

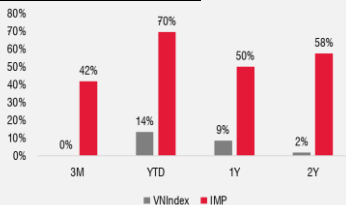
Imexpharm Corporation (IMP: HOSE)

Report Date: 22/08/2024
Sector: HEALTHCARE
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Rating: **OUTPERFORM**
1Y Target Price: **VND 92,000**
Share price 22/08/2024: VND 86,200
% Upside: **+6.7%**

Market cap (USD mn): 266
Market cap (VND bn): 6,645
Outstanding shares (mn): 77
Average 3M volume (share): 83,887
52W high/low (VND 1,000): 93.4/49.2
Average 3M value (VND bn): 6.7
Foreign ownership (%): 49.4
State ownership (%): 22.0

Share Price Performance



Source: SSI Research

Company Snapshot

IMP was established in 1983 as a state-owned enterprise and equitized in 2001. It was listed on HOSE on 2006. The company is renowned for high product quality as it applies very stringent quality standards. Major products are antibiotics (cephalosporin and penicillin). It possess EU-GMP plants in Dong Thap provinces (producing non-beta lactam and penicillin), Binh Duong province (established in 2010, producing cephalosporin and penicillin), and Ho Chi Minh City.

Positive outlook for 2H and beyond

Strong 2024 top line growth, bottom-line declined. For 2Q24, IMP posted revenue and NPAT of VND 517 bn (+18% YoY) and VND 66 bn (-17% YoY), respectively, which is lower than our NPAT estimate of VND 80 bn due to lower-than-expected GPM improvement. Gross profit margin declined on a YoY basis (stagnant demand in the over-the-counter market, API increased ~3% on average, new IMP4 production plant depreciation only kicked in 3Q23), but GPM also improved on a QoQ basis. SG&A expense decreased -22% YoY as new cost-saving policies are put into place. As of 1H24, IMP reached 43% and 38% of its target revenue and PBT respectively.

Coupled with policy tailwinds in public hospital bidding channel. Ministry of Health (MoH) recently issued Circular 03&07/2024 (TT03&07/2024/TT-BYT) providing a list of 93 drugs manufactured by at least three domestic companies on EU-GMP standard production lines that meet the MoH's technical criteria, and quality, price, and supply capacity requirements. Foreign companies are not allowed to enter the public hospital bidding for these drugs. IMP currently has 12 qualifying SKUs in the list, which should lessen the competition for these products going forward.

However, IMP reached only 38% of its earnings target during a difficult 1H24, and we anticipate a mild recovery for 2H24. As a result, while we maintain our 2024 estimates for revenue of VND 2.3tn (+16% YoY), we lower our NPAT forecast to VND 309 bn (+3% YoY), which is lower than company's guidance of VND 338 bn (+13% YoY). We introduce our 2025 forecast for revenue and NPAT of VND 2.6 tn (+14% YoY) and VND 372 bn (+21% YoY), with assumption that GPM should continue to increase thanks to higher ASP.

We increase our 1-year target price to **VND 92,000/share** for the shares of IMP (from VND 82,000/share), based on a combination of our DCF and P/E target of 22x. IMP currently trades at 2024F and 2025F P/E of 22x and 18x, respectively. We maintain our **OUTPERFORM** rating on the shares with a 7% upside.

Downside risks: Weaker demand for drugs in both channels.

