PRIME

IPO Price	Implied Market Cap		
EGP4.85/share	**EGP2.8bn**	Investment Rating	Not Rated
		Risk Rating	Not Rated

Not the Usual Pharma Stock

Pampered by high-margin cosmeceuticals

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The industry landscape: Cosmeceuticals is a hybrid between cosmetics and pharmaceuticals, where the amount of active ingredients lies within the limits set by the Egyptian Drug Authority (EDA) for cosmetics. Cosmeceuticals may have some therapeutic effects and can be prescribed, similar to pharmaceuticals. But similar to cosmetics on the other hand, cosmeceuticals are also offered over-the-counter (OTC) and the products are mainly applied as lotion, cream, spray, gel, serum, powder, or oil. The EDA regulates and supervises the local cosmeceuticals industry, which manufactures therapeutic products in the space of skin care, hair care, antiseptics, oral care, anti-scar, female intimate care, muscle relaxants, and nutraceuticals. MCRO is regulated by the EDA and the National Food Safety Authority (NFSA). Demand for cosmeceuticals, including beauty and personal products, is mainly driven by the macroeconomic environment, which affects disposable income. Another demand factor is Egypt's steady population growth and large population relative to those in the MENA countries.

The company: Macro Group Pharmaceuticals [**MCRO**] was established in 2002 and became one of the fastest growing cosmeceuticals manufacturers in Egypt, with a market share of c.23% in 2020. MCRO has a diversified assortment of almost all therapeutic cosmeceutical products (in the sphere of skin care, hair care, anti-scar, antiseptics, topical muscle relaxants, female intimate care, oral care, and recently nutraceuticals). In November 2019, the company's general assembly decided to add the manufacture and production of herbal medicines, herbal products, nutritional supplements and baby food to its activities. The company began the production of one nutritional supplement in 2020, which is now part of its 112 SKUs (as of 30 September 2021). It seeks to expand its production of nutritional supplements, which are more easily registered compared to other products. MCRO also exports to more than 10 Middle Eastern and African countries. Exports contribute c.2% to MCRO's total revenues.

A clever strategy: MCRO's strategy to introduce high-margin products within an affordable price range helped expose the company to a wide demographic. This in turn made it the market leader in Egypt's cosmeceuticals sector, as most available products are expensive imports and mainly target high-income earners. The company's sales rely on **(1)** physician prescriptions which make up c.85% of total revenues and **(2)** OTC products which account for 15% of total revenues. MCRO has successfully made its products available in 60,000 pharmacies nationwide as of 30 September 2021.

Figure 1: IPO details

IPO Details	
Shares o/s	577.4mn
IPO shares	**264.5mn shares**
International offering	251.3mn shares (95%)
Egyptian retail offering	13.2mn shares (5%)
IPO size	**EGP1.3bn (USD81mn)**
Expected free float	45.8%
Selling shareholder	**Leo 1** (a Mauritius-based private limited company)
Stabilization Fund *(Egyptian retail offering)**	• 100% of gross proceeds. • 30 days after trading.
Lock-up period**	**24 months or 2 full financial years**
IFA Valuation	EGP6.05/share

*The stabilization activities will be undertaken in connection with the Egyptian retail offering.

** The direct and indirect shareholders of Leo 1 are being given the opportunity to hold their proportionate beneficial interests in MCRO. The FRA has the right to waive the application of the mandatory lock-up to permit this direct holding of the Shares.

Source: IPO prospectus.

Figure 2: Estimated IPO timeline

Timeline	
Event	**Date**
Retail Subscription Opened	Mon, 24-Jan-22
Retail Subscription Closes	Mon, 7-Feb-22
First Day of Trading	Thu, 10-Feb-22

Source: Company reports, IPO prospectus.

To market its products, MCRO relies on several channels:

(1) Visits to physicians in various fields. The company covered c.14,700 physicians until September 2021, which represents 92% of MCRO's target;

(2) Distributors, including Ibnsina Pharma [**ISPH**]; and

(3) Direct-to-consumer (DTC) marketing. Since 2016, MCRO has been increasing its focus on DTC marketing, which will further improve its margins, in our view. For that purpose, the company began to establish administrative offices to distribute its products directly in Alexandria, Delta, and Upper Egypt serving low-income earners.

