

Aspen Pharmacare Holdings Ltd

Health care

Company Update Report


Hold

Aspen Earnings at Risk Amid Vaccine Disputes

Analyst recommendation

Table 1: Analyst recommendation

Counter	Share price	Intrinsic value	Difference
Aspen Pharmacare	R121	R131	8.5% Upside

31 May 2025

Executive summary

1. Aspen is facing heightened uncertainty due to the unresolved dispute over its mRNA manufacturing contract, which could reduce EBITDA by up to R2 billion. The potential risk of a R770 million impairment further weighs on near-term profitability. Meanwhile, delays in regulatory approvals for insulin products are also pushing back expected revenue contributions, despite secured take-or-pay agreements.
2. Key points in the investment thesis are:
 - a. Aspen is facing increased regulatory scrutiny in the US following an FDA warning letter, which has resulted in tighter compliance monitoring at a critical manufacturing site. This has elevated external perception risks in the near term specific to Aspen while there is a general drive in the US to move manufacturing domestically.
 - b. Exposure to evolving trade dynamics: Potential tariff developments in the US market could increase cost structures and temporarily challenge export competitiveness in select product categories.
 - c. Aspen is strategically entering the obesity and diabetes treatment markets via its partnership with Eli Lilly (Mounjaro) and plans to manufacture GLP-1 drugs by FY26, positioning it to benefit from rising global demand.
 - d. Following the Sandoz China acquisition, Aspen plans to restructure the business in H2 FY25 to improve flexibility and regulatory readiness.
 - e. Regulatory reforms in South Africa, including SAHPRA's priority review framework, may accelerate approvals for key medicines and support Aspen's local manufacturing strategy.
3. APN has an Intrinsic value of R131 per share (down from R206 previously) and a Hold recommendation.
 - a. The unresolved mRNA contract dispute and insulin approval delays have introduced material near-term risk to Aspen's EBITDA.
 - b. Aspen is yet to secure major new contracts that could replace the lost mRNA revenue.
 - c. The timeline for recovering these revenues remains uncertain, adding to near-term earnings pressure.



Table 2: Qualitative summary

Factor review	Rating	Description
Valuation		
Growth		2Yr Revenue CAGR is expected at 6.7%. Pressures such as volume-based procurement policies, cost inflation and strategic pivot toward contract manufacturing has led to a long-term decline in its operating margin. However, various catalysts exist that could drive higher near-term growth.
Valuation		The company is valued on a forward EV/EBITDA multiple with an 8.5% upside.
Dividend yield		Dividend yield of 3.0% with reasonably stable growth. Dividend yield below peers but high compared to its own history.
Issuance		Small amount of share buybacks in the last two years.
Catalyst		<ul style="list-style-type: none"> Commercial launch of GLP-1 (semaglutide) generics by FY2026, tapping into the high-growth obesity and diabetes market. Restructuring of China operations post-Sandoz acquisition to improve efficiency and growth readiness. Execution of recently acquired Viatris and Sandoz portfolios, particularly in Latin America and China. Sterile manufacturing contract ramp-up, especially with global players like Novo Nordisk and Eli Lilly.
Quality		
Quality of earnings		Aspen's earnings quality is currently under pressure due to temporary disruptions, including the unresolved mRNA contract dispute and delays in insulin regulatory approvals. Earning impacted by impairments especially as Intangibles and goodwill represents ~50% of assets.
Moat		Large, diversified portfolio of products and a big international presence. Barriers to entry make it difficult for any new competitors to enter the market and contracts last five to 10 years.
Management and governance		Long tenured management team with the founder, Stephen Saad, still managing the company. Management has a track record of acquisitions which have had mixed outcomes.
Balance sheet		Neutral balance sheet with Net debt to Ebitda sitting at 2.2x.
Macro and quantitative sensitivities		
Risks	Upside risk <ul style="list-style-type: none"> Successful resolution of the mRNA manufacturing dispute, which could restore EBITDA and improve investor sentiment. Strong demand and expansion in the GLP-1 and obesity treatment pipeline, tapping into high-growth global markets. 	
	Downside risk: <ul style="list-style-type: none"> Company profits are highly susceptible to exchange rate fluctuations. Possible acquisitions which will not deliver enough value as we have seen with management in the past. Ongoing litigation may affect Aspen's standing with existing or potential global partners, especially in contract manufacturing. 	



