

AFT Pharmaceuticals

Financial update

14% revenue growth despite COVID-19 headwinds

AFT Pharmaceuticals recently reported its results for H122. Operating revenue grew strongly by 14% year-on-year to NZ\$55.5m, despite the impact of COVID-19 across the business (extended lockdowns in Australia and delayed launches in international markets were the biggest COVID-related headwinds). Reported group operating profit was NZ\$5.5m compared to NZ\$2.4m in the same period a year ago. Importantly, AFT is continuing to guide for operating profit of NZ\$18–23m in FY22.

Year end	Revenue (NZ\$m)	PBT* (NZ\$m)	EPS* (NZ\$)	DPS (NZ\$)	P/E (x)	Yield (%)
03/20	105.6	3.4	0.03	0.0	N/M	N/A
03/21	113.1	8.2	0.07	0.0	70.1	N/A
03/22e	130.2	16.6	0.15	0.0	32.7	N/A
03/23e	150.3	29.4	0.22	0.0	22.3	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Maxigesic oral and IV approvals on track for CY22

AFT previously filed for FDA approval of both the oral and intravenous (iv) forms of Maxigesic. The company expects the FDA to approve the oral version at some point in CY22 and there is a 30 June 2022 PDUFA date for the iv form. With regards to Maxigesic IV, AFT licensed the product in April to Hikma Pharmaceuticals, the third-largest US supplier of generic injectable medicines by volume. The terms of the agreement include up to US\$18.8m in upfront, regulatory and commercial milestones and a profit share (US\$3.6m was received in H122).

Maxigesic launched in 46 countries

Maxigesic tablets are now sold and launched in 46 countries, up from 43 at the end of March 2021. Recent launches include Switzerland and Greece. The tablets are registered in 51 different countries. Maxigesic IV has been launched in five countries (launched recently in Germany and Austria) but registered in 29.

COVID-19 continues to affect the business

Extended COVID-related lockdowns in New South Wales and Victoria hampered over-the-counter (OTC) sales in Australia. Additionally, the Maxigesic IV launches in Germany and Austria were hampered by COVID-19 restrictions on distributors accessing hospitals.

Valuation: NZ\$671m or NZ\$6.41 per share

We are increasing our valuation from NZ\$644m or NZ\$6.15 per share to NZ\$671m or NZ\$6.41 per share, mainly due to rolling forward our NPV and lower net debt. AFT reported NZ\$5.9m in cash and NZ\$38.5m in debt at the end of the half year. The company has stated that it will consider a dividend once it has reached a net debt target of NZ\$25–30m and has met earnings guidance.

Pharma & biotech

22 November 2021

Price **NZ\$4.91**
Market cap **NZ\$514m**

NZ\$0.70/US\$

Net debt (NZ\$m) at 30 September 2021 32.6

Shares in issue 104.7m

Free float 26.8%

Code AFT

Primary exchange NZX

Secondary exchange ASX

Share price performance



% 1m 3m 12m

Abs 19.8 9.8 (5.6)

Rel (local) 22.9 12.8 (4.7)

52-week high/low NZ\$5.51 NZ\$4.00

Business description

AFT Pharmaceuticals is a specialty pharmaceutical company that operates primarily in Australasia but has product distribution agreements across the globe. The company's product portfolio includes prescription and over-the-counter drugs to treat a range of conditions and a proprietary nebuliser.

Next events

US Maxigesic oral and IV approval 2022

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H122 results

AFT reported revenue of NZ\$55.5m for the first half of FY22, the period ending 30 September 2021. This represents a 14% increase over the prior year. Revenue in Australia was up 2% to NZ\$29.2m. The OTC channel, which represents approximately 59% of revenue for Australia, grew 2% and was hindered by COVID-19 lockdowns in New South Wales and Victoria. These lockdowns delayed a number of product launches, which will now occur in H222. Maxigesic sales in Australia were also affected by COVID-19 lockdowns but still grew 18%. The hospital channel, which represents 29% of sales in Australia, fell by 1% due to lower antibiotic sales following a surge last year at the height of the pandemic. The prescription channel, which represents 12% of the country's sales, grew 13% thanks to new product introductions. Operating profits for Australia rose to NZ\$3.6m from NZ\$3.2m in H121.

