

HAU GIANG PHARMACEUTICAL JSC (DHG- HSX)

Business still picks up at good pace

Particulars (VND bn)	3QFY13	2QFY13	% (qoq)	3QFY12	% (oy)
Net Revenues	838.0	779.3	7.5%	713.1	17.5%
EBIT	208.9	125.8	66.0%	98.4	112.2%
PAT	272.9	161.8	68.6%	118.2	130.8%
EBIT margin (%)	32.6	20.8	1,180bps	16.6	1,600bps

Source: DHG, RongViet Securities' compilation

- 3Q2013 revenue grew in all business segments, especially in merchandising. The revenue structure was relatively stable.
- DHG revenue structure continued to shift towards a reduced portion of self-produced goods but a heavier weight for merchandising and raw material trading; the result was a trimmed overall gross profit margin. Such alteration is likely to stay on into a foreseeable future.
- NPAT increased impressively thanks to recognized sales of Eugica. The deal stipulated the Company's continued process and distribution the brand in 2013; yet for the next 5 years, DHG will serve only as the processor

Outlook and valuation

Despite Circular No.01/2012's downward impact on prescription drugs sales, DHG has been able maintain positive revenue growth by proactively switching to OTC drugs. Besides, the transfer of Eugica not only provided a kick to this year's profit but may also help DHG's exploit the full capacity of its capsule production line and boost its sales volume, considering Mega Lifesciences' experience in pharmaceuticals distribution. We expect an impressive performance of DHG when its two new factories begin operating.

Since early 2013, DHG has seen its stock price increase by about a sharp 60%. However, considering the good performance of its core business as well as its potential in the next few years, we still recommend ACCUMULATION in the medium-and-long term with the target price of VND 126.000 per share for DHG

Key financials

Y/E Dec (VND bn)	FY2011	FY2012	9M/FY2013	FY2013E	FY2014F
Net Revenues	2,490.9	2,931.1	2,387.7	3,351.7	4,011.6
% chg	22.4	17.7	17.9	14.4	19.7
PAT	415.5	485.9	450.8	589.8	611.4
% chg	9.0	16.9	25.9	21.4	3.7
EBIT margin (%)	16.7	16.6		17.6	15.2
ROA (%)	21.8	22.2		23.0	20.4
ROE (%)	31.2	31.7		31.9	27.8
EPS (VND)	6,382	7,443		9,021	9,351
Adjusted EPS (VND)					
Book value (VND)	21,197	25,815		30,682	36,507
Cash dividend (VND)	2,000	3,000		3,000	3,000
P/E (x)	17.2	14.8		12.2	11.8
P/BV (x)	5.2	4.3		3.6	3.0

Source: DHG, RongViet Securities' compilation and estimates. *As of 20/11/2013

ACCUMULATE

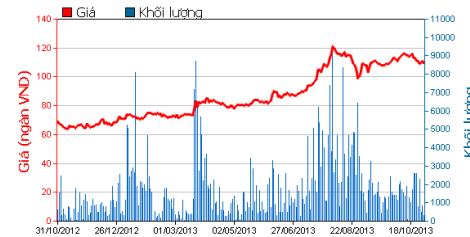
CMP (VND) 110,000

Target Price (VND) 126,000

Investment Period Intermediate

Stock Info

Sector	Pharmaceutical
Market Cap (VND bn)	7,190.3
Current Shares O/S	65,366,299
Beta	1.1
Free float (%)	29.6
52 weeks High	121.4
52 weeks Low	61.2
Avg. Daily Volume (in 20 sessions)	9,395



Performance (%)

	3M	1Y	3Y
DHG	-5.7	69.8	162.8
Pharmaceutical	-2.8	N/A	N/A
VN 30 Index	1.7	21.6	19.2
VN Index	0.3	28.9	12.2

Major Shareholders (%)

SCIC	43.3%
ABT (HSX)	11.0%
FTIF – Templeton Frontier Markets Fund	8.9%
Portal Global Limited	7.2%
Foreigner Investor Room (%)	0.0%

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Exhibit 1: 3QFY2013 and YTD Results