Additionally, MCRO is currently working to provide its products through electronic platforms. On the export side, the company is targeting to reach more markets that enjoy demographics similar to Egypt's (i.e. in terms of population size and underserved regions).

MCRO's historical performance: MCRO's revenues grew at a 2-year CAGR (2018-2020) of 34% to EGP431mn, bolstered by a 22% increase in selling prices and a 10% rise in volumes, with DTC as a percentage of sales climbing from 57.6% in 2018 to 62.2% in 2020. Of the current eight therapeutic areas of the group's operation, skin care products command the lion's share of total sales (36% in 2020). The higher contribution of DTC to sales clearly reflected on the group's margins as GPM widened in the past three years by 15pp to 79% in 2020. Meanwhile, EBITDA grew at a 2-year CAGR of 89%, implying an EBITDA margin of 42% vs. 21% in 2018. Consequently, bottom line increased at a 2-year CAGR of 99% to EGP135mn in 2020, implying a net margin of 31% vs. 14% in 2018. Additionally, MCRO distributed dividends of EGP100mn and EGP62mn during 2019 and 2020, respectively.

MCRO's recent financials: During 9M 2021, MCRO hit a bottom line of EGP107mn (+8% y/y), mainly driven up by higher revenues (+37% y/y) and a wider gross profit margin (+215bps). During the same period, SG&A surged 65% y/y, pushing the SG&A-to-sales ratio higher to 42% (+7pp y/y). The increase in SG&A was mainly attributable to IPO fees of EGP12mn and a 149% y/y increase in advertising costs. Moreover, net debt balance stood at EGP52mn as of September 2021 vs. net cash of EGP34mn and EGP9mn as of 31 December 2019 and 2020, respectively. This was due to lease contracts and higher days sales outstanding (DSO) of c.210 days in 9M 2021 vs. an average of c.150 days over 2018-2020.

Margin could stretch further: According to its independent financial advisory's (IFA) assumptions, gross profit is expected to grow at a 5-year CAGR (2021-2026) of 23%, implying a GPM of 81% by 2026. This is expected to come against the backdrop of a 5-year revenue CAGR of 23% to EGP1.6bn in 2026 driven by growth in both volumes and prices. This will parallel the launch of new products which should have higher average prices compared to now, ultimately contributing 29.3% to revenues in 2026 vs. 12.9% in 2022.

In terms of costs, SG&A-to-sales ratio is expected to be relatively high during 2022 as a result of an expected increase of 31% in salaries. SG&A-to-sales, thereafter, is expected to dwindle to 32% by 2026. In light of the aforementioned factors, EBIT is expected to hit EGP778mn by 2026 (a 5-year CAGR of 27%), implying an EBIT margin of 49% vs. 40% expected in 2021.

Investment thesis: A leader in its trade. Higher contribution of new SKUs with higher prices could boost revenue. An ability to control its product prices unlike its pharmaceutical peers. Hitting higher margins than its EGX-listed pharmaceutical peers. Focusing on high-margin products and DTC marketing will likely improve margins even further.

Risks: Only two distributors account for a hefty c.28% of the company's total sales. If the relation with these two deteriorates or the distributors themselves experience exceptional circumstances, MCRO's operations will be affected. MCRO only relies on one plant to produce most of its products, which threatens the company's operations if this plant is compromised. Any delays in product registrations may harm the company's business.

Valuation: Assigning MCRO a value is a bit tricky due in part to its relatively higher future growth potential, let alone where it is in its growth trajectory. Thus, the multiples of MCRO's global peers have to be adjusted for growth. At its IPO price of EGP4.85/share:

(1) MCRO's LTM P/E is 19.6x, a discount of 6% to global peers' median of 20.9x.

(2) MCRO's LTM EV/EBITDA is 14.2x, a discount of 4% to global peers' median of 14.9x.

Without adjusting for growth, MCRO would be worth EGP5.1/share at its global peers' LTM P/E and EV/EBITDA multiples, only 6% higher than the IPO price. That said, valuation aside, we believe subscribing to the public offering is worth the risk in view of the one-month stock price stabilization fund.