New Zealand revenue was up 15% to NZ\$15.8m. The OTC channel (54% of New Zealand sales) grew 13% to NZ\$8.6m, reflecting a return to more normal sales growth. Vitamin C Lipo-Sachets and Maxigesic, in particular, helped drive growth in the segment. The company has stated that OTC sales have recently dropped off somewhat due to a re-introduction of lockdowns in Auckland but it expects this to be transitory. The hospital channel (17% of sales) grew 23% to NZ\$2.7m due to strong antibiotic sales. The prescription channel grew by 15% to NZ\$4.6m. The operating loss (including head office costs) for this region was NZ\$1.8m compared to a loss of NZ\$1.4m in the same period last year. Excluding head office costs, the region booked an operating profit which increased to NZ\$2.0m from NZ\$1.7m in the prior-year period.

Asia revenue increased by 32% to NZ\$2.9m. The OTC segment grew 11% due to increased online sales to China as well as sales to Hong Kong. The hospital and prescription channels grew 32% due to strong anti-bacterial sales. Operating profit declined to NZ\$0.4m from NZ\$0.7m due to greater investment in marketing support.

Exhibit 1: H122 results by region

NZ\$000s	Revenues H122	Revenues H121	Operating profit before tax H122	Operating profit before tax H121
Australia	29,201	28,552	3,620	3,195
New Zealand	15,815	13,709	(1,807)*	(1,425)*
Asia	2,905	2,198	416	721
Rest of world	7,592	4,362	3,262	(69)
Total	55,513	48,821	5,491	2,422

Source: AFT Pharmaceuticals. Note: *New Zealand profit before tax includes head office expenses.

Rest of world revenues grew by 74% to NZ\$7.6m, thanks to a substantial increase in licence income (to NZ\$4.8m from NZ\$0.3m in the same period last year), largely resulting from licence payments from Hikma for Maxigesic IV. Product sales to licensees and distributors declined 35% to NZ\$2.6m as slower sales last year due to the pandemic led to a longer period of time to work through inventory. Operating profit was NZ\$3.3m, up from a NZ\$0.1m loss in the same period a year ago, mainly due to the Hikma payments.

Maxigesic tablets are now sold and launched in 46 countries, up from 43 at the end of March 2021. Recent launches include Switzerland and Greece. The tablets are registered in 51 different countries. Maxigesic IV is launched in five countries (launched in Germany and Austria recently) but registered in 29. Note that the Maxigesic IV launches in Germany and Austria were hampered by COVID-19 restrictions on distributors accessing hospitals.

AFT previously filed for FDA approval of both the oral and iv forms of Maxigesic. The company expects the FDA to approve the oral version at some point in CY22 and there is a 30 June 2022 PDUFA date for the iv form. With regards to Maxigesic IV, AFT licensed the product to Hikma

Pharmaceuticals, the third-largest US supplier of generic injectable medicines by volume, in April. The terms of the agreement include up to US\$18.8m in upfront, regulatory and commercial milestones and a profit share. US\$3.6m was received in H122 and was related to signing the agreement and filing for FDA approval. An additional US\$7.5m in payments will be due on reaching certain milestones leading up to and including the first commercial sale. The remainder of the milestones will be based on sales targets in the US.

With regards to the NasoSURF nasal drug delivery device (intended for medications aimed at a patient's sinus areas), clinical studies are planned for FY22. The 120-patient Pascomer [Phase II/III](#) clinical study has completed enrolment despite COVID-related difficulties and data are expected around the middle of CY22. As a reminder, Pascomer is a topical treatment for facial angiofibromas.

Valuation

We are increasing our valuation from NZ\$644m or NZ\$6.15 per share to NZ\$671m or NZ\$6.41 per share, mainly due to rolling forward our NPV and lower net debt.

Exhibit 2: DCF sensitivity table (NZ\$/share)

Terminal revenue growth	Terminal EBIT margin				
	30%	34%	36%	40%	45%
-2.0%	4.29	4.66	4.84	5.21	5.67
-1.0%	4.53	4.93	5.13	5.53	6.03
0.0%	4.81	5.25	5.47	5.91	6.46
1.0%	5.15	5.64	5.89	6.37	6.98
2.0%	5.58	6.13	6.41	6.95	7.64
3.0%	6.13	6.76	7.07	7.70	8.48
4.0%	6.87	7.60	7.96	8.69	9.61
5.0%	7.90	8.77	9.21	10.08	11.18

Source: Edison Investment Research

Financials

We have slightly decreased our revenue estimates for FY22 and FY23 by NZ\$0.7m, mainly due to lower estimates for Australia, although this was partially offset by higher estimates for Asia. Additionally, we have increased our SG&A estimates for FY22 and FY23 by NZ\$0.9m and NZ\$1.0m, respectively, due to a higher run rate. We have also increased R&D expense forecasts by NZ\$2.7m for both years as the company continues to invest in R&D. Finally, due to net loss carry forwards we have reduced our tax liability estimates for FY22 and FY23 by NZ\$1.8m and NZ\$2.0m, respectively. We believe the company will be accruing tax liabilities closer to the statutory rate in FY24.

