

**Company Overview**

Square Pharmaceuticals Limited (SPL) was established on November 10, 1964. The Company is engaged in manufacturing and marketing of generic pharmaceuticals products, basic chemical products, agrovet products, pesticide products, small volume parental ophthalmic products and insulin products. Since 1985, the Company has been leading the pharma market among all national and multinational pharmaceuticals companies in Bangladesh - currently holding 18% of market share (Source: IMS 2017 Q1). As per annual report 2016-17, the Company had 804 presentations (consist of 677 pharma, 77 agrovet, 28 pesticide, 14 pellet products and 8 basic chemicals) in the form of tablet, capsule, liquid, injectable, infusion etc. Some of the flagship products are Ace®, Ace Plus®, Ceporin®, Dermasol®, Ermox®, Imotil®, Tusca® etc. The Company has two GMP compliant production sites – one is at Pabna and other one at Gazipur.

Square Formulation Ltd. (SFL) (99.50% holding) is a subsidiary of the Company which commenced its commercial production from 1<sup>st</sup> April 2014. Square Pharmaceuticals Kenya EPZ Ltd. (fully owned) is another subsidiary of SPL incorporated on 7<sup>th</sup> June 2017 at Nairobi, Kenya. Moreover, Square Pharma has 3 associates, namely Square Textiles Ltd. (46.36% holding), Square Hospitals Ltd. (49.94% holding) and Square Fashions Ltd. (48.63% holding).

**Revenue & Growth**

Particulars	(BDT mn)	Growth	Composition	
	2016-17	2016-17	2015-16	2016-17
Sq. Pharmaceuticals	33,300	-0.9%	87.7%	78.7%
Local Sales	31,913	-1.8%	96.6%	95.8%
Export	1,387	23.0%	3.4%	4.2%
Sq. Formulations	8,985	90.6%	12.3%	21.3%

Turnover of SPL, the parent company, has decreased by 0.9% in 2016-17 over the same period of last year due to heavy rain and extended distressing flood in the country. However, net profit has increased by 3.8% because of decrease in finance expense and increase in other income (bank interest, dividend and commission received).

**Capacity & Utilization of SPL:**

	2013-14	2014-15	2015-16	2016-17
<b>Capacity (in mn)</b>				
Tablets (PCS)	10,495	10,547	11,279	10,283
Capsules (PCS)	2,220	2,228	2,211	1,253
<b>Capacity Utilization</b>				
Tablets (PCS)	58%	52%	59%	48%*
Capsules (PCS)	24%	63%	54%	40%

\*Though there has been a decrease in capacity utilization in case of 7 products line due to marketing strategies, the overall capacity utilization has increased during 2016-17 over last year.

**Shareholding Structure**

The Company was listed in both the DSE & the CSE in 1995. Historical shareholding pattern are shown in the following table:

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Jul-18	34.43%	0.00%	10.06%	19.69%	35.82%
31-Dec-17	34.43%	0.00%	10.35%	19.46%	35.76%
31-Dec-16	53.52%	0.00%	12.34%	15.39%	18.75%
31-Dec-15	53.52%	0.00%	12.41%	15.39%	18.68%

**Company Fundamentals**

Market Cap (BDT mn)	200,644.1
Market weight	5.9%
No. of Share Outstanding (in mn)	737.4
Free-float Shares (Institute + Foreign + Public)	65.6%
Paid-up Capital (BDT mn)	7,373.9
3-month Average Turnover (BDT mn)	130.1
3-month Return	-4.2%
Current Price (BDT)	270.1
52-week price range (BDT)	263.0 - 335.0
Sector's Forward P/E	17.8

	2014-15 (Apr-Mar)	2015-16 (Jul-Jun)	2016-17 (Jul-Jun)	2017-18 (9M Ann.)
--	----------------------	----------------------	----------------------	----------------------

**Financial Information (BDT mn):**

Sales	26,685	33,074	36,543	39,430
Gross Profit	11,742	15,991	18,268	19,579
Operating Profit	7,208	10,797	12,296	13,093
Profit After Tax	5,186	8,287	9,719	10,838
Assets	35,191	44,304	52,531	59,742
CAPEX	4,807	1,882	1,701	2,386
Long Term Debt	659	-	-	-
Short Term Debt	257	3	-	-
Equity	31,092	40,557	49,040	55,141