Figure 3: Key operational & financial KPIs

Income Statement (EGPmn)	2018a	2019a	2020a	2-year CAGR	9M 2020	9M 2021	y/y change (%)
Operating revenues	**240**	**384**	**431**	***34%***	**304**	**417**	***37%***
Cost of goods sold	(88)	(95)	(92)		(66)	(82)	
Gross profit	**152**	**289**	**338**	***49%***	**238**	**335**	***41%***
GPM	63%	75%	79%		78%	80%	*2%*
EBIT	**49**	**145**	**179**	***91%***	**131**	**147**	***12%***
EBIT margin	20%	38%	42%		43%	35%	*-8%*
EBITDA	**51**	**147**	**181**	***89%***	**132**	**152**	***15%***
EBITDA margin	21%	38%	42%		44%	36%	
Net profits before minorities	**34**	**111**	**135**	***98%***	**99**	**107**	***8%***
Net profits net of minorities	**34**	**111**	**135**	***99%***	**99**	**107**	***8%***
NPM	14%	29%	31%		33%	26%	*-7%*

Balance Sheet (EGPmn)	2018a	2019a	2020a	9M 2021a
Current assets				
Trade and other receivables	99	124	208	323
Cash and bank balances	10	37	60	12
Other current assets	70	54	58	79
Total current assets	**179**	**214**	**327**	**414**
Non-current assets				
Fixed assets	31	32	37	40
Other non-current assets	45	45	45	60
Total non-current assets	**76**	**77**	**83**	**100**
Total assets	**255**	**292**	**409**	**514**
Current liabilities				
Borrowings	11	3	51	49
Trade and notes payables	21	20	22	33
Other current liabilities	52	89	86	92
Total current liabilities	**85**	**112**	**158**	**173**
Non-current liabilities				
Deferred tax liabilities	1	2	2	2
Total non-current liabilities	**1**	**2**	**2**	**2**
Equity				
Paid-up capital	54	54	115	115
Retained earnings	101	107	112	184
Legal reserves	5	10	16	21
Other reserves	-	2	5	5
Non-controlling interests	10	5	0	0
Total equity	**169**	**178**	**249**	**326**

Source: Company reports, Prime Research.

Figure 4: IFA estimates

Income Statement (EGPmn)	2021e	2022e	2023e	2024e	2025e	2026e	5-Year CAGR
Operating revenues	**575**	**731**	**942**	**1,152**	**1,379**	**1,590**	**23%**
Cost of goods sold	(112)	(134)	(181)	(224)	(263)	(298)	
Gross Profit	**463**	**596**	**761**	**928**	**1,115**	**1,292**	**23%**
GPM	80%	82%	81%	81%	81%	81%	
EBIT	**232**	**314**	**419**	**534**	**662**	**778**	**27%**
EBIT margin	40%	43%	44%	46%	48%	49%	
EBITDA	**239**	**323**	**428**	**545**	**669**	**791**	**27%**
EBITDA margin	42%	44%	45%	47%	49%	50%	

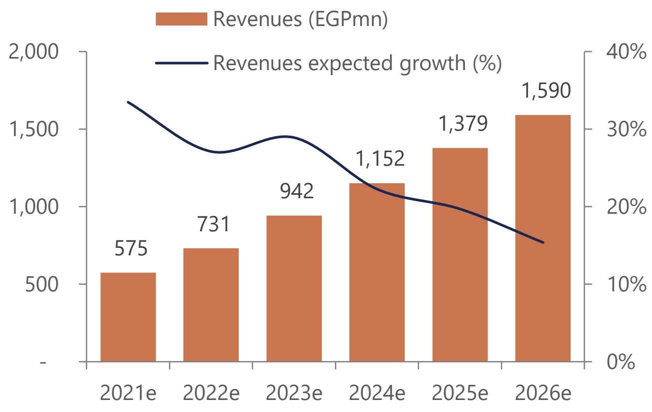
Source: IFA estimates.

