Imexpharm Pharmaceutical JSC (HSX:IMP)

Benefiting from Many Supporting Policies

- Supporting policies promote the use of domestic drugs in ETC channel
- Durable competitive advantage thanks to a modern EU-GMP factory system

Outlook and Valuation:

We have decided to change our recommendation from **NEUTRAL** to **BUY** for IMP. Considering the growth prospects of IMP, we believe that a valuation of **VND80,000/share**, equivalent to **P/E of 21x** is appropriate for 2018. Compared to the closing price of VND63,000/share on September 15, the target price, coupled with a stable dividend of VND1,800/share, yields a total expected return of **30%**.

It is not a bargain-hunting opportunity as its stock is trading at P/E of 22x for 2017. IMP has a growth stock story, in which our analyst believes that in the long run, the company will have high growth potential, thanks to the upcoming supporting policies. The company also possesses a durable competitive advantage, which is a modern EU-GMP factory system that only a few other domestic manufacturers can barely compete with. This facility also makes IMP an ideal target for foreign pharmaceutical counterparts. This could potentially lead to a strategic partnership and/or an FOL story, becoming a catalyst for the stock price as in the case of DMC and DHG.

In 2019, IMP's two new plants will come into operation. Although we have not received any information about the products of these two plants, we believe that by that time, the trend of replacing foreign drugs with domestic drugs will remain and sustain IMP's growth.

The risk for this recommendation is that the replacement trend is slower, or may not be as optimistic as expected. In addition, adverse policy changes (see appendix), if any, will inevitably affect the perspective mentioned in this report.

Key financials

Y/E Dec (VND B)	FY2015	FY2016	FY2017F	FY2018F
Net Revenues	964	1,010	1,272	1,643
% chg	7.5%	4.8%	25.9%	29.2%
PAT	92.9	101.0	138.4	185.3
% chg	8.3%	8.7%	37.1%	33.8%
PAT margin (%)	9.6%	10.0%	10.9%	11.3%
ROA (%)	8.8%	9.0%	9.6%	10.2%
ROE (%)	10.9%	11.0%	11.7%	12.6%
EPS (VND)	2,729	3,071	2,835	3,794
Book value (VND)	31,332	32,336	33,324	35,363
Cash dividend (VND)	1,800	800	1,800	2,000
P/E (x)	15.3	18.2	22.2	16.6
P/BV (x)	1.3	1.7	1.9	1.8

Source: IMP, RongViet Research estimation, based on the price on 15 September, 2017

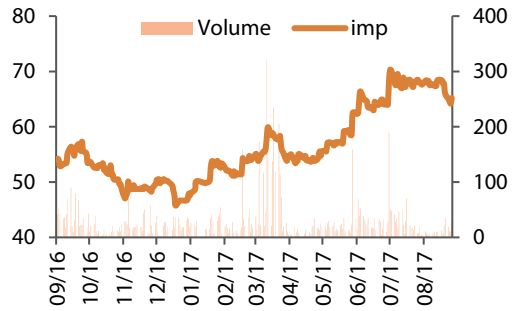
BUY

CMP (VND)	63,000
Targer Price (VND)	80,000
Cash Dividend (VND)*	1,800

(*)Forecasted in the next 12 months

Stock Info

Sector	Pharmaceutical
Market Cap (VND billion)	2,104
Current Shares O/S (million)	33,395,000
Beta	0.47
Free float (%)	38.3
52 weeks High	70,300
52 weeks Low	45,764
Avg. Daily Volume (in 20 sessions)	23,659



Performance (%)

	3T	1N	3N
IMP	8	16	94
VN 30	6	21	22
VN Index	6	21	33

Major Shareholders (%)

Vinapharm	23.8
FTIF – Templetion Frontier Markets	8.5
KWE Beteiligungen AG	8.2
Phano	6.7
Balestrand Limited	5.9
Foreign Investor Room (%)	*49.0*

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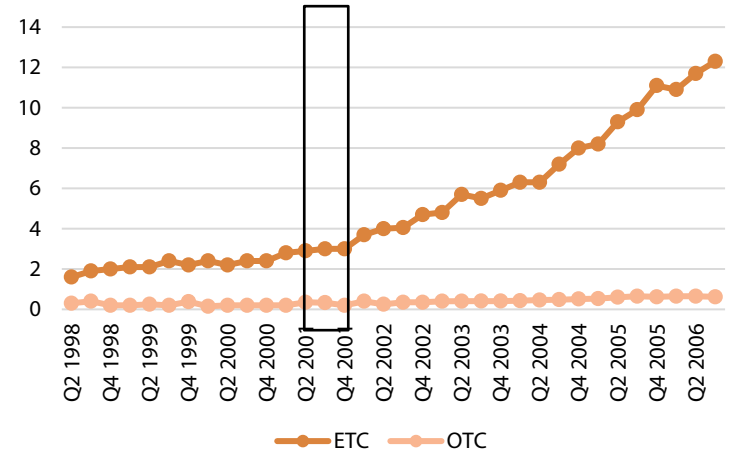
Positive Impact from the Acceleration of the Universal Health Coverage

Over the past two years, the government has shown determination to accelerate the impementation of Universal Health Coverage (UHC), in particular with **Decision No.1167/QD-TTg dated 28 August 2016 increasing the target coverage**. As a result, the coverage ratio has increased from 76% of the population in 2015 to 82% at present.

