

Company Overview

Square Pharmaceuticals Limited (SPL), the flagship company, 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 17% of market share (Source: IQVIA Data 2018).

As per annual report 2017-18, the Company had 847 presentations (consist of 664 pharma, 129 agrovet, 32 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) has merged with Square Pharmaceuticals Ltd. with effect from January 01, 2019, which was a 99.50% owned subsidiary, commenced its commercial production from 1st April 2014. The Company is engaged in manufacturing and marketing of generic pharmaceuticals products.

Square Pharmaceuticals Kenya EPZ Ltd. (fully owned) is a subsidiary of SPL incorporated on 7th June 2017 at Nairobi, Kenya. The Company is registered for manufacturing, marketing and distribution of pharmaceuticals products. Commercial operation is expected to begin from the first quarter of 2020.

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).

Capacity & Utilization of SPL:

	2014-15	2015-16	2016-17	2017-18
Capacity				
Tablets (PCS in mn)	10,547	11,279	10,283	7,887
Capsules (PCS in mn)	2,228	2,211	1,253	1,205
Capacity Utilization				
Tablets (PCS)	52%	59%	48%	58%
Capsules (PCS)	63%	54%	40%	42%

Operations of Chemical Plant:

	2014-15	2015-16	2016-17	2017-18
No. of Products	22	22	22	22
Production (MT)	624	768	627	761
Own Use*	73.9%	61.3%	42.3%	38.3%
Revenue (BDT mn)	239	122	420	512

*The change in own usage tonnage is due to variation in product mix according to marketing and value addition strategies.

Revenue & Growth:

Particulars	(BDT mn)	Growth		Contribution
	2017-18	2016-17	2017-18	2017-18
Sq. Pharmaceuticals	34,573	-0.9%	3.8%	75.3%
Local Sales	33,123	-1.8%	3.8%	95.8%
Export	1,451	23.0%	4.6%	4.2%
Sq. Formulations	11,314	90.6%	25.9%	24.7%

During the year 2017-18, the Company introduced 45 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.

Company Fundamentals

Market Cap (BDT mn)	179,026.6
Market weight	5.9%
Sector Weight	35.4%
No. of Share Outstanding (in mn)	789.0
Free-float Shares (Institute + Foreign + Public)	65.6%
Paid-up Capital (BDT mn)	7,890.1
3-month Average Turnover (BDT mn)	86.4
3-month Return	-8.8%
Current Price (BDT)	237.6
52-week price range (BDT)	225.9 - 284.6
Sector's Forward P/E	18.0

	2015-16	2016-17	2017-18	2018-19 (9M Ann.)
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Financial Information (BDT mn):

Sales	33,074	36,543	39,654	42,988
Gross Profit	15,991	18,268	19,564	21,463
Operating Profit	10,797	12,296	12,781	14,065
Profit After Tax	8,287	9,719	11,606	12,162
Assets	44,304	52,531	61,273	70,140
CAPEX	2,658	2,577	3,167	2,386
Long Term Debt	-	-	-	-
Short Term Debt	3	-	-	-
Equity	40,557	49,040	57,841	64,659

Margin:

Gross Profit	48.4%	50.0%	49.3%	49.9%
Operating Profit	32.6%	33.6%	32.2%	32.7%
Pretax Profit	33.0%	34.9%	37.7%	37.4%
Net Profit	25.1%	26.6%	29.3%	29.2%

Growth*:

Sales	--	10.5%	8.5%	8.4%
Gross Profit	--	14.2%	7.1%	9.7%
Operating Profit	--	13.9%	3.9%	10.0%
Net Profit	--	17.3%	19.4%	4.8%

Profitability:

ROA	20.8%	20.1%	20.4%	18.5%
ROE	23.1%	21.7%	21.7%	19.9%

Operating Efficiency Ratio:

Inventory Turnover	9.4	9.8	9.7	9.4
Receivable Turnover	29.7	20.6	20.8	26.8
A/C Payable Turnover	36.0	23.8	29.4	35.8
Cash Conversion Cycle	40.3	38.9	42.1	41.7
Total Asset Turnover	0.8	0.8	0.7	0.7
Fixed Asset Turnover	1.8	1.9	2.0	2.1

Leverage:

Debt Ratio	0.0%	0.0%	0.0%	0.0%
Debt-Equity	0.0%	0.0%	0.0%	0.0%
Int. Coverage	2.037	79.644	136.551	226.485

Dividend History

Dividend (C/B)%	40/10	35/7.5	36/7	-/-
Dividend Yield	0.4%	1.2%	1.2%	-/-
Dividend Payout	32.1%	24.3%	24.5%	-/-

Valuation:

Price/Earnings	20.3	17.5	16.1	14.9
Price/BV	4.6	3.8	3.2	2.9
EPS (BDT)	11.7	13.5	14.7	15.9
NAVPS (BDT)	51.4	62.2	73.3	81.9

*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.

