Launch Research Associate Program:
Sample Research

Finding Value in China

Research into Pfizer Inc. (PFE)

Benjamin Smith

Summary:

The following report uses a high-level top down approach to determine that Asian emerging markets (China, for purposes of this report) are primed for significant continued growth in coming years, despite recent market news/data indicating a slowdown. With this macro analysis serving as the backdrop, the research then drills down into one sector that is particularly poised for growth and relatively inelastic to general economic conditions: Healthcare. At this more detailed level of research the focus shifts to finding a deep value company with significant and growing operations in China.

The broader idea driving this value strategy is that bleak economic data on China is currently factored into the prices of companies doing business in China, causing them to be undervalued. This also creates limited downside risk in these equities, as the market has already set low expectations for performance in the region. Scenario analysis and modeling (with special consideration given to outcomes in China) provides an idea of these firms' true intrinsic value.

The investment strategies set forth in this abridged research report will add value to Wellington Management client portfolios in the following ways:

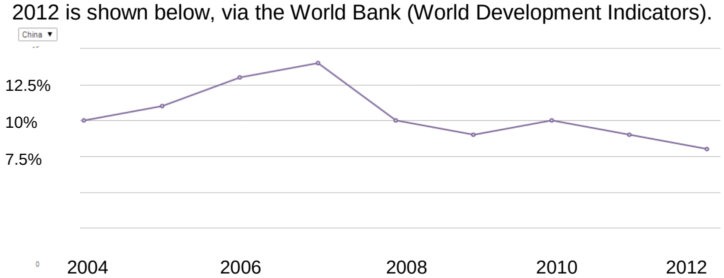
- Increased emerging market exposure; opportunity for high returns
- "First-Mover Advantage"; benefitting from China growth while the country is still an emerging market and underrepresented in portfolios
- Contrarian advantage: China growth underappreciated, PFE oversold/mispriced
- Relatively low-risk due to:
  - Steady, high-yield dividend returns (3.3%)
  - Multinational operations
  - Large market cap
  - Deep drug pipeline
  - Low relative price volatility
- Asymmetric Risk Profile minimal downside-risk and high upside potential
- A potential 15-40% share price appreciation

Key investment risks to consider are:

- Possible economic slowdown in China and other major emerging markets
- Increasing/difficult regulations on drugs in new markets
- Patent expirations and generic drug competition
- Potential drug failures/FDA non-approvals and/or lawsuits

Brief Macro Analysis:

China is big. As in 1.4 *billion* people big. While this population growth rate has leveled in recent years, the Chinese people aren't going anywhere. China's astronomical growth (in the population and economy alike) over the past 10 years has been no secret. The country has experienced GDP growth over 7.5% dating back to 2000. GDP growth in 2013 continued this trend, at 7.8%[1]. A graph of China's GDP growth rate from 2004 through 2012 is shown below, via the World Bank (World Development Indicators).



However, recent news and economic data coming out of China has hinted at an economic slowdown in the country. Weaker than expected retail data from January and February was released March 13th, causing investors to fear a decline in growth (despite *stronger* than expected data released in December 2013)[11]. Several investment banks and economists have downgraded their growth forecasts. This "downgrade" puts GDP estimates in the range of a conservative 7% to a more optimistic 8%[2]. It's important to note that even at its lower range, this GDP growth is one of the highest among emerging markets, and more than triple GDP growth estimates for the US.

The markets have clearly taken notice of these lower forecasts; the major US indices have drifted lower for each dose of "bad news" on China. When the March 13th retail data was released, for example, the SP 500, DJIA and NASDAQ each dropped significantly[3]. It appears that these reactions are overblown when contrary news/data supporting an economic turnaround is examined.

