

DHG Pharma (DHG VN)

Stable outlook, fair valuation

HOLD

Share Price	VND 111,500
12m Price Target	VND 116,865 (+8%)
Previous Price Target	VND 126,000

Maintain HOLD; cut TP by 7% to VND116,865

FY21 net profit of VND777b (+5% YoY) was 9% below our forecast on a surprisingly weak 4Q21 (sales -10% YoY, net profit -19% YoY). We project FY22E net profit to grow 7.8% YoY (vs 5.9% previously) and our FY22E EPS is cut 7% to VND6,261. Using an unchanged target P/E of 18.8x, we arrive at a TP of VND116,865. DHG's stock price has retreated 25% since Dec'21 to what we view as a fair level of 19x T12M P/E, from +2SD above its 2-year mean of 20x in Dec'21. We maintain a HOLD rating with 8% potential upside to our new TP of VND116,865.

Expect 10% sales growth in FY22

We think the 4Q21 slowdown was due to Covid-led shortages of manpower and imported raw materials due to disrupted global supply. DHG's 4Q production was only 70%-80% of its normal levels. On the other hand, we expect demand will stay solid as the Omicron variant has dominated Covid infections in Vietnam in recent months, lifting daily new cases to c.200k in Mar'22 vs c.10k during the Delta outbreak in 3Q21 (Fig.5). This benefits DHG's key drug categories, particularly analgesics and antipyretics. Thanks to mild symptoms, people mostly take at-home treatment and buy medicine at pharmacies - DHG's major distribution channel (c.90% of sales). To recall, DHG's sales rebounded 14.4% YoY in 9M21 amid the worst Covid outbreak, caused by the Delta variant. All in all, we forecast 10.3% sales growth for DHG in FY22.

FY22 guidance: sales +5.4% YoY, PBT -1.3% YoY

DHG's recent AGM set a FY22 sales target of VND4,220b (+5.4% YoY) and PBT target of VND853b (-1.3% YoY), 4.6% and 9.2% below our forecasts, respectively. The company's guidance has been conservative in the past two years with PBT exceeding the target by 14% in FY20 and 5% in FY21.

To pay cash dividend of VND3,500/share in April

FY22's AGM approved a cash dividend payment for FY21 at VND3,500/share, implying nearly a 3% yield. The record date and payment dates will be 1 April and 15 April, respectively.

FYE Dec (VND b)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	3,756	4,003	4,416	4,721	5,046
EBITDA	897	945	1,008	1,111	1,212
Core net profit	722	755	813	898	981
Core EPS (VND)	5,493	5,766	6,216	6,864	7,498
Core EPS growth (%)	16.5	5.0	7.8	10.4	9.2
Net DPS (VND)	4,000	3,500	3,000	4,000	4,000
Core P/E (x)	18.9	19.6	17.9	16.2	14.9
P/BV (x)	3.8	3.9	3.4	3.1	2.8
Net dividend yield (%)	3.8	3.1	2.7	3.6	3.6
ROAE (%)	21.5	21.2	20.9	20.9	20.7
ROAA (%)	16.8	16.7	16.7	16.9	17.1
EV/EBITDA (x)	13.0	13.6	12.1	10.8	9.6
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	814	840	na
MKE vs. Consensus (%)	-	-	2.9	10.2	na

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Company Description

Among Vietnam's top eight pharmaceutical companies with key generic drugs such as antibiotics and analgesics-antipyretics in 2018

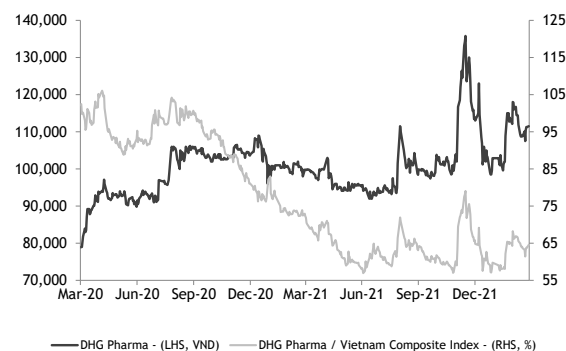
Statistics

52w high/low (VND)	135,800/92,000
3m avg turnover (USDm)	0.2
Free float (%)	16.9
Issued shares (m)	131
Market capitalisation	VND14.6T USD637M

