PHARMACEUTICAL INDUSTRY

REBOUND FROM THE LOW BASE

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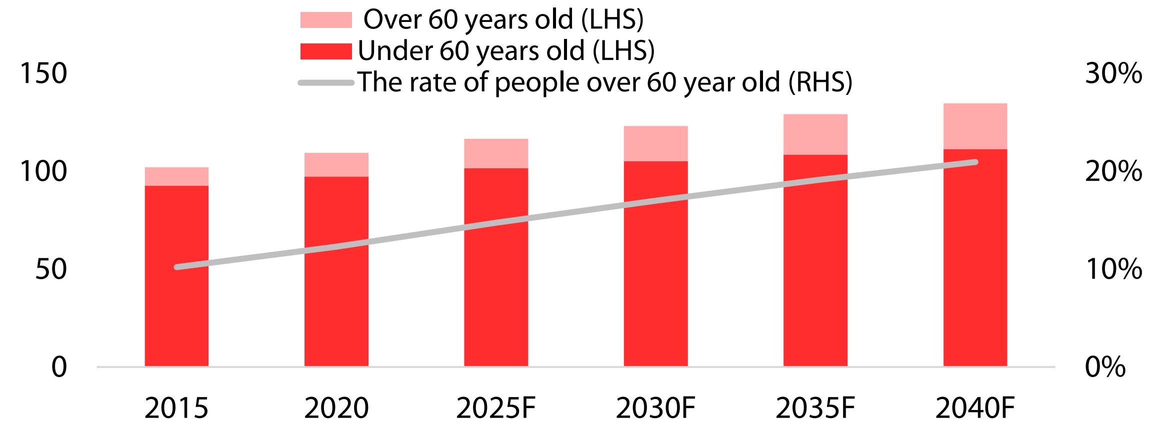
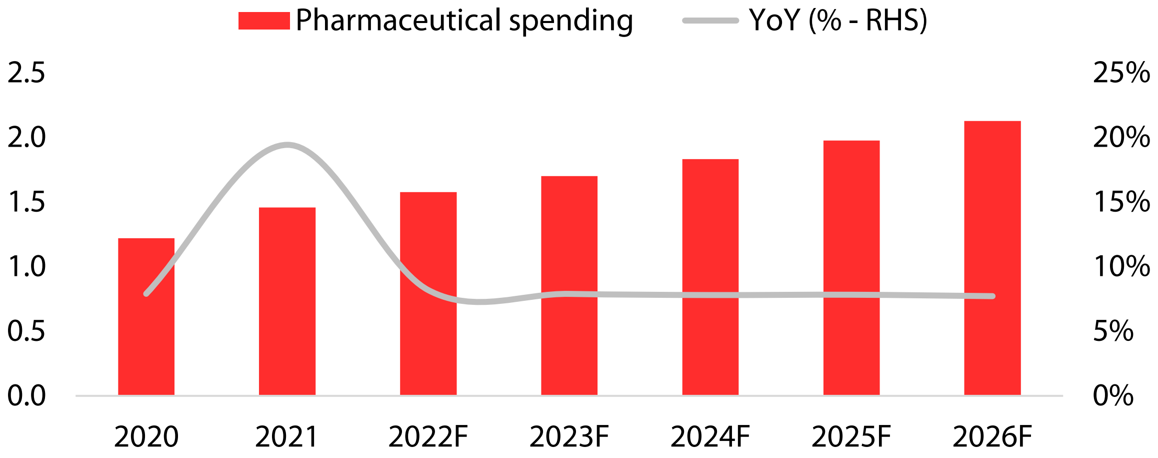
Figure 1: Vietnam population has witnessed ageing issues (mn ppl)



Source: GSO, Rong Viet Securities

Figure 2: Pharmaceutical spending per capita/year (VND mn)



Soure: BMI, Rong Viet Securities

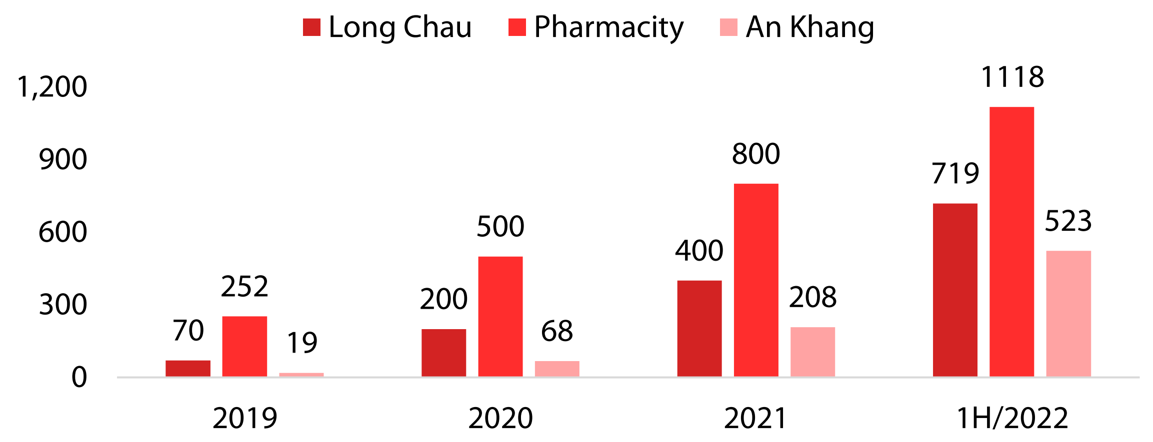
Demographic trends favor the pharmaceutical industry in the long term

- For the elderly, health problems will appear more, leading to higher demand for medical products than for the working-age people.
- According to GSO, the number of people over 60 years old is around 13.86 mn ppl, equivalent to 13% of the total population of Vietnam. This number is forecasted to increase to 23.34 mn ppl, accounting for 21% of Vietnam's total population by 2040.

Higher income results in increasing pharmaceutical expenditure

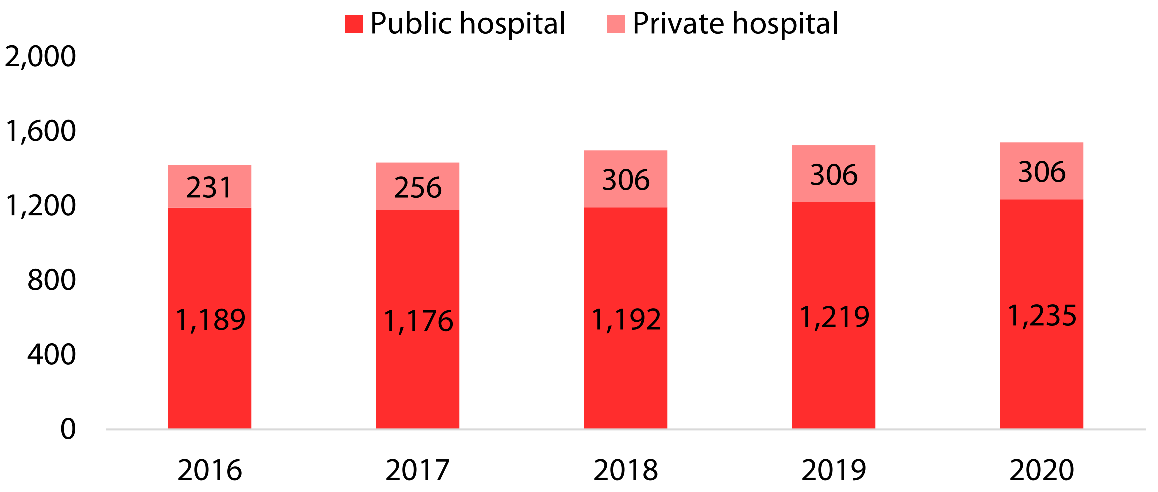
- The Vietnamese government expected a GDP growth of +6.5% in 2022. We think this is an utterly feasible target and is projected to exceed the plan, reaching +7.3%. Thereby, per capita income will be enhanced with a 5-year CAGR of 6% from 2022 to 2026.
- As Fitch Solutions mentioned, per capita pharmaceuticals spending in 2021 was forecasted to reach VND 1.5 mn and rise to VND 2.1 mn in 2026F, with the CAGR of +7.7% over the next 5 years.

