

Zoetis Inc.

ZTS - BUY - Reasons We Remain Positive on Shares Despite Potential Adverse Impact of Bird Flu on China Sales

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FLASH NOTE

SECTOR: Specialty Pharmaceuticals

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Although it is still too early to assess the financial impact of the bird flu in Asia, there are several things that keep us positive on ZTS shares (BUY, \$31.96) in light of the early, limited information we have on the Asian bird flu.

- Only 10% of Animal Health drugs in China are sold by multinational corporations like ZTS. The other 90% of the products are sold by local Chinese companies.
- In 2012, APAC sales were \$695MM and we estimate 9% (\$63MM) coming from China. We estimate that of this \$63MM of sales, 18% are from poultry which equates to only \$11MM. ZTS had \$4.3B of sales in 2012.
- Furthermore, ZTS continues to diversify its product portfolio in China and recently entered into a Joint Venture (JV) with Jilin Guoyuan Animal Health, which makes swine vaccine.
- Cycle time from an egg to the table is only 45 days so it does not take a long time to rebuild a flock.
- Producers outside of China will likely export poultry into China if the Chinese poultry market cannot support consumer demand.
- Consumers may start eating other types of meat if they cannot get enough poultry.

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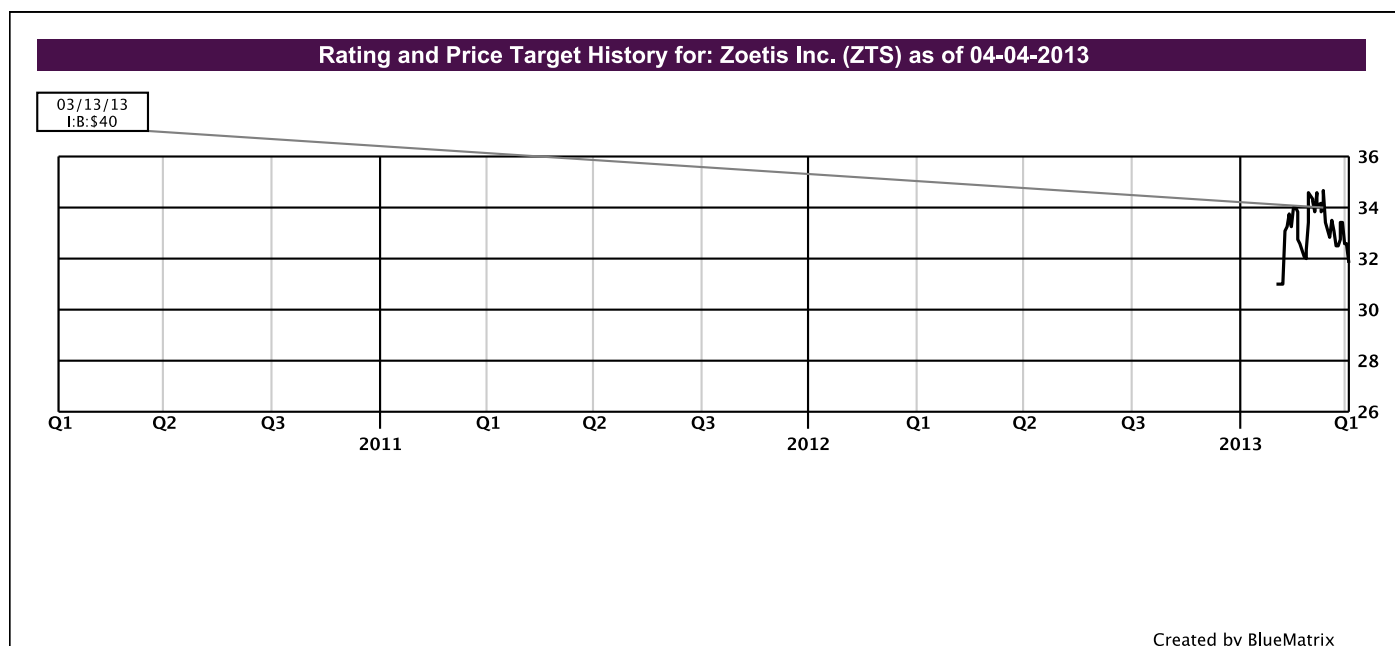
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