Major shareholders:

Taisho Pharmaceutical	51.0%
State Capital & Investment Corporation	43.3%
FTIF - Templeton Frontier Markets Fund	2.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(4)	14
Relative to index (%)	(1)	(4)	(12)

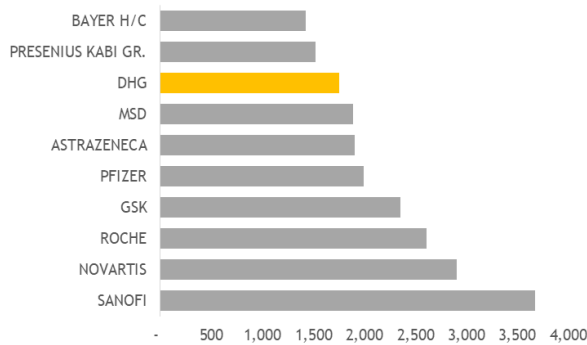
Source: FactSet

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Tear Sheet Insert

Value Proposition

- The largest listed pharmaceutical company in Vietnam with 10% share of domestic production of generic drugs.
- Most extensive distribution network with over 27,000 pharmacies and 1,500 sales staff.
- Nearly 90% of sales are from the pharmacy channel. Only 10% from hospitals.

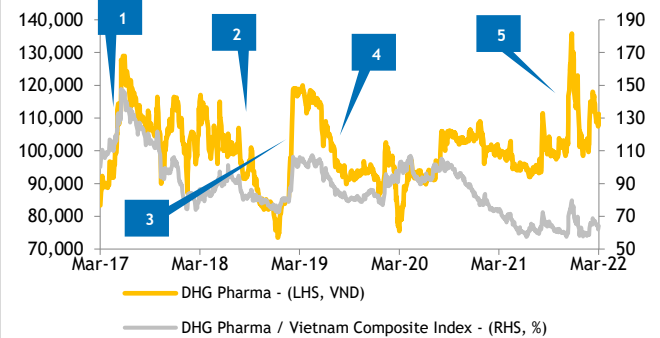
Vietnam's 10 largest pharmaceutical companies by sales (VNDb) at 4Q19



Source: IQVIA, formerly Quintiles and IMS Health, Inc.

Price Drivers

Historical share price trend



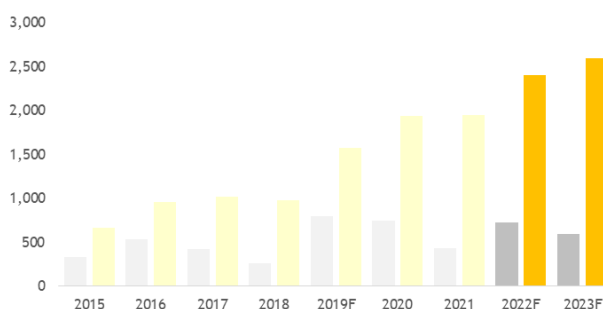
Source: Company, Maybank IBG Research

1. Speculation that a large foreign pharmaceutical firm was accumulating DHG shares at large premiums from existing foreign shareholders, which turned out to be Japan-based Taisho.
2. Correction after running ahead of many positives, including 1) potential raising of foreign-ownership limits; 2) possibility of Taisho acquiring more shares, and 3) 2:1 stock bonus.
3. A recovery supported by Taisho's raising stake to above 51%, including a tender offer for the remaining 21.7% @VND120k/shr.
4. Correction after running ahead of Taisho's buying.
5. Recent strong rally was mostly driven by retail investors' excitement on: 1) possibility of producing antiviral medication that is used to treat Covid-19; and 2) rising concern on the new Omicron variant.