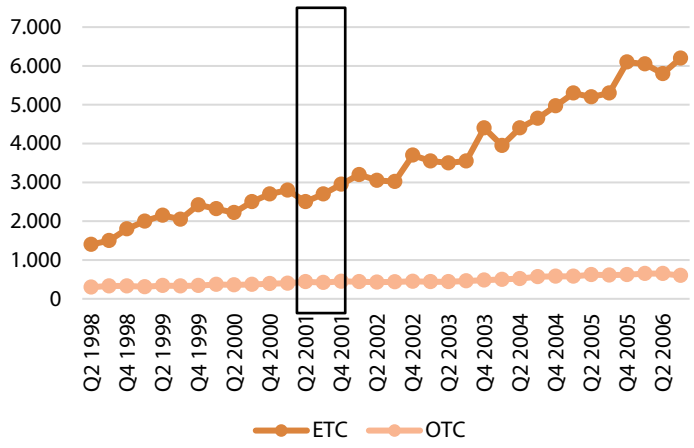
In the case of Thailand, which implemented the UHC since 2001 and reached a coverage rate of 95.5% of the population in 2004, we found that there were two most significant effects of this policy:

(1) Hospital (ETC) sales surged over time. Since the rollout of UHC, patients have swamped hospitals for treatment of diseases they could not afford before. According to BMJ Open, the UHC was associated with long-term increases in the hospital sector sales of medicines for chronic diseases that are usually treated in primary care setting, such as diabetes, high blood pressure and high cholesterol. The policy did not appear to increase the sales of medicines for more severe diseases like heart failure, arrhythmia and cancer, which are often treated in secondary or tertiary settings. The reform had little impact on sales volume in the retail sector (OTC channel).

Figure 1, 2: Total volume by quarter (standard units per capita) for insulin (left) and antihypertensives (right) in hospitals in Thailand surged over time



Source: BMJ Open



Source: BMJ Open

(2) Domestic drugs claimed a big market share in ETC channel. To achieve and sustain UHC, payers will have to finance and deliver UHC by reducing inefficiencies in healthcare delivery that is increasing costs for the government and finding more cost-effective medicines. Five years after Thailand implemented UHC, generic drugs produced by state owned companies have replaced the use of branded generics and generics produced by other foreign firms in some areas. The Government Pharmaceutical Organization supplies 80% of the drugs in public hospitals, as Government produced drugs receive preferential status from hospital purchasers.

The situation is replicating in Vietnam with the recent push by the central government for the majority of public tenders to manufacture drugs locally. Domestic companies that target ETC channel such as IMP will benefit greatly in the coming years. Specifically, the supporting documents include:

Law No.105/2016/QH13 on pharmacy

Law No.105/2016/QH13 on pharmacy (applicable on 1 July 2017), Chapter II, Article 7, Clause 4 states: bidding is not open for imported drugs when domestic drugs meet the requirements of treatment, price and availability.

In fact, it is worth noting that although the law became effective from the beginning of 2017, it has not yet impacted the ETC bidding of domestic companies. The reason is that health facilities are still awaiting

supporting documents for specific guidance. **It is only after the new circular is finalized and approved in the near future, that the impact will start to materialize.**

The Draft Circular on Drug Bidding Process at the Public Health Facility

The Draft includes a list of over 100 out of 500 expired patent drugs that must be replaced by generic drugs. This list includes many popular active substances of antibiotics (both injection and oral), which IMP is capable of manufacturing.

Table 1: List of some expired patent drugs that must be replaced by generic drugs

Patent drug name	Active substance	Dosage	Type/Units
Augmentin Inj	Amoxicilin (trihydrat form); Acid clavulanic (kali clavulanate form)	1g +200mg	Injection
Augmentin 625mg	Amoxicilin (trihydrat form); Acid clavulanic (kali clavulanate form)	500mg+125mg	Tablet
Augmentin 1g tablets	Amoxicilin (trihydrat form); Acid clavulanic (kali clavulanate form)	875mg+125mg	Tablet
Cefobid	Cefoperazone sodium	1g	Injection
Fortum	Ceftazidime	1g	Injection
Rocephin 1g I.V	Ceftriaxone	1g	Injection
Zinnat tablets 250mg	Cefuroxim (Cefuroxim axetil form)	250mg	Tablet
Zinnat tablets	Cefuroxime (Cefuroxime axetil form)	500mg	Tablet
Zinacef	Cefuroxime (Cefuroxime natri form)	750mg	Injection
Tazocin	Piperacillin monohydrate; Tazobactam	4g+0,5g	Injection

Source: RongViet Research

Official Letter 3794/BHXH-DVT

What is more, the Official Letter 3794/BHXH-DVT limits the use of patent drugs to 30% of total drug cost at national hospitals and 5% at provincial hospitals, while district hospitals are not allowed to use them.

