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Positive surprise in margins

Earnings/sales releases - 10/03/2015

Fact

Faes Farma ended FY 14 on a strong note. In Q4 14, net sales grew 10% yoy to €42.5m, in line with our estimates. Lower-than-expected other income (due to lack of milestone payments) limited total revenue growth to 9% yoy (€43.6m). The positive surprise, however, came on the profitability front. Favourable product mix along with cost-cutting measures led to c.138% yoy increase in EBITDA to €6.9m (the margin improved by c.9ppts to c.16%). Despite higher tax expenses, net profit jumped c.139% to €3.1m (the margin improved by c.4ppts to c.7%) due to lower financial expenses (resulting from debt reduction and lower interest rates). For the full year, net sales were up 6% yoy to €191.7m, while net profit increased 12% to €25.3m (margin improved c.67bps to c.13%), against our expectation of €24m.

Analysis

The key product, Bilastine, continues to drive the top-line due to the strong demand in the domestic markets of Spain and Portugal and expansion into international markets. Ingaso Farm (up 16% yoy in FY 14), anti-diabetic licences (up 27% yoy in FY 14) and mature products (its Vitamin D3 brand, Hidroferol, grew 22% yoy) also contributed to the strong growth. The expansion of mature products as well as Bilastine into international markets supported the excellent growth in exports (up 24% yoy in FY 14). Even in the domestic market (Spain), where the healthcare sector is reeling under austerity measures, Faes Farma registered 5.9% growth, compared with market growth of just 0.5% (excluding generics, the market declined 1.4%). Bilastine (sold under the brand name Bilaxten here) registered a growth of c.34%. As a reminder, it is a market leader in antihistamines in Spain, exceeding the combined sales of the next two largest competitors. Strong cash generation enabled the company to reduce indebtedness by c.79% yoy to €9.7m. However, we maintain that the company needs to urgently replenish its product pipeline (either through organic or inorganic route) to reduce its dependence on Bilastine.

Impact

We will slightly upgrade our margin estimates for forecast years by factoring in the better-than-expected cost containment measures and reduction in net debt. However, lack of visibility in the pipeline will limit further upside to our target price.

Buy

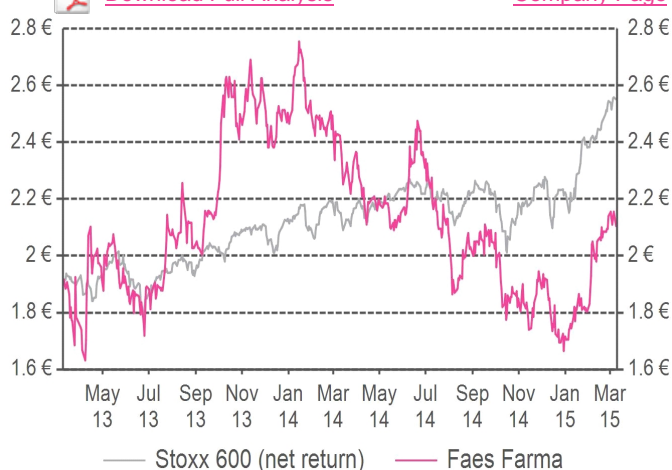
Upside : 15.5%

Target Price (6 months)	€ 2.43
Share Price	€ 2.11
Market Capitalisation €M	516
Price Momentum	STRONG
Extremes 12Months	1.67 ▶ 2.48
Newsflow	Neutral
Bloomberg	FAE SM Equity
Reuters	FAE.MC



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PERF	1w	1m	3m	12m
Faes Farma	-2.32%	2.68%	12.3%	-13.3%
Pharma	1.23%	6.68%	8.05%	21.0%
STOXX 600	0.49%	5.33%	15.5%	18.1%

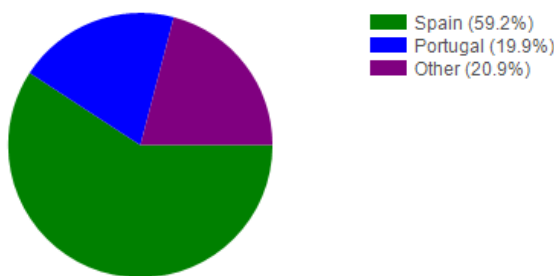
Sector Opinion	Overweight
Strongest upside	Grifols
Worst potential	Genmab

[Complete Sector Analysis](#)

Last updated: 22/12/2014	12/12A	12/13A	12/14E	12/15E
Adjusted P/E (x)	14.4	21.6	20.6	17.4
Dividend yield (%)	3.39	2.49	2.59	2.88
EV/EBITDA(R) (x)	11.0	15.2	13.9	11.7
Adjusted EPS (€)	0.09	0.10	0.11	0.12
Growth in EPS (%)	38.4	15.7	2.59	14.1
Dividend (€)	0.04	0.06	0.06	0.06
Sales (€M)	189	192	204	223
EBIT margin (%)	11.3	13.4	14.8	16.1
Attributable net profit (€M)	19.5	22.6	24.0	29.0
ROE (after tax) (%)	11.1	11.8	11.5	12.3
Gearing (%)	35.1	23.5	12.8	2.48

[Company Valuation](#) - [Company Financials](#)