(VND bn)	2020	2021	2022	2023	2024F	2025F
Net sales	1,369	1,267	1,644	1,994	2,317	2,637
Net sales growth	-2.4%	-7.5%	29.8%	21.3%	16.2%	13.8%
Gross profit	547	488	697	811	914	1,056
Gross profit margin	39.9%	38.5%	42.4%	40.6%	39.5%	40.0%
Financial income	10	18	24	25	11	20
Financial expense	-20	-18	-29	-31	-28	-32
SG&A	-284	-254	-401	-429	-512	-580
Net other income	3	4	1	3	2	2
Profit before tax	255	239	291	377	386	466
Net income	210	189	224	300	309	373
Net income growth	29.1%	-9.8%	18.2%	34.0%	3.2%	20.6%
Net income margin	15.3%	14.9%	13.6%	15.0%	13.3%	14.1%
EPS (VND)	3,144	2,835	3,351	4,277	4,012	4,838

Source: Company, SSI forecast

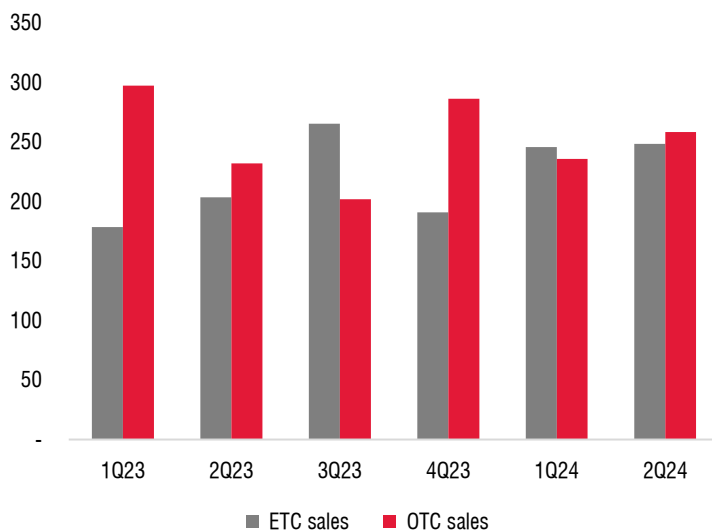
2Q24 results update

(bn VND)	2Q24	2Q23	YoY	1Q24	QoQ	% annual target completed	Margin			
							2Q24	2Q23	1Q24	2Q23
Net sales	517	440	17.6%	491	5.3%	43%				
Gross profit	201	193	3.9%	181	11.1%		38.8%	43.9%	36.8%	40.6%
Operating profit	83	99	-16.2%	79	5.3%		16.1%	22.6%	16.1%	18.2%
EBIT	84	100	-16.1%	78	7.4%		16.2%	22.7%	15.9%	19.2%
EBITDA	110	115	-4.1%	105	5.4%		21.3%	26.2%	21.3%	23.4%
Pretax profit	83	100	-16.9%	78	6.8%	38%	16.1%	22.7%	15.8%	18.9%
Net income	66	80	-17.3%	62	6.5%		12.7%	18.1%	12.6%	15.0%
NI attributable to shareholders	66	80	-17.3%	62	6.5%		12.7%	18.1%	12.6%	15.0%

Source: Company, SSI Research

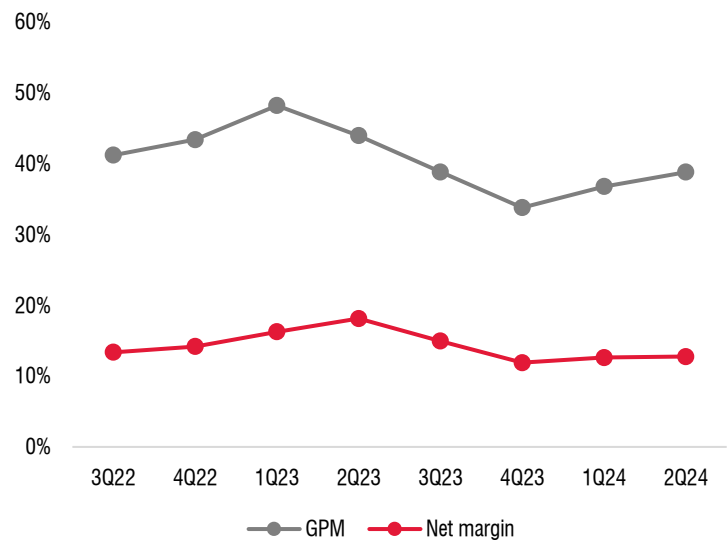
Strong 2Q24 top line growth, but bottom line declined. For 2Q24, IMP posted revenue and NPAT of VND 517bn (+18% YoY) and VND 66 bn (-17% YoY), respectively, which is lower than our net profit estimate of VND 80 bn due to lower-than-expected GPM improvement. The increase in revenue is led mainly by prescription drugs at hospitals (+33% YoY YTD) and is considered better than expected. Gross profit margin declined YoY (stagnant demand in the over-the-counter market, API increased ~3% on average, new IMP4 production plant depreciation only kicked in from 3Q23), but GPM has also improved 200bps on a QoQ basis. SG&A expenses decreased -22% YoY as new cost-saving policies were put into place. At 1H24, IMP net revenue and PBT was VND 1tn (+10% YoY) and VND 161bn (-19% YoY), respectively, reaching 43% and 38% of targets.