China's Premier Li Keqiang recently declared that he wants more open markets[4]. This reform promises, according to Keqiang, "Some government departments will find fewer powers in their own hands and in boosting market competition and easing market access, some existing companies will feel greater pressure. We will carry out reform without hesitation". In a similar move, the Central Bank of China has said it will allow the exchange rate of the RMB (to the USD and other currencies) to fluctuate more naturally based on market equilibrium[5]. This means more liquidity in the Chinese market, which can be expected to ignite growth. This will also have a direct effect on businesses and investments from a currency appreciation standpoint. These "under-the-market-radar" stories coming out of China give reasons to be optimistic about China and the healthcare sector in particular.

A simple observation of China's age distribution proves just how important the healthcare industry is to China and vice versa. This demographic is significant because it indicates, in the rawest form, the growing need for healthcare sector firms in China; with an enormous aging population and various health issues affecting billions. To put one figure in perspective: the number of cancer deaths in China per year is almost equal to the *total* number of deaths in the US overall[9].

The unprecedented smog problem in China, while relatively new and unstudied, also has many healthcare professionals and economists predicting a growing need for healthcare spending in the country[12]. A 2012 report from pharmaceutical and emerging markets analysts at McKinsey & Company projects that healthcare spending in China will grow to over $1 trillion by 2020 (almost triple its 2011 spending of $360 billion)[10].

Critics would point to the government's crackdown on corrupt practices among healthcare companies over the last 12 months as a reason why companies in China are a risky investment. Officials say some drug manufacturing firms have bribed doctors to write certain prescriptions for patients. While these risks need to be considered, a reciprocal theory can also be formulated: a government crackdown on corruption and new business regulations shows China's serious commitment to fostering fair and ethical business development[13].

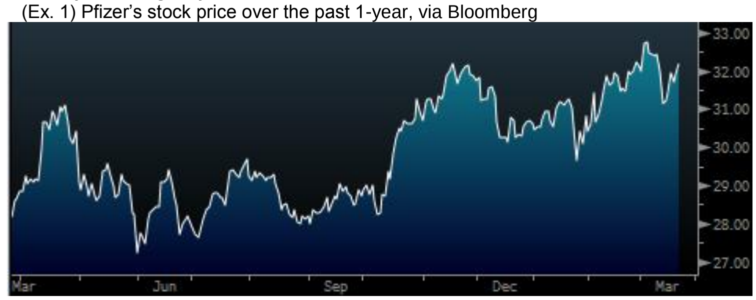
Equity Search:

Running an equity screen for high-value (low P/B and P/E ratio) large-cap firms in the healthcare sector yields a number of results. After further analyzing this list of firms and researching which companies are most heavily involved in China, Pfizer Inc. appears as a strong deep value investment opportunity.

Recommendation:

I recommend taking a long position in Pfizer Inc. (PFE), a major pharmaceuticals firm with patent rights on dozens of household name drugs. The stock is significantly undervalued at its current price of $31.30 per share due to overall bearish sentiment in the market, and also largely because of pessimistic global forecasts in emerging markets (China). Analysis reveals that negative data and news is priced into the stock, with little consideration of the alternative upsides. As the valuation will show, even assuming relatively conservative/weak performance over the next 3-5 years, the stock is still undervalued. With the market already holding such low expectations for Pfizer, its downside risk is limited while the upside potential is significant. While the majority of analyst ratings are between the hold to moderate buy range, this report contends PFE is currently a *strong* buy.

(Ex. 1) Pfizer's stock price over the past 1-year, via Bloomberg



Background:

Pfizer is one of the top 3 largest drug manufacturers by market cap on any given day ($204 billion), currently behind only Johnson & Johnson, Roche Holding AG, and Novartis AG. Revenue for the year ended 2013 was $51.5 billion; about a 13% decline over the prior year. Analysts project 2014 and 2015 revenue to dip slightly again to $49.9 billion and 49.4 billion respectively.

The company's stock currently trades at $31.23, with a P/E Ratio (ttm) of about 14x. PFE's Price/Book and EV/EBITDA multiples are 2.7x and 8.54x, respectively. Various company metrics from Bloomberg are presented below.