Draft on the List of Drugs for Centralized Bidding by Vietnam Social Insurance.

Besides the list of bidding drugs under Circular No. 09/2016/TT-BYT, Vietnam Social Insurance is likely to organize a nationwide bidding for five common injection antibiotic drugs to synchronize the costs of drug purchase. Of these drugs, IMP can provide three active substances (3,4, and 5 in Table 2). Compared to the bidding process at each public facility or health department, nationwide bidding not only requires the winner to meet the price and quality standards but also the ability to supply in bulk. Therefore, high scale of production will be an advantage of IMP.

Table 2: List of 5 antibiotic active substances for centralized bidding by Vietnam Social Insurance.

Active substance	Dosage	Type	Unit
1. Levofloxacin	500mg	Injection	Bottle
2. Meropenem	500mg/1g	Injection	Bottle
3. Ceftriaxon	1g	Injection	Bottle
4. Cefepim	1g	Injection	Bottle
5. Cefoperazon + sulbactam	500mg+500mg	Injection	Bottle

Source: RongViet Research

Competitive Advantage Thanks to the EU-GMP Factories

In summary, we believe that the replacement of foreign drugs with domestic drugs in medical facilities will be a clear trend in the near future. In this trend, domestic manufacturers who own EU-GMP lines will have a big advantage compared to their rivals. The reason is that generic drugs produced in EU-GMP lines is categorized in Tier 2 bidding (and Tier 1 if it have export license), and will be the first option to replace patent drugs and imported generic drugs in those Tiers.

IMP has export visa to Portogal for Imetoxim 1g, a Cephalosporin antibiotic injection drug (active substance is Cefotaxime). In addition, the company is in process to get export license for two other products: PMS-Opxil 500g (active substance is Cephalexin) and Zobacta 4.5g, a Penicillin antibiotic injection drug (active substance is Piperacillin), expecting to complete in early 2018. Currently, IMP has operated two EU-GMP factories, and been expected to finish two other EU-GMP factories in 2019. The product portfolio of these plants has not been disclosed.

The building or upgrading of a factory qualified for the EU-GMP standard needs a lot of time and effort (at least 2 years). An EU-GMP antibiotic injection factory requires even stricter standards for sterility, air treatment system and high-skilled labor. For example, it took Pymepharco one year longer than expected to complete the upgrading of the EU-GMP antibiotic injection to this standard, while DBD has even halted its upgrading plan to consider the feasibility of the project. Therefore, the facilities remain the advantage of IMP in the next 2–3 years, until more domestic companies could catch up with this standard.

Table 3: Not many manufacturers in Vietnam can accquire EU-GMP standard

Manufacturer	Products	Granting Agency	Bidding Tier
Pymepharco	Nonsterile drugs: cefalosporin antibiotics	Germany	2
	Cefaclor Stada (Cefaclor 500 mg)		1
	Cepoxitil 200 (Cefpodoxime 200 mg)		
Joint venture Stada-VN	Nonsterile drugs	Germany	2
	Bisoprodol, Pantostad 40, Paracetam 800 & 1200, etc		1
Imexpharm	Sterile and nonsterile drugs: beta-lactam antibiotic	Spain	2
	Imetoxim 1g (Cefotaxim 1g)		1
Medochemie (Far East)	Sterile and nonsterile drugs	Cyprus	2
Tenamyd	Sterile drugs: beta-lactam injections	Slovakia	2

Source: DAV, RongViet Research

The low capacity utilization of the two EU-GMP factories is one of IMP's main problems in past. However, thanks to the new trend, these factories should operate at higher capacity and considerably contribute to IMP's revenue growth in 2018 onwards.

Table 4: Running capacity of IMP's EU-GMP factories promises to be higher in 2018

Factory	Standard	Invested Capital (VND)	Designed Capacity	Capacity 2016	Current Capacity	Capacity 2018F
1. Cephalosporin Binh Duong	EU-GMP					
- Injection			24 mn bottles	15%	30%	70%
- Tablet			800 mn units	20%	45%	70%
2. Penicilin Binh Duong (Injection)	EU-GMP		4 mn bottle	0%	0%	15-20%
3. Penicilin Dong Thap (Tablet)	WHO-GMP		500 mn units	70-80%	70-80%	70-80%
4. Non-betalactam Dong Thap	WHO-GMP		1,200 mn units	100%	100%	100%
5. High tech antibiotics Vinh Loc (2019)	EU-GMP	170 bn	n/a			
6. High tech pharmaceutical Binh Duong (2019)	EU-GMP	470 bn	n/a			