		<ul style="list-style-type: none"> Regulatory scrutiny in the US. Tariffs and move to domestically manufacture in the US. Global healthcare cost containment such as volume-based procurement policies in China.
Regulation		The medical industry is strictly regulated with Single Exit Pricing (SEP) restricting price increase in South Africa. Drugs also need approval from various authorities.
ESG		FactSet does not have an ESG rating for this company.
Momentum price		Price momentum is negative, share price is below the 200 moving average. Share price trading below the 24-day moving average and 55-day moving average.
Momentum earnings		Neutral earnings momentum. In the last three months, the earnings have been revised down by 37% for the next financial year.

Source: PSG Wealth

Most recent results

On 3 March 2025, Aspen released its H1 FY25 financial results for period ended 31 December 2024.

- Total sales increased by 4% to R21.9 billion, up by 9% when adjusted for currency.
- EPS (cents) increased by 3% from 520.8 (cents) in December 2023 to 537.7 (cents) in December 2024.
- EBITDA margins increased from 24.6% to 26.5% as the company unwinds an inventory backlog of Heparin.
- Aspen will restructure Sandoz's China business in the second half of 2025 to enhance its capacity and flexibility for future opportunities and challenges.

Overview

In 2018, Aspen changed its segmental breakdown. Previously, the three segments were Therapeutic Focused Brands, Other Pharmaceuticals and Nutritionals. Up until FY23 the segments were Commercial Pharmaceuticals (broken down into Sterile Focus Brands and Regional Brands) and Manufacturing. As of FY24, Aspen has further split the commercial pharmaceutical division into prescription, over-the-counter (OTC), and injectables as the business updates its operating model.

Aspen now reports its results in these two main segments, each with three sub segments:

Commercial Pharmaceuticals

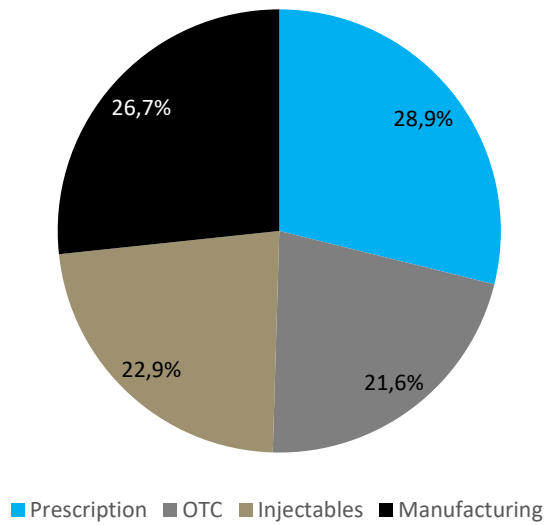
- Prescription
- Over-the-counter
- Injectables