Fig 1. Modest growth carried by Rx sales.. (unit: VND bn)



Source: Company, SSI Research

Fig 2. While GPM showed signs of improvement QoQ.



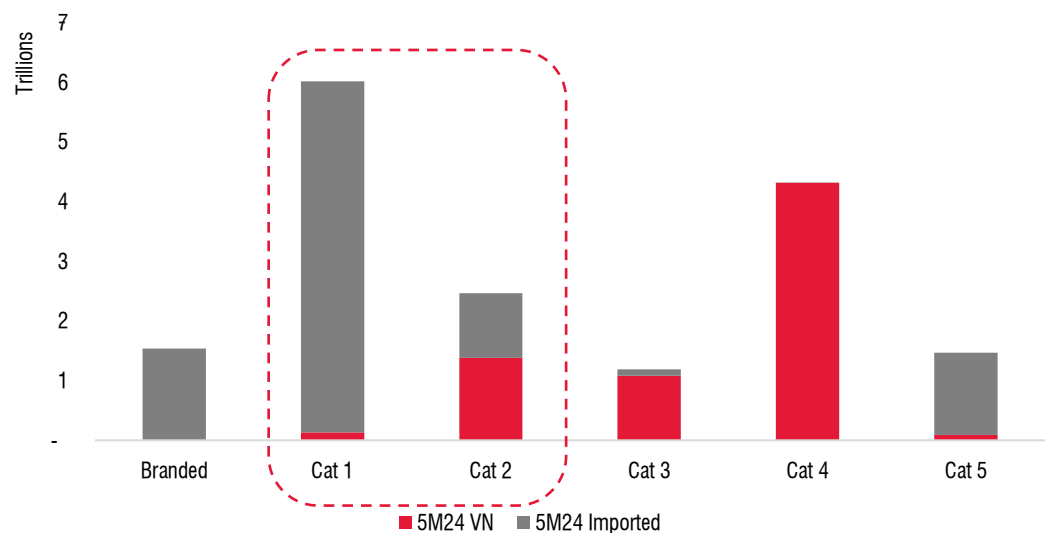
Source: Company

Continued strong growth momentum coming from the hospital channel, injectable antibiotics, and north Vietnam sales... IMP has risen to a top 3 position in the hospital channel market share at 2.3%, trailing only two foreign MNCs (AstraZeneca & Roche). The company also possesses a portfolio of injectable drugs that

does not have as much competition as other dosage forms. Its newest injectable antibiotic Moxifloxacin is currently top 3 best-selling new drugs in Vietnam for the last twelve months, and new IMP4 plant has already filled its current capacity through year-end. IMP4 accounts for 6% of total sales (from 2% during 2023). Moreover, the company is expanding to northern Vietnam where it has about 14,000 customers in retail, and less than 20 in the hospital network.

...Coupled with policy tailwinds in the public hospital bidding channel: Ministry of Health (MoH) recently issued Circular 03 & 07/2024 (TT03&07/2024/TT-BYT) providing a list of 93 drugs that are covered by the national insurance scheme, effective from 17 May 2024. These 93 drugs must be manufactured by at least three domestic companies on EU-GMP standard production lines, and meet the MoH's technical criteria, and quality, price, and supply capacity requirements. Foreign companies are not allowed to enter public hospital bidding for these drugs. As mentioned in our [previous report](#), companies with well-established EU-GMP facilities like IMP should be favored by these policies. IMP currently has 12 qualifying SKUs in the list, which should lessen the competition for these products going forward.

