

# Faes

Pharma

## Waiting for Bilastine

(Recommendation upgraded from Hold to Buy)

**Buy**

Medium Risk

September 2011

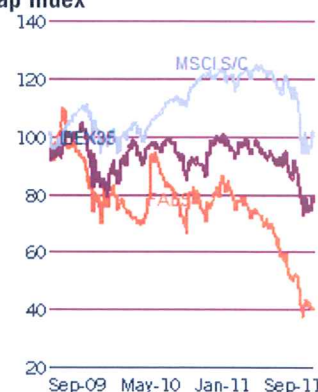
**Spain**

**A strong impact from austerity measures:** The healthcare measures enforced by the Spanish and Portuguese governments in 2010 and 2011 should severely hit Faes as c. 94% of its specialty pharma division revenues (86% of FY11<sup>F</sup> Cons. Revenues) are exposed to Iberia and c.83% is affected by the change in the Reference Price System and exposed to generics. Moreover, profitability should be eroded by higher marketing costs related with the launch of new products. Overall, we are forecasting a negative impact in Revenues of €9mn (-4.6%) and €11m (-5.4%) in FY11<sup>F</sup> and FY12<sup>F</sup>, respectively, while EBITDA margin should contract by 260 bps in FY11<sup>F</sup>.

**Bilastine should boost operational leverage:** Bilastine was launched in Spain in April 2011 (€ 46mn PS and royalties), and as of June it had reached a 9.5% market share, reflecting an excellent ramp up stage. However, we only expect this product, together with the launch of Ristaben & Ristfor (from MSD in-licence signed in FY10, €24mn PS) to contribute at the EBITDA level in FY12 boosting its operational leverage from FY13 onwards. **As a result, we are forecasting EBITDA and EPS to post 13% and 17% CAGR10-14<sup>F</sup>, which stand below the company's guidance of 20% EPS CAGR10-14<sup>F</sup>.**

**The stock looks cheap:** Faes continues trading at a premium to its main peers despite the 49% YTD stock plunge, underperforming its peers (-7% YTD). We have set a **YE12 Price Target of €2.10** (inc. 10% S/C discount), down 14% LFL ex-roll forward, reflecting the impact of the three Royal Decrees. Nonetheless, we believe Faes offers interesting triggers, namely: (1) Potential new in-licences agreements in core areas such as Gastrointestinal, (2) Partnering of Bilastine in US, Japan, Australia and Asia and (3) Further expansion of its business in Latam. **Buy.**

### Faes vs. IBEX35 vs. MSCI Small Cap Index



Source: Bloomberg.

### SOP DCF Valuation (€ mn)

Business	EV. Attrib.	% as EV
Current Portfolio	454	86%
Bilastine (RoW)	76	14%
<b>EV</b>	<b>530</b>	
YE 12 Net Debt	84	
Non-core Assets	10	
<b>Equity Value</b>	<b>455</b>	
# shares (mn)	195	
<b>YE12 Fair Value (€)</b>	<b>2.30</b>	
Small Cap Discount	10%	
<b>YE12 Price Target (€)</b>	<b>2.10</b>	

Source: BPI Equity Research

### Stock Data

Price (5 <sup>th</sup> September):	1.33	Price Target:	2.10
No. of shares (mn):	195	Market Cap (€ mn):	249
Reuters/Bloomberg:	FAE.MC/FAE SM	Free-Float:	98.2%
NET DEBT/EBITDA '12:	2.7	ROE '12:	10.6%
EPS Growth ('10-'13):	3.0%	Avg. Daily Vol. [€'000]:	358
Major Shareholders:	Mr. Usaola Mendoza (0.8%), other Board members (1.0%)		

Estimates	2009	2010	2011 <sup>F</sup>	2012 <sup>F</sup>	2013 <sup>F</sup>	2014 <sup>F</sup>
EPS Adj. (€)	0.12	0.10	0.07	0.09	0.11	0.15
PE Adj.	30.2	26.6	19.7	15.4	11.9	8.9
Dividend yield	1.1%	1.5%	2.0%	2.5%	3.3%	4.4%
FCF yield	3.8%	6.7%	10.5%	11.9%	10.5%	12.0%
EV/EBITDA	17.5	18.9	13.1	10.9	8.8	6.7

### Historical Recommendation

Date	Recommendation
18-Jan-10	Reduce
24-Jan-11	Hold

(1) Initiating Coverage.

