

# Great Tree Pharmacy (6469 TT)

Non-rated Research Note

Post FY2021 Results

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## Safe Harbor Statement

This document may contain forward-looking statements. These statements relate to future events or Great Tree Pharmacy's future financial performance. Any statements that are not statements of historical fact (including without limitation statements to the effect that the company or its management "believes", "expects", "anticipates", "plans" and similar expressions) should be considered forward looking statements. There are a number of important factors that could cause Great Tree Pharmacy's actual results to differ materially from those indicated by the forward-looking statements. IPR Advisors and Great Tree Pharmacy disclaim any obligation to update any forward-looking statement.

# Great Tree Pharmacy (6469 TT): Core Target of a 20% Great Tree Store Expansion

Figure 1: Great Tree embraces digital transformation for growing stores 5-fold in five years



Source: IPR Advisors GUIDE

## INVESTMENT HIGHLIGHTS

- **Taiwan's pharmacy industry is in consolidation stage, but structural change is taking place with pharmacy chain store penetration rising.** An aging population is the natural growth driver for drugstore industry and Taiwan's low birth rate is accelerating the aging process. Taiwan's drug, medical supplies and cosmetics retail industry revenue reached NT\$198bn in 2021, at CAGR of 2.2% in 2012-21 compared with 1.5% for Taiwan's retail industry. Taiwan experienced two waves of consolidation in the pharmacy industry: 2009~2013 and 2016~2020, each with four merger and acquisitions deals took place. The GDP per capita of US\$30k, an aging society, a low pharmacy chain penetration all bode well for the growth of pharmacy chain stores in Taiwan. Inferences from Japan (took 27 years to reach 50% pharmacy chain stores penetration) and US (25 years) experiences show Taiwan is likely to reach a 50% pharmacy chain store penetration by 2032 (from 19% as of end of 2018, a total of 1550 chain stores out of industry total of 8119 stores). Thanks to PRC government's mandatory healthcare policy, China has surpassed Taiwan to reach over 50% of pharmacy chain store penetration in 2018, despite a relatively young population by age and GDP per capita just exceeded the critical US\$15k.

Figure 2: Taiwan Pharm Chain Market Estimation after two waves of consolidation

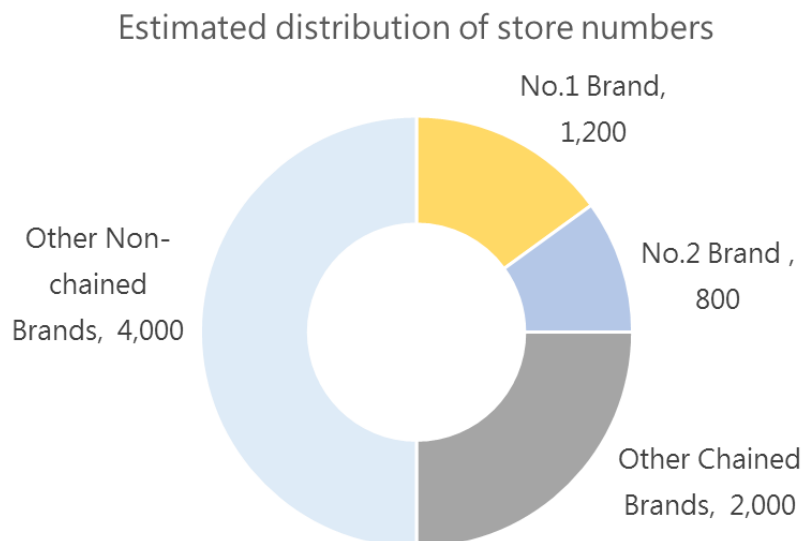
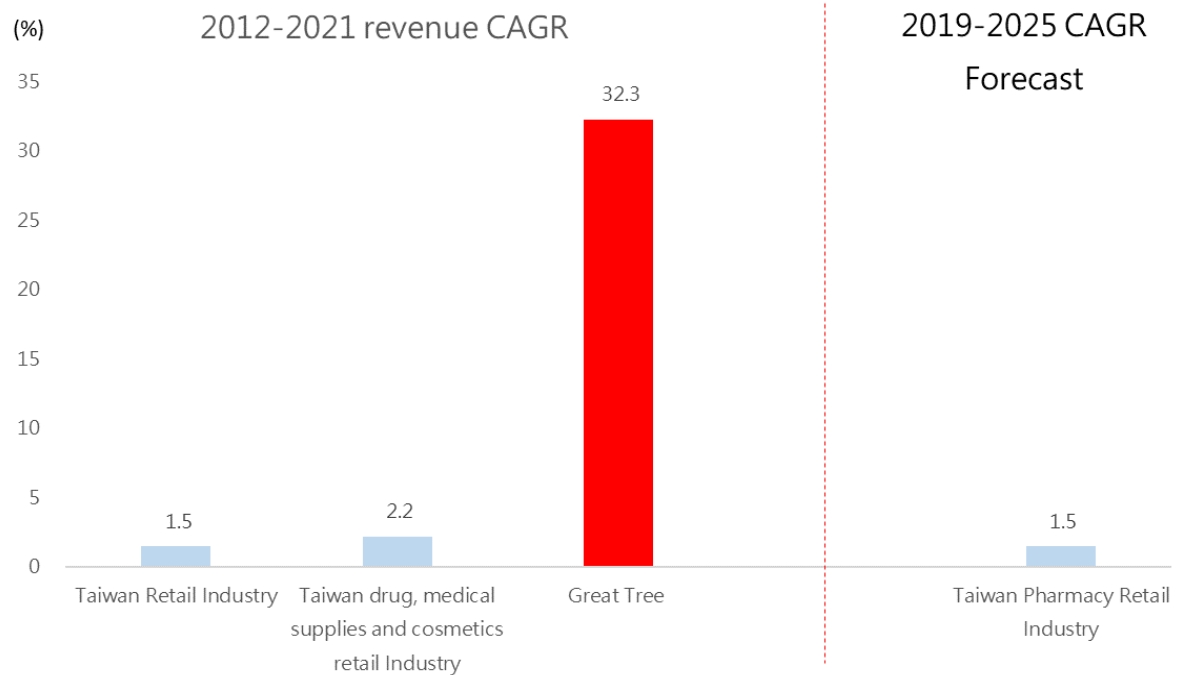