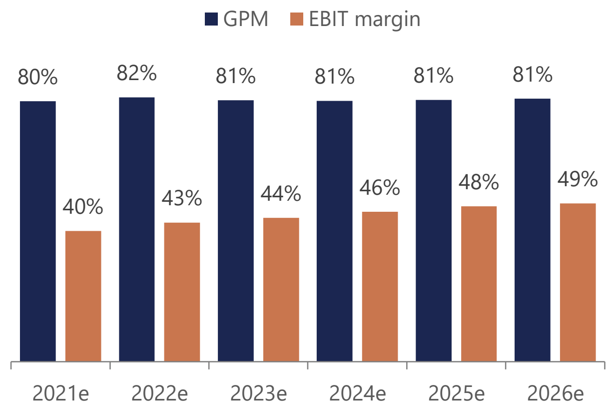
Figure 5: MCRO's Global Peers

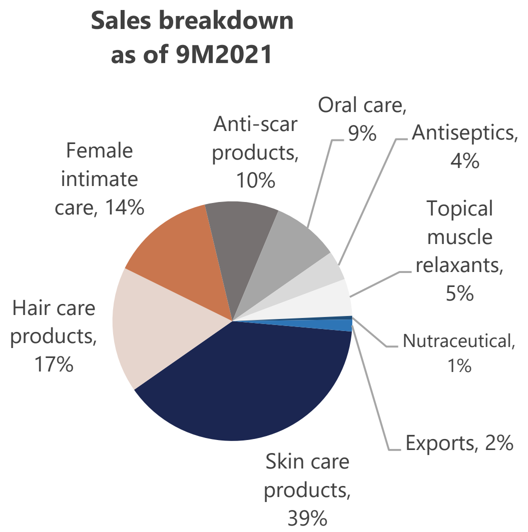
Ticker	Company Name	Country	LTM EV/EBITDA	LTM P/E
Bwx AU	BWX Ltd	Australia	22.7x	20.9x
MBL BD	Marico Bangladesh Ltd	Bangladesh	14.9x	21.9x
BAR LN	Brand Architekts Group PLC	Britain	6.9x	NA
Bajajcon IN	Bajaj Consumer Care Ltd	India	13.3x	11.8x
DABUR IN	Dabur India Ltd	India	46.9x	59.2x
HMN IN	Emami Ltd	India	22.3x	48.8x
Kino IJ	Kino Indonesia Tbk PT	Indonesia	18.7x	133.7x
090430 KS	Amorepacific Corp	South Korea	19.8x	61.1x
192820 KS	Cosmax Inc	South Korea	12.8x	15.8x
161890 KS	Kolmar Korea Co Ltd	South Korea	12.5x	5.5x
092730 KS	NeoPharm Co Ltd	South Korea	5.6x	10.5x
Kamart TB	Karmarts PCL	Thailand	14.9x	11.1x
Median			**14.9x**	**20.9x**
MCRO EY	Macro Group Pharmaceuticals	Egypt	**14.2x**	**19.6x**
Discount			-4%	-6%

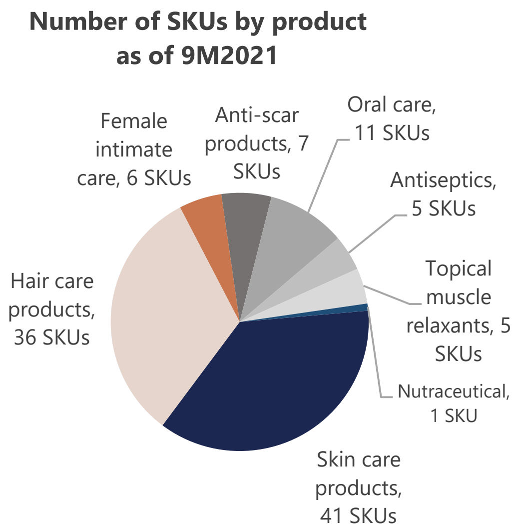
* Based on the IPO price of EGP4.85/share, implying a market cap of EGP2.8bn.
Source: IPO prospectus, Prime Research, Bloomberg.