**Margin:**

Gross Profit	44.0%	48.4%	50.0%	49.7%
Operating Profit	27.0%	32.6%	33.6%	33.2%
Pretax Profit	26.1%	33.0%	34.9%	36.1%
Net Profit	19.4%	25.1%	26.6%	27.5%

**Growth\*:**

Sales	14.7%	--	10.5%	7.9%
Gross Profit	13.9%	--	14.2%	7.2%
Operating Profit	17.3%	--	13.9%	6.5%
Net Profit	22.0%	--	17.3%	11.5%

**Profitability:**

ROA	15.7%	20.8%	20.1%	19.3%
ROE	17.9%	23.1%	21.7%	20.8%

**Operating Efficiency Ratio:**

Inventory Turnover	8.8	9.4	9.8	9.5
Receivable Turnover	32.1	29.7	20.6	20.1
A/C Payable Turnover	63.2	36.0	23.8	25.0
Cash Conversion Cycle	46.3	40.3	38.9	41.3
Total Asset Turnover	0.8	0.8	0.8	0.7
Fixed Asset Turnover	1.7	1.8	1.9	2.0

**Leverage:**

Debt Ratio	2.6%	0.0%	0.0%	0.0%
Debt-Equity	2.9%	0.0%	0.0%	0.0%
Int. Coverage	45.4	2,037.1	79,644	121,680

**Dividend History**

Dividend (C/B)%	30/12.5	40/10	35/7.5	-/-
Dividend Yield	1.1%	0.4%	1.2%	-/-
Dividend Payout	37.0%	32.1%	24.3%	-/-

**Valuation:**

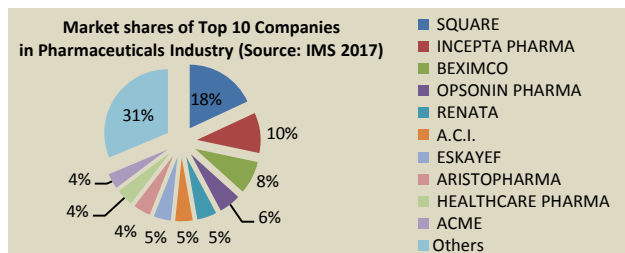
Price/Earnings	33.6	21.8	18.9	16.9
Price/BV	6.5	5.0	4.1	3.6
EPS (BDT)	8.1	12.5	14.4	16.1
NAVPS (BDT)	42.2	55.0	66.5	74.8

\*Growth for 2015-16 is not calculated due to unavailability of data.  
N.B. The Company has changed the reporting period to July-June from April-March.

## Industry Overview

Pharmaceutical Industry is one of the most developed manufacturing industries in Bangladesh which is considered second largest sector in terms of contribution of government exchequer. Moreover, this industry contributes nearly 1% of the total GDP. As per 2016-17 annual report of Beximco Pharmaceuticals Ltd., Pharma Industry is currently valued at more than \$2 billion and the market is growing by double digit for the last few years. Prior to 1982, there were about 10 multinational companies securing 80% of total market share. At present, this industry primarily produces generics drugs of around 8,300 different brands that furnish up to 98% of the domestic demand. Currently, there are more than 439 registered pharmaceutical manufacturers in Bangladesh.

According to IMS Report 2017, top 10 companies occupy 68.68% of the total market share and top 20 manufacturers grabbed 86.21% of total market which was 85.91% in last year.



Export is a promising but untapped segment for the country's pharmaceutical sector. According to DGDA (Directorate General of Drug Administration), Bangladesh exports drugs to 87 countries. In 2017, the Country exported BDT 31.96 billion pharmaceutical products which were 29.69% higher than that of 2016.

However, supply side of this industry mostly depends on import. Around 90% of required raw materials are imported from China and India whereas some local companies – Beximco Pharmaceuticals Ltd., Square Pharmaceuticals Ltd., Opsonin Chemicals Ltd. Drug International Ltd., Globe Pharmaceuticals Ltd., Gonoshastaya Pharmaceuticals Ltd, Sunipun Pharmaceuticals Ltd. etc. – produce certain APIs on smaller scale for mainly in-house use. The local companies usually run the relatively easier final chemical synthesis stage with API intermediaries, instead of the complete chemical synthesis.

Meanwhile, construction of 200-acre API Park is in progress. A total of 42 industries would be set up under the project; expected total cost is BDT 4.39 billion. Upon operational of the plant, the raw material imports are expected to come down to 30% and the costs of APIs are estimated to decrease by around 20%. The API industrial park promises to propel Bangladesh to the next level as a drug exporter since it is expected to help the local pharma companies gain more export orders with a competitive edge and maintain stable prices in the domestic market.