Figure 3: Number of branded pharmacies



Source: Rong Viet Securities

Figure 4: Number of hospitals



Source: Ministry of Health, Rong Viet Securities

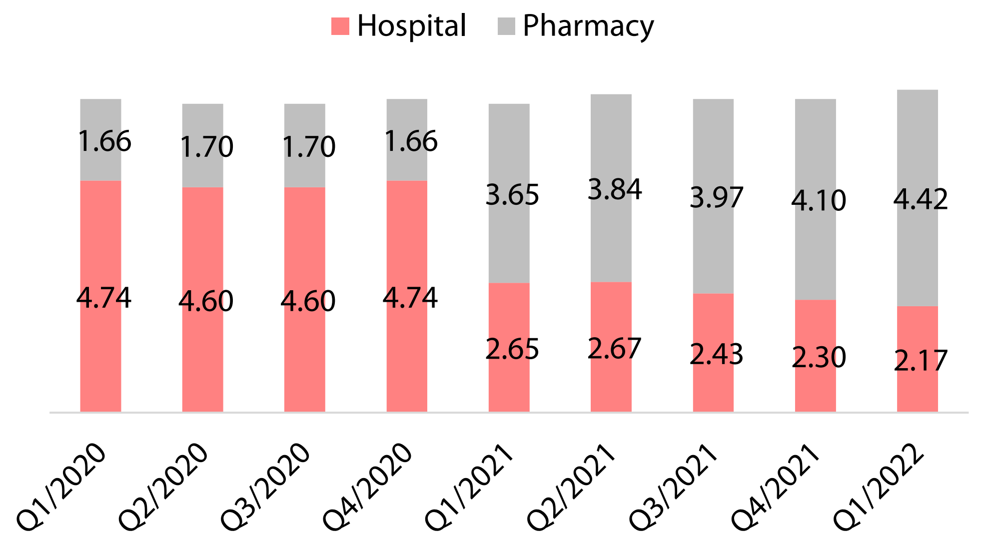
Expanding distribution channels through pharmacies aims to advance the market position of retailers

- In1H2022, branded drugstore chains in Vietnam such as Pharmacity, Long Chau, and An Khang opened nearly 1,000 new drug stores in total.
- The buying behaviours at traditional drug stores will favour this channel as an ideal outlet for pharmaceutical manufacturers when there are about 56,000 stores in Vietnam.

The number of hospitals is gradually improving year by year

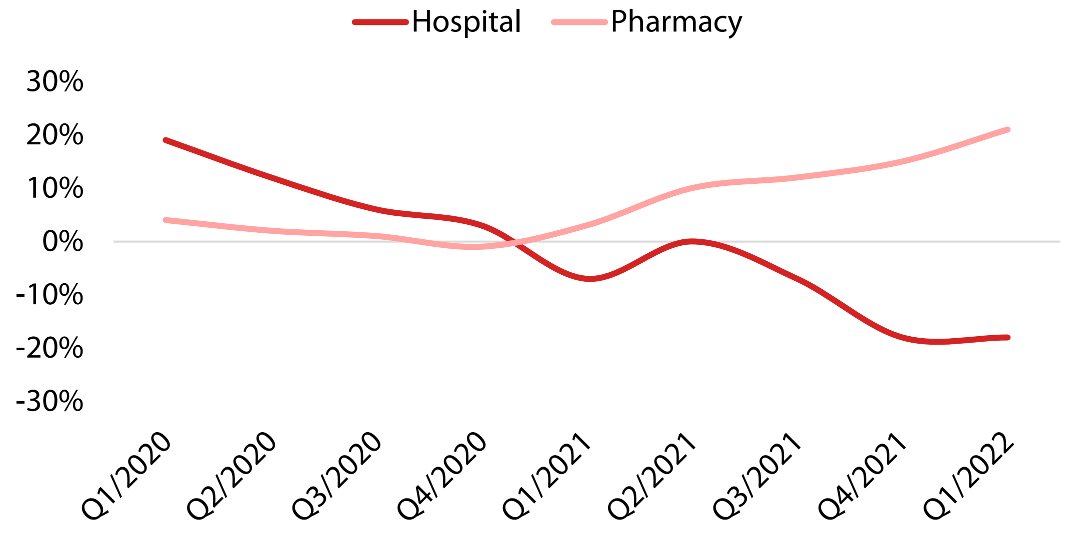
- In the 2016-2020 period, a total of 121 new hospitals were built, of which 46 public hospitals and 75 private hospitals.
- Fitch Solutions projects ETC/OTC drug sales in 2022 and 2026 to gain VND 118 tn/VND 36.7 tn and VND 166 tn/VND 50 tn, respectively, at a 4-year CAGR of 9 %/7%.

Figure 5: Pharmaceutical retail sales by channel (USD bn)



Source: IQVIA, Rong Viet Securities

Figure 6: YoY revenue growth by channel (%)

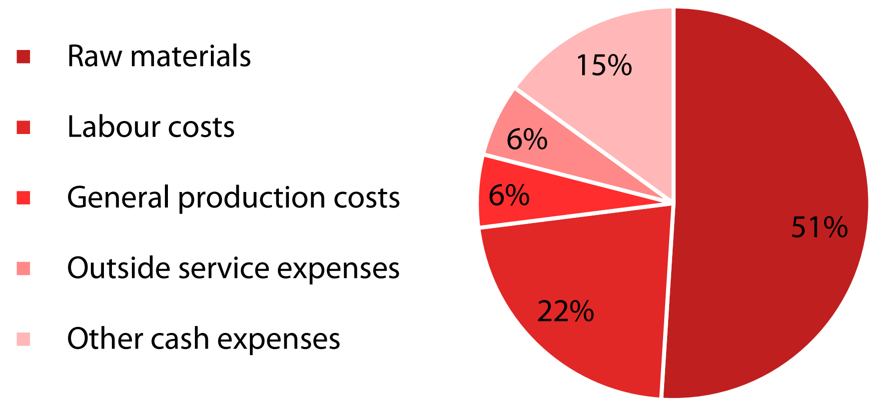


Source: IQVIA, Rong Viet Securities

The pharmaceutical industry's revenue is expected to propel in the short term

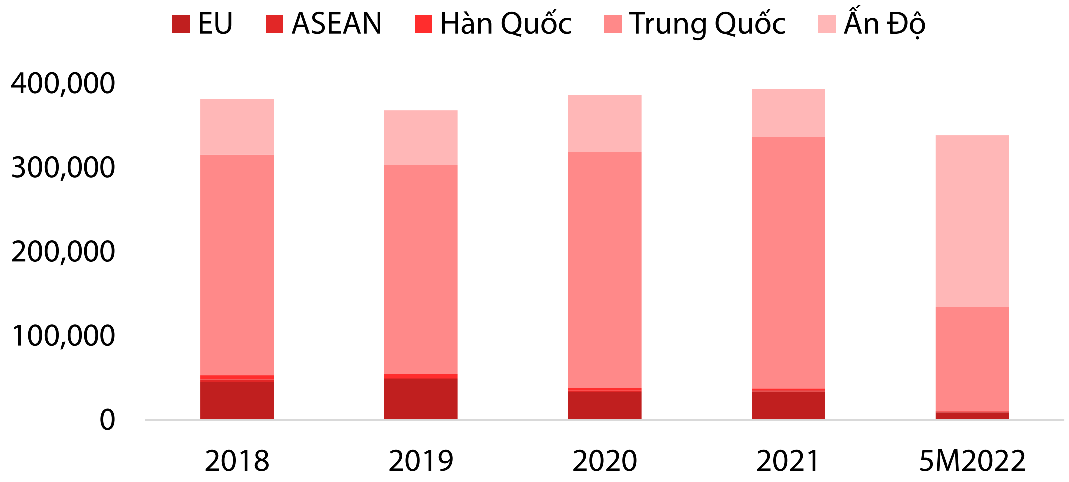
- The fourth outbreak of COVID-19 hit all corners in Vietnam, restricting patients from going to hospitals for medical examination and treatment. Simultaneously, they prefer buying drugs to treat symptoms of the Omicron variant at the pharmacy channel, leading to a shift in the revenue structure of the pharmaceutical industry.
- The TTM revenue of the ETC and OTC channels in 1Q2022 reached USD 3.9 bn (-1% YoY) and USD 2.7 bn (+14% YoY), respectively. The OTC's revenue growth rate is at 10% in 2021 and could be improved by the end of 1Q2022. Regarding the ETC channel, the revenue TTM plunged in 2H2021 and signaled to advance in 1Q2022.
- We expect that the 2H2022 results of pharmaceuticals will be brighter, with positive growth from the 2H2021's low base.