Source: BPI Equity Research.

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Available on our website:

[www.bpi.pt/equity](http://www.bpi.pt/equity), BPI Online,  
 and Bloomberg at BPIR.

**Income Statement**

(€ mn)	2009	2010	2011 <sup>f</sup>	2012 <sup>f</sup>	2013 <sup>f</sup>	2014 <sup>f</sup>	CAGR 10-14 <sup>f</sup>
<b>Turnover</b>	<b>195</b>	<b>203</b>	<b>203</b>	<b>216</b>	<b>217</b>	<b>231</b>	<b>3%</b>
<b>EBITDA</b>	<b>34</b>	<b>32</b>	<b>26</b>	<b>32</b>	<b>39</b>	<b>52</b>	<b>13%</b>
EBITDA margin	17.4%	15.6%	12.9%	14.6%	18.1%	22.4%	
Dep.+ Prov.	-8	-10	-9	-10	-10	-10	2%
<b>EBIT</b>	<b>25</b>	<b>23</b>	<b>17</b>	<b>22</b>	<b>29</b>	<b>41</b>	<b>16%</b>
EBIT margin	13.0%	11.1%	8.2%	10.1%	13.4%	17.9%	
Net Financials	-5	-3	-3	-3	-2	-2	-11%
Extraordinaries	0	0	0	0	0	0	n.s.
Income Tax	1	1	0	0	-1	-2	n.s.
Minority interest	0	0	0	0	0	0	n.s.
<b>Net Profit</b>	<b>21</b>	<b>20</b>	<b>14</b>	<b>19</b>	<b>26</b>	<b>37</b>	<b>17%</b>

**Balance Sheet**

(€ mn)	2009	2010	2011 <sup>f</sup>	2012 <sup>f</sup>	2013 <sup>f</sup>	2014 <sup>f</sup>	CAGR 10-14 <sup>f</sup>
Net Intangibles	115	115	113	111	108	105	-2%
Net Fixed Assets	33	32	34	36	38	39	5%
Net Financials	13	12	11	10	9	8	-10%
Inventories	30	36	42	49	48	49	8%
ST Receivables	33	35	45	56	60	61	15%
Other assets	59	65	65	65	64	62	-1%
Cash & Equivalents	9	2	1	4	23	64	133%
<b>Net Assets</b>	<b>293</b>	<b>297</b>	<b>312</b>	<b>330</b>	<b>350</b>	<b>388</b>	<b>7%</b>
<b>Equity &amp; Minorities</b>	<b>163</b>	<b>166</b>	<b>171</b>	<b>185</b>	<b>203</b>	<b>231</b>	<b>9%</b>
<b>MLT Liabilities</b>	<b>50</b>	<b>35</b>	<b>35</b>	<b>35</b>	<b>35</b>	<b>35</b>	<b>0%</b>
o.w. Debt	43	32	32	32	32	32	0%
<b>ST Liabilities</b>	<b>75</b>	<b>90</b>	<b>99</b>	<b>104</b>	<b>105</b>	<b>115</b>	<b>6%</b>
o.w. Debt	31	46	51	56	61	68	10%
o.w. Payables	44	41	46	45	40	44	2%
<b>Equity + Min. + Liab.</b>	<b>293</b>	<b>297</b>	<b>312</b>	<b>330</b>	<b>350</b>	<b>388</b>	<b>7%</b>