Figure 3: Benefiting from industry consolidation, Great Tree delivered a 32.3% revenue CAGR in 2012-21.



Source: Ken Research, TW Ministry of Economic Affairs

Figure 4: Great Tree's Revenue Mix by Product (2020)

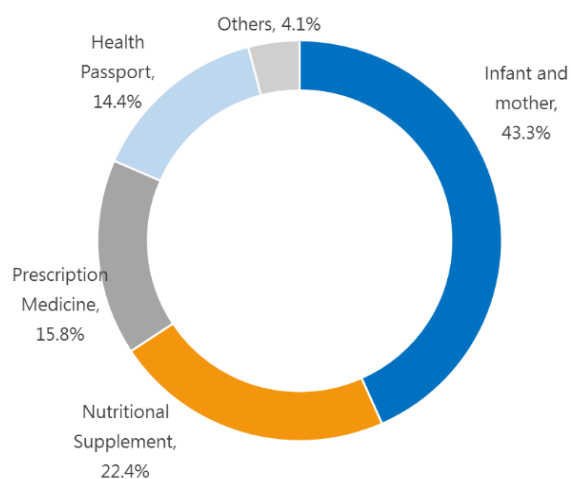
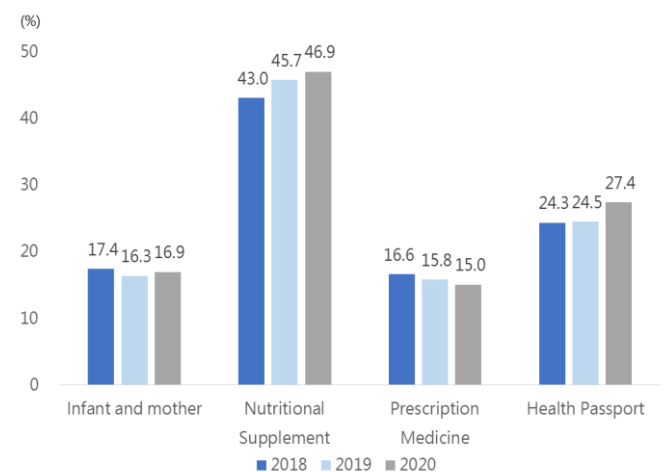
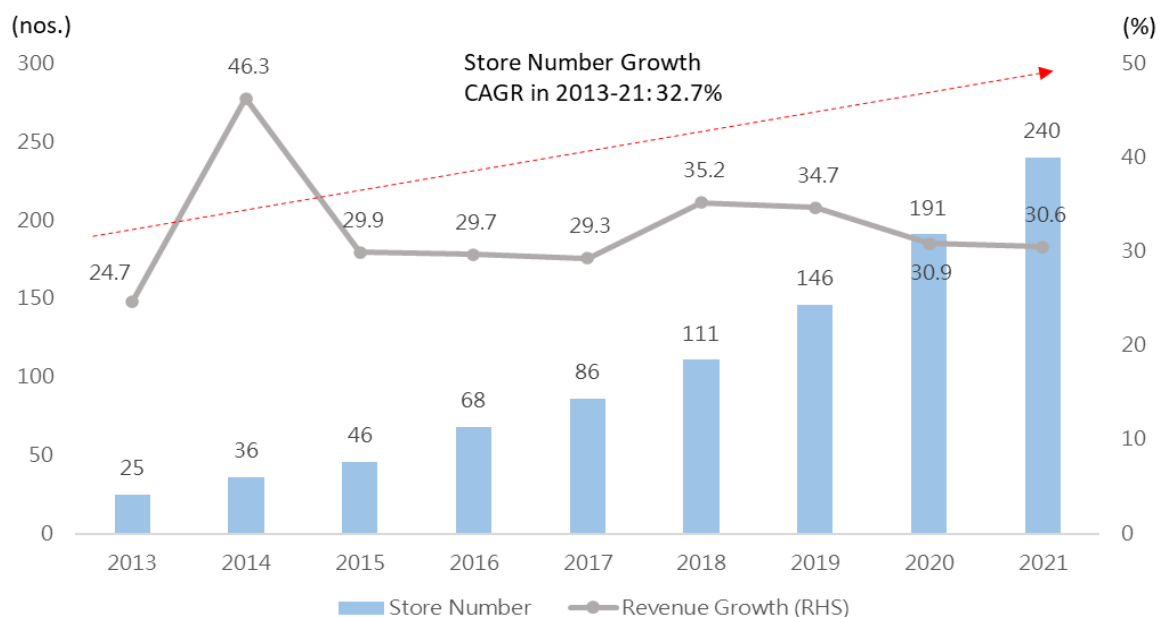