Shareholding Structure

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

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Aug-19	34.43%	0.00%	10.04%	20.15%	35.38%
31-Dec-18	34.43%	0.00%	10.01%	17.80%	37.76%
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%

Directors Shares Holding as of June 2018

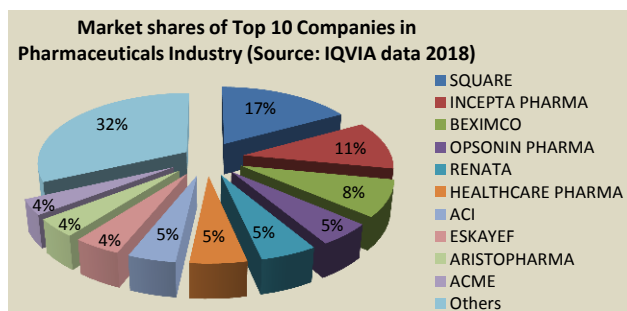
Name of Directors	Position	Shares Held (mn)	% of Total
Mr. Samuel S Chowdhury	Chairman	52.08	7.06%
Mrs. Ratna Patra	Vice Chairman	49.92	6.77%
Mr. Tapan Chowdhury	Managing Director	53.22	7.22%
Mr. Anjan Chowdhury	Director	53.89	7.31%
Mr. Kazi Iqbal Harun	Director	44.72	6.07%

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 1.83% of the total GDP. Currently, there are more than 439 registered pharmaceutical manufacturers in Bangladesh.

In 2018, the country's **domestic pharmaceutical market size** stood at BDT 205.12 billion with 15.6% compound annual growth rate (CAGR) for the last five years. On top of that, the sector is expected to grow at 15% year-on-year to reach \$5.11 billion by 2023, propelled by high investment by local companies as they seek to grab a bigger share of the global market.

According to IQVIA Report 2018, top 10 companies occupy almost 70% of the total **market share** and top 20 manufacturers grabbed 87.01% of total market.



Source: IQVIA Data 2018

Export is a promising but untapped segment for the country's pharmaceutical sector. According to Bangladesh Association of Pharmaceutical Industries (BAPI), approximately 1,200 pharmaceutical products received registration for export in the last two years. According to DGDA (Directorate General of Drug Administration), Bangladesh exports drugs to 199 countries. In 2018-19, the Country exported \$130 million pharmaceutical products which were 25.65% higher than that of 2017-18.

Growing per capita income, population growth, rise in life expectancy, changing disease profile, lifestyle change and rapid urbanization are the **key drivers** for boom in the domestic market consumption.

However, supply side of this industry mostly depends on import. Around 80% 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., Gonoshashtaya Pharmaceuticals Ltd, Sunipun Pharmaceuticals Ltd. etc. – produce certain APIs on smaller scale for mainly in-house use.

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.

A policy gazette titled “National Policy on API (Active Pharmaceutical Ingredients) and Laboratory Reagents production and Export” was passed in May 2018 to encourage local manufacture of APIs as a backward linkage to cater to the requirement of the domestic pharmaceutical formulations companies and to reduce dependence on import. The policy offers several fiscal and non-fiscal incentive measures including tax holidays, exemptions from Value Added Tax, 20% cash incentives for export, a liberal credit policy, priority in government procurement etc. among others.

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.