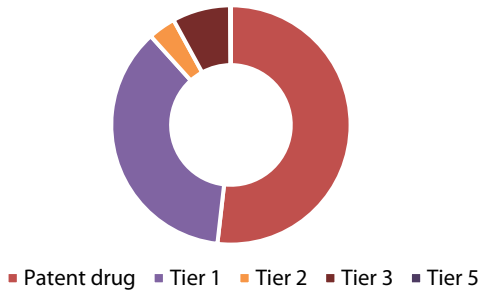
Source: IMP, RongViet Research

To quantify the potential amount of drugs that IMP could replace, Rong Viet Research estimates the demand of some injectable antibiotics in 2016:

Demand for active substances for centralized bidding by Vietnam Social Insurance:

Table 5 and Figure 3: The amount and value of Ceftriaxon 1g

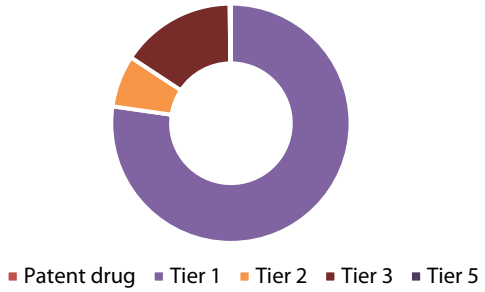
Tier	Manufacturer	Amount (bottle)	VAT price (VND)	Value (VND B)
Patent drug	Swiss - Rocephin	276,230	181,440	50.1
Tier 1	Spain, Poland, France	1,275,790	20,000–54,800	35.3
Tier 2	Poland, India, Vietnam (Tenamyd)	262,700	11,900–19,600	3.6
Tier 3	Vietnam	515,149	7,500–12,800	7.6
Tier 5	Vietnam, China	17,000	8,280	0.1
Total		**2,346,869**		**96.7**



Source: Vinapharm, RongViet Research

Table 6 and Figure 4: The amount and value of Cefepim 1g

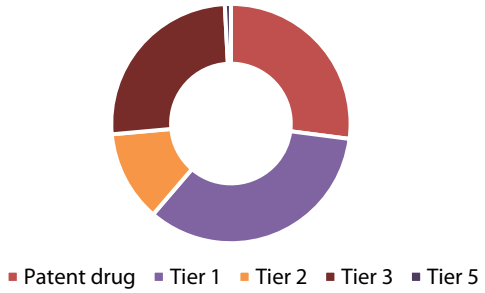
Tier	Manufacturer	Amount (bottle)	VAT price (VND)	Value (VND B)
Patent drug				
Tier 1	Cyprus, Greek, Spain	509,530	78,800–110,000	45.2
Tier 2	India	109,440	28,500–44,500	4.1
Tier 3	Vietnam	276,330	17,900–19,500	9.1
Tier 5	Vietnam	4,340	18,820	0.1
Total		**899,640**		**58.5**



Source: Vinapharm, RongViet Research

Table 7 and Figure 5: The Amount and Value of Cefoperazon + sulbactam (500mg + 500mg)

Tier	Manufacturer	Amount (bottle)	VAT price (VND)	Value (VND B)
Patent drug	Italy - Sulperazol	64,170	205,000	13.2
Tier 1	Japan	128,600	130,000	16.7
Tier 2	India, China	200,300	28,000–34,000	6.0
Tier 3	Vietnam	485,932	11,400–13,500	12.5
Tier 5	Vietnam, India, Korea	36,430	11,400–12,000	0.4
Total		**915,432**		**48.8**



Source: Vinapharm, RongViet Research

Total demand for patent, Tier 1 and Tier 2 drugs of Ceftriaxone, Cefepim and Cefoperazone are 1.8 million bottles, 619,000 bottles, and 393,000 bottles, respectively. Multiplying this quantity by the average price of drugs in Tier 2, the value that Tier 2 domestic products (including IMP's) could replace are 29 billion, 23 billion and 12 billion, respectively.

Demand for active substances bidding in the health departments or individual medical facilities:

(1) For IMP's main products: Imetoxim 1g (active substance Cefotaxim), Imetozim 1g (active substance Ceftazidim), Zobacta 4.5g (active substance Piperacilin), PMS-Opxil 500mg (active substance Cephalexin)

Table 8 and Figure 6: The amount and value of Cefotaxim 1g

Tier	Manufacturer	Amount (bottle)	VAT price (VND)	Value (VND B)
Patent drug	UK - Claforan	232,870	69,000	16.1
Tier 1	Spain, Poland, Italy	1,096,524	19,000–28,000	24.3
Tier 2	China, Ukraina, Vietnam (Tenamyd)	2,621,326	9,100–15,800	47.3
Tier 3	Vietnam	2,621,614	6,300–6,800	20.1
Tier 5	Vietnam	186,870	6,200–6,800	1.2
Total		**6,759,204**		**109.0**