Manufacturing

- Active pharmaceutical ingredients (API)
- Finished dose form (FDF)
- Heparin

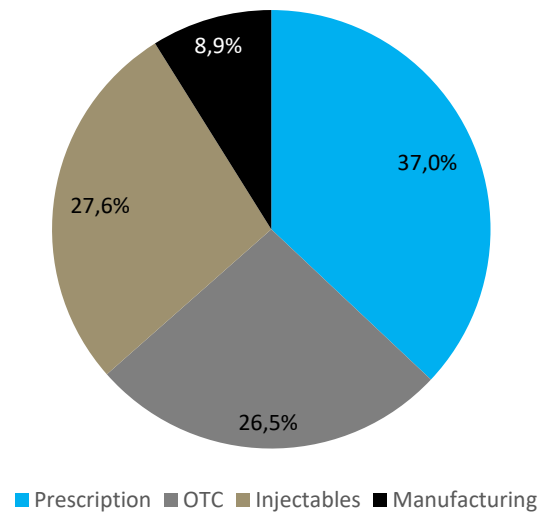


Graph 1 1H25 revenue breakdown



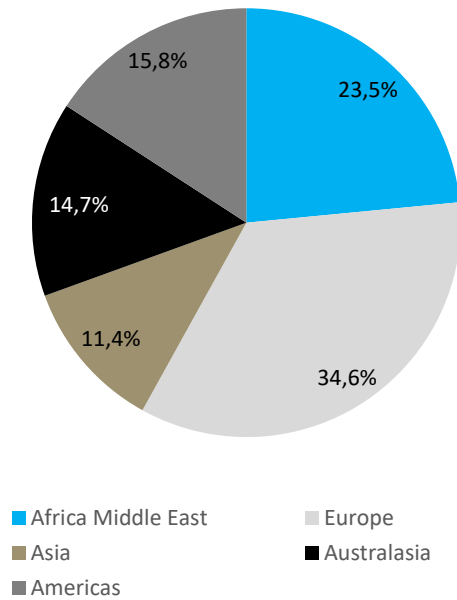
Source: Company Financials

Graph 2: 1H25 gross profit breakdown:



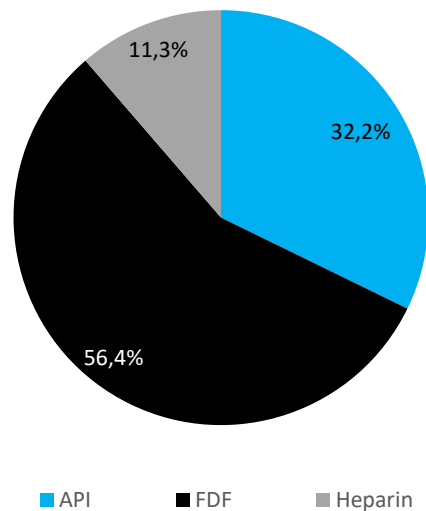
Source: Company Financials & PSG Wealth Research