(Ex. 2)

Metric	PFE	Low	Comp Range	High
P/E Ratio	13.93	9.38		37.21
EV/T12M EBITDA	8.54	4.57		23.78
Gross Margin	81.42	51.82		83.08
Operating Margin	31.73	7.87		37.68
Total R&D Expendit...	6.68B	2.09B		10.01B

● PFE US ◆ Median

Pfizer reports its revenues split up by business segments, which include Primary Care, Specialty Care, Emerging Markets, Established Products, Consumer Healthcare, Oncology, and Other. As of the year ended 2013, Primary Care, Specialty Care, and Emerging Markets accounted for 25.73%, 25.76% and 19.8% of total revenues. In 2010 the breakdown was 34.4%, 22.15% and 12.77%, respectively.

Beginning in 2014, the company decided to restructure these units, and within a few years hopes to have the process complete. Each current unit will be allocated between three new groups: Innovative Products (in therapeutic areas that are expected to have market exclusivity beyond 2015), Innovative Products (focused on global operations), and Value Products (drugs which now have generic competition)[16]. Each of the three units will include business from developed and emerging markets.

Pfizer employs over 9,000 people in China, which is nearly 12% of its total full-time workforce. It has invested about $1 billion in the country since it first entered the developing market in 1980. With a footprint in more than 250 cities, and 4 state-of-the-art drug manufacturing facilities, the company clearly understands the potential that remains in China. The firm even has a special slogan for its business in China: "Working Together for a Healthier China".

With dozens of cancer and chronic illness drugs already on the market and more in the pipeline, Pfizer is poised to meet the healthcare needs of Chinese citizens. The firm has a significant comparative advantage over its peers due to its size, experience in the region, and growing relations with strong domestic Chinese companies (full SWOT analysis has been considered outside this report). Morningstar Direct rates Pfizer as having a "wide" economic moat due to its patents and pipeline.

Investment Thesis:

Pfizer Inc. is severely undervalued by about 15-40% vs. industry peers. The market has disregarded this undervaluation and oversold Pfizer due to recent weak economic forecasts from China and fear of generic competition (because of Pfizer patent expirations). Corruption investigations in China have also struck fear in investors, holding back Pfizer's price. Additionally, the company split-off of its Animal Health business unit in 2013 (now Zoetis, ZTS) which made revenue appear artificially low if not adjusted for. Each of these "headline" stories has buried news about Pfizer's strong sales and exciting new products. When these scenarios turn out better than expected, PFE will realize its upside potential.

Catalysts for Share Appreciation:

The key driver in the short-term (next 12 months) for Pfizer is its product pipeline and drug sales. As of February 28th, 2014, the company had a total of 82 R&D programs ongoing, with 50 at Stage 2 or above. In the Q4 2013 earnings call, CEO Ian Read described the best performing areas during Q4 2013. With 9% growth in the emerging markets unit during Q4, the company saw strong sales increases in Lyrica, Celebrex, and Enbrel, growing 14%, 9% and 8%, respectively. The patent protection on Lyrica, one of Pfizer's top performers, is safe until 2019, and unlikely to see much pricing pressure from generics until that time. Celebrex, on the other hand, will have its patent expire within months. However, it's important to also consider the competition's impending expirations, such as Bristol-Myers Squibb's Ablify (October 2014) and AstraZeneca's Nexium (May 2014) to name a few[15]. Pfizer's newer product launches also saw enormous success and momentum, as described in the January earnings call[6]. On March 20th, Pfizer announced that the FDA granted one of its new products, Bivalent rLP2086, the Breakthrough Therapy designation, which is meant to expedite the development and review of potentially breakthrough drugs. Aside from its current drug development, with the split-off of the Animal Health unit Pfizer expects to actually benefit in the longer term by refocusing its efforts on human healthcare products.