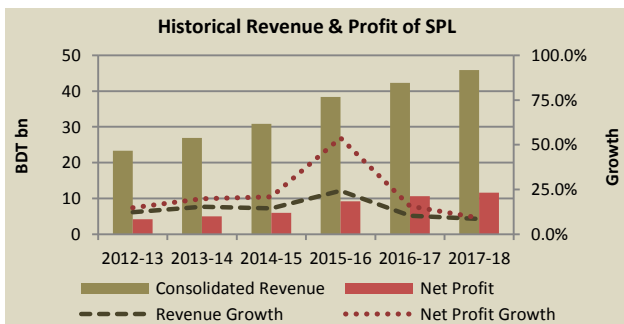
Investment Positives

- **Square Pharmaceuticals has been in operation in the pharma industry since 1964 and maintaining undisputed goodwill in both the local and international markets. The Company is leading the pharma market of Bangladesh since 1985 and currently holding around 17% of market share (Source: IQVIA Data 2018).**
- **Square Pharmaceuticals Kenya EPZ Ltd., a subsidiary of Square Pharmaceuticals Ltd (SPL), has started construction of its manufacturing plant at 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 plant is a benchmark for the Bangladeshi industry's achievements as SPL would be the first to build its own plant abroad.
 - **The initial total project cost for SPL Kenya plant is estimated at US\$ 17.00 million with a working capital requirement of USD 4.00 million.** Of this, US\$ 8.00 million is financing from equity for which Bangladesh Bank has already given permission and the balance is from debt financing.
 - **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.

- **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 spends about 8% of its GDP on health. (Source: Africa Business Pages)

- **The Company has exhibited a steady performance over the years. 5 year CAGR (Compound Annual Growth Rate) of the Company's revenue and profit after tax was 14.5% & 23.0% respectively.**



Square Formulations has started to contribute in full swing from 2015-16.

- **Square Formulation Ltd. (SFL) has merged with Square Pharmaceuticals Ltd. with effect from January 01, 2019.** Earlier it was a 99.50% owned subsidiary of Square Pharma. The merger will enable the Company to bring efficiency in operation and economies of scale which will have positive impact on the profitability of the Company. SFL has been posting a remarkable growth since its inception in April 2014. The revenue and net profit of SFL are shown in the following table:

Particulars (BDT mn)	2015-16	2016-17	2017-18
Gross Turnover of SFL	4,714	8,985	11,314
Turnover Growth	754%	91%	26%
Contribution to SPL's Turnover	12%	21%	25%
Gross Profit Margin	41%	47%	45%
Operating Profit Margin	21%	30%	29%
Net Profit Margin	16%	24%	22%

- 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
Square Textiles	269	248	227	117	135
Square Fashions	180	379	611	665	822
Square Hospitals	159	169	79	147	159
Total	608	795	916	929	1,115
Growth	31%	31%	15%	1%	20%
% of Consolidated Net Profit	14.3%	15.3%	10.0%	8.7%	9.6%

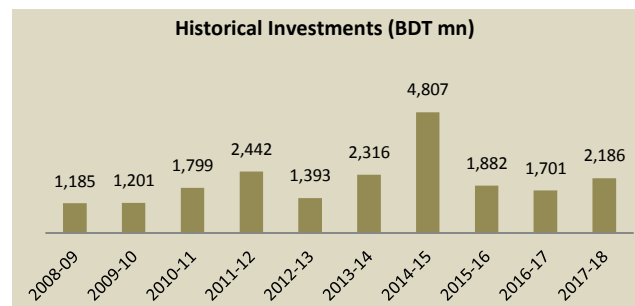
- **In 2017-18, consolidated gross profit & net profit margin was 49.3% & 29.3% respectively. The subsidiaries contribution has aided to maintain these outstanding profit margins for the consolidated business.** Meanwhile, the Company

(standalone) has been maintaining higher profit margins over the years compared to its competitors.

Company Name	Margin				
	Net Revenue	Gross Profit	Operating Profit	Pretax Profit	Net Profit
SQURPHARMA	30,005	48.0%	25.7%	36.1%	27.4%
BXPHERMA	17,717	46.8%	22.7%	19.0%	14.3%
ACMELAB	14,814	39.6%	21.3%	13.2%	9.6%
RENATA	18,604	50.2%	25.6%	23.3%	17.2%

Data has been derived from 2017-18 annual reports of respective company.

