22th September, 2014

PHARIMEXCO (DCL – HNX)

Chances as bad debts to be solved

Particulars (VND bn)	1QFY14	4QFY13	% (qoq)	1QFY13	% (yoy)
Net Revenues	177.1	173.8	2%	174.9	1%
EBIT	11.5	11.6	0%	14.1	-18%
PAT	18.7	22.1	-15%	(15.8)	-218%
EBIT margin (%)	10.6%	12.7%	-215bps	-9.1%	1,965bps

Sources: DCL, RongViet Securities

- Hard gelatin capsule proved prominence, expected to drive growth if expanded
- Medical instruments and export potential
- Without distinction, pharmaceuticals remain the key revenue generator
- Doubtful debts and dilemma to be solved

Outlook and Valuation:

DCL operates in pharmaceuticals and medical instruments. With regard to the Company's three primary segments, i.e. pharmaceuticals, pharmaceutical packaging (hard gelatin capsule) and medical instruments (syringes and infusion pipes), we value more highly the potential of the latter two. However, while DCL's factories have reached maximum capacity, there has yet to be a specific roadmap for expansion. This stemmed from the Company's insufficient financials, caused mainly by the provisions for doubtful debts and a chartered capital only fractional as compared to its peers. According to the Company, its syringe capacity will be doubled by the end of this year in order to increase exports to Africa. Nevertheless, this may have no significant impact on the overall performance of DCL but is a great opportunity for the Company to expand both its production and markets. Before it can make use of the industry growth opportunities, DCL will need to find a solution for the doubtful debt issue and rearrange its pharmaceutical business to lay the fundamentals for future development, which targets we think may take DCL at least another one or two years.

*At the current market price, investors should continue to monitor the progress in DCL's capsule capacity expansion plan and how the Company handles Vikimco exports to Africa, which factors would define the Company's ability to grow in the upcoming periods. Before having any confirming signals, we only hold the **NEUTRAL** recommendation for DCL with a target per-share price of **VND37,000**.*

Key financials

Y/E Dec (VND bn)	FY2012	FY2013	FY2014E	FY2015F
Net Revenues	611.8	674.6	783.4	890.1
% chg	-2.9%	10.3%	16.1%	13.6%
PAT	19.2	30.3	36.8	41.7
% chg		58.1%	21.5%	13.4%
EBIT margin (%)	3.1%	4.5%	4.7%	4.7%
ROA (%)	2.5%	4.7%	5.7%	6.1%
ROE (%)	8.0%	11.4%	12.7%	13.3%
EPS (VND)	1,932	3,056	3,714	4,210
Adjusted EPS (VND)	1,932	3,056	3,714	4,210
Book value (VND)	25,186	28,241	29,648	32,463
Cash dividend (VND)		600	1,000	1,000
P/E (x)	5.1	7.6	8.6*	7.6*
P/BV (x)	0.4	0.8	1.1*	1.0*

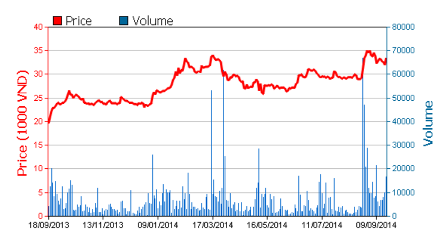
Sources: DCL, RongViet Securities, Stock price of 09/22/2014

Neutral

CMP (VND)	32,000
Target Price (VND)	37,000
Investment Period	Long-term

Stock Info

Sector	Pharmaceutics
Market Cap (VND bn)	325
Current Shares O/S	9.913.692
Beta	1.12
Free float (%)	63.65
52 weeks High	35.100
52 weeks Low	22.400
Avg. Daily Volume (in 20 sessions)	124.631



Peformance (%)

	3M	1Y	3Y
DCL	*7*	*47*	*80*
Pharmaceutics	*-0.2*	*16*	*N/A*
HSX30	*8*	*22*	*37*
HSX Index	*9*	*28*	*36*

Major Shareholders (%)

SCIC	36,35
VCHF	4,35
Red River Holdings	3,83
Lê Trung Hiếu	3,12
Giới hạn sở hữu NĐTNN (%)	41,1

