



Market Price: BDT 215.50 (August 30, 2021)

Intrinsic Value: BDT 302.70

Exchange Data Matrix (DSEX: SQRPHARMA)

| | |
|------------------------------|------------------------|
| Market Capitalization | BDT 191.03 B (3.8%) |
| Paid up Capital | BDT 10 B |
| Authorized Capital | BDT 8.9 B |
| No. of Shares | 887 M |
| Free Floating Shares | 580 M |
| Last 12 months avg. turnover | 145.6 M |
| 52 weeks price range | BDT 172.5 - 247.0 |
| Sector P/E | 20.7 |
| Market P/E | 18.24 |

SQRPHARMA at a Glance

Square Pharma is the largest pharmaceutical company in Bangladesh. It is one of the trusted names in the pharmaceutical industry. It is holding a strong leadership position in the industry.

- ❖ **Founded:** 1958
- ❖ **Founder:** Samson H Chowdhury (35 years of experience)
- ❖ **Chairman:** Samuel S Chowdhury (35 years of experience)
- ❖ **Managing Director:** Tapan Chowdhury (25 years of experience)
- ❖ **Revenue Generator:** Selling medicines, dividend income & interest income.
- ❖ **Market Status:** Leader (17% market share)

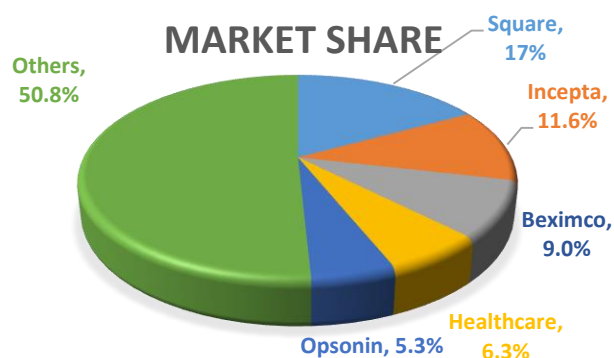
Global Pharmaceutical Industry

The pharmaceuticals market includes the sales of pharmaceutical products and related services. The global pharmaceutical industry size is around USD 1.25 Trillion. It is expected to reach USD 1.7 Trillion in 2025. Pfizer; F. Hoffmann-La Roche Ltd; Sanofi; Johnson & Johnson; Merck & Co; Novartis; GlaxoSmithKline; AbbVie; Takeda and Shanghai Pharmaceuticals Holding are the top 10 leading pharmaceuticals companies in the world. The pharmaceutical sector is one of the sectors that highly depend on Research and Development (R&D). Therefore, the companies

invest a portion of their revenues regularly in R&D. Due to the recent Corona pandemic, the investment of the pharmaceutical companies has increased a lot. The majority of the leading pharmaceutical companies invested in producing the vaccine. Some of them became very successful in it. Their investment in the vaccine-producing process is still on as the companies are trying to gain the most accuracy.

Bangladesh Pharmaceutical Industry

The pharmaceutical industry size in Bangladesh is around BDT. 245 Billion. It is expected to reach BDT 504 billion in 2025. As our country is developing day by day, the lifestyles of the people are moving towards betterment. Their economic conditions are improving; therefore, they can afford to get the proper medication during necessity. Moreover, the healthcare expenditure of our country is increasing significantly. With the demand for medication, the pharmaceutical sector is growing at a 10-12% cagr rate. Among the market shares, 90 percent are occupied by the local 200 companies and the remaining 10 percent is distributed among the foreign pharmaceutical companies. Among the foreign pharmaceutical companies Renata, Radiant, Roche, Novartis hold the majority portion of the foreign market share. Major players in the local pharmaceutical sectors are Square, Incepta, Beximco, Eskayef, Healthcare, IBN SINA, Beacon, ACI, Opsonin, ACME.



Some of the local pharmaceutical companies export medicines across 144 countries in the world. The exports of pharmaceuticals products are increasing year by year. In the 2013-2014 fiscal year, the export of pharmaceuticals products was around BDT 6.1 Billion. The export hit BDT 11.4 Billion in the 2019-2020 fiscal year. The export jumped around 82% in the last 5 years. With everything that goes like this, the export is going to hit BDT 37.8 Billion in 2025.

Almost every country in the world is facing the Covid-19 effects. To fight against the Coronavirus, every country is trying to manage the Covid vaccine for the people of their country. Beximco pharmaceutical is playing the role of the distributor in providing the vaccines in Bangladesh. With the proper strategic process of distributing the vaccines, our country can overcome the Covid pandemic effects with ease.

Square Pharmaceuticals Overview

With a mission to produce quality and innovative healthcare relief for people, Square Pharmaceuticals has been quite an integral part of the economy since the inception of Bangladesh. It maintains the ethical standards in business operations also ensuring benefits to the shareholders, stakeholders, and society. Transparency in business operation is one of its' core objectives. It has been quite consistent in holding the market leader status among local and multinational companies since 1985. It has been exporting pharmaceutical products since 1987 across 42 countries.