Figure 7: Cost structure of pharmaceutical production



Source: Listed companies, Rong Viet Securities

Figure 8: Imported pharmaceutical materials (Unit: USD '000)

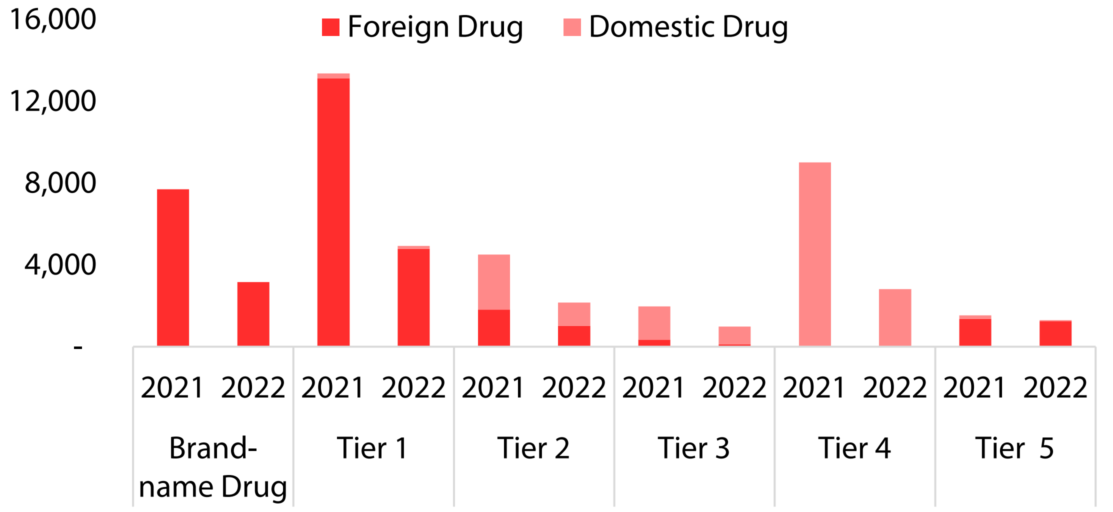


Source: GSO, Rong Viet Securities

Active pharmaceutical ingredients (APIs) account for about 51% of the cost structure of pharmaceutical companies. Vietnam's pharmaceutical industry has insufficient capabilities to produce these materials. Hence, these are mainly imported from China and India. We are concerned that the GPM of pharmaceutical companies will be hit in the short-term due to two factors:

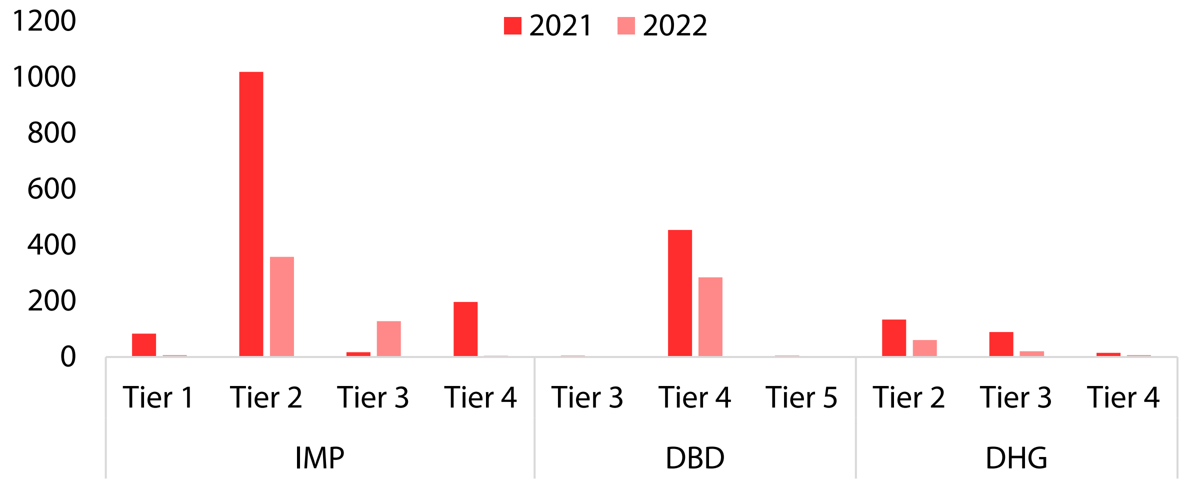
- In 1H2022, the recent China Covid-19 lockdown caused exacerbation of the disruptions of the global supply chain, many Vietnamese pharmaceutical enterprises have shifted to more imports from India. We are concerned that the prolonged pandemic's complicated developments in China could put higher imported cost pressure on pharmaceuticals while selling prices were under the Government's control.
- FED has actions of an interest rate hike in 2022 that aims inflation control to cause fluctuations in the VND/USD exchange rate.

Figure 9: The cumulative bid-winning value of 7M2022 drugs dropped sharply (VND bn)



Source: DAV, Rong Viet Securities

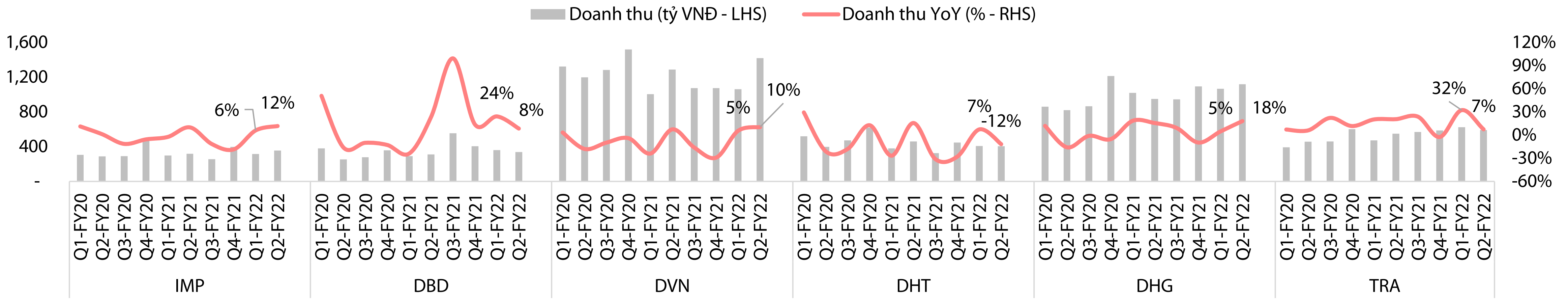
Figure 10: Winning results of some domestic pharmaceutical companies (VND bn)



Source: DAV, Rong Viet Securities

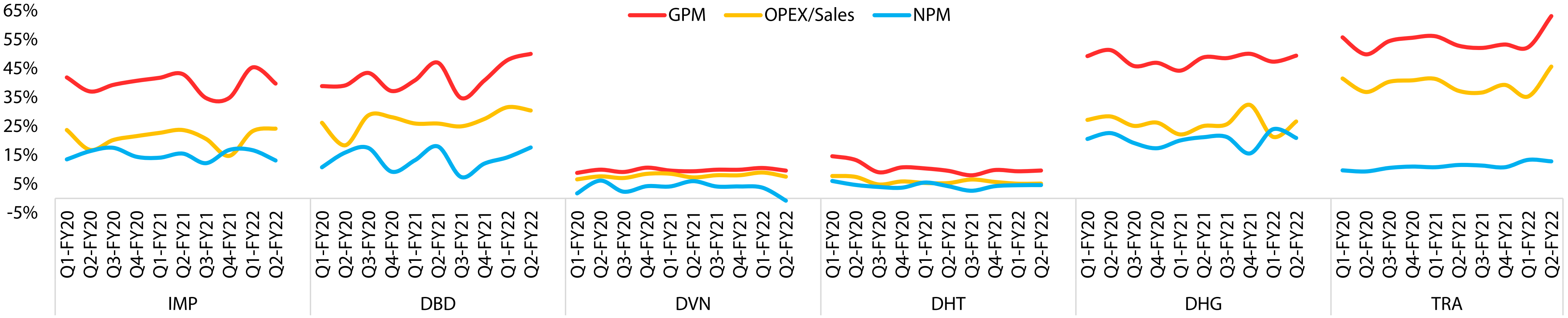
- The total cumulative bid-winning value of 7M2022 drugs reached VND 18,727 bn (-46% YoY), of which domestic and foreign drugs dropped sharply by 58% YoY and 63% YoY, respectively. Foreign drugs still make up a high proportion of up to 67%, the remaining 33% of domestic drugs.
- We believe that the pandemic is the main reason for the significant decrease in the drug bidding value in 7M2022 with the following impacts (1) difficulty of mobility to the hospital for medical examination and treatment, leading to drug demand ETC channel has not fully recovered; (2) the checking of usage needs and planning of bidding was extended.