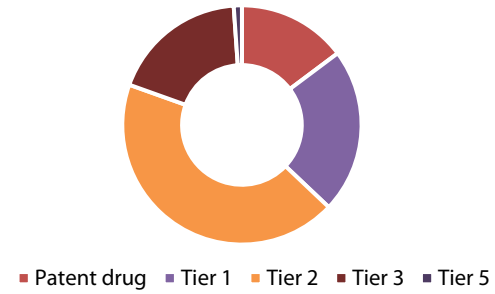


Table 9 and Figure 7: The amount and value of Ceftazidim 1g

Tier	Manufacturer	Amount (bottle)	VAT price (VND)	Value (VND B)
Patent drug	Italy - Fortum	350,880	75,600	26.5
Tier 1	Spain, Poland, Portugal, Greek	854,701	32,000–45,000	29.8
Tier 2	Korea, Vietnam (Tenamyd)	631,813	17,000–25,600	13.3
Tier 3	Vietnam	1,468,624	11,500–12,900	29.8
Tier 5	Vietnam	38,500	8,280	0.5
Total		**3,344,518**		**99.9**

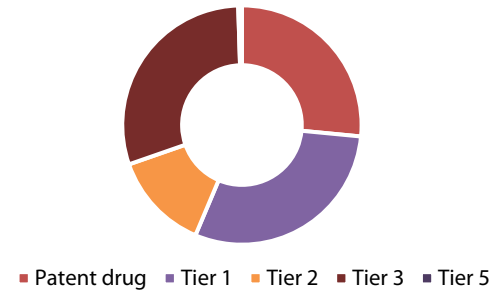


Table 10 and Figure 8: The amount and value of Piperacilin+Tazobactam (4g +0,5g)

Tier	Manufacturer	Amount (bottle)	VAT price (VND)	Value (VND B)
Patent drug	Italy - Tazocin	53,960	223,700	12.1
Tier 1	Spain, Portugal, Italy, France	118,660	89,200–166,000	11.6
Tier 2	Spain, Portugal, India	27,190	70,000–100,000	2.4
Tier 3	Vietnam (Bidiphar)	16,610	66,000	1.1
Tier 5	India, Vietnam (Bidiphar)	52,000	62,400–86,100	3.7
Total		**268,420**		**30.8**

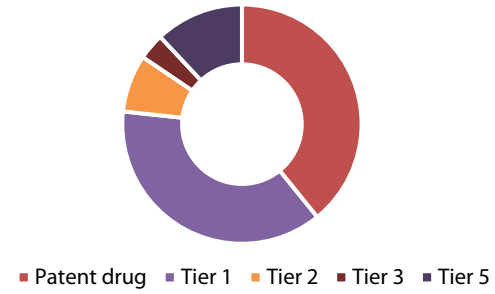
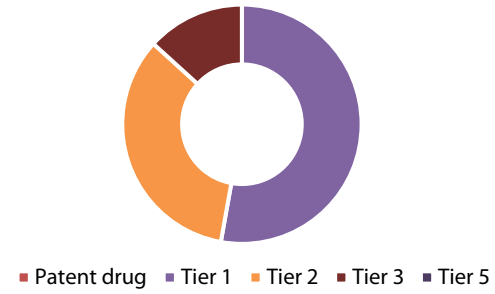


Table 11 and Figure 9: The amount and value of Cephalexin 500mg

Tier	Manufacturer	Amount (tablet)	VAT price (VND)	Value (VND B)
Patent drug				
Tier 1	Rumania, Cyprus	6,858,666	3,280–3,780	24.3
Tier 2	Malaysia, Vietnam (Pymepharco)	13,387,948	945–1,400	15.6
Tier 3	Vietnam	8,594,279	690–735	6.1
Tier 5				
Total		**28,840,893**		**46.0**



Source: Vinapharm, RongViet Research

Similarly, the quantity that Tier 2 domestic products (including IMP drugs) could replace active substances are 4 million bottles (VND50 billion) for Cefotaxime, 1.8 million bottles (VND39 billion) for Ceftazidim, 200,000 bottles (VND17 billion) for Piperacillin and 20 million bottles (VND23 billion) for Cephalexin. If IMP obtains export license for its products to get promoted to Tier 1, the company could increase the bidding price and claim a higher value.

(2) For other active substances:

Table 12 and Figure 10: The amount and value of Cefazolin

Tier	Manufacturer	Amount (bottle)	VAT price (VND)	Value (VND B)
Patent drug				
Tier 1	Poland, Bulgaria	535,680	18,000–45,000	26.5
Tier 2	Belarus, Ukraina, Vietnam (Tenamyd, Amvi)	182,200	15,000–28,000	29.9
Tier 3	Vietnam	124,200	7,000	13.3
Tier 5				
Total		**842,080**		**69.6**

