TRIGON

15 April 2025

Research

CEE | Equity Research

Neuca

Growth catalysts losing steam?

Buy

(Previous: Buy PLN 1050)

Target Price: 840 PLN

Upside: +24%

Neuca has built lasting competitive advantages in the independent pharmacy channel through continuous operational improvements and cost efficiency gains in pharmaceutical wholesale. At the same time, the Group is focusing on extending its value chain by developing pharmaceutical manufacturing and patient-centric businesses. Nevertheless, growth catalysts in the core business are weakening. Additionally, 2025 is unlikely to be a year when the clinical research segment's growth potential is priced in. We see room for more than a 10% downside to consensus EBITDA estimates for 2025–26. Following our forecast revision, we lower our previous valuation by approx. 20%, while maintaining our Buy recommendation.

Independent pharmacies continue to lose ground despite regulations aimed at limiting market concentration. As of end-2024, there were 7,400 independent pharmacies and 5,050 chain pharmacies. Over the last decade, the market share of independent pharmacies declined by 15pp to 43% (down 1pp y/y in 2024). The declining number of independent pharmacies (–4.5% average annual drop in 2022–24) supports the turnover growth of a typical independent pharmacy (+24% vs +18% for independents and chains respectively between 2022 and 2024). However, the key point is that monthly turnover per chain pharmacy is roughly 2x higher than for an independent one (PLN 429k vs PLN 221k), which directly affects the unit-level economics—particularly under persistent wage pressure, which remains the biggest challenge in pharmacy cost control. Moreover, changes in market shares between the two segments reflect diverging purchasing power trends. This creates pressure on margins in the independent channel, as pharmacy chains appear to have more flexibility to invest in pricing and maintain competitiveness.

Limited room for EBITDA margin expansion in core operations. In addition to the declining share of the independent channel, Neuca is experiencing a slowdown in the number of pharmacies joining its own partnership programs, especially the more advanced ones such as Świat Zdrowia and Partner (+5% y/y in 2024 vs 17% 3Y CAGR in 2021–23). Market saturation of Neuca's partnership programs is already high (~88% of value share in the independent channel), which limits future tailwinds to both revenue and margin growth. Notably, Synoptis Pharma's contribution to wholesale revenues rose by only +28bps in 2024 (vs an average of +52bps in 2022–23). Management noted that Synoptis is currently focusing on "medicalizing" its product portfolio, which temporarily softens the positive margin impact. We view this as a mild upside risk to our 2H25 forecasts. As a result, in 2024 Neuca was unable to fully offset cost pressure in its core operations (wholesale plus manufacturing), which led to a slight margin erosion. Other negative trends for core profitability include the ongoing consolidation among drug manufacturers—who are gaining pricing power—and the genericization of drugs, which puts downward pressure on both pricing and producer margins, ultimately affecting distributor profitability.

This won't be a year for CRO/SMO players. Similar to last year, we expect Humaneva's 2025 EBIT to be flat y/y. Management points to a weaker environment for CRO activity in 2024, driven by tighter sponsor funding. This particularly affects Kapadi, which operates in early-stage (Phase 1) trials—an area most exposed to backlog volatility and project delays, especially in the US (which accounts for over two-thirds of the global clinical trials market). The clinical research business is currently valued at USD 165m (based on the capital raise valuation at Humaneva), which implies an EV/EBITDA'27 multiple of 7.5x—roughly in line with peers. At this valuation, the rest of Neuca's business, primarily drug wholesale, is trading at P/E multiples of 15.5x, 13.0x, and 11.0x in 2025–27 respectively.