Figure 11: Shift in revenue structure between sales channels still ensures revenue gradually recovers and grows slightly



Source: IMP, DBD, DVN, DHT, DHG, TRA, Rong Viet Securities

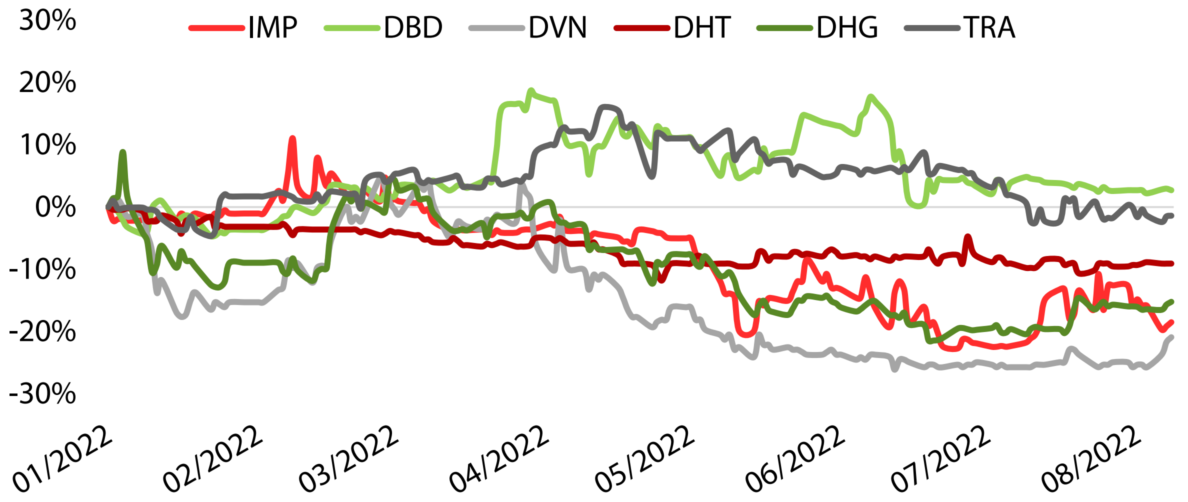
Figure 12: The increase in OPEX/Sales through the OTC channel of significant companies (IMP, DHG, TRA) led to a narrow NPAT margin and remained stable in the rest



Source: IMP, DBD, DVN, DHT, DHG, TRA, Rong Viet Securities

GLOOMY PRICES PERFORMANCE OF PHARMACEUTICAL STOCK GROUP

Figure13: Pharmaceutical stocks price performance



Source: Bloomberg, Rong Viet Securities

- TRA, DHT and DBD have a low correlation with VNINDEX, in general, price movements are sideways in a downtrend and there is no strong fluctuation in 1H2022.
- DVN, DHG and IMP fluctuated similarly to VNINDEX during the down period of the general market.
- P/E of IMP, DBD has slipped to the three-year average, and DHG has plunged below 2x standard deviations. However, we think the current valuation is relatively ideal for long-term investment.

Figure 14: IMP P/E

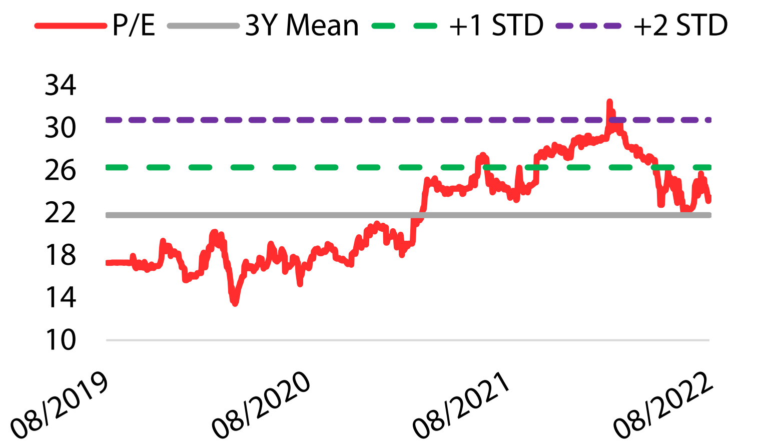


Figure 15: DBD P/E

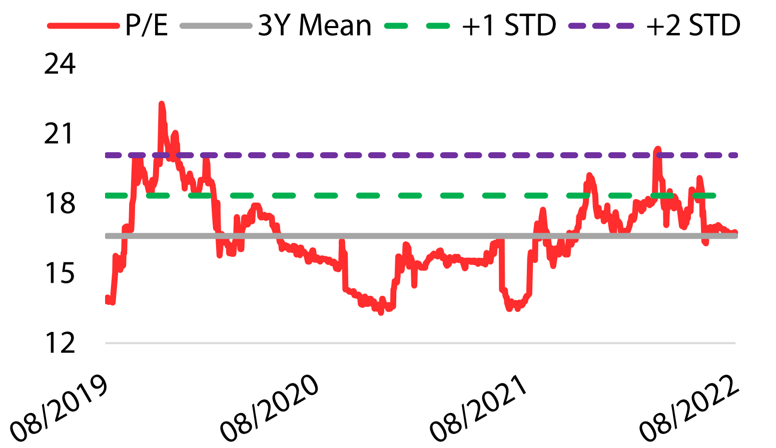
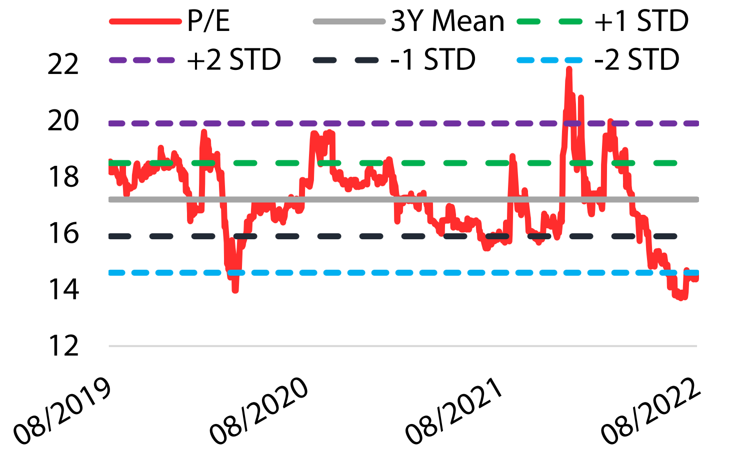


