

Private Client Research

8 August 2019

CSL Ltd

FY19 result preview

CSL Ltd (CSL) is due to report its FY19 result on Wednesday, 14 August and Ord Minnett provides its forecasts in Table 1 below.

We are confident the company will deliver a reasonable sales result given a tight market for immunoglobulins, continued solid growth in specialty sales, and an expected recovery in albumin and coagulant revenues. This should ensure a profit number at or above the top end of the FY19 guidance range as gross margins lift.

We expect FY20 guidance to come in below our forecasts, however, as management maintains its conservative approach.

We maintain our Accumulate rating on CSL with a \$210.00 target price.

- **Guidance** – We expect management to guide to a net profit range below our forecast and consensus expectations – we forecast 14% net profit growth. However, given the solid operating conditions and strong results in recent years, we expect consensus forecasts to remain above guidance post the release.
- **Margins** – We forecast a lift in FY19 gross margins supported by product mix and upward pressure on prices, offset only partially by rising plasma costs.
- **R&D costs and capex** – We forecast a lift in R&D spending, primarily reflecting the ramping up of the CSL112 trial. Capital expenditure is lifting to support capacity additions to meet demand.
- **New accounting standards immaterial** – The shift to accounting standard AASB16 in FY20 (requiring companies to bring the majority of operating leases on-balance sheet) should have minimal impact on CSL's accounts.

Table 1: CSL earnings forecasts

US\$m	FY18A	2H19E	FY19E	2H19 %gth	FY19 %gth
Total operating revenue	7,915	4,032	8,537	7.0%	7.8%
Cost of sales	-3,577	-1,783	-3,665	2.3%	2.5%
Gross profit	4,339	2,249	4,872	11.0%	12.3%
Margin	54.8%	55.8%	57.1%	2.0%	2.3%
Operating profit (EBIT)	2,335	1,073	2,626	18.6%	12.4%
Finance costs net	-99	-94	-186	98.2%	87.8%
Income tax expense	-539	-215	-515	0.4%	-4.5%
Net profit	1,697 ¹	764	1,924	18.9%	13.4%
EPS	373.9 ¹	168.0	423.3	18.6%	13.2%
DPS	172	109	194	17.2%	12.8%

Source: Company data, Ord Minnett estimates.

Note 1: FY18 results adjusted for one-off favourable COGS item, consistent with management guidance

Recommendation

Accumulate

Risk

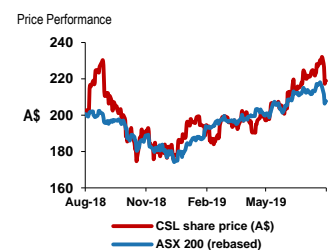
Medium

Target price

\$210.00

Last price

\$218.88



Private Client Research

Price Performance



Company Data

Shares O/S (mn)	453
52-week range (\$)	233.05-173.00
Market cap (\$ mn)	67,012.81
Exchange rate	1.48
Free float(%)	99.3%
3M - Avg daily vol (mn)	0.83
3M - Avg daily val (\$ mn)	119.1
Volatility (90 Day)	20
Index	ASX 100
BBG BUY HOLD SELL	6 5 2

Key Metrics (FYE Jun)

\$ in millions	FY18A	FY19E	FY20E	FY21E
Financial Estimates				
Revenue	7,915	8,537	8,984	10,007
Adj. EBITDA	2,632	2,972	3,320	3,747
Adj. EBIT	2,335	2,626	2,931	3,315
Adj. net income	1,697	1,924	2,193	2,495
Adj. EPS	3.74	4.23	4.82	5.49
BBG EPS	3.79	4.22	4.50	5.18
Cashflow from operations	1,902	1,851	2,449	2,373
FCFF	1,199	870	1,360	1,233
Margins and Growth				
Revenue growth	14.3%	7.8%	5.2%	11.4%
EBITDA margin	33.3%	34.8%	37.0%	37.4%
EBITDA growth	28.5%	12.9%	11.7%	12.9%
EBIT margin	29.5%	30.8%	32.6%	33.1%
Net margin	21.4%	22.5%	24.4%	24.9%
Adj. EPS growth	27.6%	13.2%	13.9%	13.7%
Ratios				
Adj. tax rate	24.1%	21.1%	22.1%	22.0%
Interest cover	26.6	25.6	28.4	32.3
Net debt/Equity	0.9	0.7	0.5	0.5
Net debt/EBITDA	1.4	1.3	1.1	1.0
ROCE	22.7%	22.6%	21.7%	21.8%
ROE	46.9%	41.3%	37.3%	34.5%
Valuation				
FCFF yield	1.8%	1.3%	2.0%	1.8%
Dividend yield	1.2%	1.3%	1.5%	1.8%
EV/EBITDA	19.4	17.2	15.4	13.6
Adj. P/E	39.6	34.9	30.7	27.0

