DOMESCO JSC(DMC – HSX)

Restructuring sparks positive changes

- **Domesco ranks at top-ten position in domestic pharmaceutical industry**
- **Restructuring strategy resulted in remarkable changes for Domesco**
- **Two restructuring in short-term takes effects in 2015**

ACCUMULATE

CMP (VND)	41,000
Target price (VND)	49,000
Investment Period	Intermediate-term

Outlook and Valuation:

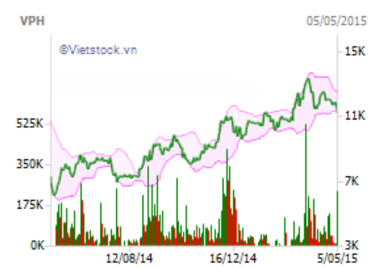
Domesco is one of the largest pharmaceutical enterprises in Viet Nam with well-known brand name. Diversified product portfolio and production constraints are dominant obstacles causing inefficiency in DMC's business activities. Therefore, short-term and long-term strategies are set to solve both difficulties. In short-term, business strategy is to alter to base on product quality and efficiency more than on product quantity. Thus, product category is, restructured to focus on self-produced goods with high profit margins. As a result, revenue target has been currently harder to reach than net income target.

In long-term, a new plant with total investment capital of VND250-300 billion is the worthiest story to lean on in DMC's operation. Late 2015, the plant could begin the construction and be estimated to finish in 2017. We believe that procedure on standard upgrade to GMP-EU and PIC/s is a great challeng. Moreover, we also believe that two strategic shareholders, namely CFR and Abbott, seemed to participate in DMC's management. As this scenario occurs, Abbott's support for new plant should ease the pressure of getting approval of stricter pharmaceutical standards.

As restructuring shows positive signals, we evaluated that DMC's long-term prospects are relatively optimistic. It is noteworthy that management changes should be the remarkable story as SCIC has not yet unveiled whether to divest their investment (~35%) and Abbott with CFR would participate more into DMC. In short-term, restructuring product portfolio and cost control would be the key incentives to maintain DMC's growth. Combining two valuation methods of DDM and relative valuation (P/E and P/B) we determined the appropriate price for DMC's share as **VND49,000/share,** higher than 19.5% of closed price on 30th October 2015**.** Therefore, we recommend **ACCUMULATE** DMC in the **INTERMEDIATE-TERM**.

Stock Info

Sector	Pharmaceuticals
Market Cap (VND bn)	1,028.48
Current Shares O/S	26,713,797
Beta	0.67
Free float (%)	9.98
52 weeks High	43,400
52 weeks Low	36,200
Avg. Daily Volume (in 20 sessions)	19,954



Peformance (%)

	3T	1N	3N
DMC	0.7	3.5	169.7
Pharmaceutical	-1.6	9.5	53
VN30 Index	-3	3.1	55.8
HSX Index	-5	1.3	34.9

Key financials

Y/E Dec (VND bn)	FY2013	FY2014	6M2015	FY2015F	FY2016F
Net Revenues	1,429.6	1,486.1	546.6	1,560.4	1,630.6
% chg	13.4%	3.9%	-29.2%	5.0%	4.5%
PAT	107.5	132.3	67.3	145.7	161.0
% chg	19.2%	23.1%	4.2%	10.1%	10.5%
EBIT margin (%)	7.5%	8.9%	12.3%	9.3%	9.9%
ROA (%)	11.8%	13.8%		14.9%	15.0%
ROE (%)	18.0%	19.6%		19.0%	18.6%
EPS (VND)	6,037	4,953		5,453	6,025
Adjusted EPS (VND)	6,037	4,953		5,453	6,025
Book value (VND)	35,195	27,021		30,499	34,124
Cash dividend (VND)	2,200	1,800		1,800	2,200
P/E (x)	7.8	8.3		7.5	6.8
P/BV (x)	1.3	1.5		1.3	1.2

Sources: DMC, RongViet Securities, Stock price as of 10/30/2015

Major Shareholders (%)

CFR International SPA	45,9
SCIC	34,7
Deutsche Bank Aktiengesellschaf & Deutsche Investment Management Americas Inc	4,9
VCHF	4,5
Foreigner Investor Room (%)	0

