

Turkey– Biotechnology

Gen İlaç

Great Transformation Has Begun

GEN is one of the most important players operating in the sales and development of biotechnological innovative drugs in Turkey. Gen Pharmaceuticals (GEN), which started its operations in Ankara in 1998, also sells the equivalent (generic) drugs produced in its own facilities in Turkey and abroad, especially the drugs used in the treatment of rare diseases and functional disorders. The company was approved as an R&D Center in 2019 and continues its product development activities to meet global standards. GEN has also started R&D studies of innovative drugs that will be used especially in cancer and immune treatments with the partnerships it has formed in the past years.

The period 2022-2023 will be years of profound transformation for the company. Approximately 72% of the total net sales in 2018-2021 consisted of rare drugs offered under the Named Patient Program (NPP). The company's strategic goals of developing biotechnological drugs lie behind the introduction of these drugs, which are used in the treatment of rare diseases, in Turkey. The company's goal of creating the necessary R&D infrastructure and producing its own licensed drugs for the drugs supplied by the company within the scope of NPP comes to the fore. We see that the company has rapidly increased its production and R&D capacity by investing 35 million euros in the 2019-2021 period. The company's subsidiary ELIXIR develops innovative and generic drug products and manufacturing processes. RS Research, a subsidiary of GEN, develops innovative products for different cancer types. Products using this new platform technology have reached the Phase 1 clinical trial stage. It also signed a license agreement with the Dutch biotechnology company Sulfateq BV to develop and commercialize a new treatment for Alzheimer's Disease and other neurodegenerative diseases. GEN and Sulfateq plan to complete the non-clinical development program in the last quarter of 2022 and begin the first clinical trials.

The Turkish pharmaceutical industry started 2022 with high growth. According to IEIS figures, we see that total pharmaceutical sales in Turkey have increased by 43% y/y, reaching 12.7 billion TL in the January-February 2022. Total sales volume increased by 14% y/y in the same period and reached 426 million units. We see that the Ministry of Health increased the EUR rate for new drugs to 6.2925 TL with an increase of 34.7% on 14 February 2022. According to our estimations, the pharmaceutical market in Turkey will reach 97 billion TL by the end of 2022 with an annual growth of 60% on TL basis. In the 22T-27T period, we foresee 5% CAGR (2015-2020 7.7% CAGR) in real terms.

We expect Gen Pharma's net sales in Q2/2022 to increase by 50% y/y to reach TL 1.2 billion. Due to the fact that the Ministry of Health postponed NPP drug supply contracts for some diseases until 2022 in 2021, the company's NPP sales decreased in the 1Q72Q 2021, reaching approximately TL 200 million per quarter. However, according to the agreement between the company and Social Security Administration (SGK), the medicines of SMA patients continued to be supplied free of charge. At the beginning of 2022, the contract for the drug used in SMA disease was renewed and sales began on 1 February 2022. We expect the company's NPP sales in the 2022/1Q period to reach approximately TL 800 mn, increasing 140% y/y and 50% y/y.

Net sales will reach 5.1 billion TL by the end of 2022 up 105% y/y. This is supported by the revenue growth we expect to be recorded in the NPP and imported licensed drug segments. In line with the company's strategy, we foresee that the share of domestically produced drugs in total sales will increase from 4% in 2021 to 40% by the end of 2027. The main driving factor of the growth in domestic production is the high performance we expect in export markets. We expect the company's export sales to reach 27% of total sales by the end of 2027. In our opinion, the fact that the state control over pharmaceutical prices in foreign markets is much more limited than in Turkey indicates that the strategy of growth with exports is the right decision. According to our estimates, the share of NPP drug sales in total sales will decrease to 35% in the next 5 years. The rapid increase in domestic production (and related exports) as a result of the investment and R&D expenditures that the company has already made and will continue to do will play a role in this.

New license applications continue. Gen has obtained a total of 123 new drug licenses in the 2015-2022/1Q period. 65% of these licenses were obtained in foreign markets. 8 new licenses in Q1/2022 confirm the company's pace of entry into new pharmaceutical segments. According to the 2021 financials, the registered book value of the license and development expenses of the company is 67 million TL. We estimate that the current market value of these intangible assets carried at historical cost is around TL 1.0-1.5 billion as per IFRS. Considering that the total equity capital at the end of 2021 is TL 1.28 billion, we think that the current market value of the licenses owned by the company offers an important hidden value.