Figure 16: DHG P/E



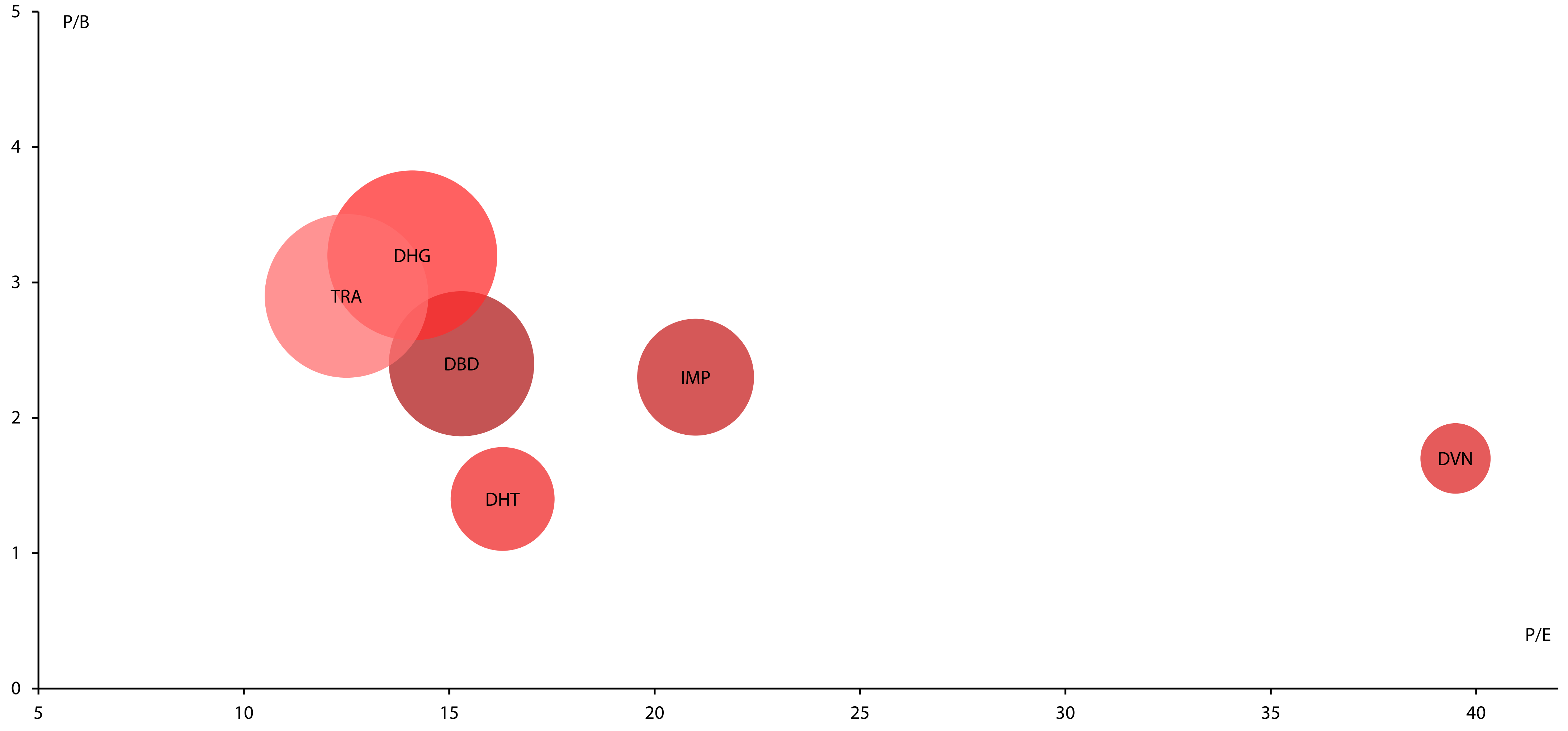
Source: Bloomberg, Rong Viet Securities

INDUSTRY COMPARABLE (TTM)

Ticker	Market cap (VND bn)	Target price (VND)	Sales Growth (% YoY)	EBITDA Growth (% YoY)	EBITDA Margin (%)	Operating Income Margin (%)	Net Income Growth (% YoY)	Net Profit Margin (%)	ROA (%)	ROE (%)	DY (%)	Current P/E (x)	Current P/B (x)
DBD	3,068.6	N/A	8.40	282.54	15.16	15.13	6.32	12.13	12.36	17.01	0.00	15.29	2.44
IMP	4,133.6	N/A	11.66	294.21	22.84	18.66	-5.50	14.92	9.05	11.04	2.42	20.97	2.34
DVN	4,639.3	N/A	10.26	381.46	2.88	3.34	-114.18	3.02	1.99	4.01	2.89	39.45	1.71
DHG	12,133.2	N/A	18.09	315.67	24.27	22.98	16.66	20.41	18.11	23.33	3.77	14.08	3.20
DHT	1,056.3	N/A	-11.85	266.00	4.53	4.93	-3.77	4.35	5.23	8.66	2.51	16.25	1.42
TRA	3,606.2	N/A	7.36	334.94	19.62	16.51	19.03	13.28	16.40	21.61	2.30	12.54	2.85

Source: Fiinpro, Rong Viet Securities. Share price as of August 10th, 2022.

PE, PB & ROE (TTM)

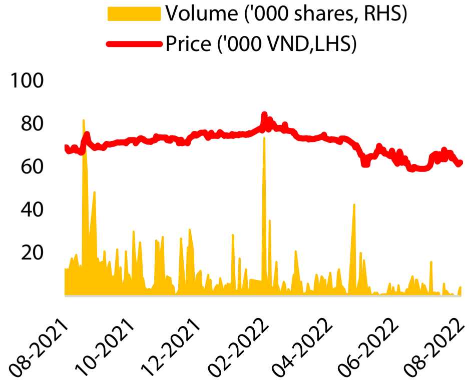


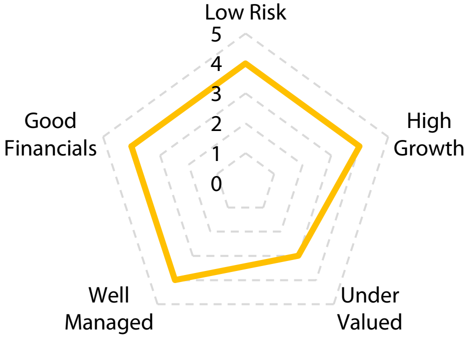
Source: FiinGroup, Rong Viet Securities. Bubble size equals respective ROE. Share price as of August 10th, 2022.

PREPARATION FOR STRONG GROWTH

HSX: IMP

FOLLOW | <MP: 62.000> | <TP: N/A>





STOCK INFO

Sector	Pharmaceutical
Market Cap (USD mn)	177
Current Shares O/S (mn shares)	67
3M Avg. Volume (K)	3
3M Avg. Trading Value (VND mn)	196
Remaining foreign room (%)	26,1
52-week range ('000 VND)	86,4 - 57

FINANCIALS

FINANCIALS	2019A	2020A	2021A
Revenue (VND bn)	1,402	1,369	1,267
NPATMI VND bn)	162	210	189
ROA (%)	8.8%	10%	8.2%
ROE (%)	10.4%	12.1%	10.5%
EPS (VND)	2,891	2,873	2,500
Book Value (VND)	31,543	26,939	27,935
Cash dividend (VND)	2,000	1,500	2,000
P/E (x)	16.6	16.7	18.5
P/B (x)	1.5	1.8	1.7

INVESTMENT RATIONALES

The company has strong growth potential as factories are still operating at low capacity

- The IMP2 and IMP3 plants are operating with low capacity, while the IMP4 plant has been approved for EU-GMP and is awaiting announcement by the Ministry of Health in 2022. Therefore, IMP has plenty of room to grow and seize opportunities from demand recovery in the next few years
- ETC channel can recover from Q3/2022 and new factory put into operation can help IMP's sales grow significantly from 2023.

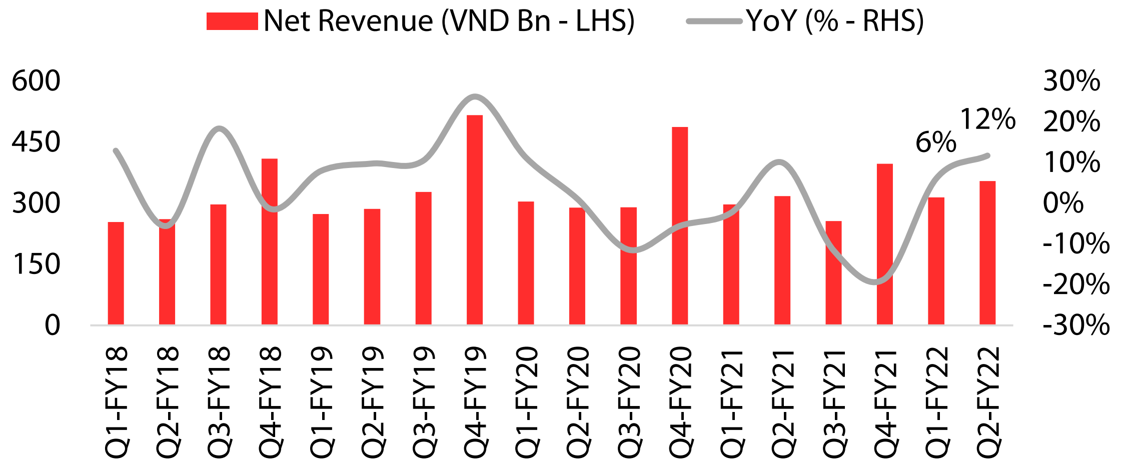
The number of newly opened pharmacies can help IMP expand OTC channels

- OTC channel revenue with impressive growth of +39% YoY in the first half of the year is the mainstay of IMP's growth.
- Retail companies in the race for market share with a very fast rate of opening new pharmacies can help IMP expand distribution channels.