Financial Metrics

- Maintain strong net cash position at 51% of equity in the past three years. Able to obtain favourable short-term lending rates from banks.
- Strong FCF, supported by strong OCF. Able to finance capex.
- 3-year average ROE and operating margin of 20%/19%, significantly higher than peers' 13%/16%.
- Stable cash dividend paid at VND3,500-4,000/share, equal to a dividend yield of nearly 3%.

Strong FCF, despite capex upcycle in FY19-21E



Source: Company

Swing Factors

Upside

- Co-operation with Taisho in production/product development, distribution, and exports could boost sales and earnings.
- Stronger sales of higher-value-added drugs e.g. cardiovascular - diabetic, hepatic and biliary, and other products from natural sources such as spirulina-based Spivital.
- Faster-than-expected pick-up in exports to other potential markets such as Myanmar, Laos, and Cambodia.

Downside

- Delisting risk as the 3 largest shareholders own 97.1% of DHG. But the listing rules state that a minimum of 20% must be owned by at least 300 non-large shareholders.
- Higher domestic competition/lower exports could hurt sales.
- Price increases for active pharmaceutical ingredients used in DHG's medicines cannot be 100% passed onto end-users.

Risk Rating & Score ¹	N/A
Score Momentum ²	N/A
Last Updated	N/A
Controversy Score ³	N/A

Business Model & Industry Issues

- As the largest local drug producer, DHG has pursued the goal of providing high-quality products and services to accomplish the mission of comprehensively improving people's health care. Raw materials are carefully reviewed and chosen from reputable suppliers.
- On the whole, there are no major concerns about DHG's ESG factors.
- DHG has among the top 5 best sustainability reports of Vietnam's listed companies. DHG started releasing sustainability development reports in 2015, which are based on sustainability report standards of Global Report Initiative and the guidebook for environmental and social investment disclosure conducted by the State Securities Commission in collaboration with International Finance Corporation. Its reports cover most of the objectives and evaluation of sustainability management, from the economy to society and the environment.

Material E issues

- DHG has not violated any environmental laws so far. It's closely monitoring these to ensure compliance with environmental laws and requirements under QCVN 40:20211/BTNMT.
- Collected samples of exhaust fume from the treatment systems 2-4 times p.a to monitor it's within permitted limits and to reduce CO2 emission.
- Encourages initiatives by staff regarding efficiency improvement, raw material usage and energy saving. In 2020, DHG's Science and Technology Committee received 209 ideas and initiatives from employees.

Material S issues

- Besides an attractive and fair compensation and benefits scheme, DHG makes efforts to create a working environment where potential and competent employees can develop their careers.
- Workforce: >2,700 staff nationwide. Female employees account for 41% of total staff and 21% of senior managers.
- Complying with the labour and safety regulations. All employees were offered periodic health check-ups.
- Spent VND3b for 64 training courses and nearly 180,000 training hours in 2020.
- Participate in educating the community, raising awareness about disease prevention, safe and effective use of products; as well as offering free medical examinations and medicine.
- Maintaining the Youth Union's activities such as monthly trips to visit and give presents to elderly people, weekly cooked food for orphans and disabled children, etc.