TAM BUI

(084) 08- 6299 2006 – Ext 1315

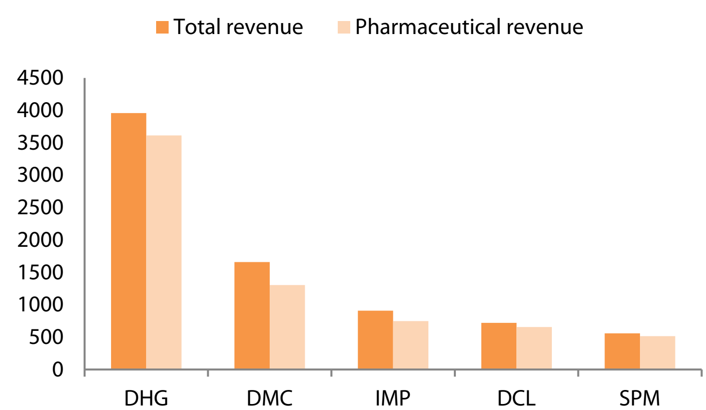
tam.bt@vdsc.com.vn

Domesco ranks at top-ten position in domestic pharmaceutical industry

In aspect of pharmaceutical manufacturing

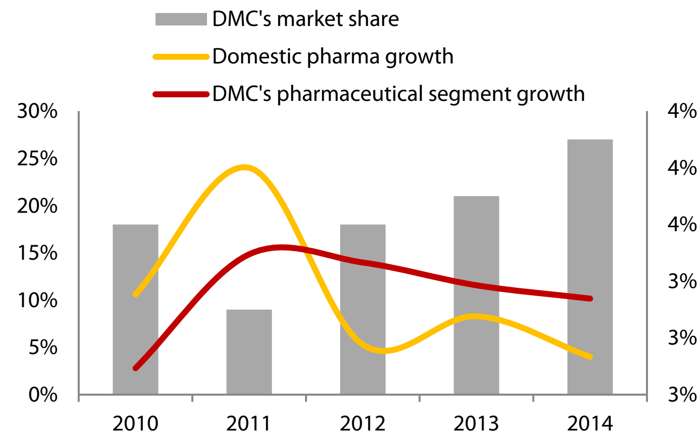
DMC is a pharmaceutical company which ranked at 2nd position (only following DHG). In comparison with other companies such as IMP, DCL, SPM, (the value of self-producted goods) in-house goods value of DMC is still higher by at least 50%. Moreover, domestic pharmaceutical growth has witnessed a slowdown to single-digit rate since 2012. However DMC still maintains the stability at two-digit figures.

Figure 1: Total revenue and in-house goods value in pharmaceutical companies in 2014 (VND billion)



Source: DMC, RongViet Research

Figure 2: Growth in domestic manufacturing and DMC from 2010-2014 (%)



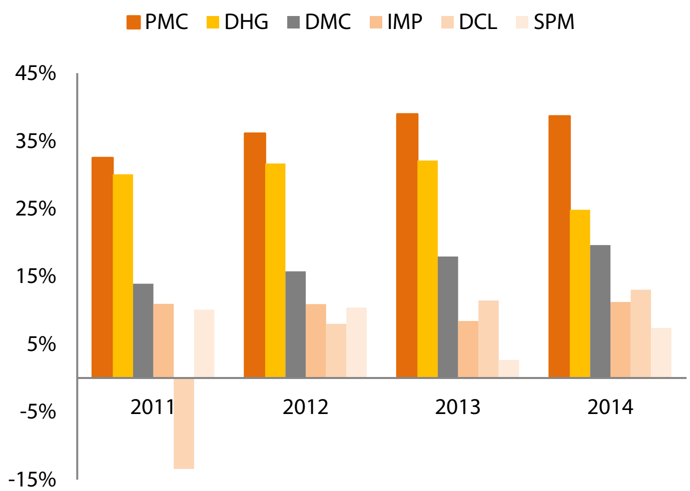
Source:: DMC, RongViet Research

As of DMC's product category, antibiotics constitute the most proportion (over 50%) in sales volume and revenue. The similar dominance of antibiotics is also shown in other large pharmaceutical companies such as DHG, IMP. However, in aspect of competitive advantages, DMC's antibiotics products demonstrate not much prominence meanwhile the well-known product lines including Cardiovascular and Respiratory that selling at lower price than foreign products (by 20-30%) are being favored in the affordable segment.

Financial ratios

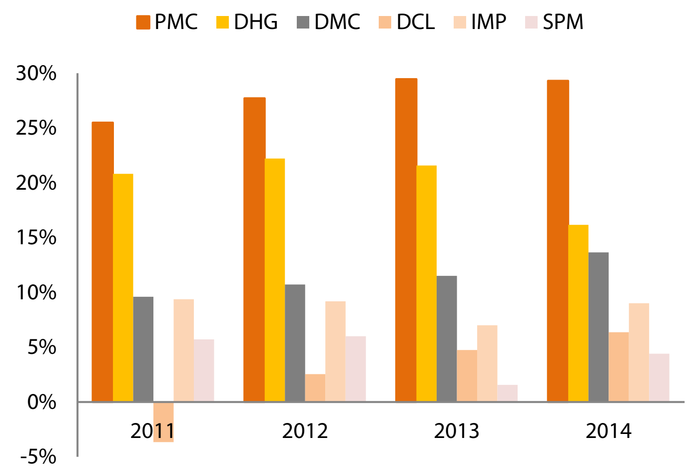
Among pharmaceutical companies, operating efficiency ratios such as ROA, ROE from DMC demonstrate relatively positive rate. In 2011-2014, both ratios' DMC ranked at the third position, only after PMC and DHG

Figure 3: ROE in pharmaceutical companies in 2011-2014 (%)



Source: DMC, RongViet Research

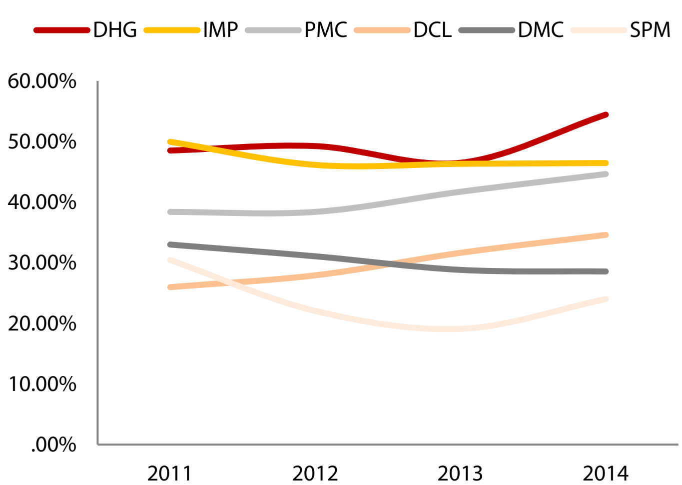
Figure 4: ROA in pharmaceutical companies in 2011-2014 (%)