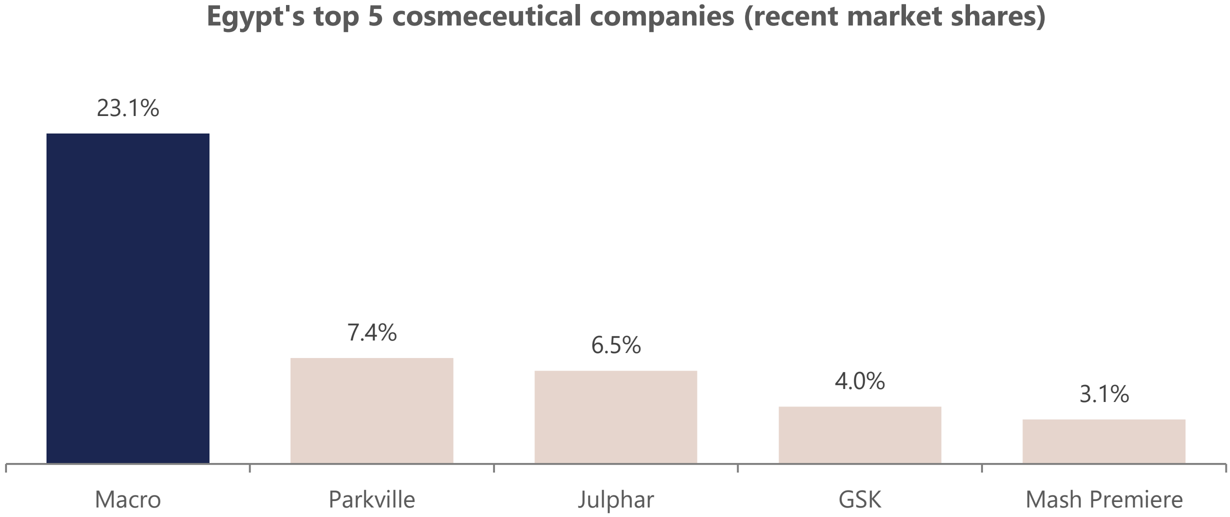
Figure 6: MCRO in charts





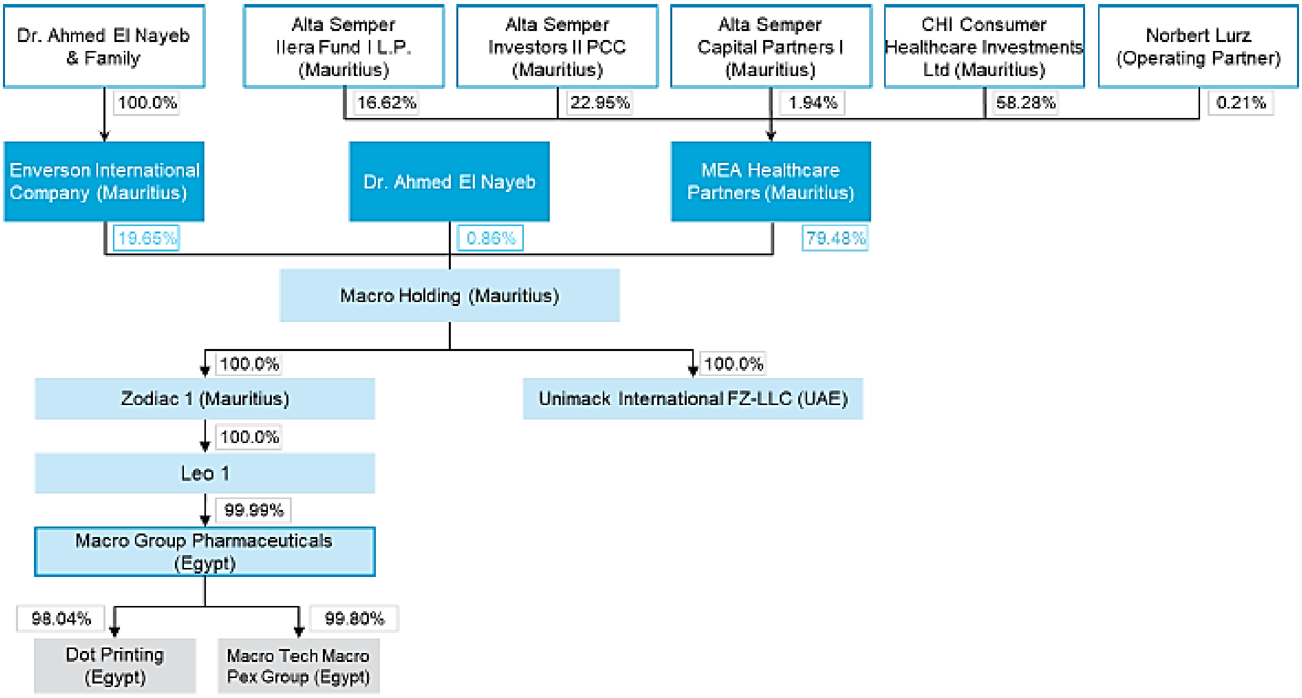






Source: IPO prospectus, Prime Research.

Figure 7: Pre-IPO shareholder structure



Source: IPO prospectus.

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