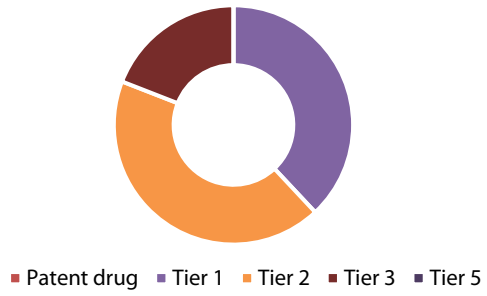


Table 13 and Figure 11: The amount and value of Cefoperazon

Tier	Manufacturer	Amount (bottle)	VAT price (VND)	Value (VND B)
Patent drug	Italy - Cefobid	84,800	125,700	10.7
Tier 1	Cyprus	183,660	47,500	8.7
Tier 2	Korea, Ukraina	418,210	38,400–54,000	30.4
Tier 3	Vietnam	203,230	11,700–12,400	6.1
Tier 5	Korea, Vietnam	13,000	11,700–13,000	0.2
Total		**902,900**		**56.1**

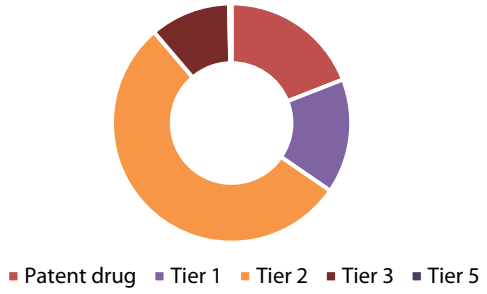


Table 14 and Figure 12: The amount and value of Cefoxitin 1g and 2g

Tier	Manufacturer	Amount (bottle)	VAT price (VND)	Value (VND B)
Patent drug				
Tier 1	Spain, France	744,010	134,000–198,000	127.5
Tier 2	Taiwan, Vietnam (Tenamyd)	174,100	40,000–136,000	10.0
Tier 3	Vietnam	254,800	22,000–23,400	5.8
Tier 5				
Total		**1,172,910**		**143.3**

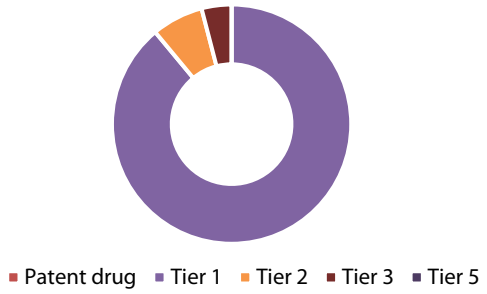
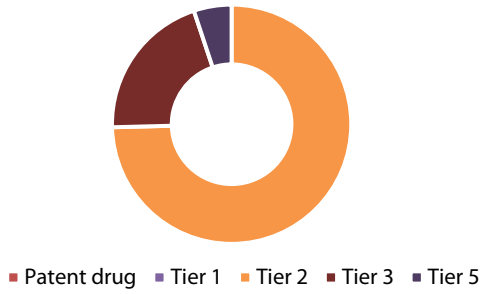


Table 15 and Figure 13: The amount and value of Ceftizoxim

Tier	Manufacturer	Amount (bottle)	VAT price (VND)	Value (VND B)
Patent drug				
Tier 1				
Tier 2	Korea, Taiwan, Vietnam (Tenamyd)	981,700	48,500–71,000	55.5
Tier 3	Vietnam	333,750	20,900–23,600	15.1
Tier 5	Vietnam	89,300	23,000–23,400	3.8
Total		**1,404,750**		**74.5**



Source: Vinapharm, RongViet Research

We collected the data above from the 2016 bidding results of central hospitals and over 20 health departments. This means that the figures above do not include all health departments in Vietnam, especially medical facilities and hospitals in Ho Chi Minh City, which accounted for approximately 25% of national medical demand. Therefore, total demand is much bigger than the presented figures. **Supposing IMP's products are able to claim 10–15% of this market, the amount could reach hundreds of billions of VND's.**

Referring to Tenamyd, the only Vietnam manufacturer which has an EU-GMP injection factory long ago, we have found out that the winning bidding value of its injectable antibiotic products amounts up to VND125 billion. This is relatively high, considering no supporting policy has been implemented yet.

Earnings Forecasts

Based on the above estimates, we believe the Cephalosporin plant will make a huge contribution to IMP's revenue in 2018 onwards. The contribution from the Penicillin injection plant may not be as high as the Cephalosporin because Cephalosporin antibiotics, especially the third and fourth generation ones, are more widely used in the treatment.