Source: DMC, RongViet Research

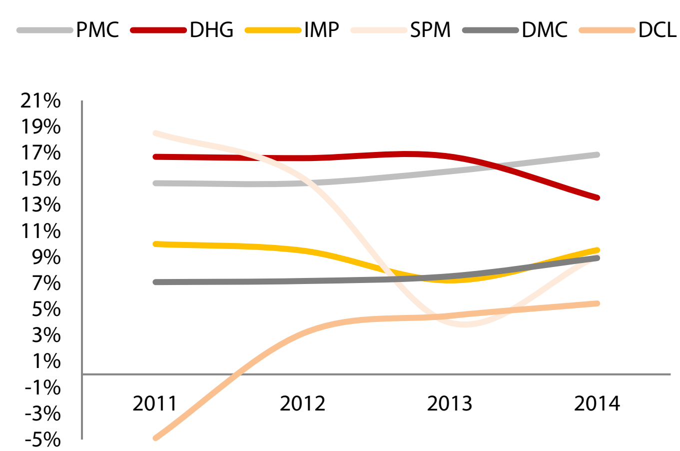
Effective performance is considered as a result of DMC's cost control. In fact, DMC's gross profit margin was relatively lower than other companies by about 30% compared to the average of 42%; meanwhile, net profit margin in 2011-2014 reached 8% that was lower than the average of 11%. However, both rates were quite stable and even improve gradually as reviewing the entire period.

Figure 5: Gross profit margin in pharmaceutical in 2011-2014 (%)



Source: DMC, RongViet Research

Figure 6: Net profit margin in pharmaceutical in 2011-2014 (%)



Source: DMC, RongViet Research

It is easier to observe that the various numbers of net profit margins in 2013 and 2014 showed significant changes. Under the circumstance, the leading pharmaceutical companies, DHG was also affected, resulting by negative growth rate in 2014 in comparison with annual two-digit growth. On the other hand, there was an impressive surge in NAPT from DMC in 2014 that proceeded from restructuring resolutions from management to changes in product portfolio.

Restructuring strategy resulted in remarkable changes for Domesco

Restructuring in short-term and its method to enhance efficient portfolio product and cost control

Portfolio product restructuring and its positive improve on gross profit margin

As confronted with lower gross profit margin, DMC took actions to restructure the diversified portfolio product to focus to products with high economic efficiency. Moreover, the Company aims to eliminate items having gross profit margins less than 20%. In spite of specific public announcement, we believe that there is a transition between major product segments. Particularly, there were up to 3 product categories increasing their contribution by 1-2%, meanwhile 4 brands were declined by 1-3% over the same period.

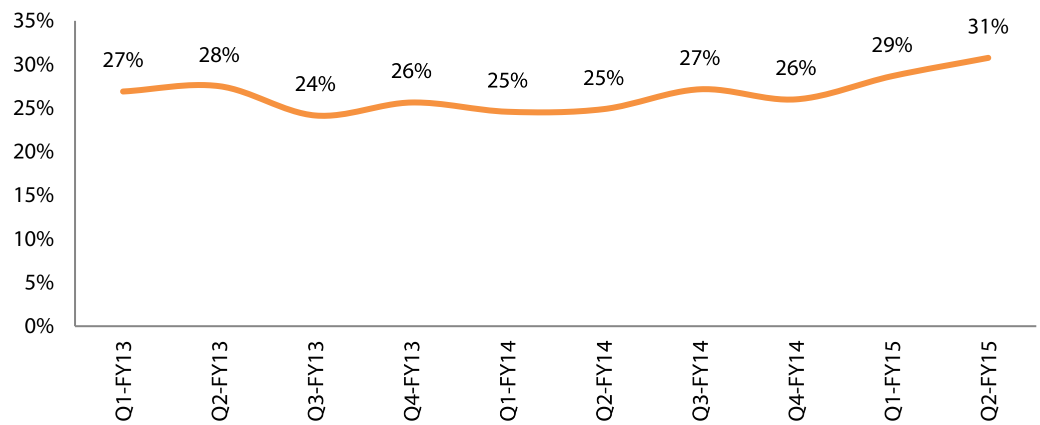
Table 1: Portfolio products by categories in 2013 and 2014

Products	2013	2014	% changes
A	29,0%	31,0%	2,0%
B	23,0%	22,0%	-1,0%
C	7,0%	4,0%	-3,0%
D	5,0%	6,0%	1,0%
NEW	0,1%	0,0%	-0,1%
E	24,0%	23,0%	-1,0%
H&F	2,0%	2,0%	0,0%
DEL	1,0%	1,0%	0,0%
GC	6,0%	8,0%	2,0%
XK	3,0%	2,0%	-1,0%

Source: DMC, RongViet Research

As a result, gross profit margin in the first six months 2015 demonstrated explicit improvement, increased from 27% (6M2014) to 34% (6M2015). As our observation, optimistic changes initially occurred in 3Q2014.

Figure 7: DMC's gross profit margin from 1Q2013 to 2Q2015 (%)



Source: DMC, RongViet Research

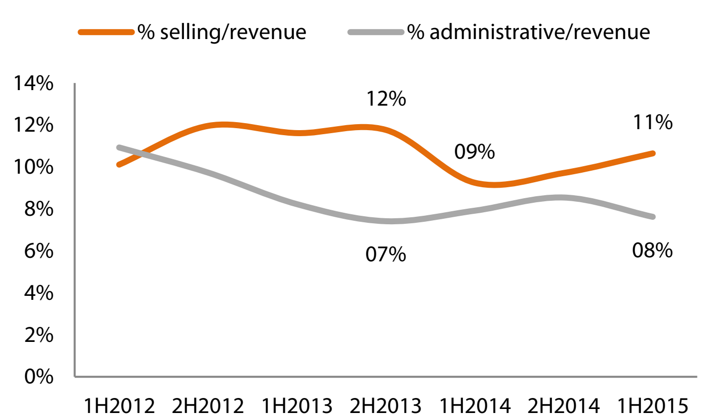
As accelerating competition, especially in OTC segment, revenue target is more likely to be a difficult mission. Therefore, the completion of net profit target in short-term depends on the method of cost control including COGS and operating costs. As a result, restructuring product portfolio to enhance net profit margin was adopted by a variety of pharmaceutical companies. The strategy, as our judgment, is quite appropriate in this context. However, a significant change from quantity to quality seems to put pressure on sale force as the annual growth in revenue is target at about 10%. Thus, along with a sudden and dramatic shift, human resource turnover rate could affect to business activities. As observation the new category, the corresponding concern is no need to be considered.