Tam Bui

(084) 08- 6299 2006 – Ext 348

tam.bt@vdsc.com.vn

Exhibit 1: 2QFY2014 and YTD Results

Particulars (VND bn)	2QFY14	1QFY14	% chg (qoq)	2QFY13	% chg (yoy)
Net Revenues	177.1	173.8	1.9%	174.9	1.3%
Gross profits	62.6	60.4	3.6%	57.2	9.5%
SG&AC	44.6	38.3	16.4%	31.5	41.5%
Operating Income	18.0	22.1	-18.5%	25.7	-29.8%
EBITDA	32.3	28.1	15.2%	-9.9	-425.6%
EBIT	18.7	22.1	-15.3%	-15.8	-218.3%
Financial expenses	6.0	6.1	-1.4%	8.6	-30.2%
- Interest Expenses	5.8	6.1	-5.2%	-31.8	-118.1%
Dep. and amortization	-13.6	-5.9	129.3%	-5.9	129.3%
Non-recurring Items (*)					
Extraordinary Items (*)					
PBT	13.0	16.0	-19.1%	16.0	-18.9%
PAT	11.5	11.6	-0.2%	14.1	-18.2%
(*) Adjusted PAT	11.5	11.6	-0.2%	14.1	-18.2%

Sources: DCL, RongViet Securities

Exhibit 2: 2QFY2014 performance analysis

Particulars	2QFY14	1QFY14	% Chg. (qoq)	2QFY13	% Chg.(yoy)
Profitability Ratios (%)					
Gross Margin	35.4%	34.8%	59bps	32.7%	265bps
EBITDA Margin	18.2%	16.1%	211bps	-5.7%	2392bps
EBIT Margin	10.6%	12.7%	-215bps	-9.1%	1965bps
Net Margin	6.5%	6.6%	-14bps	8.1%	-156bps
Adjusted Net Margin	6.5%	6.6%	-14bps	8.1%	-156bps
Turnover *(x)					
-Inventories	2.48	2.7	-2.7	2.9	-2.9
-Receivables	3.34	3.4	-3.4	2.9	-2.9
-Payables	9.26	9.5	-9.5	9.5	-9.5
Leverage (%)					
Total Debt/ Equity	1.1	1.1	0.0	1.4	-0.3

Sources: RongViet Securities (*) Annualized turnover

Hard gelatin capsule proved prominence, expected to drive growth if expanded

Hard gelatin capsule segment is a key competitive advantage of DCL. The Company got its capsule production technology transferred from Canadian healthcare equipment manufacturer Technophar with a 5-year exclusive use agreement, which gives DCL an edge in the early of operation and has made it one of the few local companies able to manufacturing Capsule. While DCL dominates with for over 40% of market share most pharmaceutical producers still rely on capsules imported from the US and India. The Company has seen its capsule capacity reaching the maximum of 4 billion tablets in the past few years. The pharmaceutical industry is estimated to continue growing at 16-17% per year in a foreseeable future industry players are all scaling up production capacity. Currently, 30% of local pharmaceutical companies have demand for capsules. In fact, demand was so high that in 2013, DCL had to the import capsules to fill the gap. As the result, we see great opportunities for DCL if the Company can expand capacity in this particular segment.

Accounting for approximately 27% of total revenue in 2013, the capsule segment of DCL is valued highly as it is the second largest revenue source of the Company, after pharmaceuticals. Capsule sales revenue grew and average 16% a year in the period between 2010 and 2013, with a reported gross profit margin of 45%. The Company previously planned to raise the capacity of this segment 50% in 2013 through the investment in 4 more production lines. However, the DCL could not see the scheme done due to financial difficulties, especially with the increases of doubtful debt provision.

We believe that the DCL will be able to double its capacity after resolving the entire amount of bad debts, which in our estimate, should take at least 1-2 years to complete. Therefore, it is possible that, the Company will set up another Capsule factory with total investment of over VND100 billion in 2016. The previous development of Capsule II, suggests that the construction of the new plant may take around one year, allowing it to start making revenue as early as 2017. With the incremental revenue, the share of capsules sales in total revenue may soar to over 35%. With regard to market demand, most large pharmaceutical companies such as Haul Gang, Domes and Imexpharm are currently DCL's customers. Combining that customer base with an optimistic growth forecast for the pharmaceutical sector of 16-17%/year, we see a lot of potential demand for the Capsule segment of DCL.

Medical instruments and export potential

Aside from Capsule, Vikimco segment is another specialty of DCL, which produces medical instruments, i.e. syringes and infusion pipes, using Korean technology, which the Company adopted after establishing a joint venture with a Korean company in 1997.The medical instrument market is now characterized by harsh competition among companies such as MediPlast, MPV and Vina-Hankook. These firms, however, focus primarily on the Northern market, dominated by the Korean Vinahankook. Vikimco, on the other hand, has a geographical advantage give itslarge market share and its having to compete with only smaller players. In a period of 2010-2013, the Vikimco segment accounted for 10-11% of total revenue whereas revenue growth averaged around 7%. The gross profit margin is approximately 20-22%, lower than the average margin of 30-40% of industry peers in other countries.