Figure 5: Great Tree's Gross Margin Trend by Product



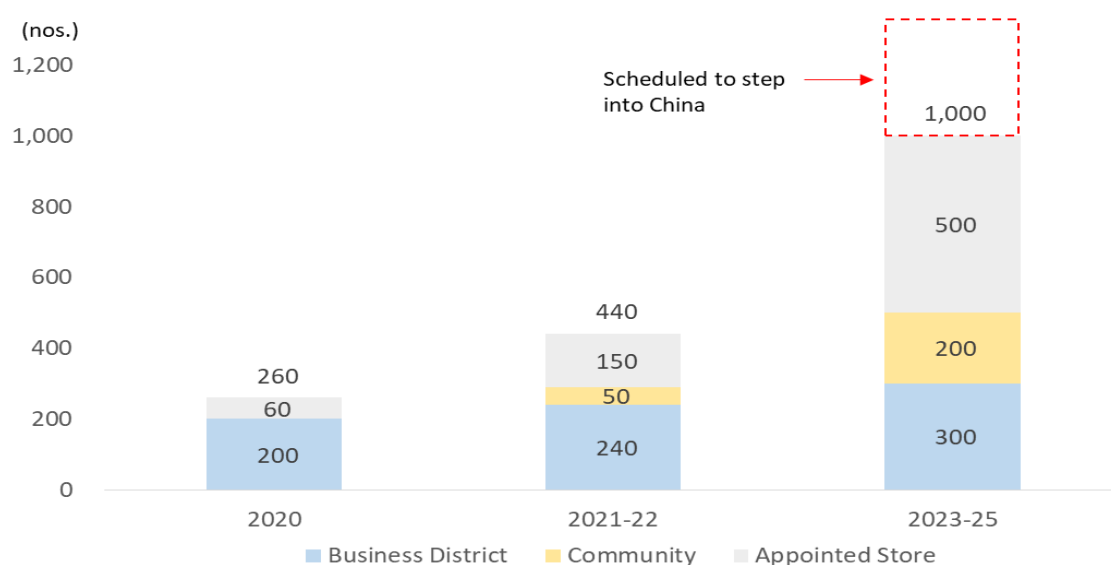
Note: Great Tree only disclosed detailed margin by product on annual basis till 2020