We expect net profit to grow 37% CAGR in 2021-27T. According to our financial model, we expect the company's net income and EBITDA to increase by 65% and 103% y/y, respectively, to TL 510 mn and TL 635 million by the end of 2022T. We believe with a net cash position of TL 50 mn at the end of 2021, Gen can easily generate free cash flow (on average 5%-7% of annual sales) to meet its ongoing investment and working capital needs. In addition, we foresee that the company should sustain a dividend yield of 3%-5% in the next 3 years (1.85% at the end of 2021).

We initiate coverage on Gen İlaç with a target price of 36.6 TL and a BUY recommendation. We determine the target market value of the company with the weighted average of the DCF (80%) and peer 23E EV/EBITDA (20%). According to our estimations, the stock is trading at a 35% discount compared to peers with an 23E EV/EBITDA multiple of 6x. The sustainable increase we expect in the company's EBITDA margin implies 18% CAGR on EUR basis for EBITDA in the 21E-27E period.

BUY

Target Price: TL 36.6

Company Data

Ticker	GENIL
Recommendation	AL
Target Price (TL)	36.6
Target Return (%)	%90
Current Price (TL)	19.2
52w range (TL)	12-19
No. of shares (mn)	300.0
Float (%)	%22.7
MCAP (TL mn)	5,772
MCAP (USD mn)	394
Equity (TL mn)	1,281
Net Debt (TL mn) (2021/12)	51
3m ADTV (USD mn)	4.1
3m ADTV/MCAP (%)	%5
2021E Dividend Yield (%)	1.85

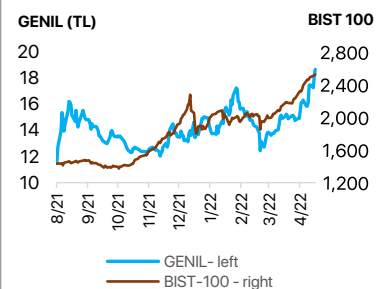
as of close of 21-04-2022

Valuation Multiples

	Current	22E	23E
P/E (x)	18.6	11.3	7.8
EV/EBITDA (x)	17.9	8.9	6.0
P/B (x)	4.5	3.6	2.7
P/Sales (x)	1.1	0.8	0.7

Source: INFO Research estimates

Price Performance



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For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

Table 1. Gen İlaç Financial Statements**Income Statement**

(TL mn)	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
Net Sales	1,180	1,795	2,150	2,501	5,081	7,000	8,400	9,660	11,108	12,775
Financial Services Income	0	0	0	0	0	0	0	0	0	0
COGS	-1,009	-1,487	-1,817	-2,045	-4,143	-5,600	-6,720	-7,438	-8,331	-9,326
Gross profit	172	309	333	456	939	1,400	1,680	2,222	2,777	3,449
Operating Expenses	-89	-106	-111	-187	-431	-560	-672	-773	-889	-1,022
Inc./ Exp. from Other Operations	-2	0	0	0	0	0	0	0	0	0
Core Operating Profit	83	202	223	270	508	840	1,008	1,449	1,888	2,427
Other Income/Expenses	-32	-30	-3	-68	-236	-158	-42	-93	-110	-156
Operating Profit	51	172	219	202	272	682	966	1,356	1,779	2,271
Net Financial Income (Expense)	-45	-20	-19	96	294	132	21	65	114	109
Other Income (Expense)	1	7	16	3	4	6	7	8	10	11
EBIT	7	159	217	301	570	820	994	1,429	1,902	2,391
Taxes	-2	-17	-10	9	-57	-81	-99	-213	-284	-357
Net profit	6	142	208	311	513	737	894	1,214	1,616	2,032
EBITDA	159	218	242	314	635	945	1,176	1,642	2,111	2,683
EBITDA (EUR mn)	28	34	30	24	32	41	51	70	87	107