Sales by Geography



Consolidated P&L Account

	12/13A	12/14E	12/15E
Sales	€M 192	204	223
Change in sales	% 1.69	5.90	9.21
Change in staff costs	% -21.0	25.5	5.01
EBITDA	€M 33.4	37.5	42.8
EBITDA(R) margin	% 18.4	19.1	19.8
Depreciation	€M -3.38	-3.20	-2.86
Underlying operating profit	€M 25.8	30.1	35.7
Operating profit (EBIT)	€M 25.8	30.1	35.7
Net financial expense	€M -1.61	-1.11	0.00
of which related to pensions	€M 0.00	0.00	0.00
Exceptional items & other	€M 0.00	0.00	0.00
Corporate tax	€M -1.59	-4.92	-6.79
Equity associates	€M		
Minority interests	€M 0.00	0.00	0.00
Adjusted attributable net profit	€M 22.6	24.0	29.0
NOPAT	€M 18.1	21.0	25.0

Cashflow Statement

	12/13A	12/14E	12/15E
EBITDA	€M 33.4	37.5	42.8
Change in WCR	€M 0.22	-6.45	-2.00
Actual div. received from equity holdi...	€M 0.00	0.00	0.00
Paid taxes	€M -4.31	-4.92	-6.79
Exceptional items	€M		
Other operating cash flows	€M 3.93	0.00	0.00
Total operating cash flows	€M 33.3	26.1	34.0
Capital expenditure	€M -4.17	-4.60	-6.84
Total investment flows	€M -4.73	-5.10	-7.34
Net interest expense	€M -1.61	-1.11	0.00
Dividends (parent company)	€M -0.65	-1.08	-1.18
Dividends to minorities interests	€M 0.00	0.00	0.00
New shareholders' equity	€M		
Total financial flows	€M -25.5	-2.45	-11.8
Change in cash position	€M 3.04	18.6	14.9
Free cash flow (pre div.)	€M 27.5	20.4	27.1

Per Share Data

	12/13A	12/14E	12/15E
No. of shares net of treas. stock (year...)	Mio 220	235	245
Number of diluted shares (average)	Mio 219	227	240
Benchmark EPS	€ 0.10	0.11	0.12
Restated NAV per share	€		
Net dividend per share	€ 0.06	0.06	0.06

Valuation Summary

Benchmarks	Value	Weight	Largest comparables
DCF	€ 2.30	35%	■ Stada Arzneimittel
NAV/SOTP per share	€ 1.89	20%	■ UCB
EV/Ebitda	€ 2.10	20%	■ Ipsen
P/E	€ 2.99	10%	■ H Lundbeck
Dividend Yield	€ 4.21	10%	■ Hikma Pharmaceuti...
P/Book	€ 2.15	5%	
TARGET PRICE	€ 2.43	100%	

NAV/SOTP Calculation

Balance Sheet

	12/13A	12/14E	12/15E
Goodwill	€M		
Total intangible	€M 105	105	107
Tangible fixed assets	€M 23.1	20.6	18.6
Financial fixed assets	€M		
WCR	€M 47.1	53.6	55.6
Other assets	€M 1.58	1.58	1.58
Total assets (net of short term liab.)	€M 184	187	189
Ordinary shareholders' equity	€M 198	221	249
Quasi Equity & Preferred	€M		
Minority interests	€M 0.01	0.01	0.01
Provisions for pensions	€M	0.00	0.00
Other provisions for risks and liabilities	€M 4.84	4.84	4.84
Total provisions for risks and liabilities	€M 4.84	4.84	4.84
Tax liabilities	€M -58.9	-58.9	-58.9
Other liabilities	€M 2.41	1.91	1.41
Net debt (cash)	€M 37.8	18.9	-6.58
Total liab. and shareholders' equity	€M 184	187	189

Capital Employed

	12/13A	12/14E	12/15E
Capital employed after depreciation	€M 190	188	190

Profits & Risks Ratios

		12/13A	12/14E	12/15E
ROE (after tax)	%	11.8	11.5	12.3
ROCE	%	10.3	11.7	13.7
Gearing (at book value)	%	23.5	12.8	2.48
Adj. Net debt/EBITDA(R)	x	1.47	0.73	0.06
Interest cover (x)	x	11.9	20.2	91.4

Valuation Ratios

		12/13A	12/14E	12/15E
Reference P/E (benchmark)	x	21.6	20.6	17.4
Free cash flow yield	%	5.63	3.99	5.27
P/Book	x	2.47	2.32	2.07
Dividend yield	%	2.49	2.59	2.88

EV Calculation

	12/13A	12/14E	12/15E	
Market cap	€M 488	512	515	
+ Provisions	€M 4.84	4.84	4.84	
+ Unrecognised actuarial losses/(gains)	€M 0.00	0.00	0.00	
+ Net debt at year end	€M 37.8	18.9	-6.58	
+ Leases debt equivalent	€M 14.4	9.30	9.30	
- Financial fixed assets (fair value)	€M 6.96	6.96	6.96	
+ Minority interests (fair value)	€M 0.01	0.01	0.01	
= EV	€M 538	538	516	
EV/EBITDA(R)	x	15.2	13.9	11.7
EV/Sales	x	2.80	2.64	2.32

Analyst : Jyoti Prakash, Changes to Forecasts : 22/12/2014.