Graph 3: 1H25 geographic revenue breakdown



Source: Company Financials & PSG Wealth Research

Graph 4: 1H25 Manufacturing revenue breakdown



Source: Company Financials & PSG Wealth Research



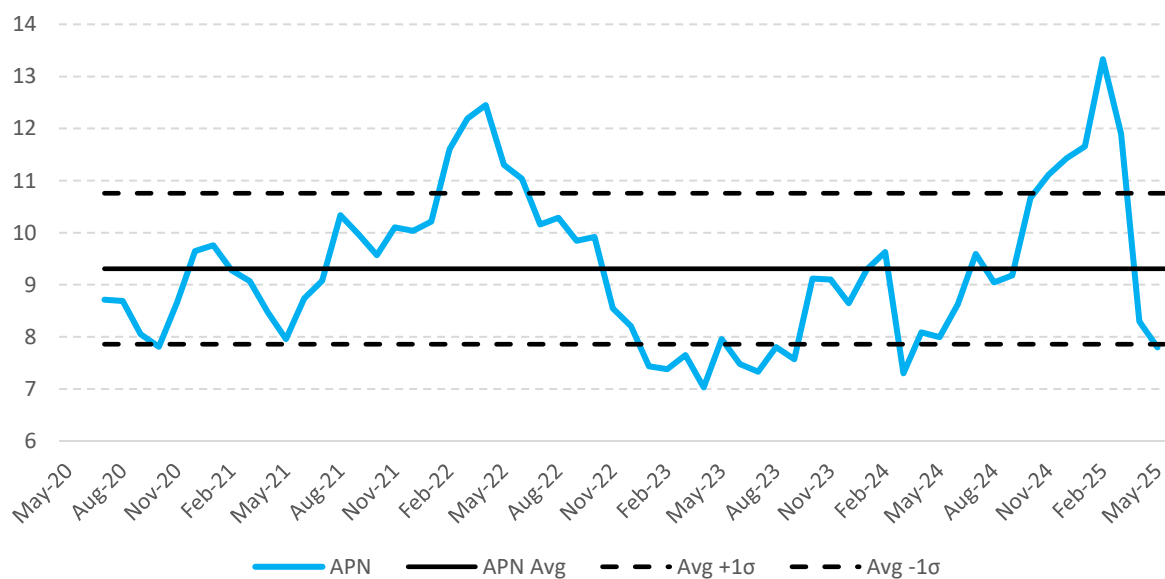
Valuation summary

Aspen is valued using an EV/EBITDA multiple, applying differentiated multiples across three scenarios to reflect varying outcomes of the ongoing mRNA manufacturing dispute. Bear Case reflects full impact from the mRNA dispute, applying a lower multiple to account for heightened risk and reduced investor confidence. Base Case assumes partial resolution and a more stable operating outlook, using a multiple of 8x. Bull Case reflects minimal disruption and full realisation of Aspen's operational and pipeline potential, justifying a premium multiple of 9x.

Table 3: Valuation Summary

	Bear	Base	Bull
2026 EBITDA (R'm)	9 532	10 562	11 592
Consensus EBITDA (R'm)	11 290	11 290	11 290
EV/EBITDA multiple assumptions (x)	7	8	9
Discounted enterprise value (R'm)	64 862	82 139	101 417
Net debt/(Cash) (R'm)	24 118	24 118	24 118
Equity value (R'm)	40 744	58 021	77 299
Shares in Issue	446	446	446
Intrinsic value per case (R)	91.36	130.09	173.32
Upside/downside per case	-24.6%	7.4%	43.1%
Case weight	30%	40%	30%
Intrinsic value (R)		R 131.44	
Current share price		R 121.15	
Upside/(downside)		8.5%	

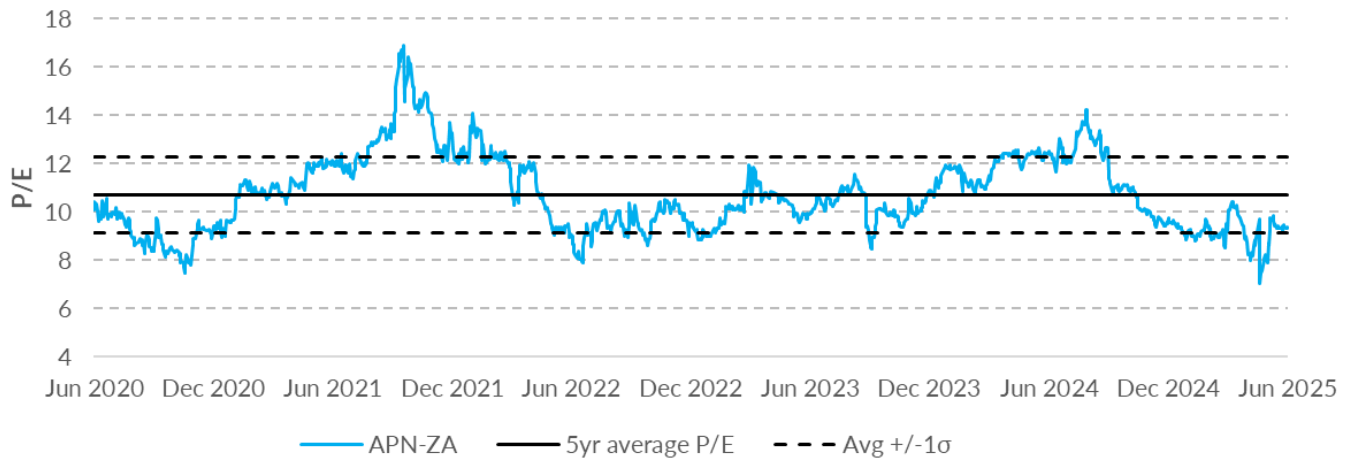
Graph 5: EV/EBITDA FY1 Multiple



Source: FactSet



Graph 6: P:E History



Source: FactSet

Financial analysis

Table 4: Share price information

52-week high	R252.96
52-week low	R105.75
Market value (bn)	R54.2
Price momentum	Negative
3m earnings revision	-37.2%
Fiscal year end	2025/06/30
Beta (3Y, daily)	0.73