Restructuring through controlling operating costs

Not only restructuring product portfolio, operating expenses were tightly managed. As observations from 2012 to today, we realize that management costs are usually higher in the first half over the last two quarters due to the remuneration for Tet holiday. However, cost of sales in the second are usually higher because of performance evaluation period after the end of a year. However, since late 2014, these costs have been significantly reduced in relation to the previous years. Specifically, the management expense ratio of the total turnover in 6T2015 is only about 7.6%; this proportion to cost of sales was also low (10.6%) with a total cost of sales personnel salaries reduced by 25% in the same period. Thus, we can see the company strictly manages those types of expenses.

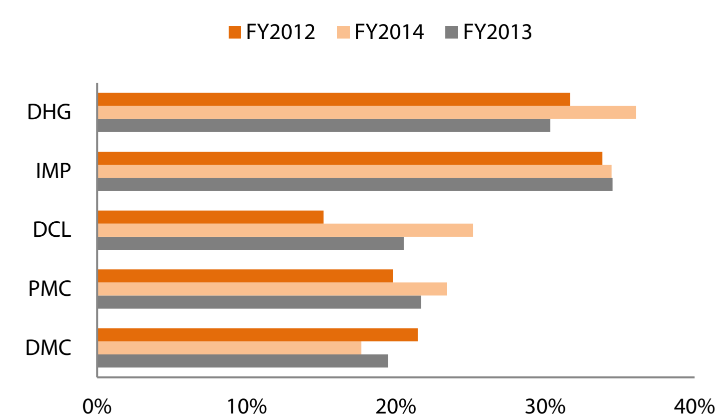
In preparation for fierce competition in pharmaceutical industry, majority of companies accelerates their selling expenses. However, DMC's cost of sales and business management costs are still much less than industry average.

Figure 8: % selling and administrative expense to revenue from 6M2012-6M2015 (%)



Source: DMC, RongViet Research

Figure 9: SG&A expense in pharmaceutical companies from 2011-6M2015 (%)



Source: DMC, RongViet Research

As mentioned above, stable growth in recent year has been maintained thanks to well-managed cost control. However, the expenses have been declined by more than 20% since 2014. BOD's incomeincluding salary and remuneration also dropped by 20-25%. Therefore, we expect that such results are derived from boosting labor productivity instead of constricting employers' welfare. Along with the focus on efficiency product lines, DMC prioritized to build up human resources for sales department and reduce workforce for supporting and production segments. Consequently, production structure has been streamlined with remarkable recline in salaries. Therefore, this strategy improves to DMC's production capacity. Moreover, restructuring through cost control has been adopted in globally pharmaceutical industry for 5 years and DMC as well as Vietnam pharmaceutical industry started to adopt such trend (see appendix).

Restructuring in long-term by management changes and production capacity

Management restructuring

Management change was the most noteworthy changes from DMC over recent years. CFR, one of the largest pharmaceutical companies in Latin America, has become the major shareholder of DMC since the end of 2011, holding about 45.9% shares of DMC. However, two years later, CFR had taken action by joining DMC's BOD. As a result, Ms. Luu Thi Huong Giang, a representative of CFR in Vietnam, was elected as DMC's general manager. Since then, DMC started to apply new strategy such as restructuring product portfolio. Moreover, since 3Q2014, Peru and Venzuela markets have begun to contribute to DMC's total sale thanks to CFR support. Even though export sales only accounted for 3% of the total revenue, DMC has ranked second among pharmaceutical exporting firms in Vietnam by expanding its export markets to Latin America.

In late 2014, after M&A deal, Abbott has taken 99% ownership of CFR and indirectly become strategic shareholder in DMC. Consequently, Abbott appointed Mr. Andrew Hamish to participate in BOD. Similarly to CFR, it is more likely to expect further participation in DMC's management in at least 2 years. Coincidentally, two years is quite matched to the time for establishing the new plant. Along with the plant establishment, Abbott's support in long-term is the worthiest expectation for DMC's prospects.

Considering the M&A deals of Abbott over last years, considerably positive changes has occurred and Piramal is a specific example (see Appendix).

New plant – a solution for production capacity

On one hand, product portfolio restructuring, and cost control bring short-term efficiency. On the other hand, investing in new plant and enhancing quality is the appropriate strategy in long-term. In term of output in 2011-2014, DMC remains at the high rank (top 3). However, all three main factories are in full capacity operation. Therefore, the constraint on production capacity is considered as DMC's weakness in recent years.

Table 2: Designed capacity and feasible capacity of DMC's plants

Plant	2013 volumes (units)	% capacity
Non-Betalactam	1.108 mil	95-96%
Penicilline	236 mil	94%
Cephalosporin	172 mil	86%
Herbal medicine	46 mil	
Products from herbal	31 tons	12-19%
Functional medicine	139 mil	

Source: DMC, RongViet Research

Thus, investing in new plant with capacity cost of VND250-300 billion will be able to loosen DMC's production constraints. The new Non-Betalactam plant includes four production lines with PIC/s standard and a production line with GMP-EU standard. Moreover, the plant has total production capacity of 3 billion units (three times higher than current figures). The construction is estimated to start at the end of 2015 and to finish in the next two years. We believe that it would be great challenges for DMC's plant to get approval on the two strict standards (GMP-EU and PIC/s), especially in only 2 years. Similarly, Imexpharm has upgraded Penicillin and Cepholosporin plant from GMP-WHO to GMP-EU standard within at least 2 years in spite of completing the plant construction. However, under Abbott's support, the schedule of establishing the new plant becomes relatively easier thanks to Abbott's experience.