Balance Sheet

(TL mn)	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
Current Assets	267	375	662	1,464	1,782	1,990	2,388	3,004	3,513	4,105
Cash and Marketable Securities	6	54	59	519	305	350	420	773	667	1,788
ST Trade and Related Receivables	140	171	255	258	835	767	921	1,059	1,522	1,050
Inventories	99	127	322	594	454	614	736	815	913	766
Other Short-Term Assets	22	23	26	93	188	259	311	358	412	500
Long Term Assets	146	186	416	656	830	1,065	1,176	1,301	1,666	2,085
Fixed Assets	121	160	354	433	555	723	803	896	1,215	1,583
Intangible Assets	3	4	21	67	72	80	83	87	101	116
LT Receivables	0	0	0	0	0	0	0	0	0	0
Other Long-Term Assets	22	21	42	156	202	263	289	318	350	385
Total Assets	413	560	1,078	2,119	2,612	3,055	3,564	4,306	5,179	6,189
Short Term Liabilities	237	262	448	795	764	663	708	778	874	978
ST Financial Payables	106	82	120	123	123	102	34	28	30	28
ST Trade and Other Payables	116	153	306	636	567	460	552	611	685	766
Other Short-Term Liabilities	14	26	22	36	73	101	121	139	160	184
Long Term Liabilities	63	53	72	40	160	171	108	99	108	112
LT Financial Payables	52	47	47	29	139	142	73	59	63	60
LT Trade and Other Payables	0	0	0	2	2	2	2	2	2	2
Other LT Liabilities	11	6	25	10	20	28	33	38	44	50
Equity	111	243	557	1,281	1,598	2,129	2,693	3,413	4,224	5,122
Paid-in capital	50	50	50	300	300	300	300	300	300	300
Total Liabilities	413	560	1,078	2,119	2,612	3,055	3,564	4,306	5,179	6,189

Source: Company Data, INFO Research estimates

Table 2. Gen İlaç

Financial Indicators										
	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
Growth										
Net sales (%)		52.1	19.8	16.3	103.1	37.7	20.0	15.0	15.0	15.0
EBIT (%)		142.9	10.1	21.2	88.4	65.3	20.0	43.8	30.3	28.5
EBITDA (%)		678.8	11.1	29.4	102.5	48.8	24.4	39.6	28.5	27.1
Net Profit (%)		2310.8	46.7	49.3	65.0	43.7	21.3	35.8	33.1	25.7
Margins										
Gross margin (%)	14.6	17.2	15.5	18.2	18.5	20.0	20.0	23.0	25.0	27.0
EBITDA margin (%)	13.4	12.1	11.3	12.5	12.5	13.5	14.0	17.0	19.0	21.0
EBIT margin (%)	7.1	11.3	10.4	10.8	10.0	12.0	12.0	15.0	17.0	19.0
Net profit margin (%)	0.5	7.9	9.7	12.4	10.1	10.5	10.6	12.6	14.6	15.9
Efficiency										
Receivables (days)	43	32	36	200	60	40	40	40	50	30
Inventory turnover (days)	36	28	45	60	40	40	40	40	40	30
Payables (days)	42	33	46	70	50	30	30	30	30	30
	37	26	35	190	50	50	50	50	60	30
Opex/Sales (%)	7.5	5.9	5.2	7.5	8.5	8.0	8.0	8.0	8.0	8.0
Profitability										
ROA (%)	2.9	29.2	25.4	19.4	21.7	26.0	27.0	30.9	34.1	35.7
ROE (%)	9.9	80.4	51.7	33.8	35.7	39.6	37.1	39.8	42.4	43.5
Leverage										
Assets/Equity (x)	3.72	2.30	1.94	1.65	1.63	1.43	1.32	1.26	1.23	1.21
Net Debt/Equity (x)	1.37	0.31	0.20	-0.29	-0.03	-0.05	-0.12	-0.20	-0.14	-0.33
Net Debt/EBITDA (x)	0.96	0.35	0.45	-1.17	-0.07	-0.11	-0.27	-0.42	-0.27	-0.63
Selected Operational Indicators										
(000 units)	2018	2019	2020	2021	2022T	2023T	2024T	2025T	2026T	2027T
Exports	514	657	873	1,254	1,576	2,207	2,867	3,724	4,839	6,287
Imported Reference Drugs	486	433	503	570	664	738	1,084	1,222	1,370	1,517
NPP	115	136	133	177	184	193	213	234	257	283
Produced Generics	452	843	1,272	1,674	1,570	2,120	2,862	3,721	4,651	5,813
Total	1,566	2,068	2,781	3,675	3,994	5,258	7,026	8,901	11,117	13,901
Macro Estimates										
	2018	2019	2020	2021	2022T	2023T	2024T	2025T	2026T	2027T
USDTRY (avg)	4.8	5.7	7.0	8.9	15.5	19.3	19.3	19.8	20.4	21.0
USDTRY (eop)	5.3	5.9	7.4	13.3	18.0	20.7	20.7	21.3	22.0	22.6
Real GDP growth (y/y %)	4.4	-0.4	1.8	10.5	3.0	3.0	4.0	4.0	4.0	4.0
CPI (%)	20.3	11.8	14.6	36.1	50.0	20.0	10.0	10.0	10.0	8.0