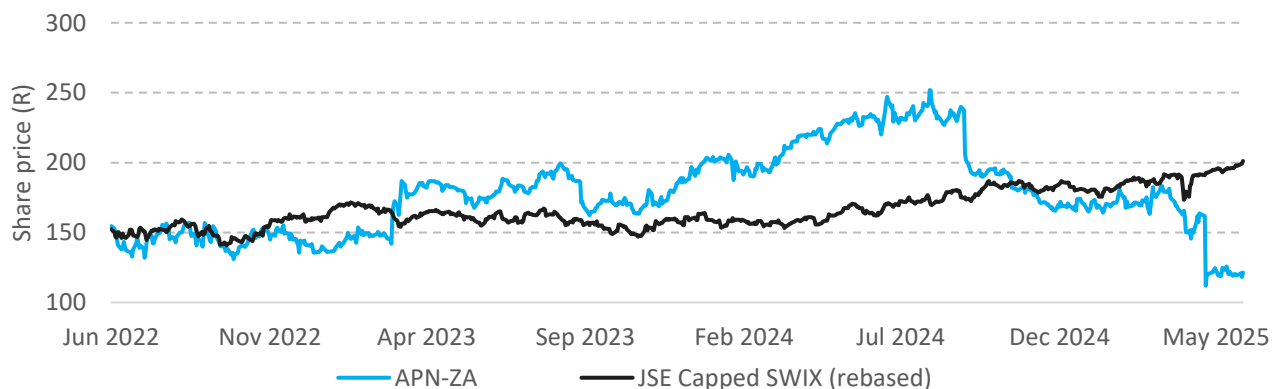
Source: FactSet

Table 5: Valuation multiples

Multiple	Latest:	Last note:
	June-2025	Mar-2025
P/E	9.4x	9.5x
P/S	1.2x	1.6x
P/B	0.6x	0.9x
P/CF	18.2x	680.4x
EV/EBITDA	7.3x	7.4x
EV/EBIT	9.0x	8.9x
EV/SALES	1.8x	2.1x
Dividend yield	2.8%	2.3%
FCF yield	-	-

Source: FactSet

Graph 7: Share price history vs benchmark



Source: FactSet



Table 6: Performance versus benchmark

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
Aspen Pharmacare Holdings	-26.4%	-0.3%	-25.7%	-26.7%	-47.8%	-30.4%	-23.8%	-13.1%	-66.8%
JSE Capped SWIX	12.2%	3.3%	9.9%	11.6%	20.1%	28.0%	28.7%	85.3%	46.8%

Source: FactSet

Table 7: Key competitors

Code	Price (local)	Market Cap (Rbn)	Sales FY0 (Rbn)	EBIT FY0 (Rbn)	Net Income FY0 (Rbn)	EV/EBIT	P/E (NTM)	Price % (3mo)	Price % (1YR)
APN-ZA	121.4	54	45	7	4	9.1x	9.5x	-25.7%	-47.8%
AIP-ZA	52.2	9	10	1	1	7.7x	8.9x	-5.2%	-5.2%
BAYN-DE	24.7	491	923	108	98	9.5x	5.3x	13.9%	-6.8%
VTRS-US	8.8	184	272	78	59	6.4x	3.8x	-8.3%	-17.2%

Source: FactSet

Table 8: Statement summary

Income statement (Rbn)	2019	2020	2021	2022	2023	2024	5Yr CAGR
Sales	35,5	33,6*	37,7	38,6	40,7	44,7	4,7%
Y/Y growth (%)	-	-6%	12%	2%	5%	10%	
Gross income	18,0	16,2	16,9	17,5	18,1	18,6	0.7%
Y/Y growth (%)	-	-10%	4%	4%	3%	-8%	
EBITDA	10,6	9,1	9,7	10,9	10,7	10,7	0.2%
Y/Y growth (%)	-	-14%	7%	12%	-2%	0%	
EBIT	9,4	7,6	8,0	9,2	8,9	8,7	-1.5%
Y/Y growth (%)	-	-19%	5%	15%	-3%	-2%	
Net income	1,6	3,3	4,7	6,4	5,2**	4,4	22.4%
Y/Y growth (%)	-	106%	42%	36%	-19%	-15%	
EPS (Rand)	4,6	10,6	9,6	14,3	11,7	9,9	16.6%
Y/Y growth (%)	-	130%	-9%	49%	-18%	-15%	

*Revenue impacted by Covid-19.