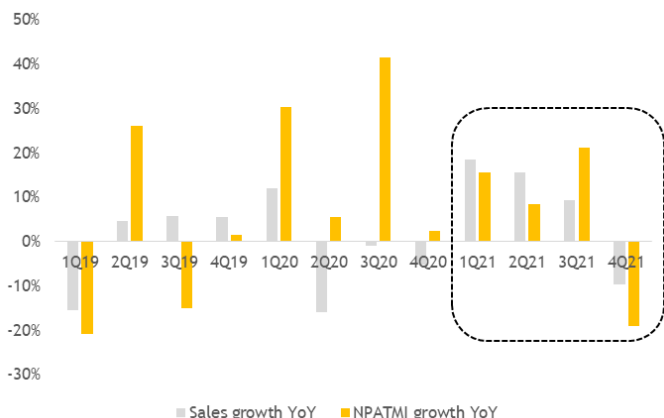
Key G metrics and issues

- DHG's board of directors (BOD) consists of 13 members (of which 2 are independent members and 3 are non-executive members). There are 3 women on the BOD, including the chairwoman who is a non-executive member.
- The total remuneration of the BOD in 2020 was VND6b, less than 1% of the company's NPAT.
- Condensed shareholder structure with more than 94% held by the two largest shareholders, Japan-based Taisho (51%) and state-owned SCIC (43.3%).
- DHG has not had any material accounting, tax, or regulatory issues in the past 5 years. The Big4 accounting firms have rotated and taken turns in being DHG's auditor. There has been no qualified opinion from these auditors so far.
- Public information and announcements are mostly in both Vietnamese and English.
- DHG maintained a stable cash dividend policy of 70-80% payout ratio over the past 3 years.
- We have not identified any controversial activities in terms of corporate governance of the company so far.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

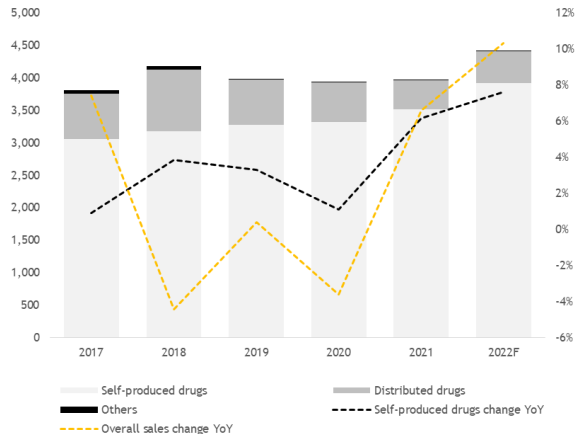
Focus charts

Figure 1: DHG's quarterly sales and NPATMI growth



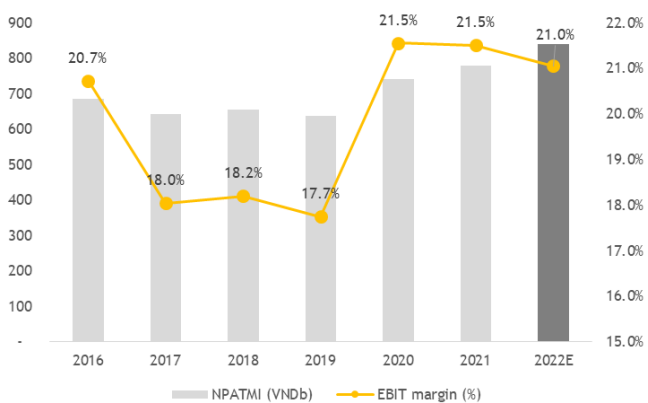
Source: Company

Figure 2: DHG's annual sales and sales growth by segment



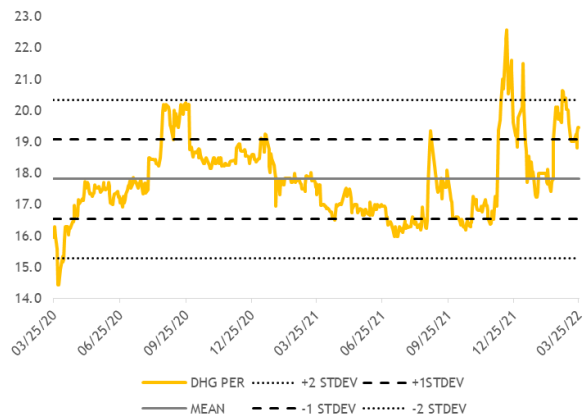
Source: Company, Maybank IBG Research forecasts