Thus, if the new Non-Betalactam plant starts the operation, DMC (1) could enhance production capacity to rise 3 times as high as current figure; as a result, accelerating growth in domestic and foreign markets (2) prices rise thanks to standard upgrade; the gap between production price under GMP-WHO and GMP-EU or PIC/s standards is approximately over 20%. Additionally, with the two new standards, the possibility to win bid in ETC is feasible. Currently, the contribution of ETC segment is only 31% of total revenue. Gross profit margin in ETC segment is relatively higher than that of OTC segment; thus, a proportion change between both segments would cause significant impacts on revenue. In conclusion, due to the uncertain information related to the new plant, we do not take into account this scenario into the valuation model.

Table 3: Capex cost in pharmaceutical companies

Ticker	Plant	Location	Standard	Capacity	Manufacturing	Investment	Finished date (estimate)
IMP	Betalactam	Binh Duong	GMP-EU	- Penicillin (4 billion units/year) - Cephalosporin (800 million units/year)	Penicillin, Cephalosporin	50 billion VND	Jun/2016
DHG	Non Betalactam	Hau Giang	GMP-WHO	4 billion units/year	Non Betalactam	454 billion VND	Apr/2014
	Betalactam	Hau Giang	GMP-WHO	1 billion units/year	Betalactam	184 billion VND	May/2015
	Effervescence Package	Can Tho	PIC/S	No specific information	Non Betalactam	200 billion VND	Apr/2014
DMC	Non-Betalactam	Dong Thap	4 lines PIC/s 1 line GMP-EU	3 billion units/year	Non Betalactam	250-300 billion VND	2017-2018

Source: RongViet Research

Two restructuring in short-term takes effects in 2015

In 1H2015, restructuring product portfolio has significantly improved gross profit margin of DMC, up from 27% (1H2014) to 34% (1H2015). Moreover, as mentioned above, DMC successfully improved its efficiency through managing its operating costs. Thus, even though DMC's revenue in 1H2015 decreased by 30% but its NPAT still increased by more than 4%. Besides, by using equity capital to self-finance its own projects in 4Q2015, DMC will be able to reduce its interest expenses by more than VND 5bn. In our opinion, restructuring product portfolio and strategic cost management are the key factors that could aid DMC to accomplish its NPAT annual targets

On the other hand, due to fierce competition in the industry and restructuring product portfolio, we believe that completion of VND 1,588 bn annual target in revenue is a tough task for DMC. Hence, we forecasted that DMC could achieve VND 1,560 bn in revenue in 2015, equivalent to 98% of the annual plan. However, NPAT could reach VND 145.6 bn, which means 4% higher than the NPAT annual target and EPS would be about 5,543 dong per share.

In 2016, a fierce competition is predicted, as the barrier to entry for this industry will be loosed. Thus, we cautiously forecasted that revenue growth rate could reach 4.5% while NPAT could be up by 10% thanks to retrusturing product portfolio. Thus, revenue and NPAT would be equal to VND 1,630 bn and VND 160 bn respectively; corresponding to EPS 6,000 dong per share. Under the normal circumstances, DMC's biggest risk is unable to cope with market demand since all of its factories have all reached maximum capacity. However, according to DMC, the company will enhance its production capacity through plant expansion and increasing its shift working time until the new plant goes into operation. Hence, we believe that a significant improvement in earnings results would not be likely to happen to DMC for the next two years.

Outlook and Valuation

Domesco is one of the largest pharmaceutical enterprises in Viet Nam with well-known brand name. Diversified product portfolio and production constraints are dominant obstacles causing inefficiency in DMC's business activities. Therefore, short-term and long-term strategies are set to solve both difficulties. In short-term, business strategy is to alter to base on product quality and efficiency more than on product quantity. Thus, product category is, restructured to focus on self-produced goods with high profit margins. As a result, revenue target has been currently harder to reach than net income target.

In long-term, a new plant with total investment capital of VND250-300 billion is the worthiest story to lean on in DMC's operation. Late 2015, the plant could begin the construction and be estimateed to finish in 2017. We believe that procedure on standard upgrade to GMP-EU and PIC/s is a great challeng. Moreover, we also believe that two strategic shareholders, namely CFR and Abbott, were seemed to participate in DMC's management. As this scenario occurs, Abbott's support for new plant should ease the pressure of getting approval of stricter pharmaceutical standards.

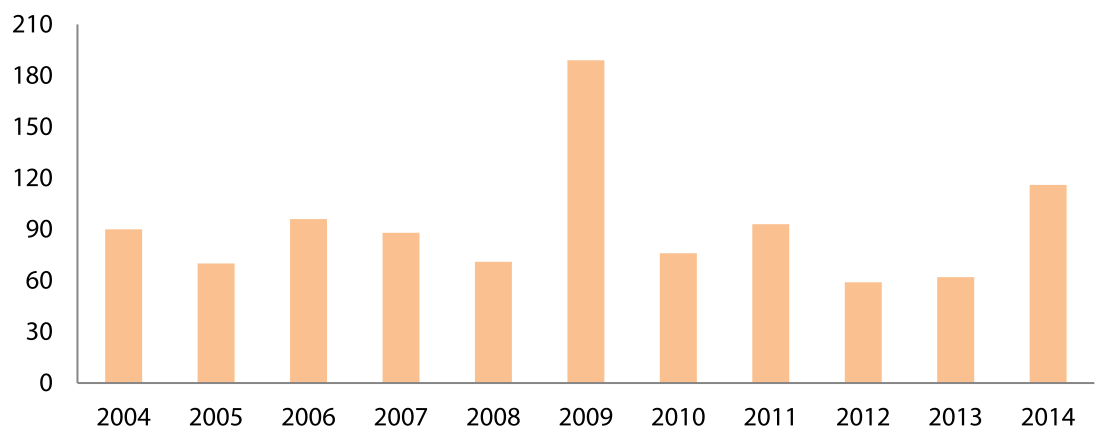
As restructuring shows positive signals, we evaluated that DMC's long-term prospects are relatively optimistic. It is notworthy that management changes should be the remarkable story as SCIC has not yet unveiled whether to divest their investment (~35%) and Abbott with CFR would participate more into DMC. In short-term, restructuring product portfolio and cost control would be the key incentives to maintain DMC's growth. Combining two valuation methods of DDM and relative valuation (P/E and P/B) we determined the appropriate price for DMC's share as **VND49,000/share,** higher than 19.5% of closed price on 30th October 2015**.** Therefore, we recommend **ACCUMULATE** DMC in the **INTERMEDIATE-TERM**.