Table 16: Estimation of Revenue Contribution of Each Factory (in VND B)

Revenue	2016	2017F	2018F
Cephalosporin Binh Duong	**197**	**435**	**742**
- *Injection*	*49*	*122*	*277*
- *Tablet*	*148*	*313*	*465*
Penicilin	**398**	**413**	**476**
- *Injection (Binh Duong)*	*0*	*4*	*16*
- *Tablet (Dong Thap)*	*398*	*409*	*460*
Non-betalactam	**375**	**394**	**394**
OEM at Agimexpharm	25	30	30
Total	**1,010**	**1,272**	**1,643**

Source: RongViet Research estimated

Profit margin also promises to show improvements due to (1) higher operating capacity, which reduces depreciation per unit and (2) products promoted to Tier 1 and Tier 2 can be sold at a higher price (as shown in the figures above). For 2017, we estimate IMP's NPAT to be VND138 billion (+37% YoY), corresponding to an EPS of **VND2,835**. NPAT for 2018 should continue to grow strongly and reach VND185 billion (+ 34% YoY), translating to an EPS of about **VND3,800.**

Outlook and Valuation

We have decided to change our recommendation from **NEUTRAL** to **BUY** for IMP. Considering the growth prospects of IMP, we believe that a valuation of **VND80,000/share**, equivalent to **P/E of 21x** is appropriate for 2018. Compared to the closing price of VND63,000/share on September 15, the target price, coupled with a stable dividend of VND1,800/share, yields a total expected return of **30%**.

It is not a bargain-hunting opportunity as its stock is trading at P/E of 22x for 2017. IMP has a growth stock story, in which our analyst believes that in the long run, the company will have high growth potential, thanks to the upcoming supporting policies. The company also possesses a durable competitive advantage, which is a modern EU-GMP factory system that only a few other domestic manufacturers can barely compete with. This facility also makes IMP an ideal target for foreign pharmaceutical counterparts. This could potentially lead to a strategic partnership and/or an FOL story, becoming a catalyst for the stock price as in the case of DMC and DHG.

In 2019, IMP's two new plants will come into operation. Although we have not received any information about the products of these two plants, we believe that by that time, the trend of replacing foreign drugs with domestic drugs will remain and sustain IMP's growth.

The risk for this recommendation is that the replacement trend is slower, or may not be as optimistic as expected. In addition, adverse policy changes (see appendix), if any, will inevitably affect the perspective mentioned in this report.

Appendix: Access the Changes (if any) on the Classification for Generics Drugs Bidding Process

In Article 5, Section 1, the Draft on drug bidding process at the public health facility, has recommeded the following changes in the classification:

Old	New
Tier 1: Medicines produced by manufacturers that meet EU-GMP or PIC/S standard in countries that belong to the ICH and Australia. Medicines produced by manufacturers that meet WHO-GMP standard recognized by the Ministry of Health of Vietnam (MoH), and having license for use in countries that belong to the ICH or Australia. **Tier 2**: Medicines produced by manufacturers that meet EU-GMP or PIC/S standard in countries that do not belong to the ICH and Australia **Tier 3**: Medicines produced by manufacturers that meet WHO-GMP standard, recognized by MoH. **Tier 4**: Medicines that have bio-equivalence, recognized by the MoH. **Tier 5**: Others.	**Tier 1**: Medicines produced by manufacturers that meet EU-GMP standard in countries that belong to the ICH and Australia. Medicines produced by manufacturers that meet WHO-GMP standard recognized by the Ministry of Health of Vietnam (MoH), and having licensed for use in countries that belong to the ICH or Australia. **Tier 2**: Medicines produced by manufacturers that meet EU-GMP standard in countries that do not belong to the ICH and Australia **Tier 3**: Medicines produced by manufacturers that meet WHO-GMP standard, recognized by MoH. **Tier 4**: Medicines that have bio-equivalence, recognized by the MoH. **Tier 5**: Others.
- The medicines meeting Tier 1 requirements are eligible for bidding into Tier 1, Tier 2, and Tier 5; - The medicines meeting Tier 2 requirements are eligible for bidding into Tier 2 and Tier 5; - The medicines meeting Tier 3 requirements are eligible for bidding into Tier 3 and Tier 5; - The medicines meeting Tier 4 requirements are eligible for bidding into Tier 4 and other Tiers if meeting the criteria of that Tier - The medicines not meeting Tier 1,2,3 or 4 requirements are only eligible for bidding into Tier 5	- The medicines meeting Tier 1 requirements are eligible for bidding into Tier 1, Tier 2, and Tier 5; - The medicines meeting Tier 2 requirements are eligible for bidding into Tier 2 and Tier 5; - The medicines meeting Tier 3 requirements are eligible for bidding into Tier 3 and Tier 5; if the medicines have bio-equivalence recognized by MoH, they are eligible for bidding in Tier 2 - The medicines meeting Tier 4 requirements are eligible for bidding into Tier 4 and other Tiers if meeting the criteria of that Tier - The medicines not meeting Tier 1,2,3 or 4 requirements are only eligible for bidding into Tier 5

Accordingly, there are two big changes:

First, drugs meeting PIC/S standard will be no longer be in the same tier with drugs meeting EU-GMP. It is expected that they will be classified in a separate tier.

Second, if the drugs classified in Tier 3 have bio-equivalence recognized by MoH, they are eligible for bidding in Tier 2. They will compete with drugs meeting EU-GMP standard, which have higher quality and higher price.