Particulars (VND bn)	3QFY13	2QFY13	% chg (qoq)	3QFY12	% chg (yoy)	9M/FY13	% chg (yoy)
Net Revenues	838.0	779.3	7.5%	713.1	17.5%	2,387.7	17.9%
Gross profits	388.4	370.8	4.7%	365.3	6.3%	1,104.5	11.5%
SG&AC	249.9	232.3	7.6%	257.9	-3.1%	687.7	14.7%
Operating Income	138.6	138.6	0.0%	107.3	29.1%	416.8	6.6%
EBITDA	291.9	176.6	65.3%	135.8	114.9%	634.1	34.2%
EBIT	272.9	161.8	68.6%	118.2	130.8%	585.3	38.3%
Financial expenses	4.3	0.8	433.6%	1.0	328.7%	5.9	53.0%
-Interest Expenses	0.5	0.6	-12.0%	0.5	11.8%	1.7	-17.1%
Dep. and amortization	15.2	14.6	4.2%	17.0	-10.8%	44.6	-6.5%
Non-recurring Items (*)	0.0	4.7	-	0.0	-	4.7	-
Extraordinary Items (*)	127.5	0.0	-	0.0	-	127.5	-
PBT	272.4	161.2	68.9%	117.7	131.3%	583.6	38.6%
PAT	208.9	125.8	66.0%	98.4	112.2%	450.8	25.9%
(*) Adjusted PAT	113.0	122.1	-7.5%	98.4	14.8%	352.1	-

Source: DHG, RongViet Securities'

Exhibit 2: 3QFY2013 performance analysis

Particulars	3QFY13	2QFY13	% Chg. (qoq)	3QFY12	% Chg.(yoy)
Profitability Ratios (%)					
Gross Margin	46.3	47.6	-124 bps	51.2	-487 bps
EBITDA Margin	34.8	22.7	1,217 bps	19.0	1,579 bps
EBIT Margin	32.6	20.8	1,180 bps	16.6	1,598 bps
Net Margin	24.9	16.1	878 bps	13.8	1,112 bps
Adjusted Net Margin	13.5	15.7	-218 bps	13.8	-32 bps
Turnover *(x)					
-Inventories	2.7	2.9	-8.4%	2.3	15.7%
-Receivables	5.5	5.1	6.9%	5.3	2.4%
-Payables	4.6	4.7	-1.2%	5.4	-14.7%
Leverage (%)					
Total Debt/ Equity	1.3	1.4	-7 bps	1.1	25 bps

Source: DHG, RongViet Securities' compilation

3Q2013 revenue grew in all business segments, especially merchandising. Considering Circular No.01/2012's downward impact on prescription drugs sales, DHG has proactively shifted to goods merchandising and raw material trading, which helped maintain positive revenue growth. Specifically, sales of self-produced goods increased by 4.2%, trading revenue jumped 4.4 times and raw materials sales 2 times. The revenue structure at the end of September was relatively stable wherein pharmaceuticals still took up a dominant 92% of total revenue (antibiotics 38%, analgesics – antipyretics 19%, nutritionals 8%) whereas functional foods and cosmeceuticals accounted for only 8%.

Revenue structure changes had significant impact on gross profit margins. 3Q2013, DHG revenue structure continued to shift towards a reduced portion of self-produced goods but a heavier weight for merchandising and raw material trading, which offer profit margin of only 53.3% and 4.3%, respectively; the result was a trimmed overall gross profit margin. Such alteration, though only one of the many solutions to maintain revenue growth when ETC output is constrained, is likely to stay on into a foreseeable future.

3Q2013 NPAT increased impressively thanks to recognized sales of Eugica. In July, DHG recognized USD6 million for the transfer of the Eugica brand (mentioned with more details in our August report). Thus NPAT was up 2.1 times yoy to VND 208.8 billion. The deal stipulated the Company's continued process and distribution the brand in 2013; yet for the next 5 years, DHG will serve only as the processor. By DHG's information, processing revenue is just 77% that of self-production; the profit, however, will not be much affected much thanks to well-negotiated margin.

Deducting the brand transfer profit, NPAT declined 7.5% yoy because of a reduced gross profit margin and increased SG&A expenses as the result of generous allocation to the science and technology development fund.