**Currency headwinds and increase in financing costs.

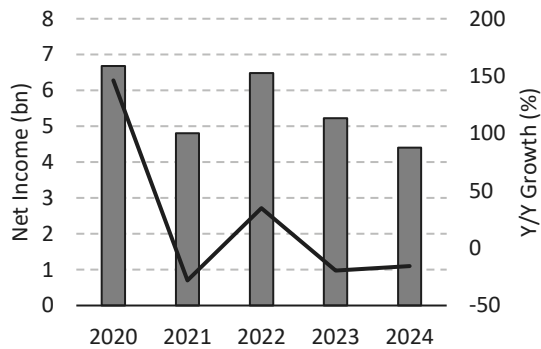
Balance sheet and cash flow (Rbn)	2019	2020	2021	2022	2023	2024	5Yr CAGR
Capex	3,5	2,6	3,4	2,6	3,1	5,5	9,5%
Cash from operations	9,5	11,3	9,5	7,3	7,9	9,7	0,4%
Free cash flow	3,5	6,2	4,7	3,4	3,2	3,1	-2.4%
Y/Y growth (%)	-	77,0	-24,0	-28,0	-6,0	-3,0	
Cash and ST investments	9,0	7,1	8,5	6,2	10,9	12,3	6,4%
Total assets	123,0	133,2	109,7	111,4	134,3	139,2	2,5%
ST debt	8,2	6,3	24,6	11,7	7,9	11,3	6,6%
LT debt	39,7	36,0	0,3	10,6	21,4	25,1	-8,8%



Ratios (Rbn)	2019	2020	2021	2022	2023	2024	5Yr CAGR
Gross margin (%)	50,7	48,3	44,8	45,4	44,5	41,6	-3,9%
EBIT margin (%)	26,5	22,6	21,3	23,8	22,0	19,5	-6,0%
Net income margin (%)	4,7	10,0	12,7	16,8	12,8	9,8	15,8%
Current ratio	1,8	2,0	0,9	1,5	1,9	1,8	0,0%
Total debt to equity	88,5	61,1	37,9	31,4	34,0	43,0	13,4%
Total debt to assets	39,2	31,8	22,7	20,0	21,8	26,2	-7,7%
ROA (%)	1,3	2,6	4,0	5,9	4,3	3,2	19,7%
ROE (%)	3,2	5,5	7,1	9,5	6,7	5,1	9,8%