The second change has raised many concerns that Tier 3 drugs with bio-equivalence, which have great advantage of lower prices, will compete directly with Tier 2 drugs like IMP's. Referring to the view of people working in the industry, the analyst receives a rather multidimensional view. There are case-by-case views expressing that there will still be discrimination in the bidding process between Tier 2 drugs and Tier 3 drugs with bio-equivalence. Other opinions stated that Tier 3 drugs with bio-equivalence may target oher segments rather than the antibiotic segment of IMP.

In general, as the draft is still in the discussion process, the comments above are just views and researches of each party. The impact of this change (if any) remains uncertain. Therefore, **we think that this issue is still a certain risk when investing in IMP at the moment.**

VND Billion

INCOME STATEMENT	2015	2016	2017F	2018F
Revenue	964	1.010	1.272	1.643
COGS	581	605	742	948
Gross profit	**383**	**405**	**531**	**696**
Selling Expense	193	204	267	345
G&A Expense	73	71	93	120
Finance Income	18	9	15	17
Finance Expense	15	12	12	15
Other profits	-1	0	-1	-1
PBT	0	0	0	0
Prov. of Tax	**119**	**126**	**173**	**232**
Minority's Interest	26	25	35	46
PAT to Equity Shareholder	0	0	0	0
EBIT	**93**	**101**	**138**	**185**
EBITDA	119	126	173	232

FINANCIAL RATIO	2015	2016	2017F	2018F
Growth (%)				
Revenue	7.5	4.8	25.9	29.2
EBITDA	6.5	3.8	32.6	29.2
EBIT	7.8	6.0	37.1	33.8
PAT	8.3	8.7	37.1	33.8
Total assets	6.1	5.7	50.2	9.5
Total equity	13.8	3.2	53.0	6.1
Profitability (%)				
Gross margin	39.7	40.1	41.7	42.3
EBITDA margin	16.4	16.2	17.1	17.1
EBIT margin	12.4	12.5	13.6	14.1
Net margin	9.6	10.0	10.9	11.3
ROA	8.8	9.0	9.6	10.2
ROCE	13.5	13.3	14.2	15.3
ROE	10.9	11.0	11.7	12.6
Efficiency (x)				
Receivables turnover	3.6	3.0	3.1	3.3
Inventories turnover	2.2	2.5	2.8	2.8
Payables turnover	3.3	3.4	3.2	3.2
Liquidity (x)				
Current	4.8	3.6	4.3	3.4
Quick	3.2	2.5	3.2	2.3
Finance Structure (%)				
Total debt/equity	20.5	23.5	21.2	25.1
ST debt/equity	0.0	0.0	0.0	0.0
LT debt/equity	0.0	0.0	0.0	0.0

VND Billion

BALANCE SHEET	2015	2016	2017F	2018F
Cash and cash equivalents	88	100	93	123
Short-term investments	104	15	285	100
Accounts receivable	303	367	445	542
Inventories	246	234	297	379
Other current assets	5	4	4	5
Property, plant & equipment	207	275	450	589
Acquired intangible assets	71	71	70	69
Long-term investments	49	61	61	61
Other non-current assets	21	28	30	33
Total assets	**1,093**	**1,155**	**1,736**	**1,901**
Accounts payable	58	89	116	148
Other current liabilities	98	109	145	187
Short-term borrowings	0	0	0	0
Long-term borrowings	0	0	0	0
Other non-current liabilities	29	22	43	46
Total liabilities	**186**	**220**	**304**	**381**
Owner's Equity	**907**	**936**	**1,432**	**1,519**
Common stock and APIC	289	289	430	430
Retained earnings	85	91	118	171
Fund & Reserves	235	257	283	317
Total Equity	**907**	**936**	**1,432**	**1,519**
Minority Interest	0	0	0	0
Total Resources	**1,093**	**1,155**	**1,736**	**1,901**

CASH FLOW STATEMENT	2015	2016	2017F	2018F
Profit before tax	119	126	173	232
-Depreciation	38	37	44	49
-Adjustments	*-8*	*-6*	*-10*	*-10*
+/- Working capital	-105	-73	-91	-149
Net Operating CFs	**45**	**85**	**116**	**121**
+/- Fixed Asset	-75	-103	-217	-185
+/- Deposit, equity investment	-102	76	-270	0
Interest, div, cash profit rec.	9	13	8	8
Net Investing CFs	**-168**	**-14**	**-479**	**-177**
+/- Capital	85	0	443	0
+/- Debt	0	0	0	0
Dividend paid & other	-52	-58	-85	85
Net Financing CFs	**33**	**-58**	**358**	**85**
+/- cash & equivalents	-91	12	-5	29
Beginning cash & equivalents	**179**	**88**	**100**	**93**
Ending cash & equivalents	**88**	**100**	**93**	**123**

Company Report

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RATING GUIDANCE

Ratings	BUY	NEUTRAL	SELL
Total Return including Dividends in 12-month horizon	>20%	-20% to 20%	<-20%

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