Fig 3. Jan-May '24 value of contracts at public hospital bidding – Cat 1&2 are more dominated by EU-GMP imported drugs



Source: DAV, SSI Research compilation. DAV currently only released data up until May 2024.

Aggressive expansion plan over the next five years. The company aims to reach between 10-15% CAGR in the OTC market with at least 100 new products, and between 20-30% growth of prescription/hospital drugs doubling the number of customers. On the production front, IMP expects to maximize all four production plant's capacity by adding new contract manufacturing and export business. Over the longer term, IMP has announced that it will partner with S. Korean firms SK Plasma and Genuone Sciences to explore new drug categories (beside its popular antibiotics drugs), such as cardiovascular and diabetes drugs. These new drugs likely will be incorporated into a new IMP5 production zone where the company is currently drawing up a feasibility plan for approval.

Shareholders recently approved a plan to issue new shares via a 1:1 stock split to be implemented from 2H24. After the split, IMP would increase its share volume from 77 mn to 154 mn. That would place IMP as the largest listed pharmaceutical company in terms of charter capital, as well as improve liquidity of the stock. IMP's main shareholders are SK Group (64.8%) and Vietnam Pharmaceutical Corp (22%). The stock has increased 42% YTD. Volume has been gaining steam as well, with an average daily trading volume increase of over 100% QoQ to 72,000 shares/session.

Investment view

For healthcare sector, local manufacturers are expected to gain market share from imported drugs due to favorably revised laws on pharmacies and public hospital bidding. However, we expect consumer healthcare spending to remain sluggish until the end of 2024 and turn around during 1Q25. For IMP, the company reach only 38% of its earnings target as 1H24 was difficult for the whole sector (and worse than our expectation), and we only expect a mild recovery for 2H24. As a result, we maintain our 2024 estimate for revenue of VND 2.3 tn (+16% YoY) but lower our NPAT forecast to VND 309 bn (+3% YoY) from VND 324 bn (+8% YoY), which is lower than company's guidance of VND 338 bn (+13% YoY). We also introduce our 2025 forecast for revenue and NPAT of VND 2.6 tn (+14% YoY) and VND 372 bn (+21% YoY), respectively, with GPM continue to increase with higher ASP.

For longer term, being one of the largest local players possessing the most EU GMP production plants, IMP's outlook is more positive with its first mover advantage. While we wait and see how quickly the MoH EU GMP list can expand and how quickly IMP can ramp up production, we expect IMP to improve its margin further with increased production in high margin products.

We increase our 1-year target price to VND 92,000/share for the shares of IMP (from VND 82,000/share), based on a combination of our DCF and P/E target of 22x. IMP currently trades at 2024F and 2025F P/E of 22x and 18x, respectively. Given the 7% upside, we maintain our OUTPERFORM rating on the shares.

Short term outlook: We expect 3Q24 to post PBT growth of 20% YoY given the increased production of IMP4 and some recovery in healthcare spend.

Long term outlook: We expect PAT to rise at 16% CAGR over the next five years. With increased production of high margin products, IMP stands to improve its margin further.

Downside risks: Weaker demand for drugs in both channels.