Appendix: Restructuring- a story in global pharmaceutical industry

Many studies concluded that there was a certain lag (1-2 years) between economic and pharmaceutical industry crisis. Although it was "safe-haven" for avoiding economic fluctuation, difficulties have arisen since 2009. Particularly, the drug patent had been close to expired date; return from research investments was not as high as before and a tough competitive pressure on Generic drug threatened sales growth of leading companies. The solutions were given as (1) requirement of long-term strategic and visionary, (2) restructuring focusing on streamlining human resource and managing expenses, (3) investment in short-term restructuring research for enhancing products' competitiveness. Therefore, the industry has witnessed significant improvements since 2009. Specifically, until April of 2015, Merck & Co has reduced 85% of the workforce, equivalent to 8,500 positions according to the restructuration plan that applied since 2013. It was announced that there were 7,290 headcounts reduced, including full-time and temporary staffs, contract the total expense by USD 2.7 billion. Besides, Pfizer has also controlled costs when it has planned to cut R&D cost of USD 3 billion per year since 2011. Simultaneously, a lot of research centers have temporarily closed due to this policy.

On the other hand, M&A deals are used as a method to restructuring the corporate. In 2009, the total number of M&A deals rose strongly then remained moderate in the next 4 years. However, since 2014, M&A activities heat up once again in pharmaceutical industry. Thus, strategic cost management should be the top priority in the short term while R&D should be considered as long term strategy. Normally, these above strategies are used not only in multinational pharmaceutical companies but also in domestic enterprises such as DMC.

Figure 10: M&A value in global pharmaceutical industry from 2004-2014 (billion USD)



Source: DMC, RongViet Research

Abbott and ambition to emerging market

As developed market shows the saturation, emerging markets attract attention of many leading pharmaceutical companies. The US health expenditure is approximately 18% of total GDP while emerging market is equal to only 6% of the GDP and continues to accelerate. Thus, Abbott recognizes the emerging market as optimistic long-term investment opportunity. By the end of 2014, sales in such markets account for ~50% of total revenue. The company also plans to grow by 4.6% in emerging markets, 3.4% in Latin, 6.7% in China and 2% in developed markets from 2014-2019.

As a result of the aboved strategy, Abbot successfully dominates India, Chile, Colombia, and Peru markets through M&A deals with large domestic enterprises. Currently, the company owns 27 factories and provides more than 1,500 product lines to 88 countries. The table below is the number of M&A deals that Abbot has done in the last few years and its strategies in different markets.

Figure 4: Abbott's M&A deal from 2009-2014

Year	Acquisition & Merger	Country	Region	Value	Product	Strategy
2009	Advanced Med Optics	California (America)	North America	1,36 billion USD	Ophthalmic surgical line	To diversify to non-pharmaceutical products such as medical devices
2009	Evalve	California (America)	North America	410 million USD	Medical devices (heart treatment)	
2010	Solvay	Belgium	Europe	7 billion USD		To expand into emerging market in Eastern Europe and Asia
2010	Piramal	India	Europe	3,7 billion USD	Pharma solution and consumer product, medical devices	To dominate large pharmaceutical market in India
2012	3A Nutrition	Viet nam	Asia	Not specific	Distribution nutrition milk	To boost nutrition segment in emerging market
2014	CFR	Chile	America	2,9 billion USD	Pharmaceutical	To dominate large pharmaceutical market in Latin America
2014	Veropharm	Russia	Europe	305 million USD	Pharmaceutical (Nervous system, cardiovascular, digestive)	To dominate large market in Russia

Source: DMC, RongViet Research

Therefore, Abbott has shown their own ambition in specific regions from Asia to Eroupe and Latin America. Noteworthy, in emerging markets, especially India, Abbott has intensified M&A activities with generic manufacturers or distributors. In addition to pharmaceuticals, nutritional products have also received the attention to develop. The current proportion of national products was approximately 30% of Abbott's product portfolio and demonstrated a boost. In Vietnam market, Abbott's strategy is hardly to forecast but we believe that the acquisition with 3A distributor gave Abbott the opportunity to expand their products. Regarding pharmaceuticals, Abbott owned 45% of DMC's ownership. Thus, we believe that in order to execute their strategy, Abbott ought to show their responsibility to support new plant establishment. Moreover, if the new plant is in line with the strategy to expand their distribution at Viet Nam, story from DMC in long-term seems to be more attractive.