Figure 6: Revenue Growth & Store Number Growth, 2013-2021



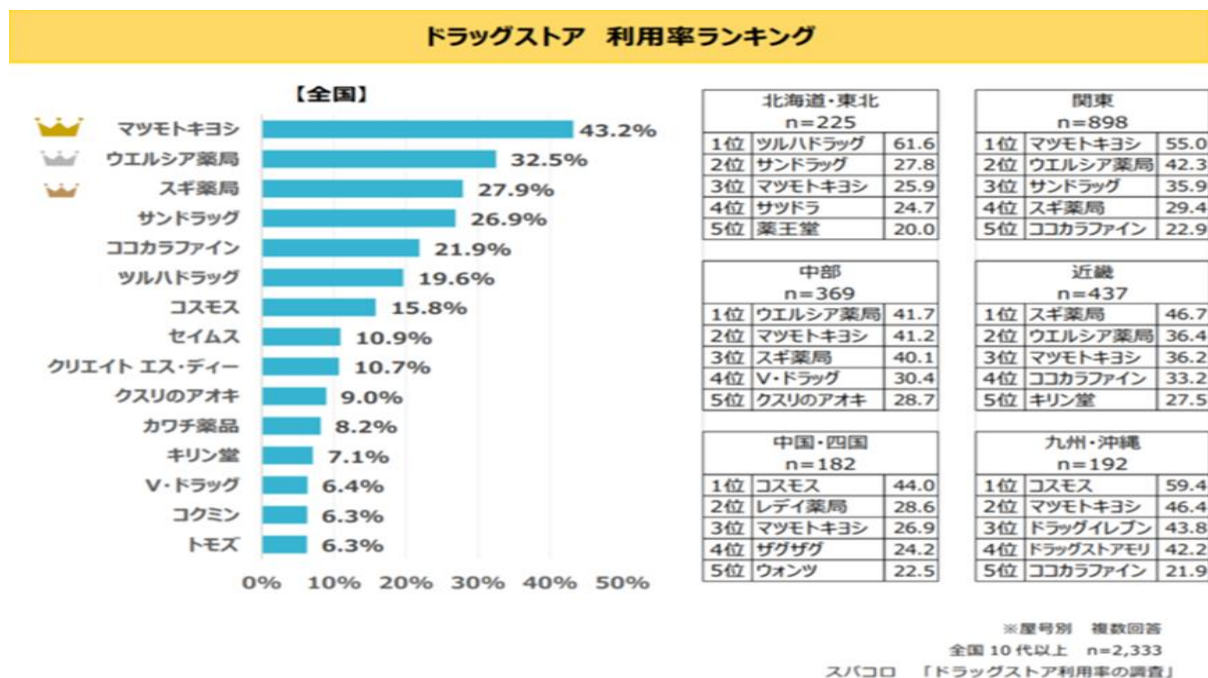
- Great Tree Pharmacy (or Great Tree) is No. 1 drugstore chain in Taiwan; targets to grow total store numbers 5-fold in 5 year.** Great Tree has topped the peers to become the largest pharmacy chain brand in terms of revenue and store number since 2018 and the gap has been widening ever since. After reaching the goal of a total store size of 200 in 2020 (Appointed Stores included), Great Tree announced its fifth 5-year plan of reaching a 1000 stores scale by 2025. This goal is supported by a strategic alignment with Japan No. 2 drugstore chain Sugi Holdings (7649 JP) for developing Asia Pacific markets jointly. This is a multi-year structural growth story in a relatively high entry barriers industry (pharmacists accounted for 23% of total Great Tree employees).

Figure 7: Great Tree's 5-year plan with store expansion milestones



- **Strategic alignment with Sugi Holdings enriches product-offering and overseas expansion opportunities.** Founded in 1982 and IPO in 2001, Sugi Holdings (or Sugi) ranks Japan's No. 2 drug store chain with focus cities in Tokyo (13.96m population), Osaka (2.69m population) and Nagoya (2.3m population). Sugi specializes in operation of community-based drugstores that support home medical care. Moreover, Sugi is one of the "MUST-BUY" stores ranked by tourists from Taiwan, especially exclusive products called "Sugi-select". As a result, Great Tree also kick-start the warehousing expansion and automation efforts.

Figure 8: Sugi ranks No. 1 in Western Japan and No. 3 nation-wide in a drugstore usage survey



Source: Spacolo, Japan

- **Digital transformation under the leadership of the New Chairman Mr. Amos Chen should bear fruit.** Before taking the role of Chairman, Mr. Amos Chen was President of the company since 2014, also the initiator for company's digital transformation, new store format and social media marketing. Compared with peers who may have better hospital relationships, Great Tree shows strong execution track record in store expansion and ambition in widening the gap between the No. 2 player.

During our latest conversation with Chairman Chen in early March, 2022, we've learned that company's "Core Target" is set at **growing Great Tree brand pharmacy stores by a 20% CAGR**, along with numerus "Growth Engines" such as **e-commerce, Sugi alignment, Great Tree Pets** (specialized in pet-caring, grand opening in 2021), followed by a "10-Year Plan" of expanding into **China and South East Asia markets**.