RISKS TO OUR CALL

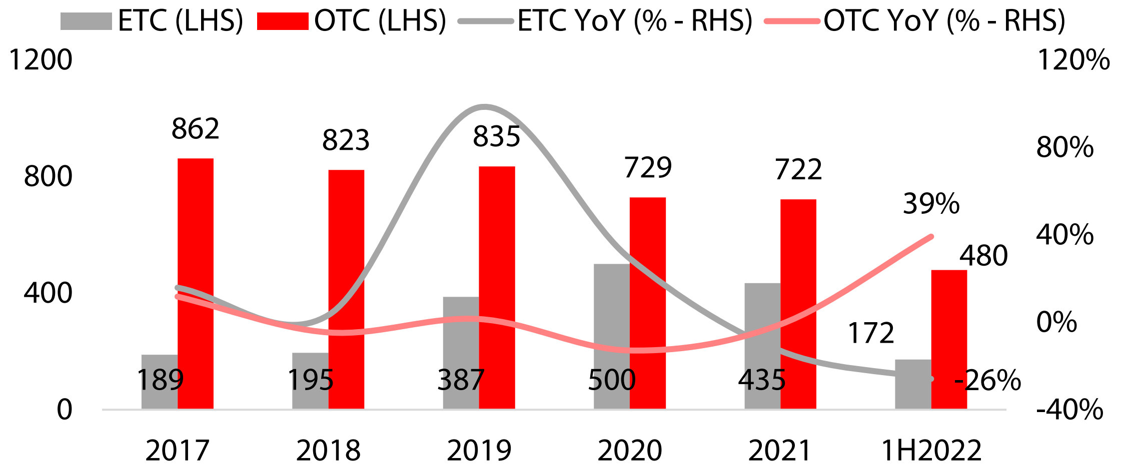
- The complicated evolution of the pandemic may lead to a disruption of the pharmaceutical supply chain.

Figure 1: Quarterly revenue



Source: IMP, Rong Viet Securities

Figure 2: Revenue by channels (VND Bn)

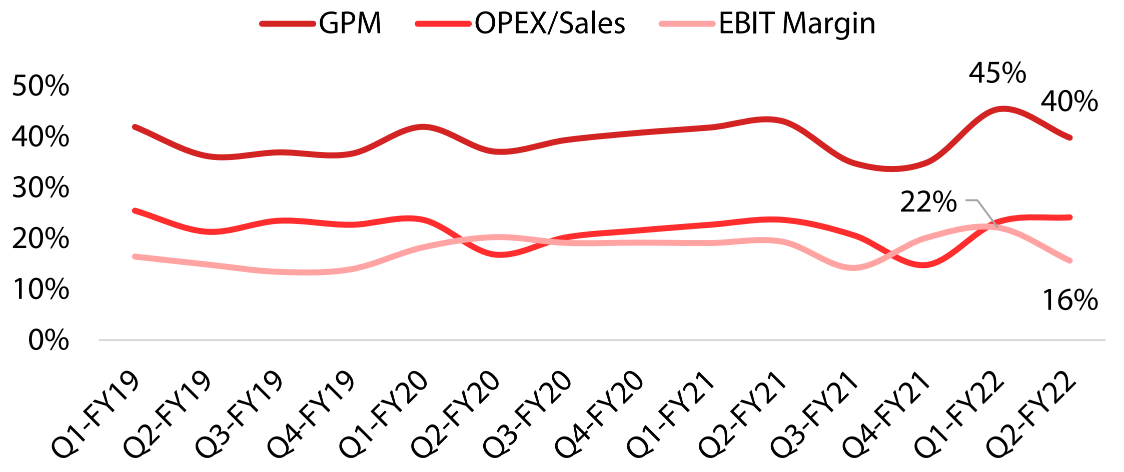


Source: IMP, Rong Viet Securities

IMP revenue grew in line with the recovery of the pharmaceutical market

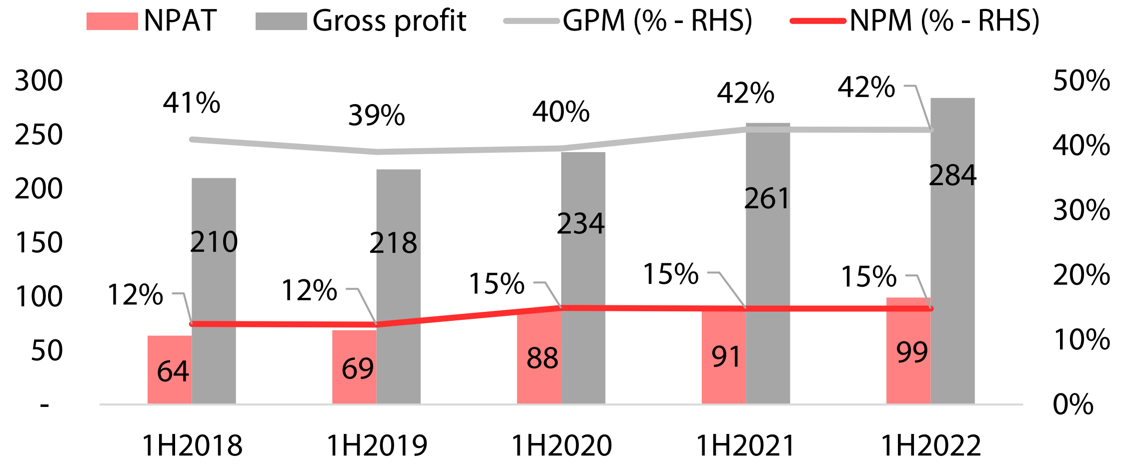
- At the end of 1H2022, IMP recorded revenue and EBT of VND 683 billion (+9.5% YoY) and VND 125 billion (+7.1% YoY), respectively, completing 47.1% and 45.5 % of plan for 2022.
- ETC sales continued to grow at a negative 26% YoY, reaching only VND 172 billion, accounting for 26% of total revenue from domestic drugs because demand has not fully recovered.
- In the first half of 2022, the strong increase in demand for drugs to treat COVID-19 symptoms and health rehabilitation supplements helped the OTC channel grow impressively, with revenue recorded at VND 480 billion (+39% YoY). , accounting for the remaining 74%.

Figure 3: Gross profit margin and Net profit margin



Source: IMP, Rong Viet Securities

Figure 4: Gross profit and NPAT in 1H2022 (VND Bn)



Source: IMP, Rong Viet Securities

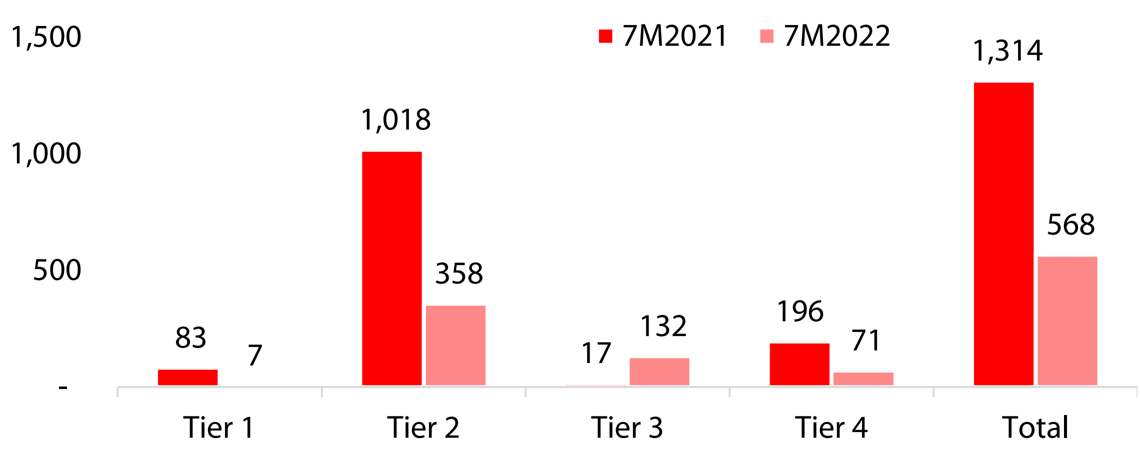
Gross profit margin in Q2/2022 dropped sharply QoQ, causing EBIT margin to narrow…

- With the sharp increase in raw material costs in Q2/2022, IMP's production costs increased by 24% QoQ, causing gross profit margin to decrease by 500 bps.
- IMP's EBIT margin narrowed to 16%, down 600 bps QoQ.