Figure 3: DHG's annual net profit and EBIT margin



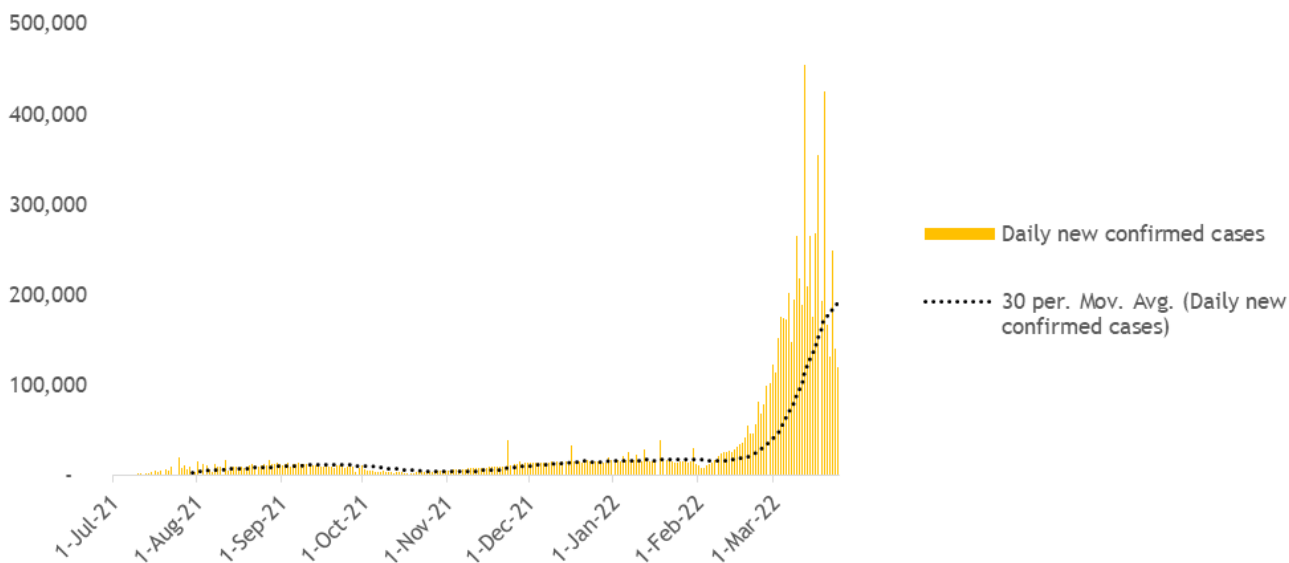
Source: Company, Maybank IBG Research forecasts

Figure 4: DHG's 2-year historical T12M PE band



Source: Bloomberg

Figure 5: Covid daily confirmed new cases in Vietnam



Source: Bloomberg

Figure 6: Maybank IBG Research's forecasts

MKE's key forecast items/assumptions		FY20A	FY21E	FY21A	vs MKE's forecasts	FY22E - Old	FY22E - New	% change
Net sales (VNDb)		3,756	4,174	4,003	-4.1%	4,461	4,416	-1.0%
	YoY	-3.6%	11.1%	6.6%		6.9%	10.3%	
Gross margin (%)		48.2%	47.4%	48.0%		47.9%	48.0%	
SGA/sales (%)		26.7%	25.3%	26.5%		26.0%	27.0%	
EBIT margin (%)		21.5%	22.1%	21.5%		21.9%	21.0%	
PBT (VNDb)		822	951	864	-9.1%	1,007	931	-7.5%
	YoY	15.2%	15.7%	5.2%		5.9%	7.8%	
NPATMI (VNDb)		740	853	777	-8.9%	903	838	-7.2%
	YoY	16.5%	15.2%	5.0%		5.9%	7.8%	
Net margin (%)		19.7%	20.4%	19.4%		20.2%	19.0%	
Core EPS (VND/share)		5,493	6,325	5,766	-8.8%	6,698	6,216	-7.2%
	YoY	16.5%	15.2%	5.0%		5.9%	7.8%	