DCL's Vikimco factory has been running at almost full capacity, or about 92.5 million units a year. DCL plans to double its Vikimco capacity this year and 50% of production output would be exported to Africa. As far as we concern, DCL's partner in this new market is a company headquartered in Nigeria. A contract with this partner has been signed which we will see the implementation in later months of 2014. Therefore, after Myanmar, Africa will be the second export market of DCL, forecasted to absorb the majority of the incremental output.

"Africa has high rate of transmitted deseases and holds one of the world's highest HIV infection rates. According to the Joint United Nation's Programme on HIV/AIDS (UNAIDS), South East Africa accounts for only 5% of the world population but 50% of the world's HIV-infected reside in this part of the continent. The organization has also noted the hiking number of injected drug users in countries such as Kenya, Madagascar, Mozambique and South Africa. A survey in 2011 pointed out the habit of reusing syringes and the lack of new syringe supply are among the major causes of the high HIV infection rate in this area. Therefore, the local authorities as well as health organization are often on programmes to distribute clean syringes to establish control over the situation."

Citing from the report "Getting to zero" by UNAIDS

Considering the demand from the new export market, a plan to expand output in this segment is quite appropriate. If the capacity after expansion is capped at 200 million units a year, revenue from the Vikimco arm may still be insignificant, making up only 15% of DCL's total revenue. However, it can be an initial step for DCL to penetrate the African market. If the Company can succeed in this market and gather the sufficient financials for expansion, this could become a potential profit driver.

Without distinction, pharmaceuticals remain the key revenue generator

In contrast with the capsule business, DCL's pharmaceuticals find it hard to distunguish themselves from the products of other manufacturers. DCL concentrate mainly on the low and medium market segments. As a result, quality has never been a strong selling point. To tackle increasing competition, companies such as DHG, IMP, DMC have had hundreds of billions spent to establish international-standard factories of their own. On the side of DCL, the Company has been running only two factories, i.e. Non Beta Lactam and Cephalosprin, operating since 2010 and generating nearly 800 billion products each year. While the plants have reached their maximum capacity, a specific schedule to either upgrade or expand the production lines is nowhere in sight.

The portion of revenue from pharmaceuticals grew an average 4% in the period of 2010-2013 whereas the industry average was recorded at 16-17%. The Company has taken a variety of measures to restructure the business, most notably tightening receivables; by now, the scheme has born some sweet fruits. At the moment, DCL's operates a distribution system comprising 27 branches and 585 dealers and retail sites nationwide. The Company said that they would open one more branch in Tay Ninh in order to expand the network.

The application of Circular 01/2012/TTLT-BYT-BTC has altered the proportions of ETC and OTC drugs in the pharmaceutical sales. Specifically, the share of ETC drugs in durge sales has increased to over 30% thanks to the low-and-medium-priced products at the expense of a smaller share for OTC drugs. Anyway, pharmaceutical sales have been quite volatile in recent years, mostly because of DCL's financial issues. We recognize that the distribution of drugs through the ETC channel has substantial intermediary costs and suffers a long collection period, which casts doubts on the competitiveness or expansion potential of DCL's pharmaceutical business.

The pharmaceutical industry is forecasted to grow at an annual 17% between 2013 and 2018, characterized by the population's increasing demand for drugs. Moreover, there will likely be more intense competition among large companies in the market. Considering DCL's ongoing plans as well as the measures the Company has taken, we expect this segment of DCL to remain stable or improve slightly.

Doubtful debts and dilemma to be solved

Boosting sales while easing receivable policy was the root of DCL's receivable problems. The Company suffers from an average collection period 60 days higher its peers. Since 2009, revenue has increased sharply (+29% was the highest growth rate in recent years). Account receivables also increased dramatically, peaking at VND323 billion or 51% of revenue in 2011. So far this year, the provision for bad debts has swelled 77% to almost 16 billion VND.

The tremendous provision for doubtful debts also inflated administrative expenses and depressed financial ratios such as receivables turnover, payables turnover, inventory, interest coverage in 2011 and 2012. Under that circumstance, the Company has implemented restructuring measures, taking more prudence in bad debt provision. Provision for doubtful debts in the first half of 2014 rocketed to VND39 billion. DCL said they would continue making provisions in later months of the year and receive some payments before the year ends.