Summary Investment Thesis and Valuation

We think CSL is well positioned for another year of mid-teens earnings growth supported by key therapies – Idelvion, Haegarda and Hizentra – and robust demand. Additionally, the ongoing ramp-up of the influenza business offers another source of earnings growth. While there are a number of competitive threats on the horizon, we recognise that CSL has regularly faced competitive challenges and has a well-deserved reputation for developing or finding new sources of income to support earnings growth. With the stock offering attractive earnings growth and the potential for the recent trend of management guidance upgrades to continue, we are Accumulate CSL.

Valuation

Our Dec-19 price target is based on a DCF methodology (terminal growth assumption of 3.0%, WACC 6.8%) with a five-year forecast period. Our spot valuation is rolled forward at the cost of equity, less any dividends to be paid between now and the price target date. Our valuation uses a spot AUD/USD forecast of 0.68.

Performance Drivers

Market	44%
Sector	53%
Macro	1%
Style	0%
Idiosyn.	2%

Factors	6M Corr	1Y Corr
Market: MSCI Australia	0.13	0.66
Sect: Health Care	0.98	0.98
Ind: Pharma, Bio, Life Sci	0.94	0.93
Macro:		
US 10yr Breakeven	-0.33	-0.22
Economic Surprise	0.34	0.18
GS Australia FCI	-0.13	-0.17
Quant Styles:		
LowVol	-0.15	-0.28
Value	-0.30	-0.27
Momentum	0.19	0.22

Sources for: Performance Drivers – Bloomberg, Ord Minnett Quantitative and Derivatives Strategy; all other tables are company data and Ord Minnett estimates.

Key issues to watch for

- **Immunoglobulin sales only constrained by plasma supply.** With competitors reporting products in shortage we expect CSL will deliver another period of strong sales volume growth of both its intravenous and subcutaneous formulations. Reported sales should also be boosted by upward price movement especially in Europe and continued mix shift to higher value subcutaneous Ig.
- **Albumin recovery expected despite delays to Chinese licence.** After only modest albumin sales growth in the first half we expect a return to historic growth rates, on a constant currency basis, in the recent months. This reflects a focus on improving supply to China from the licensed European facilities. However the weakening of the Yuan will weigh on reported results.
- **Idelvion has likely continued to win share but Afstylia under pressure.** We expect the transition to extended half-life therapies in the haemophilia B therapy market will support another period of strong growth in sales of Idelvion. Sales of Afstylia have likely stalled in the face of new competition from Roche's Hemlibra.
- **Specialty sales strong supported by Haegarda and Kcentra.** Overall we have forecast 13% growth in specialty sales as slower growth from key therapies – Haegarda and Kcentra – was offset by an easy comparable period result. With supply constrained and in the face of competition from Takeda's Takhyzro we expect Haegarda sales to have expanded but at a slowing pace.
- **Plasma derived coagulant sales to rebound.** While demand for coagulants has presumably moderated due to competition from new therapies we expect CSL to report a stronger second half as manufacturing bottlenecks were addressed. Notably demand for the treatment of von Willebrand disease continues to grow and accounts for the bulk of CSL's sales in this category.
- **Behring gross margin expansion expected.** Gross margin from the Behring division improved in 1H19 and we expect this trend has continued in recent months support by mix trends, particularly the growth of high margin specialty therapies and upward price pressure for immunoglobulins. These trends should be more than sufficient to offset the modest lift in plasma costs due to the rapid roll-out of new collection centres.