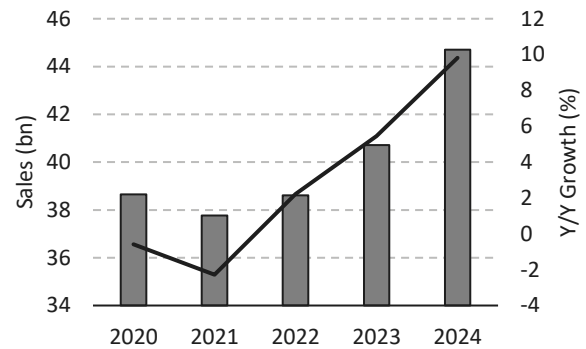
Source: FactSet

Graph 8: Annual sales



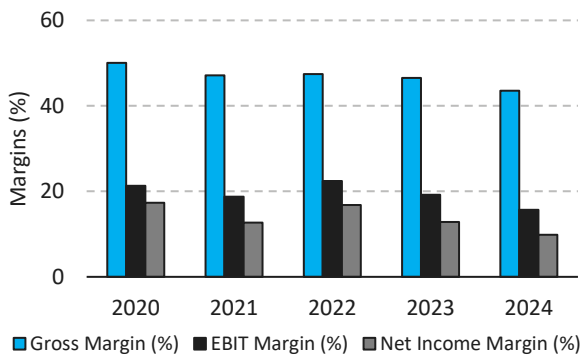
Source: FactSet

Graph 9: Annual net income



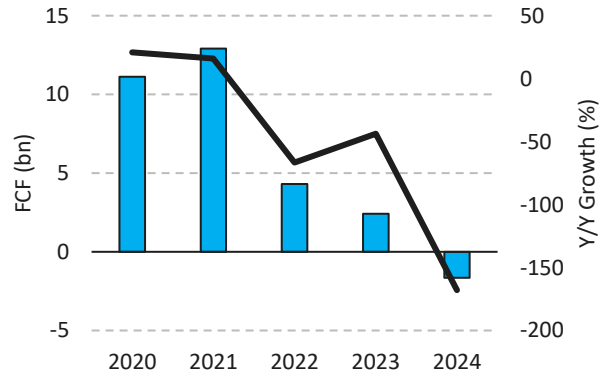
Source: FactSet

Graph 10: Gross, EBIT and net margins



Source: FactSet

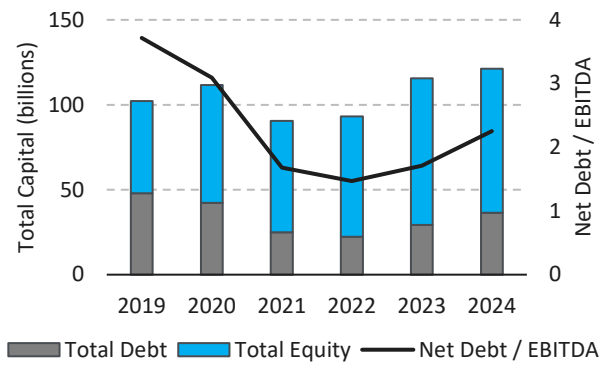
Graph 11: Free cash flow



Source: FactSet

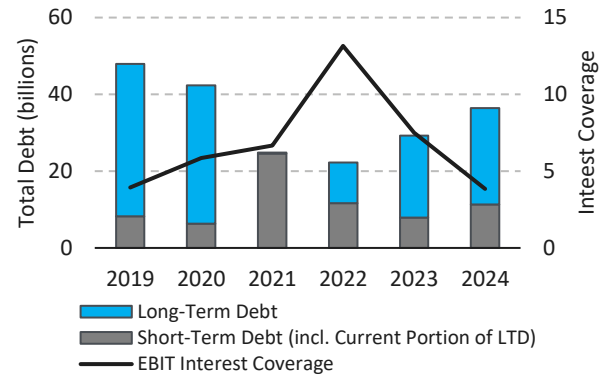


Graph 12: Capital structure and net debt/EBITDA



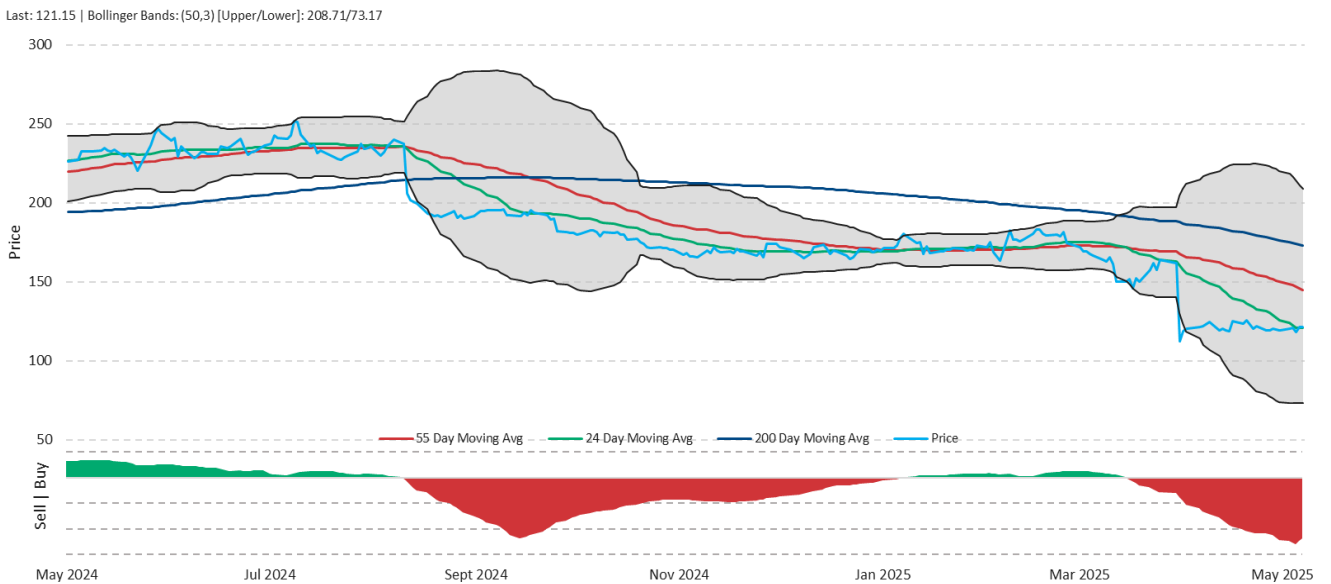
Source: FactSet

Graph 13: Total debt and interest coverage



Source: FactSet

Graph 14: Price momentum



Source: PSG Wealth Research



Contact details

Muneeb Nana

Equity Analyst

+27 (11) 996 5200

Muneeb.Nana@psg.co.za

Pierre Muller, CA(SA), CFA

Head of Equity Solutions

+27 (11) 996 5200

Pierre.Muller@psg.co.za

The purpose of this document is to provide information and is not available for external distribution.

About PSG Wealth recommendations

PSG Wealth provides medium- to long-term recommendations based on the premium or discount that a company trades at, relative to our estimation of intrinsic value. We expect companies to re-rate towards their intrinsic value over a one- to three-year period. The long-term valuation is a quantitative-based valuation based on the fundamental performance of each company in the past, as well as their future forecasts. The fundamental features used are based on profitability and includes EPS growth and return on equity (ROE).

House view guidance: House view guidance is indicative only. Each client's circumstances are different, and it remains critical that indicative guidance is discussed with your portfolio manager or financial adviser.

Date and share price: The date the report was reviewed and approved by the portfolio committee is likely to precede the release date and price on the report.

*Share price as at closing.

Disclaimer

PSG Wealth has issued this publication. It is confidential and released for the information of clients only. It shall not be reproduced in whole or in part without our permission. Any unauthorised use, duplication, redistribution or disclosure is prohibited by law. This publication is not to be construed as providing investment services in any jurisdiction where the provision of such services is not permitted. It