

Phibro Animal Health

Steady F2Q despite geopolitical noise as Animal Health momentum carries on

Reiterate Rating: UNDERPERFORM | PO: 11.00 USD | Price: 10.67 USD

Solid F2Q result, non-GAAP guidance reiterated

Phibro Animal Health (PAHC) reported F2Q results yesterday after market close and held its earnings call this morning. Key points from the print include: Sales of \$250mn (+2% y/y) vs BofAe \$243mn, & Adj EPS of 33c vs BofAe 27c. FY24 sales, Adj EBITDA, and Adj EPS guidance reiterated, while GAAP net income and EPS guide were trimmed on non-operating items (discrete tax charges, F/X). See our [First Look](#) for further detail.

Animal Health remains strong, other segments to improve

The call focused largely on end-market conditions. Mgmt. struck a generally constructive tone across species and segments. PAHC expects continued momentum in the Animal Health (AH) business, as well as a “significant” improvement in Mineral Nutrition and Performance Products in F2H24. Within AH, Vaccines (+31% y/y) continue to perform particularly well, with mgmt. attributing the strength in part to new product traction in Latin American poultry as well as an uptick in US sales. PAHC sees underlying demand from protein producers as broadly positive, citing normalizing buying patterns and declining feed costs. While profitability and mix remain issues, PAHC’s AH division continues to post impressive growth relative to the broader livestock space. Outside of Animal Health, mgmt. anticipates improved volumes and healthier channel inventory dynamics will support the 2H rebound in Mineral Nutrition and Performance Products.

Phibro navigating macro, geopolitical challenges

Mgmt. also spoke to their view of the impact from various geopolitical challenges. Without quantifying the impact, PAHC acknowledged incurring extra costs relating to its sites in Israel, though it expects them to continue to be able to fulfill orders. Although PAHC booked a GAAP charge in F2Q tied to the devaluation of the Argentine Peso, mgmt. sees steady activity in the country based on prior bouts of currency volatility.

Tweak Estimates; Reiterate Underperform

There were few surprises in F2Q results or the guidance update. We make modest tweaks to our forecasts; our PO remains \$11 (still 10x BofAe CY24 EPS). We reiterate our Underperform rating as we still see substantial time and investment as being necessary in bridging the gaps in growth and profitability between PAHC and AH peers.

Estimates (Jun) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.31	1.21	1.10	1.20	1.30
GAAP EPS	1.21	0.81	0.37	0.75	0.84
EPS Change (YoY)	3.1%	-7.6%	-9.1%	9.1%	8.3%
Consensus EPS (Bloomberg)			1.07	1.21	1.39
DPS	0.48	0.48	0.48	0.48	0.48
Valuation (Jun)					
P/E	8.1x	8.8x	9.7x	8.9x	8.2x
GAAP P/E	8.8x	13.2x	28.8x	14.2x	12.7x
Dividend Yield	4.5%	4.5%	4.5%	4.5%	4.5%
EV / EBITDA*	6.7x	6.6x	6.8x	6.5x	6.3x
Free Cash Flow Yield*	-1.2%	-8.9%	-3.3%	-0.4%	-0.2%

* For full definitions of *IQmethod*SM measures, see page 4.

08 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2026E Rev (m)	NA	1,100.0
2026E EPS	NA	1.30

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Stock Data

Price	10.67 USD
Price Objective	11.00 USD
Date Established	9-Nov-2023
Investment Opinion	B-3-7
52-Week Range	9.40 USD - 16.52 USD
Mrkt Val (mn) / Shares Out (mn)	432 USD / 40.5
Free Float	99.5%
Average Daily Value (mn)	1.40 USD
BofA Ticker / Exchange	PAHC / NAS
Bloomberg / Reuters	PAHC US / PAHC.OQ
ROE (2024E)	20.0%
Net Dbt to Eqty (Jun-2023A)	139.3%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 08 February 2024 01:59PM EST

iQprofileSM Phibro Animal Health

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	8.2%	6.8%	6.9%	8.5%	8.6%
Return on Equity	21.2%	18.0%	20.0%	29.0%	28.4%
Operating Margin	9.3%	9.1%	8.1%	8.2%	8.3%
Free Cash Flow	(5)	(38)	(14)	(2)	(1)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.6x	0.3x	0.6x	0.8x	0.8x
Asset Replacement Ratio	1.1x	1.5x	1.2x	1.2x	1.2x
Tax Rate	32.0%	39.7%	34.4%	28.0%	28.0%
Net Debt-to-Equity Ratio	130.2%	139.3%	289.9%	286.8%	253.9%
Interest Cover	7.4x	5.8x	4.4x	4.7x	5.1x