Another catalyst for growth is Pfizer's partnerships with other firms, which can be expected to have a synergistic effect and make R&D more efficient on these projects. One such partnership is with rival pharmaceutical firm Merck & Co., Inc., with whom Pfizer has teamed up with to pool resources and develop a new drug to treat Type II diabetes[7]. Since this news broke in April 2013, shares have only seen about a 4% appreciation. The project is currently in Phase III, with results expected to be presented at a medical conference later in 2014.[6] While market skepticism is understandable, there appears to be an underestimation of the two healthcare giants working together, based on their respective valuations. Pfizer also has key partnerships with major industry players in China, discussed below. These partnerships and others generate greater potential for discovery and innovation than an individual pharmaceutical company working alone.

The third and most important catalyst is Pfizer's operations in emerging markets, especially China. As previously asserted in the macro analysis portion of this report, poor economic data on China has been putting downward pressure on the US markets. Pfizer and other drug manufacturers have been particularly impacted from China news because of difficulties with the drug approval process. Below is an excerpt from Pfizer's 2013 10-K outlining these issues:

"China's regulatory system is unique in many ways, and its drug development and registration requirements are not always consistent with international standards. As a result, it is not uncommon to see treatments entering the market in China two to five years after first marketing in the U.S. and Europe. There are three main contributing factors to this delay: (i) clinical trial authorization approval times that are five to 10 times longer than international standards and add greater than 12 months to development time…"

Additionally, in 2013 the Chinese government began investigating corruption cases in the industry which has caused some companies to slow their expansion efforts in the region[8]. Both situations have caused analysts and economists to cast doubt on the growth of pharmaceuticals in China[2]. Company management remains optimistic despite these setbacks, and has continued to see amazing growth in the region. During Pfizer's Q4 2013 earnings call on January 28, 2014 Ian Read, CEO, told investors:

"Revenue from all emerging markets increased 9% operationally in the fourth quarter with China growing approximately 19% operationally. If you exclude the portfolio of products whose rights were transferred to our joint venture in China with Hisun, in the fourth quarter we would have had operational revenue growth of 10% in our overall emerging markets business, 9% in the BRIC-MT markets and 27% in China compared with the year ago quarter" (Note: BRIC-MT is Brazil, Russia, India, China, Mexico, and Turkey)

Although this negative data is priced into Pfizer's shares, there is also an abundance of news and data to suggest China is heading towards new and helpful market reforms which will spur economic activity and make doing business in the country easier. Investigations by the government will subside as economic expansion and the public's health becomes primary focus. With increasing wealth among Chinese consumers, and a cultural shift into cities, the need for drugs will be greater than ever.

The increasing rate of sickness from pollution and an aging population is another factor that will keep current and new drugs in high demand. Heart disease, respiratory illnesses, and various cancers are China's top killers, with obesity related health issues on the rise. Pfizer has current and trial-stage drugs to treat each of these and more

Joint ventures such as the one mentioned above with Hisun, a leading Chinese pharmaceutical company, will help Pfizer not only operationally, but also politically. While in-depth geopolitical factors are beyond the scope of this report, they cannot be ignored when investing. Simply put, by teaming up with domestic Chinese firms, Pfizer may be able to build a stronger relationship with the Chinese government and consumers,

Pfizer isn't the only healthcare firm bullish on China. During Merck & Co. Inc.'s earnings call in February, President of Global Human Health, Adam Schechter, told analysts "Looking ahead, we expect the emerging markets, including China, to be growth drivers for us."

Valuation:

At its current share price of $31.23, PFE is trading at about 14x its prior-period (2013) earnings, and about 13.75x its consensus estimated earnings for 2014 (which the company has a track record of beating). This is despite the company trading at a 5-year historical average P/E ratio of 19x, and a pharmaceuticals industry 5-year average of 28x.

