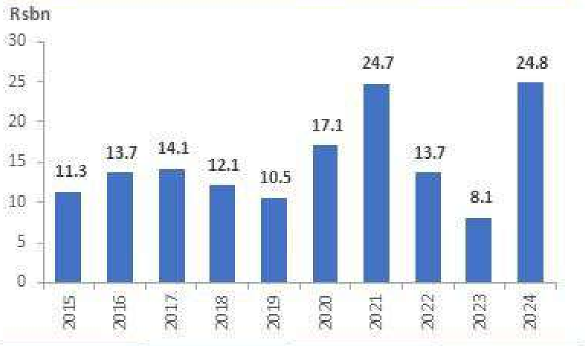
Sales grew 15%; Gross profit up 55%; Net Profit up 206% in 2024

Pakistan Listed Pharmaceuticals Companies: Income Statement

Rsmn	2024	2023	YoY
Net Sales	318,225	277,331	15%
Cost of sales	205,008	204,079	0%
Gross profit	**113,218**	**73,254**	**55%**
Selling & Distribution cost	50,902	44,562	14%
Administrative expenses	10,263	8,936	15%
Other operating Expense	4,463	4,964	-10%
Finance cost	8,001	7,899	1%
Other income	6,879	9,915	-31%
Profit before tax	**46,443**	**16,807**	**176%**
Tax	17,560	8,675	102%
Profit after tax	**24,850**	**8,134**	**206%**

Source: Company Accounts, Topline Research

Pakistan Listed Pharmaceuticals Companies: Profitability Trend



Source: Company Accounts, Topline Research

- Pakistan listed pharmaceuticals sector's earnings were up 3.1x to Rs24.8bn in calendar year 2024. This jump in profitability is primarily attributed to higher net sales and improved gross margins.
- Net sales increased by 15% YoY to Rs318bn in 2024, primarily driven by a increase in drug prices.
- To recall, in Feb-2024 the government approved the deregulation of non-essential drug prices, which allowed companies to increase prices without any cap as it was under previous drug policy to increase the prices of all other non-essential drugs by up to the full increase in CPI (with a cap of 10%). While prices of essential drugs are still capped with formula of up to 70% of the increase in CPI (with cap of 7%).
- Additionally, on Feb 6, 2024, Ministry of National Health Services, Regulations, and Coordination (NHSR&C) also approved an increase in prices of 146 essential drugs.
- These developments/price increases led to an improvement in gross margins, rising from 26% in 2023 to 36% in 2024. Additionally, the recent decline in raw material prices for many drugs and PKR appreciation further contributed to the increase in gross margins.
- Selling and administrative expenses increased by 14% and 15% respectively in 2024, which is in line with inflation trend.
- Finance cost of the sector also increased by 1% YoY to Rs8.0bn in 2024 from Rs7.9bn in 2023. This rise in finance cost, despite a decline in the average KIBOR (benchmark lending rate) from 21.6% in 2023 to 18.5% in 2024, is due to higher borrowings.
- **Outlook:** We believe that the deregulation of non-essential drugs will further enhance the margins of pharmaceutical companies, particularly those with a high proportion of non-essential products, as the full impact is yet to materialize in the coming quarters. Additionally, the recent decline in interest rates, along with the expected reduction in borrowings by a few companies, is likely to further support profitability in 2025.
- We prefer high-quality stocks with a higher non-essential product mix, leverage, strong gross margins, and attractive valuations. AGP Limited (AGP) and Searle Company (SEARL) are our preferred picks in the pharmaceutical sector. For more details, please refer to our detailed reports issued on both stocks on Dec 28, 2024, and on Mar 15, 2025, respectively.

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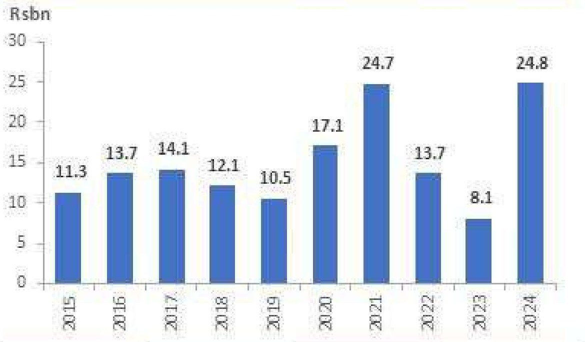

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