Figure 9: Great Tree Chairman Mr. Amos Chen

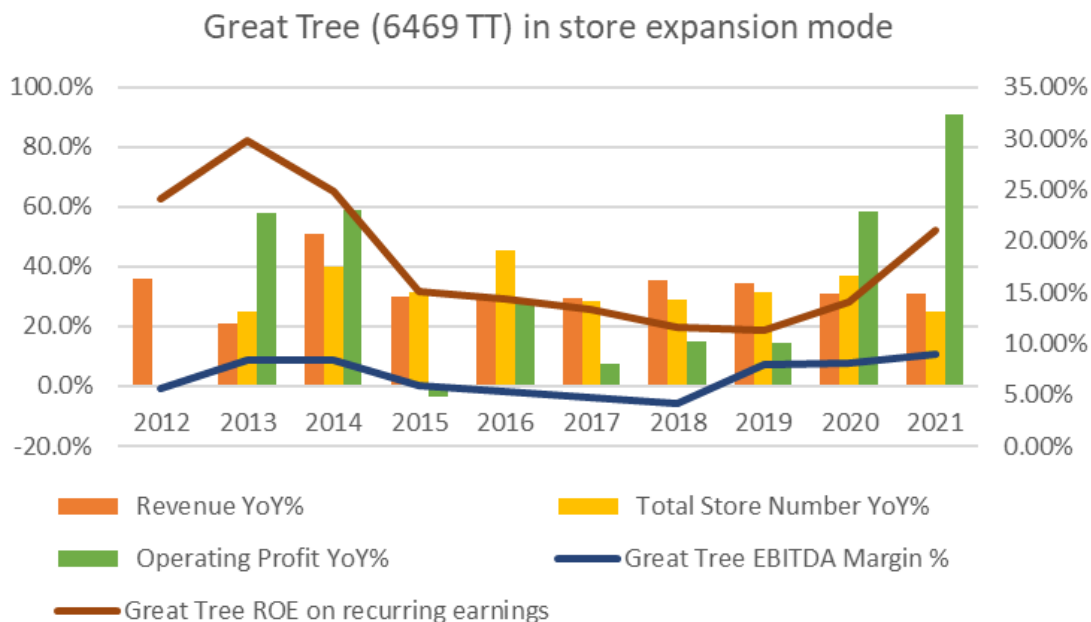


#### GREAT TREE CHAIRMAN'S VISION:

- ✧ To embrace innovation and big data for fulfilling customers' needs for health and wellbeing;
- ✧ To make Great Tree Asia's leading drugstore brand

- **Statutory financial highlights.** With strong execution, Great Tree reported 2021 net margin/ROA of 3.6%/6.1%, surpassing Global Top 250 retailer's average net margin/ROA of 3.1%/4.3% as at Fiscal Year 2019. The warehouse CAPEX also accelerated new store openings, which will weigh on margins before reaching the 1000 store target. Figure 7 shows the breakdown of the store format with Appointed Stores to account for 50%.

Figure 10: Great Tree is still in expansion mode

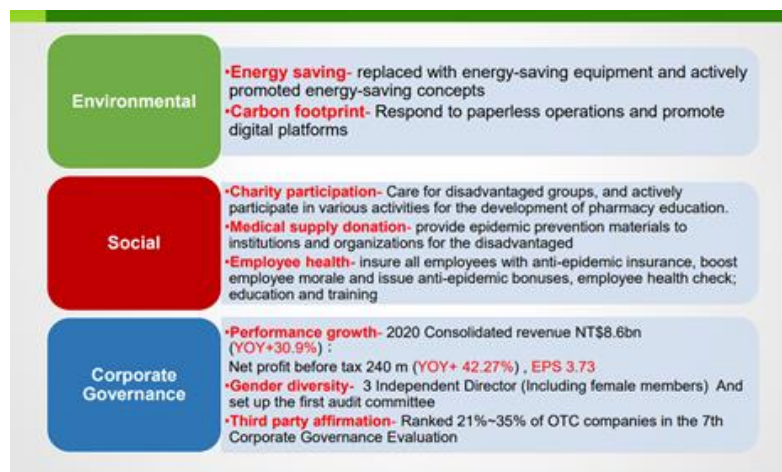


- **ESG highlights.** Great Tree complies with local regulation for CSR disclosure and provides updates on company website (in Chinese). Great Tree is particularly engaged



with philanthropy programs for children's education and job training for the disadvantaged families. Along with the store growth trajectory, it would be ideal for company to set up a per-store carbon footprint reduction target, and the target should vary according to different store format.

Figure 11: Great Tree's ESG disclosure



- **IPR Monitoring Scores should continue to rise on annual basis.** The IPR Monitoring Scores are derived from bottom-up stock selection criteria powered by big-data with statistical importance. The full year 2021 results will be available soon for concluding 2021 IPR Monitoring Score.