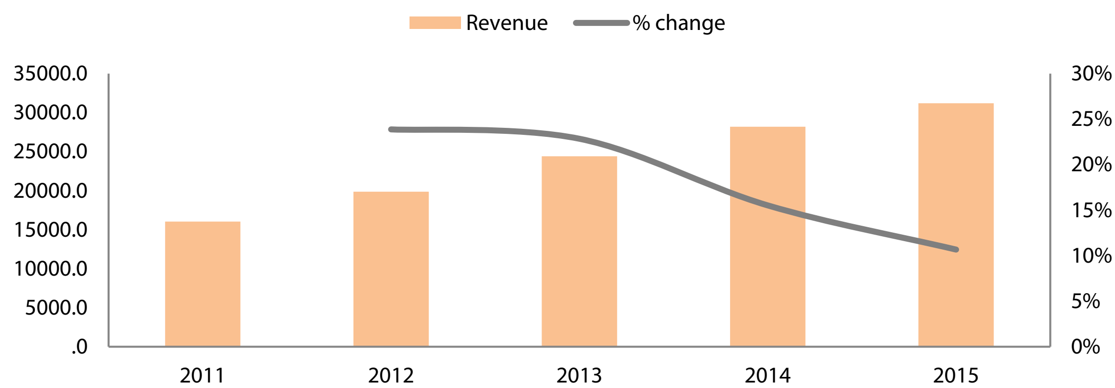
Positive changes after M&A in emerging market- Piramal case study

In order to expanding to emerging markets, the most suitable method for an international company such as Abbott is likely to be M&A. In 2010, Abbot begun its busy year by M&A with a series of pharmaceutical enterprises such as Solvay, Piramal, Topera; Vascular, CFR, Topera and Veropharm. After an M&A deal, both Abbott and aquired firm achieved significant growth rates. For example, in the case of Piramal, Abbot spent USD 3.7 bn to acquire this India pharmaceutical company. In other words, in 2010, Piramal was valued by Abbott at an unprecedeted nine times sales and 30 times of EBITDA.

Through this M&A deal; Abbott easily dominates the pharmaceutical market in India with total value being over 8 million USD. Additionally, Abbott expected Piramal to maintain annual growth rate of 20% and reach revenue of USD2.5 million till 2020. After the M&A, over 5,000 employees as well as

North India plant along with 350 brands were under Abbott's control. By reviewing business results from 2011 to 2015, we noticed positive changes in Piramal. Specifically, revenue growth of pharmaceutical segment was approximately 18% within 4 recent years.

Figure 11: Pharmaceutical revenue at Piramal from 2011-2015 (unit: million rupi)



Source: DMC, RongViet Research

By divided into specific pharmaceutical segments, the table below demonstrates optimistic changes in Piramal from 2011-2015.

Table 5: Summary of the achievements of Piramal by segments

Segment	Revenue growth	Achievements
Pharma solutions	CAGR 18% from 2011-2015	Among the top 10 global pharma Contract development and manufacturing Organisations (CDMOs); serve 5 of top 7 global pharma companies
Critical care	CAGR 18% from 2011-2015	Rapidly grew its global market share from just 3% in FY2009 to 12% in FY2015.
Consumer products	CAGR 16% from 2011-2015	The business has moved up from the 17th (2009) to 7th position (2015)

Source: DMC, RongViet Research

By M&A with Abbot, Piramal experienced a significant improvement in revenue although its net income showed a less impressive figure. One of the reasons for such negative correlation is likely to be a huge debt burden from Piramal due to financial activities such as acquisition, mergers companies in other industries. Since the fiscal year March 31st 2015, Piramal recorded significant growth in NAPT in comparison with prior years thanks to restructuring financial services. Earning results in 1Q2016 continue to be positive as revenue increased by ~25% and NAPT rose by three times over the same period.

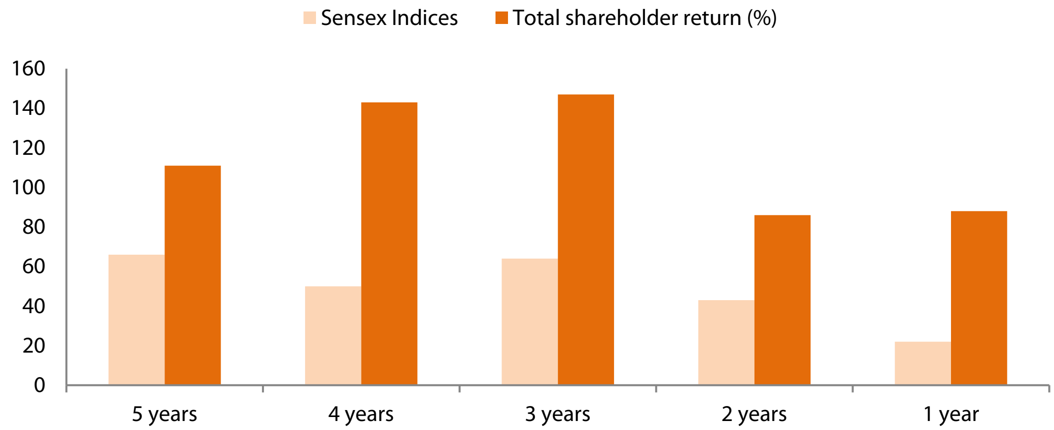
Figure 6: Several financial ratios of Piramal from 2011-2015 (unit: million rupi)

	2011	2012	2013	2014	2015
EBITDA	379	471	611	860	1.140
Interest rate	89	163	225	270	119
NBT (before exceptional)	195	-46	-176	-278	77

Source: DMC, RongViet Research

Thus, in term of core business, Piramal's shareholders will have to wait further 5 years from M&A deal to experience the result from restrusturing. However, total shareholder return numbers from now to the period of 1-5 years are higher than that of the Sensex index. The total shareholder return is calculated by market price and dividend payout of Piramal. We also recognized that after M&A, shareholders' funds had 8 times higher meanwhile NAPT from 2012-2014 suffered losses. Therefore, the total return was actually come from the increase in share capital, instead of core business.

Figure 12: Total shareholder return number in comparison with 1-5 years (unit: %)



Source: DMC, RongViet Research

It is hard to deny the achievements of market expansion after Abbott had purchased Piramal. However, we believe that the shareholder benefits are likely to depend on (1) business structure whether to diversify in various industries (2) the proportion of debt and interest rate (3) the efficiency in current operation. If these criteria are solved, the expectation on both growth in revenue and net income is reasonable.