With reasonable caution, we believe that it would take at least 1-2 years for DCL to solve its financial issues, meaning the ratio of doubtful debts by account receivables may not return to the normal rate of 11% until 2016. Once these problems have been solved, the Company would have opportunity as well as financial capacity to enhance its advantages.

Outlook and valuation

DCL operates in pharmaceuticals and medical instruments. With regard to the Company's three primary segments, i.e. pharmaceuticals, pharmaceutical packaging (hard gelatin capsule) and medical instruments (syringes and infusion pipes), we value more highly the potential of the latter two. However, while DCL's factories have reached maximum capacity, there has yet to be a specific roadmap for expansion. This stemmed from the Company's insufficient financials, caused mainly by the provisions for doubtful debts and a chartered capital only fractional as compared to its peers.

According to the Company, its syringe capacity will be doubled by the end of this year in order to increase exports to Africa. Nevertheless, this may have no significant impact on the overall performance of DCL but is a great opportunity for the Company to expand both its production and markets. Before it can make use of the industry growth opportunities, DCL will need to find a solution for the doubtful debt issue and rearrange its pharmaceutical business to lay the fundamentals for future development, which targets we think may take DCL at least another one or two years.

At the current market price, investors should continue to monitor the progress in DCL's capsule capacity expansion plan and how the Company handles Vikimco exports to Africa, which factors would define the Company's ability to grow in the upcoming periods. Before having any confirming signals, we only hold the **NEUTRAL** recommendation for DCL with a target per-share price of **VND37,000**.

Exhibit 3: 3QFY2014 Forecast

Particulars (VND bn)	3QFY14	%chg (qoq)	%chg (yoy)
Net Revenues	196	11%	20%
Gross profits	65	3%	30%
EBIT	26	37%	30%
PAT	14	24%	65%

Sources: RongViet Securities

Exhibit 4: Key Assumption

Particular	Earlier Estimates		Revised Estimates	
	FY2014E	FY2015E	FY2014E	FY2015E
Revenue growth (%)	N/a	N/a	16%	14%
Gross margin (%)	N/a	N/a	31%	30%
EBIT margin (%)	N/a	N/a	10%	9%

Sources: RongViet Securities

VND Billion

INCOME STATEMENT	2012A	2013A	2014E	2015F
Revenue	611.8	674.6	783.4	890.1
COGS	440.9	461.1	544.5	623.1
Gross profit	**170.9**	**213.5**	**238.9**	**267.0**
Selling Expense	66.9	82.7	97.9	115.7
G&A Expense	25.9	55.8	64.0	66.8
Finance Income	5.0	0.4	0.5	0.5
Finance Expense	63.3	37.3	30.5	31.8
Other profits	-0.2	0.2	0.2	0.2
PBT	**19.7**	**38.4**	**47.2**	**53.5**
Prov. of Tax	0.7	8.1	10.4	11.8
Minority's Interest	-0.1	0.0	0.0	0.0
PAT to Equity Shareholder	**19.2**	**30.3**	**36.8**	**41.7**
EBIT	**82.3**	**74.5**	**76.8**	**84.3**
EBITDA	106.3	98.2	101.2	111.0

%

FINANCIAL RATIO	2012A	2013A	2014E	2015F
Growth				
Revenue	-2.9	10.3	16.1	13.6
Operating Income	78.5	-4.1	2.7	9.8
EBITDA	138.3	-7.6	3.0	9.7
EBIT	84.5	-9.4	3.0	9.8
PAT	-162.2	58.1	21.5	13.4
Total Assets	-20.9	-8.1	9.5	5.8
Equity	8.8	12.1	6.4	10.7
Internal growth rate	8.0	9.2	9.3	10.1
Profitability				
Gross profit/Revenue	27.9	31.6	30.5	30.0
Operating profit/ Revenue	12.8	11.1	9.8	9.5
EBITDA/ Revenue	17.4	14.6	12.9	12.5
EBITDA/ Revenue	13.5	11.1	9.8	9.5
Net margin	3.1	4.5	4.7	4.7
ROAA	2.5	4.7	5.7	6.1
ROIC or RONA	31.0	27.1	25.8	26.3
ROAE	8.0	11.4	12.7	13.3
Efficiency				
Receivable Turnover	2.1	3.1	3.9	4.4
Inventory Turnover	2.2	2.7	3.0	3.1
Payable Turnover	4.3	5.7	6.5	6.5
Liquidity				
Current	1.1	1.2	1.2	1.2
Quick	0.7	0.7	0.7	0.6
Solvency				
Total Debt/Equity	166.7	118.5	124.9	115.0
Current Debt/Equity	125.2	89.7	89.5	84.7
Long-term Debt/ Equity	7.1	0.2	5.0	0.0