Figure 12: Great Tree's IPR Monitoring Scores

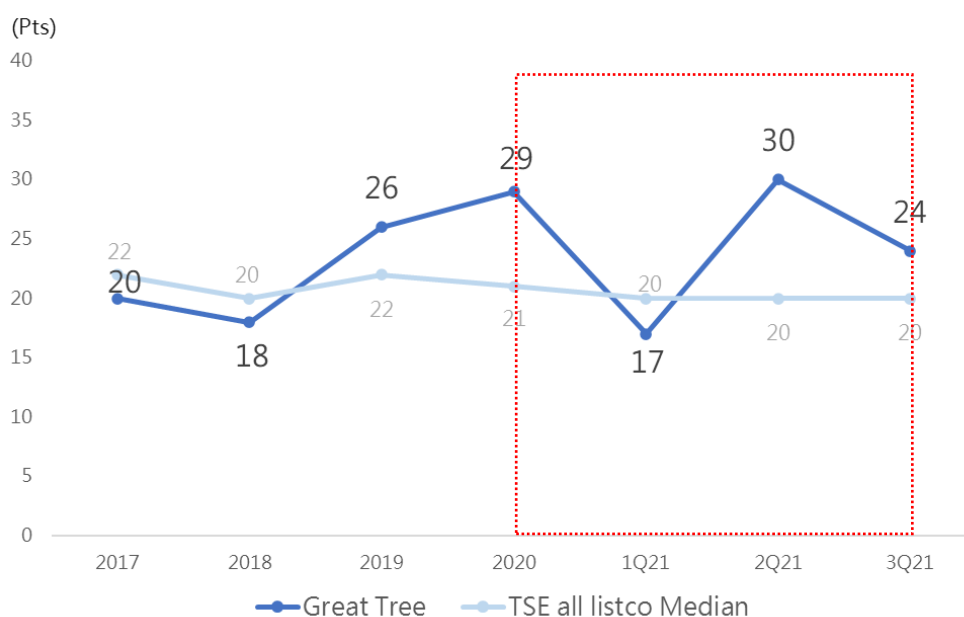


Figure 13: Great Tree's memorabilia

2001	Officially established as Great Tree Pharmacy Co. Ltd.
2008	Colaborated with Carrefour (SA FR) to open pharmacy inside of Carrefour hypermarkets
2015	Colaborated with Family Mart (5903 TT) to form Convenient-Drug stores Formed alignment with T-Mall of Alibaba (BABA US) for cross-boarder e-commerce sales, the exclusive pharmacy partner from Taiwan
2018	Colaborated with Shopee (parent co. Sea, SE US) to launch on-line pharmacy advisory services
2019	Embarked sub-branding strategy by acquiring Pro-Healthcare
2021	Opened the flagship store of Great Tree Pets

