

Selcuk Ecza

UNDERPERFORM

 Current price: TRY2.53
 12-mo T. Price: TRY2.50

3Q15 Earnings Comment

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3Q15 Actual result vs. estimates				Share Price performance		Margins	
TRYmn	Actual	Cons.	Ak	1M	3M	3Q14	4Q14
Revenue	1,758	1,842	1,870				
EBITDA	56	47	45				
margin	3.2%	2.6%	2.4%				
Net Inc.	50	49	49				

Comment: Bottom-line meets expectations, but EBITDA margin beats estimates

- ✓ Selcuk Ecza posted net income of TRY50mn in 3Q15, in line with our own estimate and the consensus estimate of TRY49mn. In short, Selcuk Ecza's revenues benefited from the strong growth in the pharmaceutical market (the market grew by 11.7% YoY in value in 3Q15) as well as its higher market share in value (which rose to 40.6% in 3Q15, up from 39.3% in 3Q14), while profitability improved QoQ thanks to the hike in drug prices.

Key Highlight: Solid top-line growth; gross margin supported by hike in drug prices

- ✓ Revenues rose by 12% YoY (down 5% QoQ) to reach TRY1,758mn, lower than both our own estimate (TRY1,870mn) and the consensus estimate (TRY1,842mn), as revenue growth was fuelled by a solid 11.7% YoY growth in the pharmaceutical market (in value terms) in 3Q15 and Selcuk's higher market share of 40.6% in 3Q15, compared to 39.3% in 3Q14.
- ✓ Although the share of bonuses in gross revenues dropped from 1.4% in 3Q14 to 1.1% in 3Q15, as Selcuk Ecza paid for its bid to increase market share by offering higher discounts to pharmacies, its gross margin increased by 0.9pps YoY to 7.7% in 3Q15. Accordingly, the gross margin was the best third quarter reading since 3Q13. Note that from 3Q15, drug prices started to be converted to TRY at an exchange rate equal to 70% of last 12 month average EUR/TRY spot rate. This new reference pricing mechanism led to an increase in drug prices, supporting Selcuk's gross profit in 3Q15. Meanwhile, the company's opex/revenues ratio remained stable YoY at 4.8% in 3Q15.
- ✓ Selcuk's net cash position rose by 38% QoQ to TRY196mn by the end of 3Q15, thanks to strong EBITDA generation. Moreover, Selcuk's working capital increased slightly by 4.6% YoY to TRY1,035mn in 3Q15, while the working capital of revenues (trailing) stood at 14.5% in 3Q15 compared to 15.8% in 2014.
- ✓ All in all, we have revised up our 12-month TP from TRY2.40 to TRY2.50/share on the back of the better than expected margin performance in 3Q15. However, we believe most of the positives have been reflected to the share price, which has had a good run so far this year, outperforming the BIST-100 by 22%. Going forward, we also think the double digit growth in the market is unsustainable, given that the state is the biggest buyer of pharmaceuticals in Turkey with a c.90% share through the Social Security Institution and the Ministry of Health. We therefore maintain our "Underperform" rating for Selcuk Ecza.

Key P&L items, TRYmn	3Q15	3Q14	YoY Ch.	2Q15	QoQ chg.	9M15	9M14	YoY Chg.
Revenues	1,758	1,574	12%	1,860	-5%	5,433	4,700	16%
Gross Profit	136	108	26%	125	9%	388	340	14%
Gross marg.	7.7%	6.8%		6.7%		7.1%	7.2%	
EBITDA	56	37	51%	41	37%	144	128	13%
EBITDA marg.	3.2%	2.4%		2.2%		2.7%	2.7%	
Net Profit	50	34	46%	49	3%	146	128	14%

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Key B/S and CFS items, TRYmn	3Q15	2Q15	1Q15	4Q14	3Q14
Net debt	-196	-142	-164	-218	-186
FX position	0	1	0	0	1
OP. cash flow	86	48	-18	60	31
Free cash flow	54	16	-54	32	-7

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