Intrinsic Value

| | |
|---|-------------------------|
| <i>Dividend Discount Model</i> | <i>BDT 246.6</i> |
| <i>Residual Income Based Model</i> | <i>BDT 393.3</i> |
| <i>Earning Based Model</i> | <i>BDT 231.3</i> |
| <i>Discounted Cash Flow</i> | <i>BDT 352.7</i> |
| <i>PEER Company P/E Based</i> | <i>BDT 418.1</i> |
| <i>PEER Company P/B Based</i> | <i>BDT 232.5</i> |
| <i>Number of Shares Outstanding (M)</i> | <i>887</i> |
| <i>Average Value per Share</i> | <i>BDT 302.7</i> |

Key Valuation Toolkit

| | |
|------------------------------|--------------|
| <i>Revenue growth</i> | <i>7.9%</i> |
| <i>Discount rate</i> | <i>7.03%</i> |
| <i>Perpetual growth rate</i> | <i>2.0%</i> |

Note

According to the calculated intrinsic value of the company found above, *SQURPHARMA* is undervalued along with its current market price. There may be potential profit gain on buying the share at this current price level.

Investment Insights

Investment Merits

The vision of the company is that they view business as a means to the material and social wellbeing of the investors, employees, and society at large.

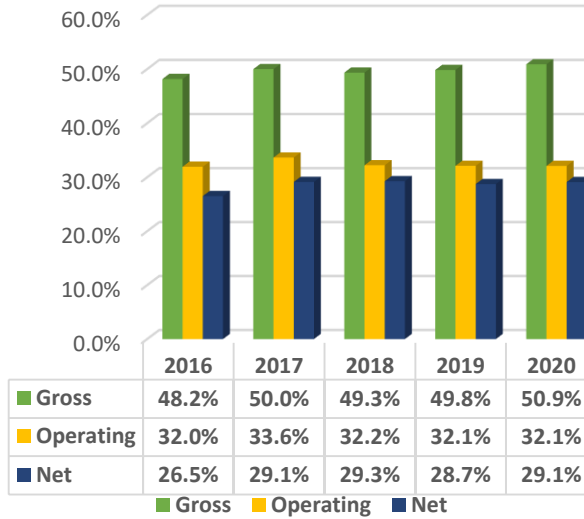
Moreover, Square pharmaceutical is going to start its generic drug production in Kenya by August. Its main objective is to secure a significant market share of the \$30M drug market in Kenya and five other East African countries – Tanzania, Rwanda, Burundi, Uganda, and South Sudan. With this step, Square pharmaceutical is going to be the pioneer in producing drugs in the foreign market. Some notable investment qualities are -

- ✓ Profit margins have increased
- ✓ Liquidity ratios have increased.
- ✓ It is an equity-based company.
- ✓ Its return on equity is much higher than its cost of equity.
- ✓ Its' retention rate is high for which the company can go for bigger investments soon.
- ✓ Production in Kenya is going to start in near August.

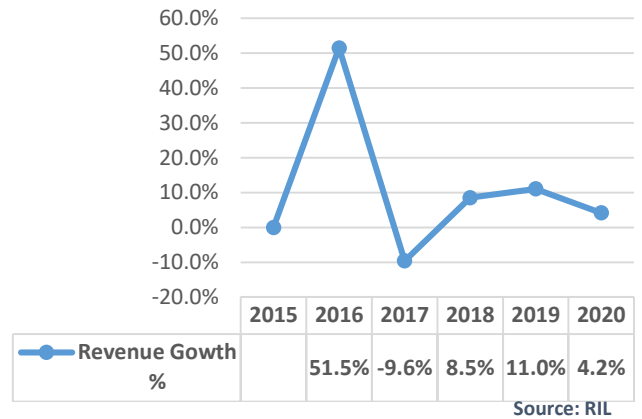
Investment Concerns

- × ROE and ROA have declined.
- × The Cash Conversion Cycle has increased.
- × The dividend payout ratio is below 35%.
- × With the growth of pharmaceutical industries in Bangladesh, this market is becoming more competitive.