Income Statement Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	942	978	1,000	1,045	1,100
% Change	13.1%	3.8%	2.3%	4.5%	5.3%
Gross Profit	292	305	309	325	346
% Change	5.2%	4.5%	1.4%	5.2%	6.3%
EBITDA	144	147	143	149	155
% Change	2.4%	2.0%	-2.8%	4.4%	4.1%
Net Interest & Other Income	(12)	(15)	(18)	(18)	(18)
Net Income (Adjusted)	53	49	45	49	53
% Change	3.6%	-7.9%	-9.0%	9.3%	7.8%

Free Cash Flow Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	49	33	15	30	34
Depreciation & Amortization	33	34	35	35	36
Change in Working Capital	(45)	(41)	(25)	(26)	(27)
Deferred Taxation Charge	(1)	(3)	0	0	0
Other Adjustments, Net	(5)	(9)	1	1	1
Capital Expenditure	(37)	(52)	(40)	(42)	(44)
Free Cash Flow	-5	-38	-14	-2	-1
% Change	NM	-613.3%	62.6%	88.8%	44.5%
Share / Issue Repurchase	(5)	5	0	0	0
Cost of Dividends Paid	(19)	(19)	(19)	(19)	(19)
Change in Debt	41	41	20	20	30

Balance Sheet Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	91	81	20	11	12
Trade Receivables	167	163	167	175	184
Other Current Assets	308	341	296	310	326
Property, Plant & Equipment	165	196	201	208	216
Other Non-Current Assets	200	190	194	203	214
Total Assets	932	971	879	906	952
Short-Term Debt	15	22	22	22	22
Other Current Liabilities	176	154	158	164	172
Long-Term Debt	418	453	473	483	493
Other Non-Current Liabilities	61	60	62	65	68
Total Liabilities	669	689	715	734	755
Total Equity	262	283	164	172	198
Total Equity & Liabilities	932	971	879	906	952

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Healthcare Technology & Distribution

Company Description

PAHC is a leading manufacturer of animal health products, concentrating on medicated feed additives, nutritional specialty products, and vaccines exclusively for production animals, primarily poultry, swine, cattle, and fish. Its 1,400 products prevent, control, and treat disease, enhancing the health, nutrition, and overall productivity of livestock.

Investment Rationale

As a pure play in production animal products, PAHC is poised to benefit from favorable demographic and industry trends. However, PAHC remains over-exposed to medicated feed additives (MFAs) which face pressure from increasing regulations in developed markets and changing consumer preference. While we are positive on PAHC efforts to transform the product portfolio, key growth segments still represent only a small portion of company revenues, and the company has few levers to drive outperformance.

Stock Data

Average Daily Volume 131,032

Quarterly Earnings Estimates

	2023	2024
Q1	0.21A	0.14A
Q2	0.34A	0.33A
Q3	0.29A	0.29E
Q4	0.38A	0.34E

Price objective basis & risk

Phibro Animal Health (PAHC)

Our \$11 PO is based on 10x our CY24E EPS estimate, a discount to the company's past five-year historical trading multiples. We believe this valuation is warranted given the headwinds from ongoing Coronavirus outbreak, inflation and macroeconomic / supply chain pressures, challenges facing the company's MFA business, challenges in the dairy markets, broadly choppy end-market conditions, and heavy investment planned by the company in coming years which limit operating leverage.

Upside risks to our PO are faster uptake of new products, improved operating leverage, acquisition of the company, improving market conditions, and accretive M&A. Downside risks are additional regulations, weather patterns, and disease outbreaks in production animals.