… But in general, profit margin remains stable in 1H2022

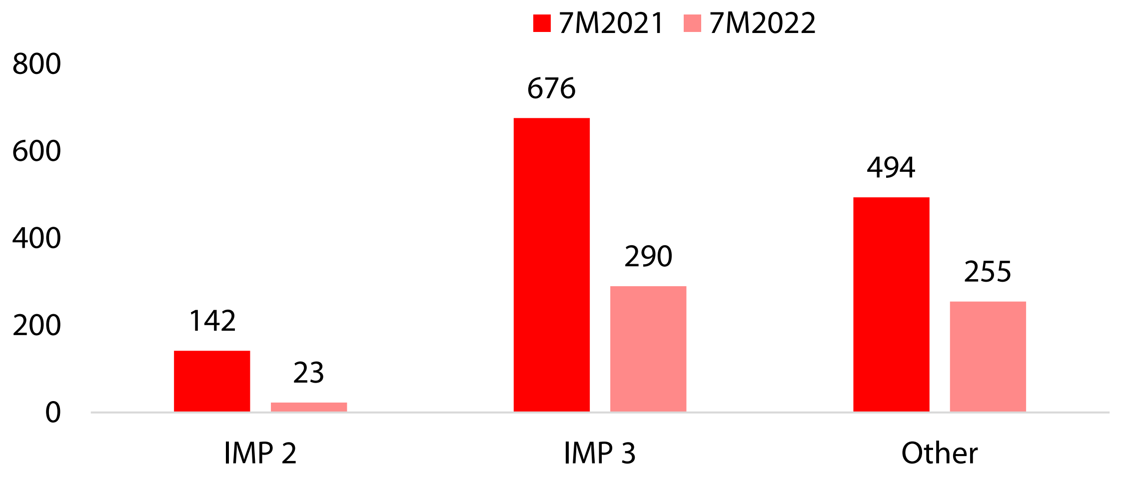
- In the first half of 2022, gross profit and NPAT reached VND 284 billion and VND 99 billion, respectively, growing by 9%, an increase similar to the revenue growth rate.
- Gross profit margin and net profit margin remained stable at 42% and 15% respectively.

Figure 5: Bid-winning value of IMP by tier (VND Bn)



Source: IMP, Rong Viet Securities

Figure 6: Bid-winning value of IMP by factories (VND Bn)



Source: IMP, Rong Viet Securities

The winning value of IMP's ETC channel decreased significantly over the same period

- In 7M2022, IMP won the bid with a value of VND 568 billion, decreased 57% YoY. In which, IMP3 accounts for about 51% of the winning value of IMP.
- IMP oriented to focus on high tier products (tier 1, 2) with four factories meeting EU-GMP standards, the winning value of these two groups accounted for 64%. Drugs in these tiers have high value but will have to face stiff competition with foreign drugs.

Delayed for 2 years due to the COVID-19 epidemic, the IMP factory has been approved for EU-GMP standards

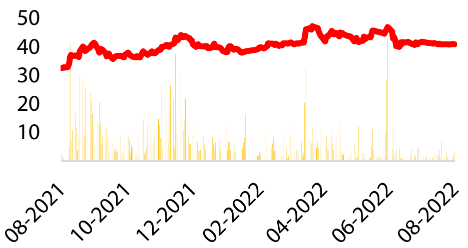
- IMP4 with a total investment of 470 billion VND meeting EU-GMP standards will help expand the bidding value in tier 1 drug, in which domestic manufacturers only account for 2% of the share.
- We think it will take a long time to produce and participate in bidding, so IMP's business results will really improve from 2023.

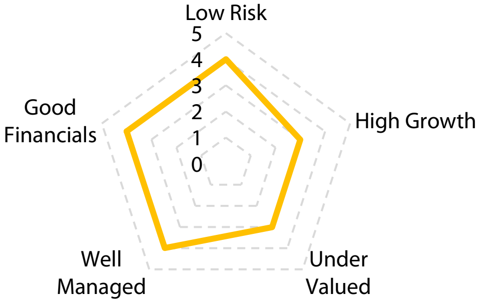
ACTIVE EXPANDING OTC CHANNEL PROMOTE SHORT-TERM REVENUE

HSX: DBD

RONG VIET SECURITIES

FOLLOW <MP: 41.000> <MP: NR>





STOCK INFO

Sector	Pharmaceutical
Market Cap (USD mn)	131
Current Shares O/S (mn shares)	75
3M Avg. Volume (K)	71
3M Avg. Trading Value (VND mn)	3
Remaining foreign room (%)	93,5
52-week range ('000 VND)	48,8 – 32,46

FINANCIALS

FINANCIALS	2019A	2020A	2021A
Revenue (VND bn)	1,262	1,257	1,559
NPATMI VND bn)	142	158	184
ROA (%)	8.8%	11.0%	11.8%
ROE (%)	15.5%	16.2%	16.3%
EPS (VND)	2,444	2,712	2,807
Book Value (VND)	17,443	18,563	19,563
Cash dividend (VND)	1,500	1,500	0
P/E (x)	22.4	18	18.5
P/B (x)	3.1	2.6	2.6

INVESTMENT RATIONALES

Nhon Hoi cancer drug factory with the expectation of achieving EU-GMP standards in Q3/2022 will boost business growth in the medium and long term.

- DBD expects to achieve EU-GMP for injection and tablet production lines in 3Q2022 and 2023 respectively.
- Huge revenue potential, up to 1,500 billion VND. GPM of cancer drug products is relatively high, so NPAT can grow strongly from 2023.

Gross profit margin in 1H2022 improved compared to the same period, expected to remain high in 2H2022

- In the first half of 2022, the ETC channel recovered to grow 13% YoY, key products such as cancer drugs, kidney solutions, and injectable antibiotics all grew at 36% YoY and 34% YoY, respectively. , 17% YoY helping gross margin increase to 49% (+500 bps).

OTC channel can boost growth in the short term.

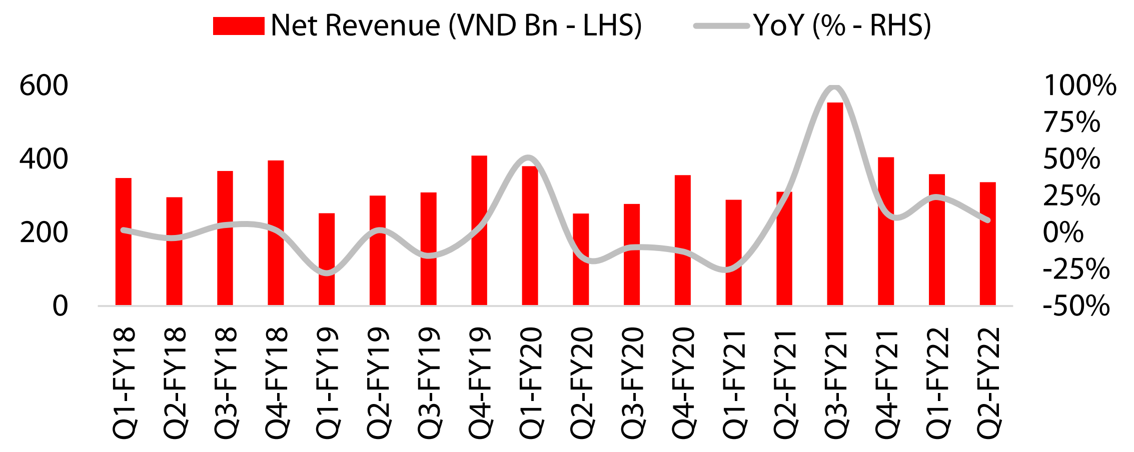
- By increasing its presence in many retail pharmacies, rather than focusing on the largest pharmacies, DBD is improving its bargaining power with customers, helping to reduce discount rates, thereby increasing spending on drugstores. product marketing and promotion. Strongly increasing the number of retailers from about 8,000 in 2020 to 17,500 by the end of 7M2022, DBD has plenty of room to increase sales per store in the coming years.
- The benefits from the expansion of the number of retailers may continue to be reflected in 2022, with OTC channel revenue growth estimated at 16% YoY.

RISKS TO OUR CALL

- Anti-cancer plant EU-GMP approval process may take longer than expected.