VND Billion

BALANCE SHEET	2012A	2013A	2014E	2015F
Cash and equivalents	8	16	30	27
Short-term investment	0	0	0	0
Receivables	250	190	207	201
Inventories	164	178	191	212
Other current assets	15	11	10	10
Total Current Asset	**437**	**396**	**438**	**450**
Tangible Fixed Assets	207	194	212	238
Intangible Fixed Assets	18	18	18	17
Construction in Progress	4	1	1	1
Long-term Invest ment	0	0	0	0
Other long-term assets	1	4	2	2
Goodwill	0	0	0	0
Long-term Asset	**229**	**216**	**232**	**258**
Total Asset	**666**	**612**	**670**	**709**
Payables	55	50	60	65
Other current liabilities	30	28	31	34
Current Debt	313	251	267	279
Long-term Debt	18	0	15	0
Other long-term liabilities	0	3	0	0
Total Liability	**416**	**332**	**372**	**379**
Owner's Equity	**250**	**280**	**298**	**330**
Capital	99	99	99	99
Retained Earnings	-24	6	33	65
Funds & Reverses	65	65	56	56
Others	**0**	**0**	**0**	**0**
Total Equity	**250**	**280**	**298**	**330**
Minority's Interest	0	0	0	0
TOTAL RESOURCES	**666**	**612**	**670**	**709**

CASH FLOW STATEMENT	2012A	2013A	2014E	2015F
Profit before tax	19.7	38.4	47.2	53.5
-Depreciation	24.0	23.7	24.4	26.7
-Adjustments	*58.4*	*37.4*	*-0.2*	*-0.2*
+/- Working capital	54.1	-3.8	-29.2	-20.4
Net Operating CFs	**156.2**	**95.7**	**42.2**	**59.6**
+/- Fixed Asset	-3.9	-8.4	-42.2	-53.0
+/- Deposit, equity investment	0.0	0.0	0.0	0.0
Interest, dividend, cash profit	0.2	0.1	0.0	0.0
Net Investing CFs	**-3.7**	**-8.4**	**-42.2**	**-53.0**
+/- Capital	0.0	0.0	0.0	0.0
+/- Debt	-162.9	-78.7	29.9	-2.3
Dividend paid	0.0	0.0	-16.1	-7.7
Net Financing CFs	**-162.9**	**-78.7**	**13.7**	**-10.0**
+/- cash & equivalents	-10.4	8.7	13.8	-3.4
Beginning cash & equivalents	**18.1**	**7.8**	**16.5**	**30.3**
Impact of exchange rate	0.0	0.0	0.0	0.0
Ending cash & equivalents	**7.8**	**16.5**	**30.3**	**26.9**

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% to10%	-15% to- 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

ABOUT US

RongViet Securities Corporation (RongViet) was established in 2007, licensed to perform the complete range of securities services including: brokerage, financial investment, underwriting, financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders, also our strategic partners, are reputable institutions, i.e Eximbank, Satra, Viet Dragon Fund Management, etc... Along with a team of the professional and dynamic staffs, RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially, RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews

Network

Headquarter

Address: Floor 1-2-3-4, Viet Dragon Tower, 141 Nguyen Du, Ben Thanh Ward, Dist.1, Tp.HCM

Phone: 84.8 6299 2006   Fax: 84.8 6291 7986

Website: www.vdsc.com.vn

Ha Noi Branch

2C Thai Phien – Hai Ba Trung District – Ha Noi

Nha Trang Branch

50Bis Yersin - Nha Trang

Can Tho Branch

08 Phan Dinh Phung –Cần Thơ

DISCLAIMERS

This report is prepared in order to provide information and analysis to Rong Viet's clients only. It is and should not be construed as an offer to sell or a solicitation of an offer to purchase of subscribe for any investment. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. The readers should be aware that Rong Viet may have a conflict of interest with investors when does this research. Investors are advised make their own financial decisions based on their independent financial advisors as they believe necessary and based on their particular financial situation and investment objectives. Rong Viet will not take any responsibility for any loss/damages occurred as a result of using the information herein.

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

The information herein is believed by Rong Viet to be reliable and is based on public Sourcess believed to be reliable. We do not warrant its accuracy or completeness. Opinions, estimations and projection expressed in this report represent the current views of the author as of the original publication date appearing on this report only and the information, including the opinions contained herein, are subject to change without notice.