Segmental forecasts

Table 2: Segment forecasts

Behring	FY18A	2H19E	FY19E	2H19 %gth	FY19 %gth
Sales of goods	6,678	3,683	7,151	8.7%	7.1%
Royalties revenue	125	71	156	15.2%	25.0%
Other	25	8	10	-64.3%	-59.5%
Total Revenue	6,827	3,761	7,317	8.3%	7.2%
EBITDA	2,580.3	1,369.2	2,759.2	17.3%	6.9%
D&A	-252.4	-153.4	-294.1	17.0%	16.5%
EBIT	2,327.9	1,215.8	2,465.1	17.3%	5.9%

Source: Company data, Ord Minnett estimates

Seqirus	FY18A	2H19E	FY19E	2H19 %gth	FY19 %gth
Sales of goods	910	178	1,052	-11.3%	15.5%
Pandemic Facility Fees	118	62	127	7.5%	8.0%
Other	60	31	40	-21.1%	-33.2%
Total Revenue	1,088	271	1,219	-8.9%	12.0%
EBITDA	96.7	-116.2	212.7	7.8%	120.0%
D&A	-44.3	-26.8	-52.0	10.3%	17.4%
EBIT	52.4	-143.0	160.7	8.3%	206.7%

Source: Company data, Ord Minnett estimates

Table 3: Behring sales forecasts

US\$m	FY18A	2H19E	FY19E	2H19 %gth	FY19 %gth
Immunoglobulins	3,145	1,764	3,472	11.2%	10.4%
Albumin	921	487	907	3.8%	-1.5%
Haemophilia					
Recombinants	533	280	561	2.7%	5.3%
Plasma	580	274	529	-3.1%	-8.7%
Specialty	1,490	868	1,672	12.4%	12.2%
Other sales	9	9	10	107.3%	11.8%
Total Product Sales	6,678	3,683	7,151	8.7%	7.1%
Other Income	25	8	10	-64.3%	-59.5%
Royalties & Licence Revenue	125	71	156	15.2%	25.0%
Total Sales	6,827	3,761	7,317	8.3%	7.2%

Source: Company data, Ord Minnett estimates. Note: Ruide estimate for FY18 is not disaggregated from product sales.

Minor earnings revisions following model review

Following a review of our estimates ahead of the result we have made some relatively minor adjustments to our forecasts as per the table below. The key revision was an adjustment to the expected contribution from Seqirus in FY20 to reflect increased fill and finish costs.

Table 4: CSL earnings forecasts

US\$m	FY19E			FY20E		
	Previous	Revised	% chg	Previous	Revised	% chg
Behring	7,307	7,317	0.1%	7,439	7,604	2.2%
Seqirus	1,219	1,219	-	1,380	1,380	-
Revenue	8,526	8,537	0.1%	8,818	8,984	1.9%
Behring	2,759	2,759	0.0%	2,865	2,845	-0.7%
Seqirus	212.7	212.7	-	308.7	297.8	-3.5%
EBITDA	2,972	2,972	0.0%	3,174	3,142	-1.0%
Margin	34.9%	34.8%	-0.0%	36.0%	35.0%	-1.0%
D&A	344.5	346.1	0.5%	385.5	388.7	0.8%
Behring	2,466.4	2,465.1	-0.1%	2,534.1	2,510.1	-0.9%
Seqirus	160.7	160.7	-	254.5	243.6	-4.3%
EBIT	2,627.1	2,625.8	-0.1%	2,788.6	2,753.7	-1.3%
Margin	30.8%	30.8%	-0.1%	31.6%	30.7%	-1.0%
Net Interest	185.8	186.2	0.2%	116.1	117.0	0.8%
PBT	2,441.4	2,439.6	-0.1%	2,672.5	2,636.7	-1.3%
Tax	515.5	515.1	-0.1%	587.9	580.1	-1.3%
NPAT Reported	1,925.8	1,924.5	-0.1%	2,084.5	2,056.7	-1.3%
Add back impact of Chinese distribution chg	-	-	-	136.7	136.7	-
NPAT - Underlying	1,925.8	1,924.5	-0.1%	2,221.2	2,193.3	-1.3%
EPS Reported	423.7	423.3	-0.1%	458.5	452.2	-1.4%
EPS - Underlying	423.7	423.3	-0.1%	488.6	482.3	-1.3%
DPS (cps)	194	194	-	229	225	-1.7%