WTO (World Trade Organization) member countries have extended the deadline to comply with the TRIPS (Trade-Related Aspects of Intellectual Property Rights) agreement, allowing LDCs to avoid applying and enforcing IP (Intellectual Property) rights on pharmaceutical products until 2033. Bangladesh will get more benefit from the extension of drug patent waiver as the country is more capable of manufacturing pharmaceutical products than any other LDCs.

## Investment Positives

- **Square Pharmaceuticals has been in operation in the pharma industry since 1964 and has undisputed Goodwill in local and international market. The Company is leading the pharma market of Bangladesh since 1985 and currently holding around 18% of market share (Source: IMS 2017 Q1). 5-year compound annual growth rate (CAGR) of consolidated revenue and net profit of the Company was 15.2% & 24.2% respectively.** The last 5-year consolidated revenue and net profit of the Company are shown in the following table:

Particulars (BDT bn)	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue	23.4	26.9	30.8	38.3	42.3
Growth	12.2%	15.3%	14.4%	24.3%	10.3%
Net Profit	4.13	4.95	5.98	9.2	10.65
Growth	14.7%	19.9%	20.8%	53.8%	15.8%

- The Company is maintaining higher profit margins over the years compared to its competitors.

Company Name	(BDT mn)		Margin		
	Revenue	Gross Profit	Operating Profit	Pre-tax Profit	Net Profit
<b>SQRPHARMA</b>	<b>36,543</b>	<b>50.0%</b>	<b>33.6%</b>	<b>34.9%</b>	<b>26.6%</b>
BXPHARMA	15,509	46.3%	23.2%	18.6%	14.4%
ACMELAB	13,576	40.8%	23.8%	14.9%	10.3%
IBNSINA	4,009	40.5%	8.3%	7.6%	5.8%
RENATA	16,645	50.1%	25.1%	22.7%	15.2%

Data has been derived from 2016-17 annual reports of respective company.

- Square Formulation Ltd (SFL), a subsidiary of SPL (99.50% holding), has been growing very fast since its inception in April 2014. The revenue and net profit of SFL has registered remarkable growth in its short span which are shown in the following table:

Particulars (BDT mn)	2014-15	2015-16	2016-17	2017-18 (9M)
Gross Turnover of SFL	552	4,714	8,985	8,446
Turnover Growth	--	753.9%	90.6%	29.6%*
Contribution to SPL	2%	12%	21%	25%
Gross Profit Margin	--	41%	47%	47%
Operating Profit Margin	--	21%	30%	47%
<b>Net Profit Margin</b>	--	<b>16%</b>	<b>24%</b>	<b>31%</b>

\*Growth for 2017-18 is calculated for 9 months than that of last year.

- **Square Pharmaceuticals Kenya EPZ Ltd, a subsidiary of Square Pharmaceuticals Ltd (SPL), has started construction of its manufacturing plant in Nairobi, Kenya in January 2018. The plant will be capable of manufacturing two billion tablets and capsules and 60 million bottles of liquid formulations. Commercial production is expected to begin from the first quarter of 2020.**

- **The initial estimated total project cost for SPL Kenya plant would be US\$ 20.00 million.** Of this, US\$ 8.00 million would be financed by equity investment for which Bangladesh Bank has given permission and the balance would be from debt financing.
- SPL started exporting to Kenya in 2005 and registered 117 products with the Pharmacy and Poison Board, Kenya's drug regulatory agency.
- Kenya's prescription pharmaceuticals market is worth over \$500 million and is expected to grow at a compound annual growth rate (CAGR) of 11.8% till 2020. Prescription drugs account for around 78% of the market. However, the fastest growth in the coming years is expected in the over-the-counter (OTC) product sales. **Kenyan manufacturers can supply only 30 percent of the country's demand while the rest is met through**

**imports.** Kenya is currently the largest producer of pharmaceutical products in the Common Market for Eastern and Southern Africa (COMESA) region, supplying about 50% of the regions' market. Kenya spends about 8% of its GDP on health. (Source: Africa Business Pages)

- **Square Pharmaceuticals Kenya EPZ aims to fulfill the unmet demands of medicine in Kenya, Tanzania, Rwanda, Burundi, Uganda and South Sudan** and the products will be pre-qualified through World Health Organization.
- The plant is a benchmark for the Bangladeshi industry's achievements as SPL would be the first to build its own plant abroad.
- The associates' contribution to the profit of the Company is in increasing trend which is expected to continue in the coming years. The profit from associates are shown below:

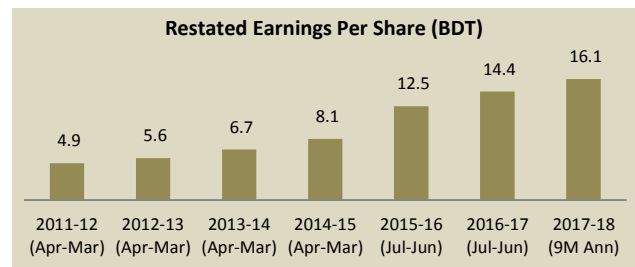
Particulars (BDT mn)	2013-14	2014-15	2015-16	2016-17	2017-18 (9M)
Square Textiles	269	248	227	117	--
Square Fashions	180	379	611	665	--
Square Hospitals	159	169	79	147	--
<b>Total</b>	<b>608</b>	<b>795</b>	<b>916</b>	<b>929</b>	<b>721</b>
Growth	31%	31%	15%	1%	28%*
% of Consolidated Net Profit	14.3%	15.3%	11.1%	9.6%	8.9%

\*Growth for 2017-18 is calculated for 9 months than that of last year.

- During the year 2016-17, the Company introduced 55 new products to the market. Constant longing to introduce new products in local and international market along with several blockbusters ensured sustainability of profit margins.
- **In October 2017, the Board has approved BDT 2,020 million for BMRE, Capital Machineries and Lands for future expansion.**
- As per DSE news published on 24 October 2017, **Square Formulations Ltd. and Square Herbal & Nutraceuticals Ltd. will merge with Square Pharmaceuticals Ltd.** It will enable the Company to bring efficiency in operation and economies of scale which will have positive impact on the profitability of the Company.
- As per DSE news published on 11 June 2017, **the Board of Directors has approved agreements with M/s. NAAFCO Pharma Ltd. and M/s. Sharif Pharmaceuticals Ltd., Dhaka, Bangladesh for contract manufacturing** (Production of goods by one firm, under the label or brand of another firm) of some products to meet increased demand of existing products and to introduce new products.
- The Company has given a thrust for increasing the export volume with the current capacity. **In 2016-17, export revenue has increased by 23.02% over last year** and is expected to rise in the coming years. Present export market covers over 42 countries including UK, South Africa, Mauritius, Jamaica, Malaysia, Singapore, Fiji etc. In June 2015, the Company got approval to export medicines to US market and has submitted several ANDAs to USFDA for approval. It has also focused on contract manufacturing options for USA and UK to increase the export volume.
- **Credit Rating Information and Services Limited (CRISL) has rated the Company as "AAA" in the long term and "ST-1" in the short term** along with a stable outlook in consideration of its audited financials up to June 30, 2017, unaudited financials up to September 30, 2017.

## Investment Negatives

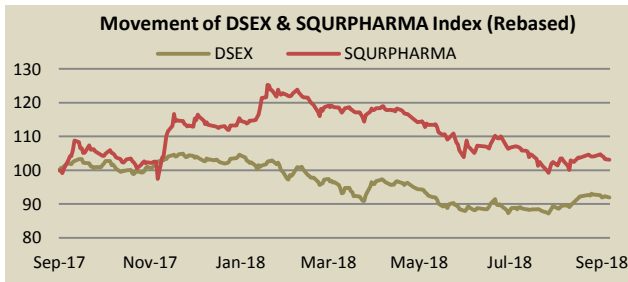
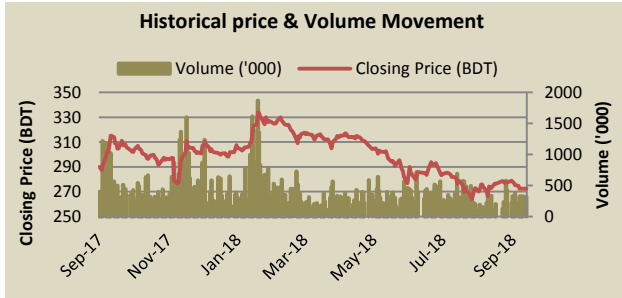
- **The Company is exposed to foreign exchange risk as around 86% of raw materials and 35% of packing materials are imported.** As majority of the Company's foreign currency transactions are denominated in USD, unfavorable foreign exchange movement may affect the profitability of the Company. BDT has depreciated against USD by 5.88% as of September 12, 2018 from January 2017. However, cost of raw materials is expected to reduce considerably upon operational of the country's API Park.
- The Company will use the debt financing of USD 12 million for establishment of the Kenya plant for which it will have to bear the finance expenses.
- The Government is considering further increase in price of gas and fuel & power which will push up the factory overhead cost that will have a negative impact on the profit margins.



