



## **Beximco Pharma**

Published on SumZero 10/12/2017

A growing, emerging markets pharma company in Bangladesh, Beximco is listed both in Dakha and London - with a 60% discount on its GDR trading in London versus its stock trading in Dakha

### **Executive summary**

- A growing generic pharmaceuticals company operating in Bangladesh.
- Slowly building an international sales channel that may create a long runway for future growth utilizing one of its core strengths: it is a low cost producer - thanks to its location in a country with low labor costs.
- Dual stock listing: in Bangladesh on the local Dhaka and Chittagong Stock Exchanges and in the U.K on London's AIM Exchange (in the form of a no vote rights GDR).
- At current levels there is a 60% discount between Beximco's stock trading in Bangladesh at a P/E of 20 compared to the GDR which trades at a P/E of 12.
- The opportunity combines emerging market growth exposure with the benefit of valuation differences in the stock exchanges.

N.B. The local currency is the Bangladeshi Taka (BDT), and in all figures mentioned in this article, 1 GBP = 110.9 BDT

### **Company Overview**

Founded in 1976, Beximco Pharma is one of Bangladesh's largest generic pharma companies (Beximco is an acronym for Bangladesh Export Import Company Limited). It is estimated to supply more than 10% of the medicinal market needs of Bangladesh's population of 163 million. From Beximco's web site: "Beximco Pharma currently produces more than 300 generic medicines which are available in well over 500 different presentations and the broad portfolio encompasses all

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key therapeutic categories including antibiotics, analgesics, anti-diabetic, respiratory, cardiovascular, central nervous system, dermatology, gastrointestinal etc.”

93% of products are sold to the local Bangladeshi market while 7% are sold abroad, including to the US and Canada, ever since Beximco became the first Bangladeshi company to receive U.S. FDA approval in 2016.

The company is part of the Beximco conglomerate, Bangladesh's largest conglomerate owned by the Rahman brothers who serve on the board as Chairman and Vice Chairman. Beximco is also part of the DS30 Index, which includes Bangladesh's 30 largest companies.

### **Company time line**

1976-Beximco Pharma was established.

1980- Production of first products begins.

1985- IPO on the Dhaka Stock Exchange.

2005- IPO on the AIM in London in the form of a GDR - 22% of the shares are listed in London.

2015- The company receives U.S. FDA approval for one of its products and thus becomes the first Bangladeshi company to begin export to the U.S.

### **Management and ownership**

Beximco was founded by two brothers, Salman and Sohil Rahman, following the confiscation of their family business by the government during the political turmoil in Pakistan in the early seventies. Today the brothers own 4.07% directly and other insiders own 9.12%, which equals 13.19% inside ownership.

Foreign investors hold 45.45% of the shares.

In the last fiscal year there were almost 63,000 stock holders (!), and as many as 7,000 people attend recent AGMs. Beximco appears to be a popular stock in its home country and in a way, it reminds us in Israel of Teva in the nineties, when it was dubbed “the people’s stock.”

In the fiscal year that ended on June 2017, management was compensated roughly 254M BDT (2.22M £) which is 1.6% of revenue.

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## The same company, different markets

The following table describes the different valuation metrics for Beximco in London and Dakha:

	Bangladesh	UK	Δ
Price GBP	£ 395,797,845	£ 245,360,000	61%
P/B (30.09.2017)	1.8	1.1	
P/E (30.06.2017)	20	12	
P/S (30.06.2017)	2.8	1.8	
EV	£ 432,673,336	£ 282,235,491	
EV/EBIT (30.06.2017)	13.9	9.1	
Price BDT	43,893,981,100	27,210,424,000	61%
GBP/BDT	110.9		

As implied by the table, the stock is 61% more “expensive” in Bangladesh than in the U.K.

## Financials

Before going in to the financials, I would mention that in late 2016, the company changed its fiscal year end from 31.12 to 30.06, following the direction of the Bangladesh Securities and Exchange Commission (BSEC) to facilitate the adoption of the reporting period from July to June. That created some “noise” in the financials, and makes it harder to compare apples to apples.

A few more details:

- For the fiscal year which ended on June 2017, sales were 15.5B BDT (140M£)
- For the first quarter of 2018 (30/09/2017), book value was 25.7B BDT (231.5M£)
- For the first quarter of 2018 (30/09/2017), net debt was 4.089B BDT (36.82M£)

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Parameter (000€) / Year	30/06/2017	31/12/2015	2014	2013	2012	2011	2010	2009	2008	CAGR
Net Sales Revenue	£ 139,845	£ 116,912	£ 101,054	£ 94,596	£ 83,761	£ 71,147	£ 58,529	£ 43,898	£ 36,160	15%
Gross Profit	£ 64,787	£ 54,106	£ 46,025	£ 43,632	£ 39,580	£ 34,144	£ 28,613	£ 20,758	£ 18,100	14%
Profit from Operations	£ 31,093	£ 25,710	£ 21,805	£ 20,958	£ 19,909	£ 17,930	£ 14,750	£ 9,029	£ 9,006	14%
Profit after Tax for the Year	£ 20,078	£ 17,622	£ 13,781	£ 12,667	£ 11,897	£ 10,807	£ 9,483	£ 5,633	£ 4,917	16%
Shareholders' Equity	£ 226,081	£ 207,930	£ 202,693	£ 188,640	£ 178,319	£ 165,989	£ 154,447	£ 144,040	£ 98,158	9%
Net Cash Generated from Operating Activities	£ 23,751	£ 16,548	£ 19,995	£ 19,209	£ 16,748	£ 14,216	£ 12,193	£ 4,697	£ 7,942	12%
Acquisition of Property, Plant and Equipment + Intangible Assets	£ 28,182	£ 23,168	£ 25,565	£ 24,927	£ 9,911	£ 10,894	£ 23,820	£ 10,405	£ 10,644	11%