Valuation. Our target price is 100% based on a DCF model. Peer comparison with other pharma wholesale and retail distributors implies a fair value of PLN 699 per share. Based on our forecasts, Neuca offers a similar growth profile to peers (3Y EBITDA CAGR of 9%). Notably, CRO/SMO companies are currently trading at a slight discount to pharma distributors, reflecting weaker sentiment around their near-term growth potential. Key risks specific to Neuca include: (1) Intensifying margin pressure in independent pharmacies driven by growing competition from chains, which could negatively impact wholesale pricing policy; (2) Lower-than-expected contribution from pharmaceutical manufacturing to wholesale revenues, deeper market concentration among producers, supply chain disruptions, and greater drug genericization - all of which would hurt margins; (3) Weaker-than-expected contribution from patient-centric businesses to Group results, especially in clinical research, where we currently assume sales acceleration and margin recovery starting in 2026.

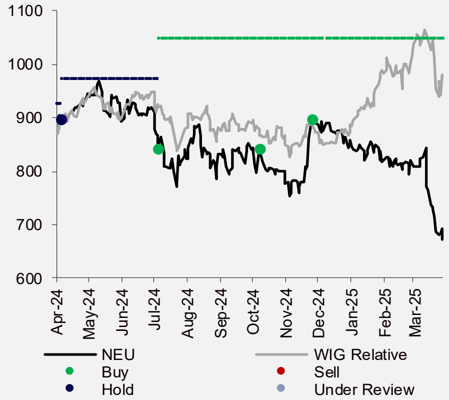
PLNm	2022	2023	2024	2025E	2026E	2027E
Revenues	11,232	11,813	12,316	13,265	14,133	14,869
EBITDA	341	380	395	428	458	508
EBIT	243	265	275	302	329	377
Net profit	149	159	172	191	226	271
Adj. Net profit*	137	146	154	168	199	233
P/E (x)	20.4	19.1	17.7	15.9	13.4	11.2
Adj. P/E (x)	22.1	20.8	19.7	18.1	15.3	13.0
EV/EBITDA (x)	9.7	9.0	8.9	8.0	7.2	6.2
P/BV (x)	3.5	3.1	2.7	2.4	2.2	1.9
DY	4.1%	2.4%	2.4%	2.4%	2.6%	2.9%

*Source: Company, Trigon, *adjusted for minority interest attributable to the clinical trials and insurance businesses*

FACT SHEET

Ticker			**NEU**
Sector			**Pharmaceutics**
Price (PLN)			**679**
52W range (PLN)			**730 / 969**
Shares outstanding (m)			**4.48**
Market Cap (PLNm)			**3,040**
Free-float			**34%**
3M Avg. Vol. (PLNm)			**0.8**
Price performance	1M	3M	1Y
	11.9%	**3.3%**	**-24.4%**

RELATIVE SHARE PRICE VS WIG INDEX



RECOMMENDATIONS	DATE	TP
Buy	15.04.2025	825
Buy	10.12.2024	1,050
Buy	21.10.2024	1,050
Buy	19.07.2024	1,050
Hold	19.04.2024	975
Hold	11.12.2023	930
Buy	23.10.2023	885

SHAREHOLDERS	Share %
Kazimierz Herba	27.4%
Wiesława Herba	25.0%
Augebit FIZ	10.6%
TFI Allianz Polska SA	6.9%

INVESTOR CALENDAR

1Q25 results	22.05.2025
2Q25 results	28.08.2025
3Q25 results	20.11.2025

ANALYST

Grzegorz Kujawski

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Glossary of professional terms:
capitalisation – market price multiplied by the number of a company's shares
free float (%) – percentage of a company's shares held by shareholders with less than 5% of total voting rights attached to the shares, reduced by treasury shares held by the company
min/max 52 wks – lowest/highest share price over the previous 52 weeks
average turnover – average volume of share trading over the previous month