Source: Company, Maybank IBG Research estimates

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	16.9	17.0	17.4	15.8	14.4
Core P/E (x)	18.9	19.6	17.9	16.2	14.9
P/BV (x)	3.8	3.9	3.4	3.1	2.8
P/NTA (x)	4.1	4.1	3.6	3.3	3.0
Net dividend yield (%)	3.8	3.1	2.7	3.6	3.6
FCF yield (%)	5.5	2.9	4.9	4.0	4.8
EV/EBITDA (x)	13.0	13.6	12.1	10.8	9.6
EV/EBIT (x)	14.4	14.9	13.1	11.7	10.4

INCOME STATEMENT (VND b)

Revenue	3,755.6	4,003.2	4,416.1	4,721.0	5,045.6
EBITDA	897.4	944.6	1,007.9	1,110.6	1,212.4
Depreciation	(88.2)	(83.9)	(78.3)	(83.0)	(88.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	809.2	860.8	929.5	1,027.6	1,124.4
Net interest income / (exp)	21.2	23.7	13.3	17.6	19.1
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(8.9)	(20.5)	(11.4)	(16.1)	(19.3)
Pretax profit	821.5	864.0	931.4	1,029.1	1,124.1
Income tax	(82.5)	(87.7)	(94.6)	(105.0)	(114.7)
Minorities	1.3	0.9	1.0	1.1	1.2
Perpetual securities	0.0	0.0	0.0	0.0	1.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	744.1	778.7	837.9	925.3	1,011.7
Core net profit	721.9	755.4	812.7	897.5	981.4

BALANCE SHEET (VND b)

Cash & Short Term Investments	2,147.1	2,153.4	2,622.0	2,808.7	3,138.6
Accounts receivable	496.0	488.1	560.8	587.6	634.4
Inventory	826.6	1,072.6	992.4	1,121.6	1,228.2
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	639.2	562.2	588.6	610.2	626.8
Intangible assets	210.1	205.8	201.0	196.4	191.8
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	128.5	135.7	151.3	151.5	150.5
Total assets	4,447.5	4,617.7	5,116.2	5,476.0	5,970.3
ST interest bearing debt	212.3	207.4	228.1	215.9	217.1
Accounts payable	252.3	201.2	259.7	254.7	280.7
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	415.0	416.0	388.0	363.0	342.0
Total Liabilities	879.5	824.5	875.5	833.3	839.5
Shareholders Equity	3,564.0	3,790.0	4,235.7	4,637.9	5,125.6
Minority Interest	4.1	3.1	5.1	4.8	5.2
Total shareholder equity	3,568.0	3,793.2	4,240.7	4,642.7	5,130.8
Total liabilities and equity	4,447.5	4,617.7	5,116.2	5,476.0	5,970.3

CASH FLOW (VND b)

Pretax profit	821.5	864.0	931.4	1,029.1	1,124.1
Depreciation & amortisation	88.2	83.9	78.3	83.0	88.0
Adj net interest (income)/exp	14.0	12.1	12.5	17.1	19.3
Change in working capital	140.0	(257.1)	31.8	(192.4)	(156.7)
Cash taxes paid	(78.8)	(99.6)	(89.4)	(102.7)	(109.6)
Other operating cash flow	(39.2)	(0.8)	(29.5)	(33.1)	(35.9)
Cash flow from operations	826.7	452.4	821.3	686.1	806.2
Capex	(83.6)	(19.9)	(100.0)	(100.0)	(100.0)
Free cash flow	743.1	432.5	721.3	586.1	706.2
Dividends paid	(523.0)	(523.0)	(392.2)	(523.0)	(523.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(52.4)	(4.9)	20.7	(12.2)	1.2
Other invest/financing cash flow	(164.5)	65.6	(303.1)	(41.4)	(179.6)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	3.2	(29.7)	46.7	9.5	4.8