Exhibit 3: 3QFY2013 Actual vs. Estimates

Particulars (VND bn)	Actual	Estimates	Var (%)
Net Revenues	838.0	818.5	2.4%
Gross profits	388.4	392.9	-1.1%
EBIT	272.9	283.0	-3.6%
PAT	208.9	212.3	-1.6%

Sources: DHG, RongViet Securities

Exhibit 4: 4QFY2013 Forecast

Particulars (VND bn)	4QFY13	%chg (qoq)	%chg (yoy)
Net Revenues	964.0	15.0%	6.4%
Gross profits	443.9	14.3%	-2.0%
EBIT	171.4	-37.2%	6.1%
PAT	139.1	-33.4%	4.4%

Sources: DHG, RongViet Securities

We see a positive prospective for 4Q2013. Generally, the last 2 quarters usually have a better business performance, increasing about 20%, so we expect the 4Q2013 retain good growth. The revenue structure changes will likely continue so the profit gross margin should be declined slightly. Accordingly, revenue and NPAT is estimated at VND 964 billion and VND 139 billion, respectively.

In 2013, revenue is estimated at VND3,352 billion (+14.4% yoy) and NPAT at VND590 billion (+21.4% yoy or VND 9,021 per share).

The two factories starting operation next year is the long – term growth drivers. The set-up of new factories is still making progress but is still behind schedule. The Non Beta lactam factory is to be tested for GMP-WHO in November 2013, and then comes the product registration. The factory will likely to come into operation in 1Q2014, a few months behind the initial plan of 4Q2013. Bids for the installation of the Beta lactam factory are being evaluated, which suggest the plan first becoming operational in 3Q2014. At the end of September, the project has been invested VND 342 billion, VN 59 billion of which went into the land. The current capacity of DHG is 4 billion and soon will be increased to 9 billion product units when the new plants start running.

Outlook and valuation

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Exhibit 5: Key Assumption

Particular	Earlier Estimates		Revised Estimates	
	FY2013E	FY2014E	FY2013E	FY2014E
Revenue growth (%)	14.4	16.3	14.4	19.7
Gross margin (%)	48.5	48.0	46.2	46.0
EBIT margin (%)	22.6	19.5	22.6	18.2

Sources: RongViet Securities
Exhibit 6: Changes in Estimates

Particular (VND bn)	FY2013E			FY2014E		
	Earlier Estimates	Revised Estimates	Var (%)	Earlier Estimates	Revised Estimates	Var (%)
Net Revenues	3,351.7	3,351.7	0.0%	3,899.2	4,011.6	2.9%
Gross profits	48.5%	46.2%	-4.7%	48.0%	46.0%	-4.2%
SG&AC	1,032.3	968.6	-6.2%	1,197.0	1,161.4	-3.0%
Operating Income	593.3	579.8	-2.3%	713.5	684.0	-4.1%
Financial expenses	4.9	6.7	36.4%	5.4	7.9	46.3%
PBT	755.3	754.7	-0.1%	757.1	727.8	-3.9%
PAT	590.3	589.8	-0.1%	620.8	611.4	-1.5%
EBITDA	852.0	850.7	-0.1%	884.2	858.1	-2.9%
EBIT	758.0	756.7	-0.2%	758.8	729.6	-3.8%
EPS (VND)	9,029	9,021	-0.1%	9,496	9,351	-1.5%