The company reported NZ\$5.9m in cash and NZ\$38.5m in debt at the end of the half year. We believe AFT will be able to pay down the debt from operating cash flow and does not need additional long-term financing (although it may need to use some short-term facilities for working capital needs). The company has stated that it will consider a dividend once it has reached a net debt target of NZ\$25–30m and has met earnings guidance.

Exhibit 3: Financial summary

	NZ\$000	2020	2021	2022e	2023e
March		NZ GAAP	NZ GAAP	NZ GAAP	NZ GAAP
PROFIT & LOSS					
Revenue		105,597	113,105	130,213	150,348
Cost of Sales		(57,332)	(64,364)	(66,807)	(72,095)
Gross Profit		48,265	48,741	63,406	78,253
EBITDA		12,522	11,813	20,511	32,987
Operating Profit (before amort. and except.)		11,708	10,994	19,692	32,168
Intangible Amortisation		(286)	(286)	(286)	(286)
Exceptionals		9,784	0	0	0
Other		0	0	0	0
Operating Profit		21,206	10,708	19,406	31,882
Net Interest		(8,329)	(2,821)	(3,073)	(2,731)
Profit Before Tax (norm)		3,379	8,173	16,619	29,437
Profit Before Tax (reported)		12,877	7,887	16,333	29,151
Tax		(185)	(105)	(450)	(6,122)
Profit After Tax (norm)		3,194	8,068	16,169	23,315
Profit After Tax (reported)		12,692	7,782	15,883	23,029
Average Number of Shares Outstanding (m)		97.3	103.3	104.7	104.7
EPS - normalised (c)		3.3	7.1	15.4	22.3
EPS - (reported) (NZ\$)		0.12	0.07	0.15	0.22
Dividend per share (c)		0.00	0.00	0.00	0.00
Gross Margin (%)		45.7	43.1	48.7	52.0
EBITDA Margin (%)		11.9	10.4	15.8	21.9
Operating Margin (before GW and except.) (%)		11.1	9.7	15.1	21.4
BALANCE SHEET					
Fixed Assets		31,716	37,230	42,142	47,477
Intangible Assets		26,984	32,720	37,918	43,116
Tangible Assets		315	305	402	539
Investments		4,417	4,205	3,823	3,823
Current Assets		55,336	67,902	73,650	90,139
Stocks		22,734	33,654	34,129	37,542
Debtors		25,969	31,039	25,705	24,032
Cash		6,119	3,209	13,370	28,119
Other		514	0	446	446
Current Liabilities		(25,102)	(32,102)	(25,422)	(25,775)
Creditors		(22,993)	(26,404)	(22,981)	(25,775)
Short term borrowings		(2,000)	(5,161)	(2,299)	0
Other		(109)	(537)	(142)	0
Long Term Liabilities		(44,695)	(36,442)	(39,190)	(35,190)
Long term borrowings		(41,200)	(33,200)	(36,200)	(32,200)
Other long term liabilities		(3,495)	(3,242)	(2,990)	(2,990)
Net Assets		17,255	36,588	51,180	76,651
CASH FLOW					
Operating Cash Flow		21,999	4,292	20,963	34,040
Net Interest		(6,936)	(3,437)	(3,073)	(2,731)
Tax		(185)	(105)	(450)	(6,122)
Capex		(6,562)	(6,231)	(6,398)	(6,439)
Acquisitions/disposals		0	0	0	0
Financing		3	11,673	262	0
Dividends		(566)	(188)	0	0
Net Cash Flow		7,753	6,004	11,303	18,749
Opening net debt/(cash)		34,834	37,081	35,152	25,129
HP finance leases initiated		0	0	0	0
Other		(10,000)	(4,075)	(1,280)	2,299
Closing net debt/(cash)		37,081	35,152	25,129	4,081

Source: company reports, Edison Investment Research

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