Figure 14: Peer Valuation

Ticker	Company Name	Price (LC)	Mkt Cap (US mn)	2021A	P/E (x) 2022E	2023E	2021A	P/B (x) 2022E	2023E	2021A	ROE 2022E	2023E
<b>Local peers</b>												
6469 TT	GREAT TREE PHARMACY CO LTD	279.00	691	47.9	33.8	28.0	10.1	8.0	6.8	23.7	24.5	27.0
4175 TT	MEDFIRST HEALTHCARE SERVICES	68.20	84	34.6	N/A	N/A	2.0	N/A	N/A	6.0	N/A	N/A
8403 TT	SHAREHOPE MEDICINE CO LTD	27.70	111	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
4121 TT	ROSSMAX INTERNATIONAL LTD	21.20	63	15.7	N/A	N/A	1.2	N/A	N/A	8.0	N/A	N/A
1720 TT	STANDARD CHEMICAL & PHARMA	43.60	273	11.0	12.0	N/A	1.8	N/A	N/A	17.0	12.1	N/A
<b>Average</b>				<b>27.3</b>	<b>22.9</b>	<b>28.0</b>	<b>3.8</b>	<b>8.0</b>	<b>6.8</b>	<b>13.7</b>	<b>18.3</b>	<b>27.0</b>
<b>TW Retailers and CVS</b>												
5904 TT	POYA INTERNATIONAL CO LTD	396.50	1,401	21.7	16.1	14.3	8.0	7.5	6.3	37.5	45.5	47.2
2912 TT	PRESIDENT CHAIN STORE CORP	260.50	9,490	30.6	24.2	22.5	7.9	7.2	6.7	25.3	30.3	30.6
5903 TT	TAIWAN FAMILYMART CO LTD	196.50	1,537	N/A	20.0	17.4	N/A	5.9	5.4	N/A	32.2	32.4
8454 TT	MOMO.COM INC	884.00	5,640	49.1	40.0	31.2	18.4	15.0	13.2	41.8	39.9	45.3
<b>Average</b>				<b>33.8</b>	<b>25.1</b>	<b>21.4</b>	<b>11.4</b>	<b>8.9</b>	<b>7.9</b>	<b>34.9</b>	<b>37.0</b>	<b>38.9</b>
<b>Global peers</b>												
CVS US	CVS HEALTH CORP	107.39	140,950	17.9	15.2	13.8	1.9	1.7	1.6	11.0	12.7	12.8
WBA US	WALGREENS BOOTS ALLIANCE INC	47.38	40,902	16.1	7.4	11.6	1.8	1.3	1.2	11.5	16.6	12.9
3088 JP	MATSUKIYOCOCOKARA & CO	4,305.00	5,110	20.5	15.9	16.9	1.8	1.4	1.4	9.1	10.1	8.2
7649 JP	SUGI HOLDINGS CO LTD	6,030.00	3,170	17.6	19.1	16.4	1.9	1.7	1.6	11.0	9.6	10.4
3391 JP	TSURUHA HOLDINGS INC	8,440.00	3,464	15.6	15.6	14.5	1.6	1.5	1.4	10.7	10.0	10.2
9989 JP	SUNDRUG CO LTD	3,055.00	3,027	14.1	14.1	13.3	1.7	1.6	1.5	12.9	11.8	11.6
3349 JP	COSMOS PHARMACEUTICAL CORP	15,370.00	5,104	22.4	25.1	23.0	3.6	3.2	2.8	17.2	13.6	13.4
<b>Average</b>				<b>17.7</b>	<b>16.1</b>	<b>15.7</b>	<b>2.0</b>	<b>1.8</b>	<b>1.6</b>	<b>11.9</b>	<b>12.0</b>	<b>11.3</b>
<b>Total Average</b>				<b>23.9</b>	<b>19.9</b>	<b>18.6</b>	<b>4.6</b>	<b>4.7</b>	<b>4.2</b>	<b>17.3</b>	<b>20.7</b>	<b>21.8</b>
<b>Total Median</b>				<b>19.2</b>	<b>16.1</b>	<b>16.7</b>	<b>1.9</b>	<b>2.5</b>	<b>2.2</b>	<b>12.2</b>	<b>13.6</b>	<b>13.1</b>

Figure 15: Income Statement

(TWD mn)	2017	2018	2019	2020	2021
<b>Revenue</b>	<b>3,624</b>	<b>4,901</b>	<b>6,602</b>	<b>8,641</b>	<b>11,281</b>
COGS	(2,704)	(3,695)	(5,006)	(6,457)	(8,338)
Gross Profit	920	1,206	1,596	2,185	2,943
Operating Expenses	(812)	(1,081)	(1,453)	(1,959)	(2,451)
Selling Exps	(652)	(877)	(1,222)	(1,668)	(2,100)
Administrative Exps	(160)	(204)	(231)	(291)	(350)
R&D Exps	0	0	0	0	0
Other Operating Exps	0	(0)	(0)	(0)	0
<b>Operating Profit</b>	<b>108</b>	<b>125</b>	<b>142</b>	<b>225</b>	<b>492</b>
Other Non-operating Income	16	10	29	18	17
Net Interest Exps	1	(2)	(26)	(32)	(34)
FX Gain/(Loss)	(2)	0	(2)	(2)	(2)
Income from Equity Method	0	0	0	0	0
Other Non-op Income	17	12	56	52	54
Pre-tax Income	124	135	171	243	510
Income Tax Expenses	(21)	(29)	(37)	(51)	(102)
Minority Interest	0	0	2	2	(0)
Discontinued Operations	0	0	0	0	0
<b>Net Income to Parent</b>	<b>102</b>	<b>106</b>	<b>136</b>	<b>194</b>	<b>407</b>
<b>EPS (TWD)</b>	<b>3.36</b>	<b>3.01</b>	<b>3.25</b>	<b>3.73</b>	<b>5.83</b>
Shares (mn)	31	37	43	53	70