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(3.6)	6.6	10.3	6.9	6.9
EBITDA growth	15.0	5.3	6.7	10.2	9.2
EBIT growth	17.0	6.4	8.0	10.5	9.4
Pretax growth	15.2	5.2	7.8	10.5	9.2
Reported net profit growth	16.8	4.6	7.6	10.4	9.3
Core net profit growth	16.8	4.6	7.6	10.4	9.3
Profitability ratios (%)					
EBITDA margin	23.9	23.6	22.8	23.5	24.0
EBIT margin	21.5	21.5	21.0	21.8	22.3
Pretax profit margin	21.9	21.6	21.1	21.8	22.3
Payout ratio	70.3	58.8	46.8	56.5	51.7
DuPont analysis					
Net profit margin (%)	19.8	19.5	19.0	19.6	20.1
Revenue/Assets (x)	0.8	0.9	0.9	0.9	0.8
Assets/Equity (x)	1.2	1.2	1.2	1.2	1.2
ROAE (%)	21.5	21.2	20.9	20.9	20.7
ROAA (%)	16.8	16.7	16.7	16.9	17.1
Liquidity & Efficiency					
Cash conversion cycle	159.8	169.2	168.6	162.4	170.5
Days receivable outstanding	50.7	44.2	42.8	43.8	43.6
Days inventory outstanding	143.7	164.2	162.0	156.7	164.3
Days payables outstanding	34.5	39.2	36.2	38.1	37.4
Dividend cover (x)	1.4	1.7	2.1	1.8	1.9
Current ratio (x)	4.3	4.9	5.2	5.9	6.5
Leverage & Expense Analysis					
Asset/Liability (x)	5.1	5.6	5.8	6.6	7.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.2	0.2	0.2	0.2	0.2
Capex/revenue (%)	2.2	0.5	2.3	2.1	2.0
Net debt/ (net cash)	(1,934.8)	(1,946.0)	(2,393.9)	(2,592.8)	(2,921.5)

Source: Company; Maybank IBG Research

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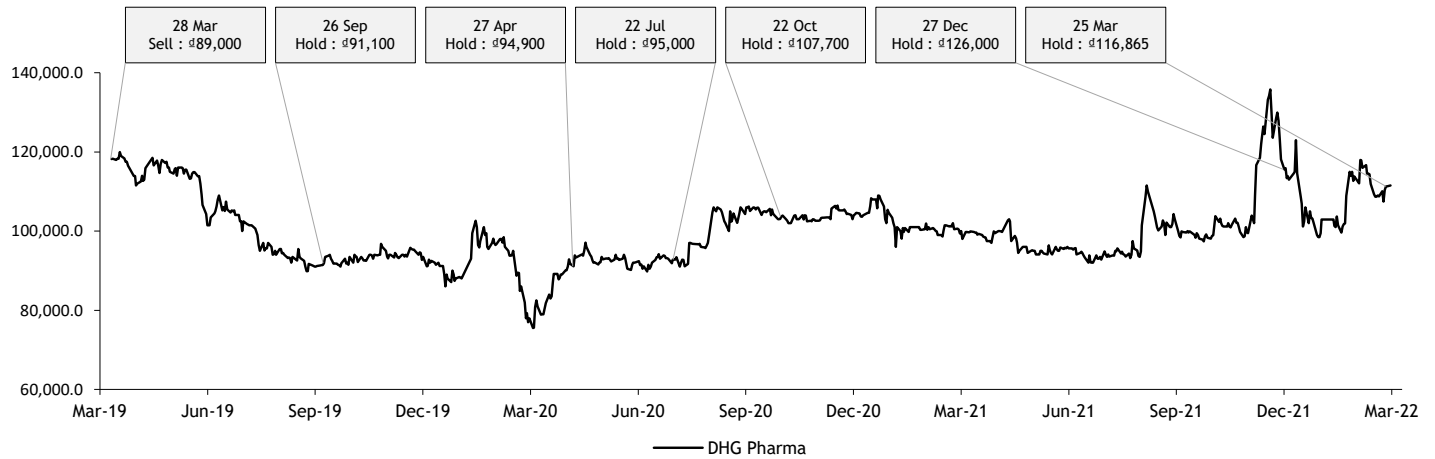
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