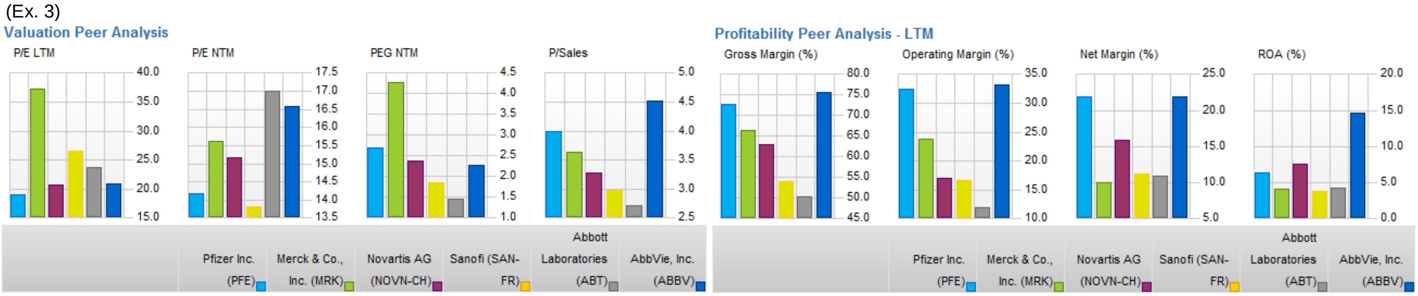
Current P/E = $31.23 / $2.22 = 14.07x

Implied Price, based on:	Prior year EPS ($2.22)	Projected EPS (2014) ($2.27)	Projected EPS, High ($2.31)	Projected EPS, Low ($2.20)
PFE 5-yr. avg. (19x)	$42.18	$43.13	$43.89	$41.80
Industry 5-yr. avg. (28x)	$62.16	$63.56	$64.68	$61.60

*data collected using I/B/E/S estimates

The above table reflects implied share prices at various P/E multiples and EPS levels (the high and low of analyst projections). These ratios suggest that Pfizer is not only undervalued in comparison to its peers, but also by its own historical standards. If PFE were trading at its 5-year average P/E multiple, the implied share price of $42.18 represents a 35% appreciation over the current price. If we assume PFE should be trading at a P/E multiple equivalent to its peers, its implied value is approximately double the current price. Refer to Exhibit 2 from above (Bloomberg) which shows Pfizer's valuation multiples and margins vs. the industry median.

(Ex. 3)



In the leftmost graph above from FactSet, Pfizer is clearly undervalued relative to a selection of its peers based on the provided ratios. Yet Pfizer's profitability performance (as shown on the rightmost graph) is on par with or even better than those competitors.

Taking this multiple analysis a step further and adjusting for Pfizer's R&D expenses results in an even lower P/E. High R&D expenses in growing companies tend to understate true earnings, thus overstating P/E. The adjustment calculation is shown to the right.

Price-to-Innovation Adjusted EPS = Share Price / EPS + R&D Expense per share

$31.23 / $2.22 + $0.0314 = 13.88x

Although this result is not drastically different from the other unadjusted P/E calculations and is difficult to compare across the industry, it allows an investor to account for a pharmaceutical company's growth potential and pipeline R&D without inflating the P/E.

Discounted Cash Flow Model with Scenario Analysis (Growth Assumptions):

Revenue % growth by business unit:	**Base Case**	**"Bear" Case**	**"Bull" Case**
Primary Care	Y1-2: -10% Y3+: 3%	Held constant	Held constant
Specialty Care	Y1: -3% Y2+: 2%	Held constant	Held constant
Emerging Markets	*Y1-2: 3% Y3+: 3.5%*	*Y1-2: -7% Y3+: 1%*	*Y1-2: 6% Y3+: 10%*
Established Products	Y1: -2% Y2+: 2%	Held constant	Held constant
Consumer Healthcare	Y1: -2% Y2+: 3%	Held constant	Held constant
Oncology	Y1: -5% Y2+: 2%	Held constant	Held constant
Other	Y1: -5% Y2+: 2%	Held constant	Held constant
Implied Share Price:	**$39.69**	**$37.62**	**$42.60**

Although Pfizer is restructuring its operations units, this DCF displays projections using the current segmentation for purposes of comparability and ease of understanding. It remains to be seen how exactly each "new" unit will perform and how revenues will be distributed.