Source: Ord Minnett estimates

Investment Thesis, Valuation and Risks

CSL Ltd (*Accumulate; Price Target: \$210.00*)

Investment Thesis

We think CSL is well positioned for another year of mid-teens earnings growth supported by key therapies – Idelvion, Haegarda and Hizentra – and robust demand. Additionally, the ongoing ramp-up of the influenza business offers another source of earnings growth. While there are a number of competitive threats on the horizon, we recognise that CSL has regularly faced competitive challenges and has a well-deserved reputation for developing or finding new sources of income to support earnings growth. With the stock offering attractive earnings growth and the potential for the recent trend of management guidance upgrades to continue, we are Accumulate CSL.

Valuation

Our Dec-19 price target of \$210 is based on a DCF methodology (terminal growth assumption of 3.0%, WACC 6.8%) with a five-year forecast period. Our spot valuation is rolled forward at the cost of equity, less any dividends to be paid between now and the price target date. Our valuation uses a spot AUD/USD forecast of 0.68.

Risks to Rating and Price Target

Downside risks to our share price target and Accumulate rating include any material deterioration of conditions in the market of CSL's core plasma business. A slower turnaround of the Seqirus business also presents a risk. We remain cautious that news flow could also weigh on the stock if competitors' trial data results present a significant negative read-through for CSL.