## Consolidated Latest Quarter Update - March 2018 (Q 3)

Particulars (BDT mn)	Jul-Mar 2018	Jul-Mar 2017	Jan-Mar 2018	Jan-Mar 2017
<b>Net Turnover</b>	<b>29,573</b>	<b>26,642</b>	<b>9,852</b>	<b>9,509</b>
Growth	11.0%	--	3.6%	--
<i>Sq. Pharmaceuticals</i>	<i>22,363</i>	<i>21,088</i>	<i>7,528</i>	<i>7,550</i>
Growth	6.0%	--	-0.3%	--
<i>Sq. Formulations</i>	<i>7,210</i>	<i>5,554</i>	<i>2,324</i>	<i>1,959</i>
Growth	29.8%	--	18.6%	--
<b>Gross Profit</b>	<b>14,935</b>	<b>13,571</b>	<b>4,861</b>	<b>4,713</b>
Margin	50.5%	50.9%	49.3%	49.6%
Growth	10.0%	--	3.2%	--
<b>Operating Profit</b>	<b>9,820</b>	<b>9,189</b>	<b>3,330</b>	<b>3,446</b>
Margin	33.2%	34.5%	33.8%	36.2%
Growth	6.9%	--	-3.4%	--
<b>Net Profit</b>	<b>8,850</b>	<b>7,817</b>	<b>2,979</b>	<b>2,934</b>
Margin	29.9%	29.3%	30.2%	30.9%
Growth	13.2%	--	1.5%	--

- Consolidated turnover of the Company has increased by 11% in the Jul-Mar of 2017-18 over the same period of last year due to increased contribution from the subsidiary. The subsidiary's turnover has increased by 30% in the period than that of last year where the pharma business grew by 6% in the reported period.
- Gross profit margin has slightly decreased due to increased factory overhead cost and depreciation of BDT against USD.
- Net profit has increased by 13.2% in the Jul-Mar of 2017-18 over the same period of last year because of increase in other income (bank interest, dividend and commission received) and contribution of profit from associates. Profit from associates increased by 27.80% in the period than that of last year.



**Pricing Based on Relative Valuation:**

	Multiple	Value (BDT)
Peer Forward P/E	21.7	348.4
Peer Trailing P/E	25.1	362.6
Sector Forward P/E	17.8	285.8
Sector Trailing P/E	19.6	282.6

Note: BXPHARMA, IBNSINA, RENATA and ACME LAB have been considered as the peer group for comparison.

**Concluding Remark**

Square Pharmaceuticals Ltd. is a leading business house in the country. Financial performance over the years reflected its strong fundamental base in operation as well as seasoned management. In line with its steady business growth, it was also able to maintain stable profit margins over the years. Many of its brands remain consistent leaders in their respective therapeutic categories. The Company's continuous effort for BMRE and expansion program will drive strong growth in future.

Source: Annual Reports, The Company's Website, DSE website, DGDA, the Financial Express, the Daily Star and ILSL Research

**ILSL Research Team:**

Name	Designation
Rezwana Nasreen	Head of Research
Towhidul Islam	Sr. Research Analyst
Mumitul Islam	Executive - Research

To access research through *Bloomberg* use <ILSL>  
ILSL research is also available on *Thomson Reuters* products and on *FactSet* platform

For any Queries: [research@ilsibd.com](mailto:research@ilsibd.com)

**Disclaimer:** This document has been prepared by International Leasing Securities Limited (ILSL) for information only of its clients on the basis of the publicly available information in the market and own research. This document has been prepared for information purpose only and does not solicit any action based on the material contained herein and should not be construed as an offer or solicitation to buy or sell or subscribe to any security. Neither ILSL nor any of its directors, shareholders, member of the management or employee represents or warrants expressly or impliedly that the information or data of the sources used in the documents are genuine, accurate, complete, authentic and correct. However all reasonable care has been taken to ensure the accuracy of the contents of this document. ILSL will not take any responsibility for any decisions made by investors based on the information herein.