This table illustrates the implied share price for three alternative scenarios of emerging market growth. In this example, all business unit revenue growth is held constant to a base case, and only the Emerging Market segment is adjusted. Revenue growth rates in the base case are determined from management and market analyst forecasts. Using a 2-stage growth model, each unit is assumed to experience one growth/decline rate in the first year or two, and then assumed to return to a constant growth rate thereafter. This assumption allows for a conservative economic forecast in the immediate future (2014-2015). Averaging the base, bear and bull case scenarios, the mean implied share price is $39.97; an approximately 28% appreciation over the current price of $31.30. A best case 1-year HPR can be calculated as:

HPR_{BC} = ($42.60 - $31.30 + $1.15 dividend) / $31.30 = **39.7% return**

The Cost of Equity for Pfizer is computed via the following assumptions:

Risk-free rate	3.3%, the yield on 20-year T-Bill at 3/25/14
Beta	.78, from Morningstar
Cost of Debt	4.15% (rf 3.3% + .85% spread on Fitch A+ rated debt)
Market Risk Premium	assumed 6.75%
Cost of Equity	CAPM = 8.565%

Additional assumptions:

- The Animal Health revenues are backed out of prior years for consistent comparison (unit split-off during 2013)
- 2.5% terminal growth/perpetuity rate is used in each scenario
- 2% constant growth in Net Working Capital
- 2% constant growth in Depreciation and Amortization
- A 10% increase in CapEx for the first 2 years, and a 6% increase thereafter
- Operating expenses as 60% of revenue (based on historical and management estimates from earnings call)
- Tax rate of 30%. Pfizer's past 5-year average effective rate is about 24% with a projected a 27% marginal rate for 2014.
- Interest Expense increases 10% in Y1 and Y4, and decreases by 3% during every other year (based on historical trends and management projections)
- Net Borrowing increases initially in Y1 (assuming more stock buybacks, R&D), and then decreases Y2-4 as the firm continues its policy of paying back debt. Then another increase in Y5 (assuming new project R&D, acquisitions, etc.)

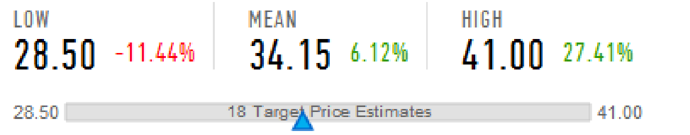
When accounting for a broader scope of scenarios and adjusting each individual unit growth accordingly, a wider range of implied prices is calculated. Below is a sensitivity table showing the model results of different WACC and/or perpetuity growth rate assumption (the most sensitive model in the model). The most likely range based on previous analysis is highlighted blue. Given the base case revenue growth projections, the "worst case" cost of equity and perpetuity rates imply a share price about 8% below the current price.

	Base:	***Perpetuity growth rate***					
	$40.34	*1%*	*1.5%*	*2%*	*2.5%*	*3%*	*4%*
Cost Of Equity	*6%*	$ 51.45	$ 55.74	$ 61.09	$ 67.98	$ 77.16	$ 109.29
	7%	$ 42.97	$ 45.74	$ 56.74	$ 53.12	$ 60.05	$ 73.41
	8%	$ 36.91	$ 38.81	$ 41.03	$ 43.66	$ 46.81	$ 55.46
	9%	$ 32.37	$ 33.74	$ 35.30	$ 37.10	$ 39.21	$ 44.68
	10%	$ 28.83	$ 29.85	$ 31.00	$ 32.30	$ 33.78	$ 37.49

As this model illustrates, Pfizer *can afford* to experience slower growth in China in the future, and is still undervalued even under those assumptions. If the model is adjusted to reflect moderate or high growth in China (as this report projects), the firm's intrinsic value is even greater. After considering Pfizer's valuation multiples, the results of various scenarios from the DCF model, and its sheer size and general financial health (cash rich, healthy margins, etc.), downside risk for PFE is low. A further decline below current prices appears unlikely, so the worst case scenario is a zero price appreciation up to about a 12% decline in price combined with an annual dividend yield of about 3.3%.