Analyst Certification

I, Michael Ryskin, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Avantor, Inc.	AVTR	AVTR US	Michael Ryskin
	Bruker Corporation	BRKR	BRKR US	Derik de Bruin
	Certara	CERT	CERT US	Michael Ryskin
	Charles River Laboratories	CRL	CRL US	Derik de Bruin
	Elanco Animal Health	ELAN	ELAN US	Michael Ryskin
	Exact Sciences	EXAS	EXAS US	Derik de Bruin
	Guardant Health	GH	GH US	Derik de Bruin
	ICON plc	ICLR	ICLR US	Derik de Bruin
	IQVIA Holdings Inc	IQV	IQV US	Derik de Bruin
	LabCorp	LH	LH US	Derik de Bruin
	Maravai	MRVI	MRVI US	Michael Ryskin
	Qiagen	QGEN	QGEN US	Derik de Bruin
	Qiagen N.V.	XQGNF	QIA GY	Derik de Bruin
	Quest Diagnostics	DGX	DGX US	Derik de Bruin
	Stevanato Group S.p.A.	STVN	STVN US	Derik de Bruin
	Thermo Fisher Scientific	TMO	TMO US	Derik de Bruin
	West Pharmaceutical Services	WST	WST US	Derik de Bruin
	Zoetis Inc.	ZTS	ZTS US	Michael Ryskin
NEUTRAL				
	10x Genomics, Inc.	TXG	TXG US	Michael Ryskin
	Agilent Technologies	A	A US	Derik de Bruin
	Danaher Corporation	DHR	DHR US	Michael Ryskin
	Evotec SE	EVO	EVO US	Michael Ryskin
	Hologic, Inc.	HOLX	HOLX US	Derik de Bruin
	IDEXX Laboratories	IDXX	IDXX US	Michael Ryskin
	Mettler-Toledo	MTD	MTD US	Derik de Bruin
	NeoGenomics Inc.	NEO	NEO US	Derik de Bruin
	Rewity Inc	RVTY	RVTY US	Derik de Bruin
	Schrodinger, Inc.	SDGR	SDGR US	Michael Ryskin
	Waters Corp.	WAT	WAT US	Derik de Bruin



US - Life Science, Diagnostic Tools and Animal Health Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM	Align Technology	ALGN	ALGN US	Michael Ryskin
	Fortrea	FTRE	FTRE US	Derik de Bruin
	Ginkgo Bioworks Holdings, Inc	DNA	DNA US	Derik de Bruin
	Illumina, Inc.	ILMN	ILMN US	Michael Ryskin
	Myriad Genetics	MYGN	MYGN US	Derik de Bruin
	Phibro Animal Health	PAHC	PAHC US	Michael Ryskin

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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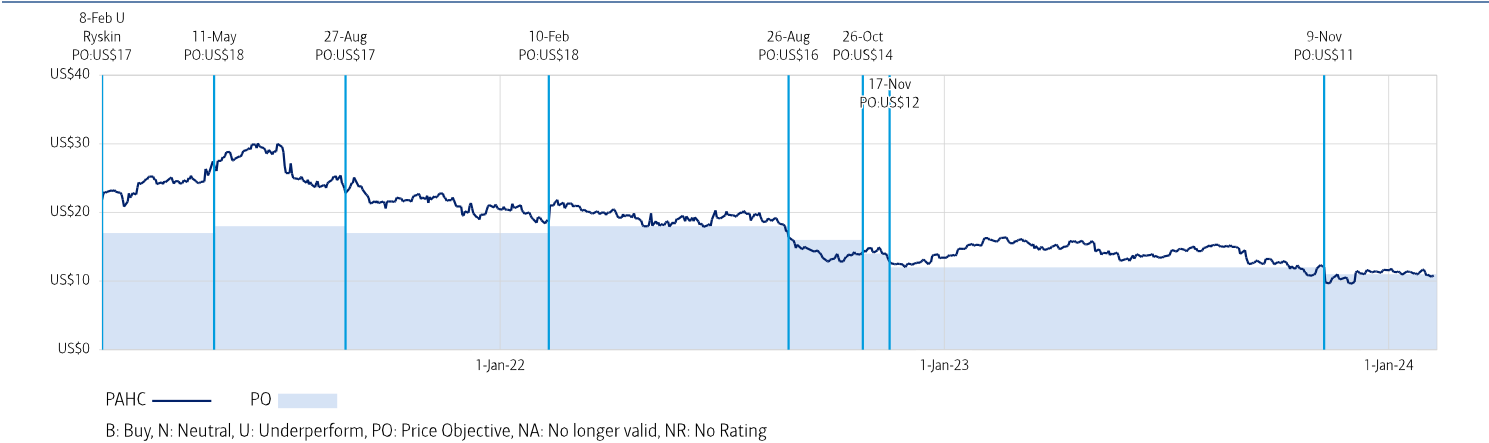
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Phibro Animal Health (PAHC) Price Chart



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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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