EBIT – operating profit
EBITDA – operating profit before depreciation and amortisation
adjusted profit – net profit adjusted for one-off items
CF – cash flow
CAPEX – sum of investment expenditures on fixed assets
OCF – cash generated through a company's operating activities
FCF – cash generated by a company after accounting for cash outflows to support its operations and maintain capital assets
ROA – rate of return on assets
ROE – rate of return on equity
ROIC – rate of return on invested capital
NWC – net working capital
cash conversion cycle – length of time it takes for a company to convert its cash investments in production inputs into cash revenue from sale of its products or services
gross profit margin – ratio of gross profit to net revenue
EBITDA margin – ratio of the sum of operating profit and depreciation/amortisation to net revenue
EBIT margin – ratio of operating profit to net revenue
net margin – ratio of net profit to net revenue
EPS – earnings per share
DPS – dividend per share
P/E – ratio of market price to earnings per share
P/BV – ratio of market price to book value per share
EV/EBITDA – ratio of a company's EV to EBITDA
EV – sum of a company's current capitalisation and net debt
DY – dividend yield, ratio of dividends paid to share price
RFR – risk free rate
WACC – weighted average cost of capital

Recommendations of the Brokerage House
Issuer – NEUCA S.A.
BUY – we expect the total return on an investment to reach at least 15%
HOLD – we expect the price of an investment to be largely stable, with potential upside of up to 15%
SELL – we expect negative total return on an investment of more than -0%

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Document prepared by: Grzegorz Kujawski

Valuation methods used

The Discounted Cash Flow (DCF) method values a company by estimating its future cash flows and discounting them back to their present value.
- Advantages: future-oriented, flexible when it comes to assumptions, based on the intrinsic value of a company, widely accepted.
- Disadvantages: sensitivity to assumptions, complexity, subjectivity, doesn't consider market sentiment or short-term fluctuations.
The comparable valuation method values a company by comparing it to similar publicly traded companies.
- Advantages: simplicity, transparency, benchmarking, reflects current market valuations and investor sentiment.
- Disadvantages: lack of specificity, limited comparables, sensitive to market fluctuations, ignoring fundamental differences.
SOTP – sum-of-the-parts method, which consists in valuing a company by valuing its individual business lines separately and then summing them up.
Advantages: different valuation methods can be applied to diverse business lines; the approach is useful for assessing the value of a company e.g. in the case of planned acquisition or restructuring.
Disadvantages: the peer group for individual business lines is usually limited, the method does not adequately account for synergies between business segments.
Risk-adjusted net present value method (rNPV)
Advantages: accounting for probabilities assigned to future cash flows, providing a more realistic assessment of the present value of future cash flows and reflecting business-specific factors, especially in the case of innovative companies.
Disadvantages: subjectivity involved in the adoption of a discount rate, significant reliance on a number of assumptions, high level of complexity in the calculations and exclusion of qualitative factors from the valuation.
Discounted residual income method (DRI)
Advantages: valuation based on the excess of income over risk-adjusted opportunity cost to owners of capital, the method can be applied to companies that do not pay dividends or generate positive FCF.
Disadvantages: significant reliance on subjective judgements and assumptions, as well as sensitivity of the valuation to any changes in those variables.
Discounted dividend model (DDM)
Advantages: accounting for real cash flows to equity owners, the model works best for companies with a long history of dividend distribution.
Disadvantages: the method can be applied to dividend-paying companies only, it is not suitable for companies with a short history of dividend distribution.
Net asset value method (NAV)
Advantages: the approach is particularly relevant to holding companies with significant property, plant and equipment assets, the calculation of NAV is relatively straightforward.
Disadvantages: the method neglects future revenue or earnings potential and may not properly reflect the value of intangible assets.
Target multiple method
Advantages: the method can be applied to any company.
Disadvantages: it involves a high degree of subjectivity.
Replacement value method – it assesses the value of a company based on the costs of replacing its assets.
Advantages: the method is particularly relevant to companies with significant property, plant and equipment assets.
Disadvantages: it may be hard to capture the value of a company's intangible assets, reputation and market potential.
Liquidation value method – the sum of prices that the business would receive upon selling its individual assets on the open market.
Advantages: the method can capture the lowest threshold of a company's value.
Disadvantages: it may be hard to capture the value of a company's intangibles.

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