net cash	net cash	net cash	net cash

### Growth ratios

Turnover	12.2%	7.6%	10.6%	9.9%	9.7%
EBIT	-22.6%	-19.0%	-33.7%	30.2%	17.8%
Pretax profit	-23.4%	-19.0%	-33.9%	30.5%	17.9%
Net profit	-26.4%	-14.9%	-43.4%	30.7%	21.5%
EPS growth (%)	-26.4%	-14.9%	-43.4%	30.7%	21.5%

### Research Team

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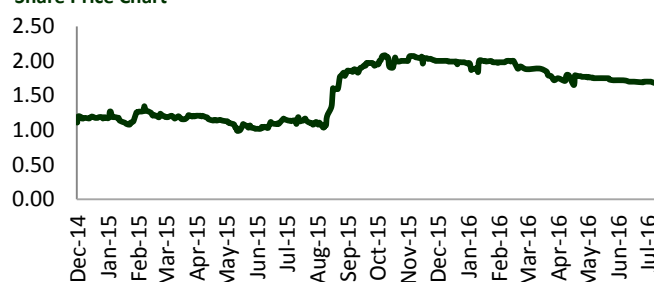
- Caring's FY16 net earnings of RM7.3m are in-line with our full year expectations making up 106%.
- Revenue for the year increased 10.6% YTD to RM402.6m due to higher sales achieved from aggressive and extensive promotions.
- However, net earnings fell to RM7.3m from RM12.9m in the previous year due to higher operating expenses.
- We maintain FY17 earnings forecast at RM9.5m and introduced FY18 forecast at RM11.6m.
- Maintain Sell with new target price of RM1.18 based on 27x PE of FY17 EPS

**FY16 results in-line with our expectations.** Caring FY16 earnings results were in-line with our full year forecast of RM6.9m. Revenue increased by 10.6% YTD to RM402.6m due to aggressive and wider promotion campaigns from their total 107 outlets. Despite higher revenue, net profit decreased by 43.3%, heavily affected by lowering in selling prices aimed at attracting buyers, and higher start-up costs of new outlets. Total FY16 operating expenses increased by 12% from FY15.

**4Q revenue grew qoq.** Caring revenue rose by 4.8% qoq which is in-line with our expectation. The growth is also consistent with Retail Group Malaysia's forecast expansion of 13.5% for pharmacy and personal care in 2Q16 from the earlier lower base growth rate of -7.2% in 1Q16.

**Outlets expansion.** Currently, Caring has a total of 107 outlets. In FY16 the company opened 7 outlets (4 shopping complex outlets & 3 high street outlets) while 4 outlets closed (2 shopping complex outlets & 2 high street outlets). The group is targeting to open 10 new outlets per year with the target locations primarily in Klang Valley and other major cities in Peninsular Malaysia.

### Share Price Chart



**Modest outlook despite challenging year ahead.** The operating environment for Caring remains challenging and competitive. We believe that due to stiff competition from other pharmacies, the group margins would be slightly affected by lower selling prices. However, we estimate that Caring's performance to improve, aided by their aggressive promotion campaigns and expansion plans. The group is also focusing on its product and services quality to maintain their top and bottom line. In view of the modest outlook, we expect Caring to recover with earnings averaging at a growth rate of 26-27% per annum over the next 2 financial years.

**Dividend proposed lower.** A final single tier dividend of 1.5sen has been proposed for this quarter. This is lower compared to FY15 final single tier dividend of 2.0sen. Despite the lower dividend proposed, the company balance sheet is still good with net cash position of RM67.4m.

**Earnings maintain with new target price.** We maintain our FY17 net earnings forecast of RM9.5m and introduce FY18 net earnings forecast of RM11.6m. We have upgraded target price (TP) to RM1.18 from RM0.92 based on 27x PE of FY17 EPS. Despite the earnings recovery and higher TP, we maintain our Sell recommendation as the stock is trading at a steep PE of 38.1x. We believe the current share price is well ahead of the company's fundamentals.

#### Quarterly figures (Mm)

FY 31 May (RMm)	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	QoQ Chg	YoY Chg	FY15	FY16	YTD Chg
Revenue	95.4	92.6	98.3	103.4	108.3	4.8%	13.5%	364.1	402.6	10.6%
EBIT	3.3	1.1	2.6	2.9	4.6	61.3%	40.7%	17.1	11.1	-34.9%
Pretax profit	3.6	1.4	2.9	3.1	4.9	56.3%	34.3%	18.5	12.2	-33.9%
Taxation	(1.3)	(0.4)	(0.8)	(0.9)	(1.6)	85.9%	22.9%	(5.5)	(3.7)	-32.9%
Minority Interest	0.3	0.0	(0.1)	(0.6)	(0.5)	-20.1%	-260.1%	(0.1)	(1.3)	745.9%
Net Profit	2.6	1.0	1.9	1.6	2.8	70.2%	4.6%	12.9	7.3	-43.3%
EPS (sen)	1.2	0.5	0.9	0.7	1.3	70.2%	4.6%	5.9	3.4	-43.3%
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 (%)	3.4%	1.2%	2.7%	2.8%	4.2%	54.0%	24.0%	4.7%	2.8%	-41.1%
PBT margin (%)	3.8%	1.5%	2.9%	3.0%	4.5%	49.1%	18.3%	5.1%	3.0%	-40.2%
Net profit margin (%)	2.8%	1.1%	1.9%	1.6%	2.5%	62.4%	-7.8%	3.5%	1.8%	-48.7%
Effective tax rate (%)	36.3%	28.0%	28.0%	27.9%	33.2%	19.0%	-8.5%	29.6%	30.1%	1.5%

Source: BIMB Securities

**DEFINITION OF RATINGS**

BIMB Securities uses the following rating system:

**STOCK RECOMMENDATION**

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

**SECTOR RECOMMENDATION**

<b>OVERWEIGHT</b>	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
<b>NEUTRAL</b>	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
<b>UNDERWEIGHT</b>	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

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