CSL Ltd

\$ in millions, year end Jun							
Profit And Loss	FY17	FY18	FY19E	FY20E	FY21E	Valuation Summary	\$m \$ps
Revenue	6,923	7,915	8,537	8,984	10,007	Current mkt capitalisation	99,125.35 218.84
Revenue growth	13.2%	14.3%	7.8%	5.2%	11.4%		
COGS	0	0	0	0	0	Price Target	210.00
Operating Expenses	(4,875)	(5,283)	(5,565)	(5,664)	(6,259)	Capital growth to price target	(4.0%)
EBITDA	2,048	2,632	2,972	3,320	3,747		
EBITDA growth	17.4%	28.5%	12.9%	11.7%	12.9%	Trading Multiples	FY17 FY18 FY19E FY20E FY21E
EBITDA margin	29.6%	33.3%	34.8%	37.0%	37.4%	PE Pre-abnormals	50.5 39.6 34.9 30.7 27.0
Amortisation	(71)	(58)	(74)	(83)	(93)	PE Reported	50.5 38.8 34.9 32.7 27.0
Depreciation	(208)	(239)	(272)	(306)	(340)	EV/EBITDA	24.9 19.4 17.2 15.4 13.6
EBIT	1,769	2,335	2,626	2,931	3,315	EV/EBIT	28.9 21.9 19.4 17.4 15.4
Other Income	-	-	-	-	-		
Other Expenses	-	-	(70)	-	-	Key Ratios	FY17 FY18 FY19E FY20E FY21E
Net Interest	(79)	(99)	(116)	(117)	(116)	Dividend Yield	0.9% 1.2% 1.3% 1.5% 1.8%
Pre-Tax Profit	1,690	2,236	2,440	2,814	3,199	Franking	0.0% 0.0% 0.0% 0.0% 0.0%
Tax	(352)	(539)	(515)	(621)	(704)	Return on Assets (%)	16.0% 17.1% 16.8% 17.2% 17.6%
Tax Rate	20.9%	24.1%	21.1%	22.1%	22.0%	Return on Equity (%)	46.7% 46.9% 41.3% 37.3% 34.5%
Minorities	0	0	0	0	0	ROIC (%)	21.8% 22.4% 22.6% 22.0% 21.7%
Abnormals (post tax)	0	32	0	(137)	0		
Reported NPAT	1,337	1,729	1,924	2,057	2,495	Leverage	FY17 FY18 FY19E FY20E FY21E
						Gearing (Net Debt / Equity)	1.0 0.9 0.7 0.5 0.5
Normalised NPAT	1,337	1,697	1,924	2,193	2,495	Gearing (ND / (ND + E))	49.7% 46.7% 41.9% 35.3% 31.2%
Growth	16.0%	26.9%	13.4%	14.0%	13.7%	Net Debt / EBITDA	1.5 1.4 1.3 1.1 1.0
						EBIT Interest Cover (x)	22.4 23.6 22.6 25.1 28.5
End of Period Shares	453	452	453	453	453		
EFPOWA	456	454	455	455	455	Balance Sheet	FY17 FY18 FY19E FY20E FY21E
						Cash	845 815 869 1,099 1,042
Reported EPS	2.94	3.82	4.25	4.54	5.51	Receivables	1,170 1,478 1,798 1,834 2,094
Normalised EPS	2.93	3.74	4.23	4.82	5.49	Investments	0 0 0 0 0
Growth	17.7%	27.6%	13.2%	13.9%	13.7%	Inventories	2,576 2,693 2,962 2,948 3,447
						Other Current Assets	11 8 31 31 31
DPS	1.36	1.72	1.94	2.25	2.61	Total Current Assets	4,602 4,994 5,660 5,912 6,613
Growth	7.9%	26.5%	12.8%	16.0%	16.0%	Net PPE	2,943 3,551 4,262 5,137 6,028
						Total Intangibles	1,055 1,803 1,882 1,930 1,971
DPS/EPS payout	46.4%	45.2%	45.8%	49.8%	47.6%	Other Non Current Assets	523 427 347 362 362
						Total Non Current Assets	4,521 5,781 6,491 7,429 8,361
Cash Flow Statement	FY17	FY18	FY19E	FY20E	FY21E	Total Assets	9,123 10,775 12,151 13,341 14,975
Net Profit for Cashflow	1,337	1,729	1,924	2,057	2,495	Creditors	1,156 1,257 1,294 1,312 1,454
Depreciation & Amortisation	279	297	346	389	433	Current Borrowings	123 226 541 541 541
Non Cash Items	-	-	-	-	-	Current Tax Provisions	203 248 114 123 185
Working Capital Changes	(327)	(324)	(552)	(5)	(616)	Other Current Provisions	134 181 175 175 175
Other Operating Cashflows	(43)	200	131	9	62	Other Current Liabilities	3 3 3 3 3
Cashflow from Operating Activities	1,247	1,902	1,851	2,449	2,373	Total Current Liabilities	1,618 1,915 2,126 2,153 2,357
						Non Current Creditors	0 0 0 0 0
Capex	(689)	(779)	(1,072)	(1,180)	(1,231)	Non Current Borrowings	3,853 4,161 4,108 4,108 4,108
Net Acquisitions	(172)	(754)	(175)	(131)	(134)	Deferred Tax Liabilities	138 194 200 200 200
Other Investing cashflows	(2)	(2)	(1)	0	0	Other Non Current Provisions	33 35 33 33 33
Investing Cash Flow	(863)	(1,534)	(1,248)	(1,311)	(1,365)	Other Non Current Liabilities	62 164 159 37 37
						Total Non Current Liabilities	4,341 4,780 4,794 4,672 4,672
Inc/(Dec) in Borrowings	800	423	259	0	0	Total Liabilities	5,959 6,695 6,920 6,825 7,029
Equity Issued	(302)	(123)	20	0	0	Equity	(4,534) (4,635) (4,615) (4,615) (4,615)
Dividends Paid	(601)	(672)	(805)	(908)	(1,066)	Other Equity	0 0 0 0 0
Other Financing Cashflows	(0)	0	(6)	0	0	Reserves	294 224 217 217 217
Financing Cash Flow	(104)	(372)	(532)	(908)	(1,066)	Retained Profits	7,404 8,490 9,629 10,915 12,344
						Outside Equity Interests	0 0 0 0 0
Net Cash Flow	288	(30)	55	230	(57)	Total Shareholders Equity	3,164 4,080 5,231 6,516 7,946
						Net Debt	3,131 3,572 3,779 3,549 3,606

Source: Company reports and Ord Minnett estimates.

Please contact your Ord Minnett Adviser for further information on our document.

Guide to Ord Minnett Recommendations

Our recommendations are based on the total return of a stock – nominal dividend yield plus capital appreciation – and have a 12-month time horizon.

SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historical volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.

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