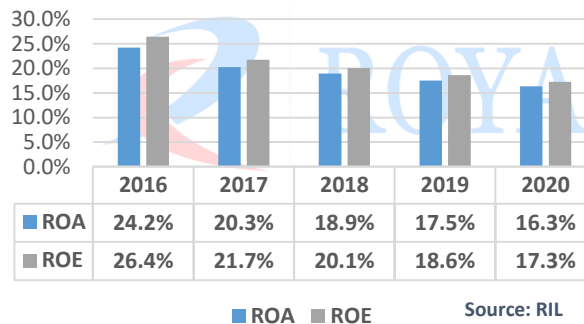
Profitability Margins



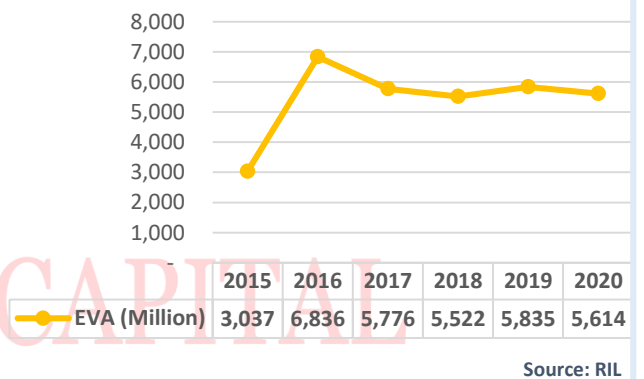
Revenue Growth %



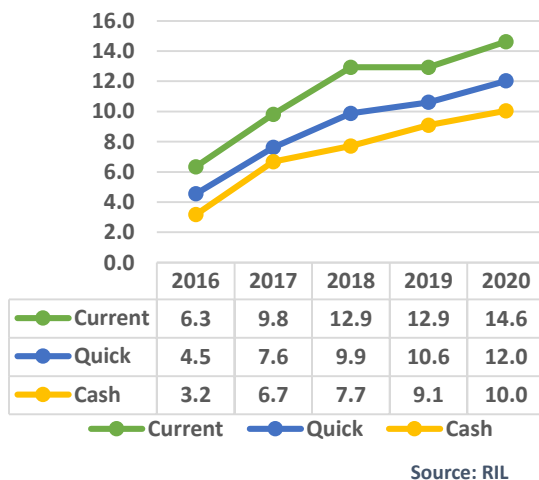
Return on Assets & Return on Equity



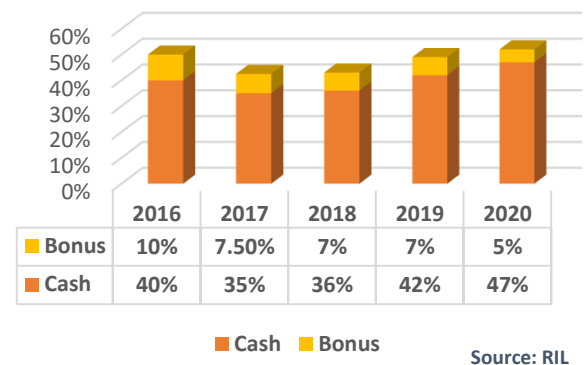
Economic Value Added (Million Tk)



Liquidity Ratios



Dividends



Disclaimer

This document is prepared by the research team of Royal Capital Limited. This is based on the publicly provided information by Square Pharmaceuticals Limited and our research. We do not rely on any insider information.

This report does not influence the investors to buy and sell the equity.

Company Metrics

| | 2018 | 2019 | 2020 | 2021-F | 2022-F | 2023-F | |
|---------------|--------------------------------------|-------|-------|--------|--------|--------|--------|
| Profitability | Gross Margin | 49.3% | 49.8% | 50.9% | 49.6% | 50.6% | 51.1% |
| | Operating Margin | 32.2% | 32.1% | 32.1% | 32.4% | 33.4% | 33.9% |
| | Net Margin | 29.3% | 28.7% | 29.1% | 29.1% | 30.1% | 30.6% |
| | Return on Assets | 18.9% | 17.5% | 16.3% | 15.6% | 15.4% | 14.9% |
| | Return on Equity | 20.1% | 18.6% | 17.3% | 16.49% | 16.28% | 15.69% |
| | | | | | | | |
| Liquidity | Current Ratio | 12.9 | 12.9 | 14.6 | 13.1 | 12.4 | 14.0 |
| | Quick Ratio | 9.9 | 10.6 | 12.0 | 11.1 | 10.5 | 11.9 |
| | Cash Ratio | 7.7 | 9.1 | 10.0 | 9.4 | 9.0 | 10.2 |
| | Operating Cash Flow Ratio | 4.5 | 4.2 | 3.3 | 2.7 | 2.6 | 3.0 |
| | | | | | | | |
| Efficiency | Assets Turnover | 0.70 | 0.66 | 0.60 | 0.57 | 0.54 | 0.52 |
| | Inventory Turnover | 4.9 | 4.9 | 4.4 | 4.8 | 5.6 | 5.6 |
| | Days of Sell Outstanding | 17.6 | 13.2 | 12.3 | 11.4 | 11.1 | 11.1 |
| | Days of Inventory Outstanding | 74.2 | 74.6 | 83.3 | 75.3 | 65.6 | 65.2 |
| | Days of Payable Outstanding | 34.7 | 26.2 | 25.0 | 22.6 | 22.5 | 22.7 |
| | Cash Conversion Cycle | 57.0 | 61.5 | 70.6 | 64.1 | 54.2 | 53.6 |
| | | | | | | | |
| Valuation | Net Assets Value per Share(restated) | 78.41 | 86.03 | 91.57 | 103.36 | 116.87 | 133.03 |
| | Earnings per Share(restated) | 13.75 | 14.99 | 15.82 | 17.04 | 19.02 | 20.87 |
| | Operating Cash Flow per Share | 13.57 | 15.71 | 12.75 | 12.04 | 13.23 | 14.31 |
| | Free Cash Flow per Share | 10.4 | 13.3 | 11.6 | 14.1 | 13.9 | 15.2 |

** Annual Report of SQUARE PHARMACEUTICALS LIMITED.

**Forecasted data are estimated from the historic trend of the company and own research of Research Innovation Lab.