- Square Pharma has been investing a considerable amount as capital expenditure to upgrade its capacity, technological process, research and training. **The major part of the investments was made from internally generated funds. The Company has also approved BDT 2,000 million & BDT 2,020 million in October 2018 & 2017 respectively for BMRE, Capital Machineries and Lands for future expansion. In March 2019, the Company has decided to invest BDT 294.00 million from the available funds of the Company for the purpose of capacity increase at its factory locations at Mouchak and Shirirchala.**



- The Company has given a thrust for increasing the export volume. In 2017-18, export revenue has increased by 4.5% 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 April 2018, the Company received approval of first ANDA of Valsartan for US market and GMP approval of manufacturing facilities from NPRA, Malaysia.** 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, 2018, unaudited financials up to September 30, 2018.**

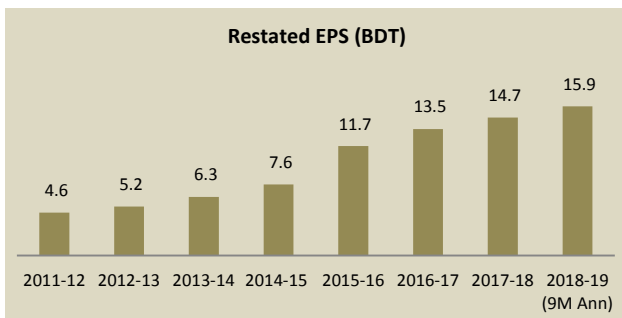
Investment Negatives

- **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 exchange movement may affect the profitability of the Company. However, cost of raw materials is expected to reduce considerably upon operational of the country's API Park.
- **The government has increased gas price by 38% in industry level with effect from July 2019.** This initiative will push up the factory overhead cost that will have a negative impact on the profit margins. In 2017-18, electricity & gas bill was 1.1% of consolidated turnover which was 0.95% in 2016-17.

Consolidated Latest Quarter Update - March 2019 (Q3)

Particulars (BDT mn)	Jul-Mar 2018-19	Jul-Mar 2017-18	Jan-Mar 2019	Jan-Mar 2018
Gross Turnover	37,306	34,248	12,563	11,386
Growth	8.9%	--	10.3%	--
Gross Profit	16,347	14,935	5,218	4,861
Margin	50.7%	50.5%	47.8%	49.3%
Growth	9.5%	--	7.3%	--
Operating Profit	10,549	9,820	3,494	3,330
Margin	32.7%	33.2%	32.0%	33.8%
Growth	7.4%	--	4.9%	--
Net Profit	9,421	8,850	3,112	2,979
Margin	29.2%	30.0%	28.5%	30.2%
Growth	6.4%	--	4.7%	--

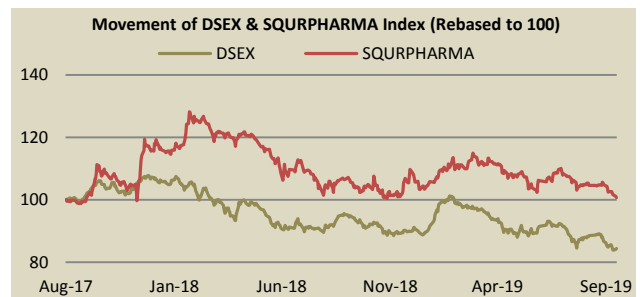
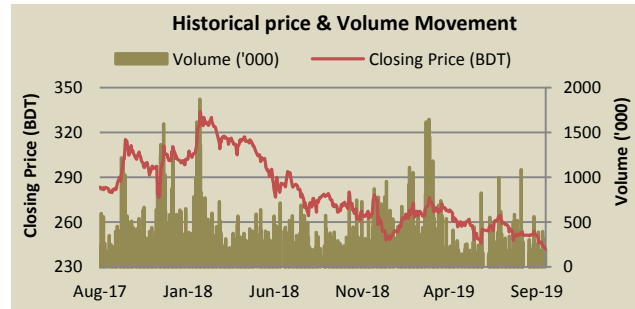
- Consolidated turnover of the Company has increased by 9% during the Jul-Mar of 2018-19 over the same period of last year. This was due to the increased contribution from Square Formulations Ltd. Square Formulations has merged with Square Pharmaceuticals Ltd. with effect from January 01, 2019.
- Operating profit margin has slightly decreased due to the increase in operating expenses to 18.0% in percentage of total sales during the period which was 17.3% over the same period of last year. Operating expenses increased due to the increase in salaries and allowances, marketing and promotional expenses, field staff salaries, allowances, TA and Da.
- Net profit margin has slightly decreased because of increase in operating expenses and lower contribution of profit from associates during the reported period over the same period of last year. Contribution of profit from associates was 6.5% of pre-tax profit during the reported period which was 6.8% than that of last year.


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Pricing Based on Relative Valuation:

	Multiple	Value (BDT)
Peer Forward P/E	18.7	297.8
Sector Forward P/E	18.0	286.7

Note: BXPHERMA, 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

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