Sources: RongViet Securities

VND Billion				
INCOME STATEMENT	2011A	2012A	2013E	2014F
Revenue	2,490.9	2,931.1	3,351.7	4,011.6
COGS	1,282.1	1,487.3	1,803.2	2,166.3
Gross profit	1,208.8	1,443.8	1,548.5	1,845.3
Selling Expense	558.9	709.6	697.2	834.4
G&A Expense	185.2	218.2	271.5	326.9
Finance Income	48.9	42.2	46.4	48.7
Finance Expense	7.2	4.5	6.7	7.9
Other profits	-5.5	31.3	135.6	3.5
PBT	490.9	584.8	754.7	727.8
Prov. of Tax	71.2	93.5	158.5	131.0
Minority's Interest	4.2	5.4	6.4	0.0
PAT to Equity Shareholder	415.5	485.9	589.8	596.8
EBIT	493.0	587.4	756.7	730.2
EBITDA	546.6	654.2	836.7	846.6
%				
FINANCIAL RATIO	2011A	2012A	2013E	2014F
Growth				
Revenue	22.4	17.7	14.4	19.7
Operating Income	16.2	11.0	12.4	18.0
EBITDA	15.5	19.7	27.9	1.2
EBIT	13.6	19.2	28.8	-3.5
PAT	9.0	16.9	21.4	1.2
Total Assets	9.7	19.2	15.8	17.6
Equity	11.4	22.7	15.9	18.4
Internal growth rate	30.6	30.5	20.8	18.1
Profitability				
Gross profit/Revenue	48.5	49.3	46.2	46.0
Operating profit/ Revenue	18.7	17.6	17.3	17.1
EBITDA/ Revenue	21.9	22.3	25.0	21.1
EBITDA/ Revenue	19.8	20.0	22.6	18.2
Net margin	16.7	16.6	17.6	14.9
ROAA	21.8	22.2	23.0	19.9
ROIC or RONA	34.7	35.8	39.2	32.3
ROAE	30.7	30.6	31.2	26.9
Efficiency				
Receivable Turnover	5.3	5.5	5.4	5.7
Inventory Turnover	3.0	2.9	3.1	2.9
Payable Turnover	2.7	2.8	2.9	3.0
Liquidity				
Current	3.0	3.1	2.8	2.8
Quick	2.0	2.2	1.9	1.8
Solvency				
Total Debt/Equity	39.1	35.0	34.8	33.9
Current Debt/Equity	1.5	1.1	1.0	1.0
Long-term Debt/ Equity	0.0	0.0	0.0	0.0
VND Billion				
BALANCE SHEET	2011A	2012A	2013E	2014F
Cash and equivalents	467.1	719.0	594.8	637.1
Short-term investment	0.0	0.0	0.0	0.0
Receivables	489.9	574.3	656.9	762.2
Inventories	515.2	511.8	667.2	801.5
Other current assets	18.5	12.5	23.8	21.4
Total Current Asset	1,490.7	1,817.7	1,942.7	2,222.1
Tangible Fixed Assets	255.3	279.7	391.1	706.3
Intangible Fixed Assets	157.4	167.0	164.9	161.4
Construction in Progress	46.7	70.4	210.0	100.0
Investment Property	0.0	0.0	0.0	0.0
Long-term Investment	17.5	16.7	18.3	20.1
Other long-term assets	28.1	26.8	28.2	29.6
Long-term Asset	467.1	719.0	594.8	637.1
Total Asset	1,995.7	2,378.3	2,755.1	3,239.6
Payables	124.3	75.0	90.2	108.3
Other current liabilities	354.0	496.4	573.1	655.5
Current Debt	21.1	19.5	20.1	24.1
Long-term Debt	0.0	0.0	0.0	0.0
Other long-term liabilities	58.2	21.3	23.4	25.7
Total Liability	557.7	612.1	706.8	813.6
Owner's Equity	1,381.5	1,687.7	2,005.9	2,386.7
Capital	651.8	653.8	653.8	653.8
Retained Earnings	377.3	476.5	551.7	661.2
Funds & Reverses	352.9	557.9	800.9	1,072.2
Others	44.5	62.7	23.6	24.5
Total Equity	1,426.1	1,750.4	2,029.4	2,411.2
Minority's Interest	11.9	15.8	18.9	22.7
TOTAL RESOURCES	1,995.7	2,378.3	2,755.1	3,239.6
CASH FLOW STATEMENT	2011A	2012A	2013E	2014F
Profit before tax	490.9	584.8	754.7	727.8
-Depreciation	53.6	66.8	80.0	116.5
-Adjustments	-34.7	-34.1	-44.0	-52.3
+/- Working capital	-246.4	-147.1	-242.5	-216.3
Net Operating CFs	263.4	470.4	548.2	575.7
+/- Fixed Asset	-250.8	-128.1	-324.1	-312.7
+/- Deposit, equity investment	18.5	2.2	-3.7	-4.1
Interest, dividend, cash profit received	44.0	38.3	42.1	50.0
Net Investing CFs	-188.3	-87.6	-285.8	-266.8
+/- Capital	2.5	2.0	0.0	0.0
+/- Debt	8.3	-1.6	-9.8	4.0
Dividend paid	-261.4	-131.3	-376.8	-270.6
Net Financing CFs	-250.6	-130.9	-386.6	-266.7
+/- cash & equivalents	-175.4	251.9	-124.2	42.2
Beginning cash & equivalents	642.5	467.1	719.0	594.8
Impact of exchange rate	0.0	0.0	0.0	0.0
Ending cash & equivalents	467.1	719.0	594.8	637.1

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective which is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Intermediate-term (up to 6 months)	>20%	10% to 20%	-5% to 10%	-15% to -5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

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