Source: Company Data, INFO Research estimates

Gen İlaç Valuation

We initiate coverage on Gen İlaç with a target price of 36.6 TL and a BUY recommendation. We determine the target market value of the company with the weighted average of the DCF (80%) and peer 23E EV/EBITDA (20%). According to our estimations, the stock is trading at a 35% discount compared to peers with an 23E EV/EBITDA multiple of 6x. The sustainable increase we expect in the company's EBITDA margin implies 18% CAGR on EUR basis for EBITDA in the 21E-27E period.

Table 3. Gen İlaç Valuation Summary

	Fair Value							
	EV/EBITDA (x)	EV (TL mn)	Weight (%)					
DCF	12.0	11,378	80					
Peer Multiples	9.1	8,621	20					
Fair value EV (TL mn)		10,827						
Net Debt (-)		-43						
Minority (-)		3						
Participations (+)		105						
Target EV (TL mn)		10,972						
Target Price (TL)		36.6						
Target Return (%)		90%						
DCF								
(TL mn)	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
EBIT	223	270	508	840	1,008	1,449	1,888	2,427
+ Depreciation & amortisation	20	44	127	105	168	193	222	255
- Capex	-101	-169	-254	-280	-252	-290	-555	-639
- Change in working capital	-127	-1,043	593	-199	-184	-158	-488	700
- Taxes	-49	-59	-112	-185	-222	-319	-415	-534
- Other	0	0	0	0	0	0	0	0
Free cash flow to firm (FCFF)	-35	-958	862	281	518	876	652	2,210
Discount factor			0.88	0.73	0.61	0.51	0.42	0.35
Discounted cash flow for projected period	2,788		759	207	317	446	277	782
Discounted cash flow for perpetuity	8,591							
Enterprise value	11,378							
- Net Debt	-43	>> 2022T net debt						
- Minority interest	3							
+ Participations	105							
Equity value	11,524							
Target Price (TL)	38.40							
Target Return (%)	100%							
WACC								
Risk free rate	22.0%							
Beta	42.0%							
Equity risk premium	6.5%							
Cost of equity	24.7%							
Cost of debt, after tax	11.3%							
Capitalisation rate	35.0%							
Weighed average cost of capital	20.0%							
Terminal growth rate	10%							

Source: Company Data, INFO Research estimates

Table 4. Gen İlaç Peer Valuation

Company	Country	MCAP (USD mn)	P/E (x)			EV/EBITDA (x)		
			Current	2022E	2023E	Current	2022E	2023E
China Resou	China	5,601	17.6	15.1	13.3	10.3	10.5	9.0
Aspen Pharm	South Africa	5,405	15.9	11.8	10.0	9.3	8.8	7.6
Hypera Sa	Brazil	5,161	18.0	14.0	12.1	14.2	11.2	9.7
Shanghai Fo	Hong Kong	2,333	14.7	-	11.1	19.8	15.4	14.8
Cansino Bio	Hong Kong	1,686	9.9	-	12.1	6.9	12.3	11.8
Faes Farma	Spain	1,318	14.6	13.4	14.0	10.4	9.5	9.2
Genomma Lab	mexico	1,168	16.5	12.0	9.8	8.8	7.1	6.3
Amneal Phar	USA	613	57.7	4.8	4.3	7.6	5.9	5.6
	median		16.2	11.9	11.6	9.8	10.0	9.1
	Gen İlaç	394	18.6	11.3	7.8	17.9	8.9	6.0

Source: Company Data, INFO Research estimates

DISCLAIMER & DISCLOSURES

Analyst Certification

I, Serhan Gok, hereby certify that the views expressed in this research report accurately reflect the personal views of the INFO Research team, regarding the securities and issuers referred to therein and that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

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Rating Methodology:

We employ Discounted Cash Flow (DCF) model and peer multiple analysis to derive at our target prices. Our recommendation methodology is as follows:

Buy: If Target Price is 5 percentage points higher than the estimated Cost of Equity

Hold: If Target Price is within -5 and 5 percentage points of the estimated Cost of Equity

Sell: If Target Price is lower than 5 percentage points of the estimated Cost of Equity

Please note that the analyst's short-term view may occasionally diverge from the stock's longer-term fundamental rating.

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