Figure 16: Balance Sheet

(TWD mn)	2017	2018	2019	2020	2021
Cash and Cash Equivalents	275	634	308	836	1,308
Short-term Investment	51	24	24	24	24
AR&NR	320	430	446	387	515
Inventories	512	717	1,160	1,462	1,839
Other Current Assets	37	32	45	38	52
<b>Total Current Assets</b>	<b>1,194</b>	<b>1,836</b>	<b>1,983</b>	<b>2,746</b>	<b>3,739</b>
PPE	282	386	570	670	750
Long-term Investment	3	3	3	3	3
Other Non-current Assets	58	81	2,122	2,590	2,898
<b>Total Assets</b>	<b>1,537</b>	<b>2,306</b>	<b>4,678</b>	<b>6,009</b>	<b>7,390</b>
Short-term Borrowings	70	0	0	370	370
AP& NP& Accruals	629	895	1,103	1,399	2,018
Other Current Liabilities	24	31	445	395	426
<b>Total Current Liabilities</b>	<b>723</b>	<b>926</b>	<b>1,548</b>	<b>2,164</b>	<b>2,814</b>
Long-term Borrowings	0	0	0	0	0
Other Non-current Liabilities	7	304	1,907	2,326	2,624
<b>Total Liabilities</b>	<b>730</b>	<b>1,230</b>	<b>3,456</b>	<b>4,490</b>	<b>5,437</b>
<b>Equity</b>	<b>807</b>	<b>1,076</b>	<b>1,222</b>	<b>1,520</b>	<b>1,952</b>
<b>Total Liabilities and Equity</b>	<b>1,537</b>	<b>2,306</b>	<b>4,678</b>	<b>6,009</b>	<b>7,390</b>

Figure 17: Cash Flow Statement

(TWD mn)	2017	2018	2019	2020	2021
<b>Total Operating Cash flow</b>	<b>157</b>	<b>131</b>	<b>225</b>	<b>728</b>	<b>1,078</b>
Net Income	102	106	134	193	408
Depreciation & Amortization	48	68	330	427	499
Change in WC	7	(56)	(265)	70	95
Other Operating Cash Flow	(0)	13	27	39	76
<b>Total Investing Cash flow</b>	<b>(116)</b>	<b>(157)</b>	<b>(291)</b>	<b>(253)</b>	<b>(268)</b>
CAPX (net)	(116)	(172)	(252)	(236)	(245)
Change in Long-term Investments	14	27	0	0	0
Other Investing Cash flow	(14)	(11)	(39)	(18)	(23)
<b>Total Financing Cash flow</b>	<b>39</b>	<b>384</b>	<b>(259)</b>	<b>53</b>	<b>(337)</b>
Issuance/(Buyback) of Shares	0	186	0	0	0
Cash Dividend Paid	(34)	(55)	(48)	(43)	(53)
Change in Total Debt	70	225	0	370	(2)
Other Financing Cash flow	3	28	(212)	(273)	(281)
Total Cash Flow	80	359	(326)	528	473
FX	0	0	0	0	0
<b>Total Change in Cash</b>	<b>80</b>	<b>359</b>	<b>(326)</b>	<b>528</b>	<b>473</b>

Figure 18: Financial Ratios

	2017	2018	2019	2020	2021
Gross Margin (%)	25.4	24.6	24.2	25.3	26.1
EBITDA Margin (%)	5.1	4.4	8.4	8.3	9.4
Operating Margin (%)	3.0	2.5	2.2	2.6	4.4
Net Margin to Common (%)	2.8	2.2	2.1	2.2	3.6
Sales y-y Growth (%)	29.3	35.2	34.7	30.9	30.5
EBITDA y-y Growth (%)	16.7	15.4	158.6	29.8	47.1
Operating Income y-y Growth (%)	7.5	15.0	14.3	58.3	118.5
Net Income y-y Growth (%)	10.3	3.5	28.3	42.9	109.7
ROE (%)	13.3	11.3	11.8	14.2	23.5
ROA (%)	7.3	5.5	3.9	3.6	6.1
Accounts Receivable Turnover Days	27.7	23.3	19.2	13.9	12.7
Inventory Turnover Days	63.0	60.7	68.4	74.1	72.3
Accounts Payable Turnover Days	67.7	66.3	64.1	60.5	63.3
Cash Conversion Cycle Days	23.1	17.8	23.5	27.6	21.7
Fixed Asset Turnover (x)	14.6	14.7	13.8	13.9	15.9
Net Debt/(Cash) to Equity (%)	(25.4)	(58.9)	(25.2)	(30.7)	(48.1)
Interest Coverage Ratio (x)	571.7	40.5	7.4	8.4	15.5
PER (x)	21.0	15.9	21.1	24.1	34.6
PBR (x)	3.2	2.1	2.9	3.9	9.1
EV/EBITDA (x)	12.9	7.2	5.8	7.5	15.7
Cash Dividend Yield (%)	2.1	2.2	1.2	0.9	1.0

For more information, please contact us at [info@ipradvisors.com](mailto:info@ipradvisors.com)