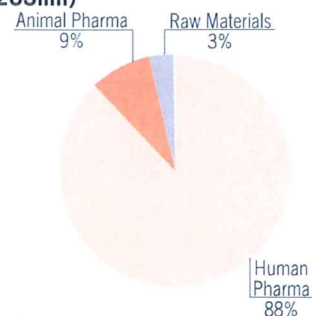
**Cash-flow Statement**

(€ mn)	2009	2010	2011 <sup>f</sup>	2012 <sup>f</sup>	2013 <sup>f</sup>	2014 <sup>f</sup>
+ EBITDA	34	32	26	32	39	52
- Chg in Net W.C.	-1	10	14	17	6	-1
<b>= Operating Cash Flow</b>	<b>35</b>	<b>22</b>	<b>12</b>	<b>14</b>	<b>34</b>	<b>53</b>
- Capex	11	8	10	10	9	9
- Chg Net Fin. Inv.	2	-1	-1	-1	-1	-1
<b>= Cash Flow after Inv.</b>	<b>22</b>	<b>16</b>	<b>3</b>	<b>6</b>	<b>26</b>	<b>45</b>
- Net Fin. Exp.	5	3	3	3	2	2
- Income Taxes	3	4	-3	1	2	-1
- Dividends Paid	8	9	9	6	9	11
+/- Equity	0	0	0	0	0	0
Other	-18	-11	1	2	1	2
<b>=Change in Net Debt</b>	<b>12</b>	<b>11</b>	<b>6</b>	<b>3</b>	<b>-14</b>	<b>-35</b>
<b>Net Debt (+) / Net Cash (-)</b>	<b>65</b>	<b>76</b>	<b>82</b>	<b>84</b>	<b>71</b>	<b>36</b>

Source: Company data (2009, 2010) and BPI Equity Research (F).

**Company Description:**

FAES is a Spanish pharmaceutical company created in 1933, focused on the R&D, production and distribution of internally developed and in-license drugs, while it is exposed towards human (88% FY10 sales) and Animal Pharma (9% of FY10 sales). Spain and Portugal are its main markets, while it has a growing presence in Latam. Finally, the company has been developing a promising Respiratory molecule, Bilastine, which was finally launched in Spain in April 2010.

**FY10 Sales Breakdown by business (€203mn)**

Source: FAES

**DCF Assumptions**

Re (Portfolio)	9.8%
Re (Bilastine)	12.2%
Rf <sup>(1)</sup>	5.0%
Beta Equity (Portfolio)	0.8
Beta Equity (Pipeline)	1.2
Market Premium	6.0%
Rd	7.0%
Tax rate	28.0%
D/EV	0.0%
<b>WACC (Portfolio)</b>	<b>9.8%</b>
<b>WACC (Pipeline)</b>	<b>12.2%</b>
g (Portfolio)	0.0%
Bilastine's Chances of Success (RoW)	40.0%

(1) Includes Country Risk Premium

Source: BPI Equity Research.

**Sensitivity Analysis (€/Share)**

		Growing Perpetuity		
		-1.0%	0.0%	1.0%
Beta	0.6	2.26	2.40	2.57
Equity	0.8	2.00	<b>2.10</b>	2.22
	1.0	1.79	1.86	1.95

Source: BPI Equity Research

**Market Multiples**

	P/E		EV/EBITDA	
	12 <sup>f</sup>	13 <sup>f</sup>	12 <sup>f</sup>	13 <sup>f</sup>
<b>Faes (BPI)</b>	<b>15.4</b>	<b>11.9</b>	<b>10.9</b>	<b>8.8</b>
Ipsen	11.5	10.6	6.8	5.6
Recordati	10.6	9.7	7.4	9.2
Almirall	10.6	12.2	5.4	5.8
Rovi	14.5	9.9	10.4	7.4
<b>Avg. S&amp;M Caps</b>	<b>11.8</b>	<b>10.6</b>	<b>7.9</b>	<b>7.1</b>
Pfizer	8.1	7.8	4.6	4.7
Sanofi	7.6	7.6	5.5	5.0
GSK	10.2	9.4	6.7	6.2
Merck	8.3	8.5	5.0	4.6
<b>Avg. Large-Caps</b>	<b>8.6</b>	<b>8.3</b>	<b>5.4</b>	<b>5.1</b>

Source: BPI Equity Research (FAES, Almirall and Rovi) &amp; FactSet