Price projections for PFE from various other equity research firms and analysts are shown to the right in Ex. 4 for reference (obtained from FactSet). These targets support the idea of an asymmetric risk profile for PFE, as the average price target still projects a 9% return.

(Ex. 4) %'s based on price of about $32.17. Adjusted %'s are -8.9%, 9.1%, and 31%



A worst case 1-year HPR can be calculated as:

HPR_{wc} = ($28.50 - $31.30 + $1.00 dividend) / $31.30 = **-5.75% return**

Risk Summary:

The key risks to consider, which have been discussed throughout this report, can be hedged/minimized through the following strategies:

Risk of Pfizer drug failures in the short term	consider a tiered buying strategy- present the least risk
Risk of competition from other firms	consider diversification into competing firms directly or through Healthcare/Pharma ETFs
Risk of China/emerging market economic weakness	maintain a globally diversified portfolio
Overall risk of Pharmaceutical underperformance	consider shorting Pfizer's more overvalued competitors
Overall risk of PFE stock underperformance	consider buying call options for PFE to eliminate downside risk altogether

DCF Model:

Revenue By Unit:	2010	2011	2012	2013	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*
Primary Care	23,328	22,670	15,558	13,272	11,945	10,750	11,073	11,405	11,747	12,100	12,463
% Change		-2.82%	-31.37%	-14.69%	-10.00%	-10.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Specialty Care	15,021	15,245	14,151	13,288	12,889	13,147	13,410	13,678	13,952	14,231	14,516
% Change		1.49%	-7.18%	-6.10%	-3.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Emerging Markets	8,662	9,295	9,960	10,215	10,521	10,837	11,216	11,609	12,015	12,436	12,871
% Change		7.31%	7.15%	2.56%	3.00%	3.00%	3.50%	3.50%	3.50%	3.50%	3.50%
Established Products	10,098	9,214	10,235	9,457	9,268	9,453	9,642	9,835	10,032	10,232	10,437
% Change		-8.75%	11.08%	-7.60%	-2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Consumer Healthcare	2,772	3,028	3,212	3,342	3,426	3,528	3,634	3,743	3,855	3,971	4,090
% Change		9.24%	6.08%	4.05%	2.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Oncology	1,414	1,323	1,310	1,646	1,564	1,595	1,627	1,659	1,693	1,726	1,761
% Change		-6.44%	-0.98%	25.65%	-5.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Animal Health	3,575	4,184	4,299	-	-	-	-	-	-	-	-
Other	2,940	300	231	364	346	353	360	367	374	382	389
% Change		-89.80%	-23.00%	57.58%	-5.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Total Revenues	67,810	65,259	58,956	51,584	49,959	49,664	50,962	52,297	53,669	55,078	56,527
Total less Animal Health (adj)	64,235	61,075	54,657	51,584	49,959	49,664	50,962	52,297	53,669	55,078	56,527
Total Revenue Growth	28.21%	-4.92%	-10.51%	-5.62%	-3.15%	-0.59%	2.61%	2.62%	2.62%	2.63%	2.63%
Operating Expense (adj)	43,740	41,559	35,418	28,170	29,975	29,798	30,577	31,378	32,201	33,047	33,916
Operating Income	20,496	19,516	19,239	23,414	19,983	19,866	20,385	20,919	21,467	22,031	22,611
Other/Special Income (exp)	(8,090)	(6,337)	(6,291)	(1,068)	(854)	(427)	(342)	171	205	246	295
EBIT	12,406	13,179	12,948	22,346	19,129	19,438	20,043	21,090	21,672	22,277	22,906
After tax EBIT (NOPAT)	8,684	9,225	9,063	15,642	13,390	13,607	14,030	14,763	15,171	15,594	16,034
Working Capital	31,859	29,659	32,796	32,878	33,536	34,206	34,890	35,588	36,300	37,026	37,766
Adjustments:											
+ Depreciation & Amort	8,487	9,026	7,611	6,410	6,538	6,669	6,802	6,938	7,077	7,219	7,363
- Change in NWC		(2,200)	3,137	82	658	671	684	698	712	726	741
- CapEx	1,510	1,660	1,330	1,470	1,617	1,779	1,885	1,999	2,118	2,246	2,380
FCFF	15,661	18,791	12,207	20,500	17,654	17,826	18,263	19,005	19,418	19,841	20,276
- (Int. Exp. x 1- Tax)	1,314	1,227	1,113	1,032	1,135	1,101	1,068	1,175	1,140	1,105	1,072
+ Net Borrowing	(4,152)	(5,542)	(1,725)	6,036	1,500	(2,500)	(2,000)	(1,750)	3,500	(5,000)	(2,000)
FCFE	10,195	12,022	9,370	25,504	18,019	14,225	15,195	16,080	21,778	13,736	17,204
										Terminal Value:	290,755
PV Factor					0.940	0.866	0.798	0.735	0.677	0.623	0.574
PV of FCFE					16,942	12,320	12,121	11,815	14,740	8,563	176,843