Parameter / Year	30/06/2017	31/12/2015	2014	2013	2012	2011	2010	2009	2008	CAGR
Increase (Decrease) in Sales		16%	7%	13%	18%	22%	33%	21%		15%
Increase (Decrease) Book value	9%	7%	6%	7%	7%	7%	47%	4%		16%
Gross profit Margin	46%	46%	46%	46%	47%	48%	49%	47%		
Operating Margin	22%	22%	22%	22%	24%	25%	25%	21%		
Net Margin	14.4%	15.1%	13.6%	13.4%	14.2%	15.2%	16.2%	12.8%		
ROE	8.9%	8.7%	7.3%	7.1%	7.2%	7.0%	6.6%	5.7%		
ROA	6.5%	6.3%	5.3%	5.1%	5.4%	5.2%	4.9%	3.1%		
L/E	0.36	0.37	0.39	0.39	0.34	0.34	0.34	0.83		
Current ratio	2.68	1.73	1.78	2.03	2.67	2.70	2.46	2.98		

Fundamentally we see a strong trend line, with sales growing at a rate of 15% CAGR for a decade and growth trickling down to all levels of the P&L displaying healthy and profitable growth. In addition, book value grew at a rate of 9.2% while increasing dividend payment to share holders. We think it is safe to say that in the last decade, Beximco Pharma has increased its intrinsic value. We also believe that the next 10 years have strong potential to look very similar to the last 10 years. A few notes:

1. Inflation in Bangladesh was around 7% annually the last decade so one must adjust growth figures to inflation.
2. We have not included EPS data in the table; besides cash dividends, Beximco annually distributes a share bonus dividend among all existing shareholders (5% of shares every year the last few years) so while the number of shares grew, there was no dilution to existing shareholders.

## Competition

Generic pharma is a large industry in Bangladesh according to a study done in 2014. The local industry supplies 97% of the local market needs. There are approximately 300 pharmaceutical companies operating in Bangladesh, 30 of which are also exporters.

Beximco is the third largest, with a market share of 8.82%. Following them is Square Pharmaceuticals (a public company ticker DSE:SQURPHAMA) and Incepta Pharma.

It is a robust and competitive market, so it is logical to assume consolidation over the long run for the industry. In fact in October, Beximco announced an acquisition of a local pharma company specializing in hormones and steroid drugs.

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## Other matters

The local Bangladeshi economy is estimated to display a GDP of \$246B in 2017 and a GDP growth rate of 7.28%. GDP per capita stands at \$1,602.

The population is 163 million strong, with a median age in 2015 of 25.6 years old.

Thus, the country is poor but developing, and with its youth, there is much room for growth. Given its potential, Bangladesh was included in Goldman Sachs' "Next Eleven," a list of countries with potential to become strong economies in the 21st century.

### **Valuation: A pricing gap while increasing intrinsic value**

In analyzing Beximco, we are faced with a case where essentially the same asset is priced at a P/E of 20 in its home country and priced at a P/E of 12 in a foreign market. We don't have strong views whether "the appropriate" multiple is 12 or 20, although we would argue that 12 is on the low side considering Beximco's track record, potential long runway and strong local macro back wings in its local country.

We view the main parameter in this investment as the gap between the price in Dakha and London. While a discount in London is appropriate, since the GDR does not hold voting rights and a non-Bangladeshi investor will be exposed to exchange rates of the BDT while owning the stock, still, 60%+ appears to us not financially reasonable.

At a current market cap of 396M£ in Dakha and a more reasonable discount for the GDR of 15% we arrive to a value of 344M£ in London; divided by 405.5M shares we arrive to a target price of 0.85£ compared to a current share price of 0.62£. A price representing 37% margin of safety.

While 37% MOS for some investors is borderline, we would like to note that we believe that there is a strong probability that the last decade of growth, fundamental advancement and building of intrinsic value will likely continue into the foreseeable future and we regard this holding as a long term holding (We have been stock holders for close to 3 years now).

An elegant aspect of holding Beximco shares is the possibility that the 60% gap may not close - or may close in the distant future but the company will continue to grow intrinsic value at a 14% annual rate, which will reflect in the trading price of the stock, and the patient share holder will benefit from waiting (not to mention from receiving cash and bonus shares dividend).

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### **Potential catalysts**

- A stronger international presence followed by growing investor awareness of the opportunity
- M&A and consolidation in Beximco's local market creating larger entities (which will make further generic international expansion easier).

### **Risks**

- Currency risk: this is an emerging market company and investment, so by owning Beximco Pharma, an investor exposes himself to the local currency, the BDT, and its volatility.
- Political risk: while Bangladesh is officially a multi-party representational democracy, the norms which govern the rule of law and property rights might look different than those of developed countries. In 2006-2008, for instance, there was a violent political crisis which led to military intervention in the political system.
- Local competition and international growth implementation risk: the aspiration to grow internationally was disclosed in 2005 during the IPO in London. Results so far have been mediocre. Beximco may never increase its international presence successfully and may just operate in a local market - which will become more competitive in the future.
- Permanent gap risk: the 61% gap between the stock price in London and Dakha may never be closed.
- Deteriorating fundamentals and/or business results: if the future growth rate would fall or market share be lost to competitors, then "Mr Market" in Bangladesh could decide to re-price the company and assign a lower multiple to the company. The price in London would follow, maintaining a 60% gap (or even a larger gap).

### **Conclusion**

We believe that Beximco offers an interesting, a-symmetrical, favorable investment opportunity with both exposure to an emerging market and a difference of prices between stocks in Dakha and London.

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