is provided for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security, and we have no responsibility whatsoever arising here from or in consequence thereof. The user assumes the entire risk of any use made of this publication. Any decision to purchase securities mentioned in this publication must consider existing public information on such security or any registered prospectus. The information contained herein has been obtained from sources which and persons whom we believe to be reliable but is not guaranteed for accuracy, completeness or otherwise. Opinions and estimates constitute our judgement as of the date of this material and are subject to change without notice. This publication does not attempt to identify the nature of the specific market or other risks associated with an investment. Leveraged /Geared positions in securities can accentuate the profit/loss made on investments. Geared /Leveraged positions are not recommended based on the information contained in this publication. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors and investors must make their investment decisions using their own objective advisers as they believe necessary and based upon their specific financial situations and investment objectives. Certain investments/recommendations may have tax implications for private customers. Investors should seek advice from a tax adviser before acting on information contained in this publication. The securities described herein are subject to fluctuation in price and/or value and investors may get back less than originally invested. Past performance is not indicative of future results. The employees responsible for producing this report may from time-to-time own securities mentioned herein.

Analyst certification

The research analyst who prepared this report certifies that the view expressed herein accurately reflects the research analyst's personal views about the subject, security and issuer and that no part of their compensation was, is or will be directly or indirectly related to specific recommendations or opinions contained in this report.

FSP

PSG Investment Management (Pty) Ltd is an authorised financial services provider. FSP: 44306

PSG Securities Limited is an authorised member of the JSE and authorised financial services provider. FPS: 42996