Terminal Value Multiplier	16.90	Implied Share Price at 3/25/14	$ 39.69	Perpetuity Rate	2.50%
Implied PV of Equity	$ 253,344	Current price undervalued by	26.81%	Tax Rate	30.00%
# shares outstanding	6,383			Cost of Equity	8.565%

Bibliography

[1] http://data.worldbank.org/country/china

[2] http://www.marketwatch.com/story/investment-banks-cut-china-growth-forecasts-2014-03-17-44853519

[3] http://finance.yahoo.com/echarts

[4] http://www.ft.com/cms/s/0/bd948148-5dfd-11e1-8c87-00144feabdc0.html#axzz2wLXg9XQJ

[5] http://www.reuters.com/article/2014/03/15/us-china-yuanband-idUSBREA2E07V20140315

[6] Q4 2013 Pfizer earnings call transcript (1/28/2014)

[7] http://www.businessweek.com/ap/2013-04-29/merck-pfizer-team-up-on-combination-diabetes-pill

[8] http://www.businessweek.com/articles/2013-11-14/2014-outlook-chinas-pharma-potential-diminished

[9] http://www.cdc.gov/globalhealth/countries/china/

[10] http://www.mckinsey.com/insights/health_systems_and_services/health_care_in_china_entering_uncharted_waters

[11] http://www.bloomberg.com/news/2014-03-13/u-s-stock-index-futures-rise-before-jobless-retail-data.html

[12] http://www.usatoday.com/story/news/world/2014/03/15/china-pollution-smoggiest-city/6072605/

[13] http://money.cnn.com/2013/08/15/news/china-corruption-novartis/

[14] http://finance.yahoo.com/news/merck-co-inc-ceo-discusses-165902574.html

[15] http://www.uspto.gov/patents/resources/terms/156.jsp

[16] http://www.pfizer.com/news/press-release/press-release-detail/pfizer_to_create_separate_internal_global_innovative_and_value_businesses

Other sources used: Bloomberg Terminal, Morningstar Direct, FactSet, Thomson Reuters Datastream, World Health Organization data, WorldBank data, Central Intelligence Agency data, Hong Kong Monetary Authority data, Central Bank of China data, Center for Disease Control data, FDA data