VND Billion

INCOME STATEMENT	FY2013	FY2014	FY2015E	FY2016F
Revenue	1,429.6	1,486.1	1,560.4	1,630.6
COGS	1,017.5	1,061.5	1,086.0	1,125.1
Gross profit	**412.1**	**424.6**	**474.4**	**505.5**
Selling Expense	167.2	140.7	162.3	172.8
G&A Expense	111.2	122.1	124.8	130.4
Finance Income	6.3	6.1	1.0	1.1
Finance Expense	9.6	7.6	1.5	1.7
Other profits	4.1	8.5	0.0	0.0
PBT	**134.5**	**168.7**	**186.7**	**201.2**
Tax	27.2	36.4	41.1	40.2
Minority's Interest	-0.3	0.0	0.0	0.0
PAT to Equity Shareholder	**107.5**	**132.3**	**145.7**	**161.0**
EBIT	**139.8**	**174.4**	**186.7**	**201.2**
EBITDA	170.5	209.3	224.5	244.1

%

FINANCIAL RATIO	FY2013	FY2014	FY2015E	FY2016F
Growth				
Revenue	13.4%	3.9%	5.0%	4.5%
Operating Income	10.4%	20.9%	15.8%	8.0%
EBITDA	8.3%	22.8%	7.2%	8.8%
EBIT	8.7%	24.7%	7.1%	7.7%
PAT	19.2%	23.1%	10.1%	10.5%
Total Assets	15.3%	-4.8%	9.6%	9.5%
Equity	9.9%	15.2%	12.9%	11.9%
Internal growth rate	11.4%	12.5%	12.7%	11.8%
Profitability				
Gross profit/Revenue	28.8%	28.6%	30.4%	31.0%
Operating profit/ Revenue	9.4%	10.9%	12.0%	12.4%
EBITDA/ Revenue	11.9%	14.1%	14.4%	15.0%
EBITDA/ Revenue	9.8%	11.7%	12.0%	12.3%
Net margin	7.5%	8.9%	9.3%	9.9%
ROAA	11.8%	13.8%	14.9%	15.0%
ROIC or RONA	23.1%	25.7%	24.3%	23.3%
ROAE	18.0%	19.6%	19.0%	18.6%
Efficiency				
Receivable Turnover	4.8	4.8	4.9	4.6
Inventory Turnover	4.0	3.6	3.4	3.3
Payable Turnover	4.7	4.7	5.2	5.4
Liquidity				
Current	1.9	3.0	3.5	3.8
Quick	1.1	1.6	1.9	2.1
Solvency				
Total Debt/Equity	55.8%	29.2%	25.5%	22.7%
Current Debt/Equity	17.4%	0.0%	0.0%	0.0%
Long-term Debt/ Equity	0.0%	0.0%	0.0%	0.0%

VND Billion

BALANCE SHEET	FY2013	FY2014	FY2015E	FY2016F
Cash and equivalents	57	29	42	72
Short-term investment	0	0	0	0
Receivables	323	292	351	359
Inventories	283	312	326	349
Other current assets	10	5	6	6
Total Current Asset	**673**	**638**	**725**	**786**
Tangible Fixed Assets	224	216	217	249
Intangible Fixed Assets	52	52	52	52
Construction in Progress	7	2	3	4
Investment Property	0	0	0	0
Long-term Investment	12	10	10	10
Other long-term assets	12	15	17	18
Long-term Asset	**306**	**295**	**297**	**333**
Total Asset	**979**	**932**	**1,022**	**1,119**
Payables	171	147	152	152
Other current liabilities	67	63	55	55
Current Debt	109	0	0	0
Long-term Debt	0	0	0	0
Other long-term liabilities	2	1	0	0
Total Liability	**350**	**210**	**207**	**207**
Owner's Equity	**627**	**722**	**815**	**912**
Capital	178	267	267	267
Retained Earnings	72	124	171	217
Funds & Reverses	147	190	236	287
Others	**0**	**0**	**0**	**0**
Total Equity	**627**	**722**	**815**	**912**
Minority's Interest	2	0	0	0
TOTAL RESOURCES	**979**	**932**	**1,022**	**1,119**

CASH FLOW STATEMENT	FY2013	FY2014	FY2015E	FY2016F
Profit before tax	134.5	168.7	186.7	201.2
-Depreciation	30.7	35.0	37.7	42.9
-Adjustments	*0.6*	*3.8*	*-10.0*	*-10.0*
+/- Working capital	-111.8	-85.4	-120.4	-75.1
Net Operating CFs	**54.0**	**122.1**	**94.1**	**159.0**
+/- Fixed Asset	-31.1	-25.8	-38.1	-75.3
+/- Deposit, equity investment	-30.0	32.0	0.0	0.0
Interest, dividend, cash profit received	4.0	1.5	0.0	0.0
Net Investing CFs	**-57.1**	**7.7**	**-38.1**	**-75.3**
+/- Capital	0.0	0.0	0.0	0.0
+/- Debt	31.3	-108.8	0.0	0.0
Dividend paid & other	-39.0	-18.9	-42.7	-53.2
Net Financing CFs	**-7.7**	**-127.7**	**-42.7**	**-53.2**
+/- cash & equivalents	-10.7	2.1	13.3	30.4
Beginning cash & equivalents	**37.3**	**26.6**	**28.7**	**42.0**
Impact of exchange rate	0.0	0.0	0.0	0.0
Ending cash & equivalents	**26.6**	**28.7**	**42.0**	**72.5**

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%

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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 Dist - Ha Noi

Nha Trang Branch

50Bis Yersin - Nha Trang

Can Tho Branch

08 Phan Dinh Phung – Can Thơ

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