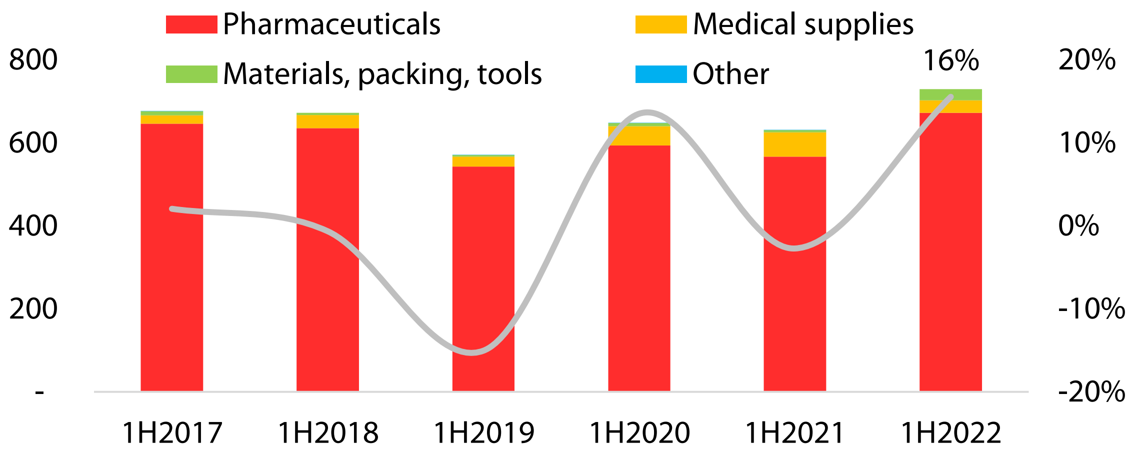
1H2022: REVENUE CONTINUES GROWTH

Figure 1: Quarterly Revenue



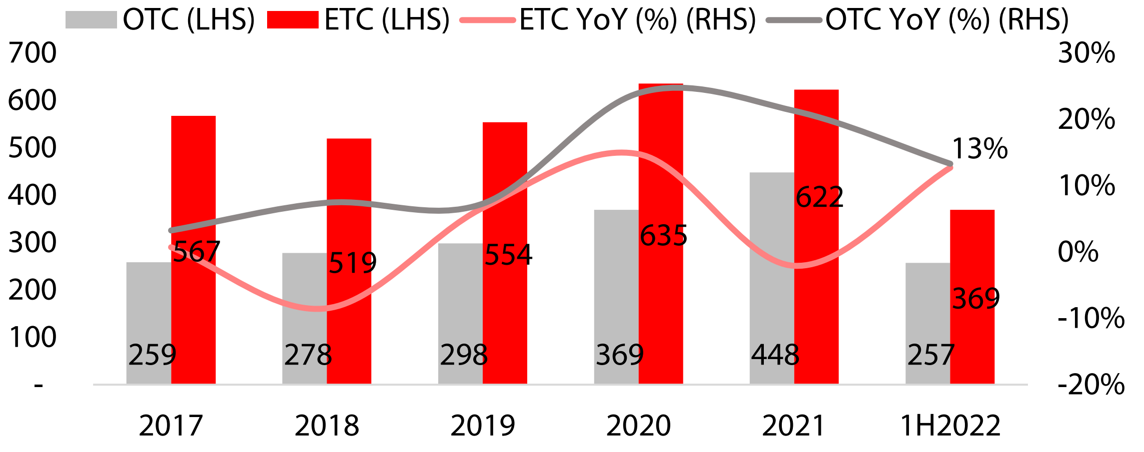
Source: DBD, Rong Viet Securities

Figure 2: Revenue by product 1H2022 (VND Bn)



Source: DBD, Rong Viet Securities

Figure 3: Pharmaceutical revenue by channels (VND Bn)

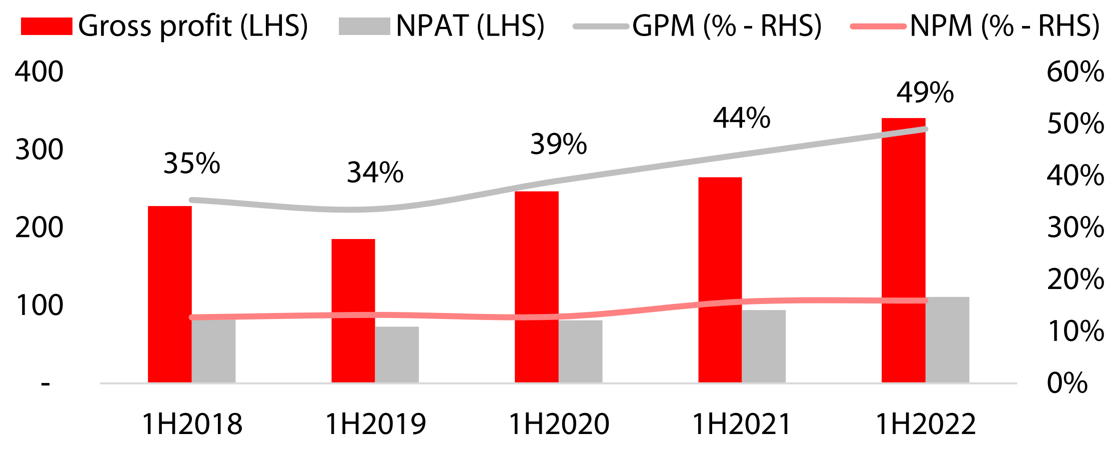


Source: DBD, Rong Viet Securities

1H2022 revenue is positive, both ETC and OTC channels continue to grow.

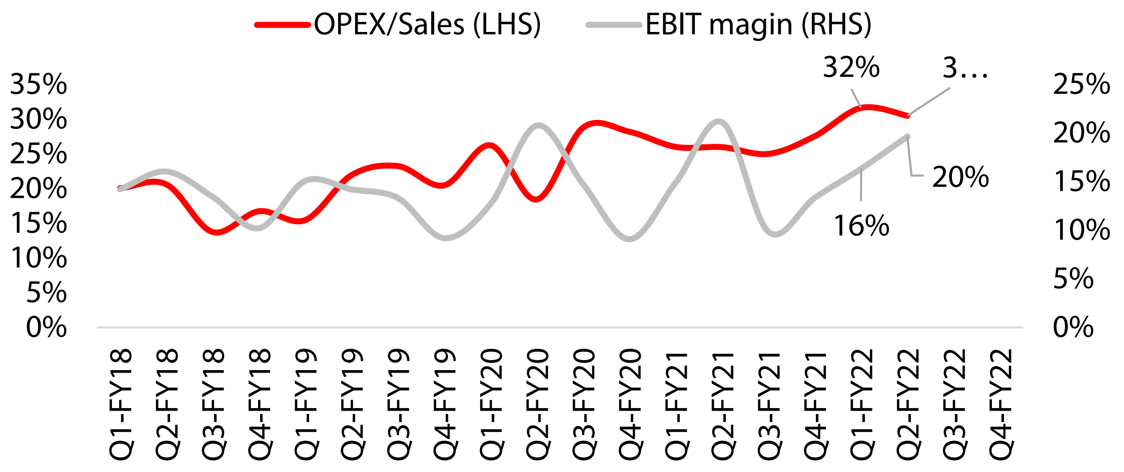
- Net revenue and EBT reached VND 695 billion (+16% YoY) and VND 215 billion (+17% YoY), respectively, completing 43% and 63% of the year target, respectively.
- ETC revenue recovered again, recording VND369 billion (+12.7% YoY) and accounted for about 55% of DBD's manufactured pharmaceutical sales.
- OTC revenue slowed down to VND 257 billion (+13.3% YoY), accounting for the remaining 45%.

Figure 4: Business results (VND Bn)



Source: DBD, Rong Viet Securities

Figure 5: OPEX/Sales is decreased to help expanding EBIT margin



Source: DBD, Rong Viet Securities

Gross profit margin increased slightly thanks to key products

- Revenue in 1H2022 of products with large gross margin on ETC channel such as cancer drugs, kidney solutions and injectable antibiotics grew by 36% YoY, 34% YoY, 17% YoY respectively, helping to improve gross profit margin. up 49% (+500 bps).
- We forecast GPM will improve in Q3/2022 sply, staying around 50%.

The strategy of "selling points" to “selling covering" in the period of 2021 – 2025

- Instead of focusing on the ETC channel and the biggest pharmacies as before, DBD focuses more on product brands, increasing its presence at retail points. DBD recorded 1H2022 selling expenses increased by 45 billion dong (+37% YoY). In which, expenses for sales staff and advertising expenses accounted for 58% and 36% respectively.
- The company has driven the number of retailers to increase from about 8,000 in 2020 to 14,800 in 2021. Accumulated 7M2022, DBD has developed 17,500 customers, of which the rate of returning customers in 2021 is up to 85%. DBD expects to maintain the current market expansion rate, possibly reaching 19,000 customers by 2022. The long-term goal is to reach 30,000 customers by 2025.

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