Historical Rating



Source: SSI Research

APPENDIX: ANNUAL FINANCIAL STATEMENTS

VND Billion	2022	2023	2024F	2025F
Balance Sheet				
+ Cash	179	106	391	558
+ Short-term investments	211	93	121	100
+ Account receivables	271	297	363	403
+ Inventories	436	699	738	883
+ Other current assets	7	12	12	15
Total Current Assets	1,104	1,207	1,625	1,958
+ LT Receivables	0	2	1	2
+ Net Fixed Assets	489	936	938	936
+ Investment properties	0	0	0	0
+ LT Assets in progress	581	47	47	47
+ LT Investments	71	71	71	71
+ Other LT Assets	33	129	101	143
Total Long-Term Assets	1,173	1,185	1,158	1,200
Total Assets	2,277	2,393	2,783	3,158
+ Current Liabilities	382	308	466	468
<i>In which: ST debt</i>	<i>95</i>	<i>49</i>	<i>100</i>	<i>89</i>
+ Non-current Liabilities	0	0	0	0
<i>In which: LT debt</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Total Liabilities	382	308	466	468
+ Contributed capital	667	700	770	770
+ Share premium	507	507	507	507
+ Retained earnings	265	440	602	975
+ Other capital/fund	455	437	437	437
Shareholders' Equity	1,894	2,085	2,317	2,689
Total Liabilities & Equity	2,277	2,393	2,783	3,158
Cash Flow				
CF from operating activities	379	-30	372	237
CF from investing activities	-199	70	-60	-60
CF from financing activities	-272	-112	-27	-11
Net increase in cash	-92	-73	285	166
Beginning cash	271	179	106	391
Ending cash	179	106	391	558
Liquidity Ratios				
Current ratio	2.89	3.92	3.49	4.18
Acid-test ratio	1.73	1.61	1.88	2.26
Cash ratio	1.02	0.65	1.10	1.40
Net debt / EBITDA	-0.13	-0.15	-0.39	-0.71
Interest coverage	77.79	63.50	78.50	88.07
Days of receivables	53.1	44.7	44.8	45.6
Days of payables	34.4	24.1	22.9	24.5
Days of inventory	178.9	175.1	186.9	187.1
Capital Structure				
Equity/Total asset	0.83	0.87	0.83	0.85
Liabilities/Total Assets	0.17	0.13	0.17	0.15
Liabilities/Equity	0.20	0.15	0.20	0.17
Debt/Equity	0.05	0.02	0.04	0.03
ST Debt/Equity	0.05	0.02	0.04	0.03

VND Billion	2022	2023	2024F	2025F
Income Statement				
Net Sales	1,644	1,994	2,317	2,637
COGS	-946	-1,184	-1,403	-1,581
Gross Profit	697	811	914	1,056
Financial Income	24	25	11	20
Financial Expense	-29	-31	-28	-32
Income from associates	0	0	0	0
Selling Expense	-269	-310	-371	-422
Admin Expense	-132	-120	-141	-158
Income from business operation	291	374	384	464
Net Other Income	1	3	2	2
Profit Before Tax	291	377	386	466
Net Income	224	300	309	373
NI attributable to shareholders	224	300	309	373
Minority interest	0	0	0	0
Growth				
Sales	29.8%	21.3%	16.2%	13.8%
EBITDA	16.7%	31.0%	-3.6%	18.6%
EBIT	20.8%	29.8%	2.1%	20.4%
NI	18.2%	34.0%	3.2%	20.6%
Equity	5.6%	10.0%	11.1%	16.1%
Chartered Capital	0.0%	5.0%	10.0%	0.0%
Total assets	-0.8%	5.1%	16.3%	13.5%
Valuation				
P/E	17.9	13.2	21.5	17.8
P/B	2.1	1.9	2.9	2.5
P/Sales	2.4	1.9	2.9	2.5
Dividend yield	2.5%	1.8%	1.2%	0.0%
EV/EBITDA	10.4	8.2	14.4	12.2
EV/Sales	2.3	1.9	2.8	2.5
Profitability Ratios				
Gross Margin	42.4%	40.6%	39.5%	40.0%
Operating Margin	17.1%	18.2%	16.3%	17.0%
Net Margin	13.6%	15.0%	13.3%	14.1%
Selling exp./Net sales	16.4%	15.5%	16.0%	16.0%
Admin exp./Net sales	8.0%	6.0%	6.1%	6.0%
ROE	12.1%	15.1%	14.0%	14.9%
ROA	9.8%	12.8%	11.9%	12.5%
ROIC	11.2%	14.8%	13.8%	14.5%

Source: Company, SSI forecasts

ANALYST CERTIFICATION

The research analyst(s) on this report certifies that (1) the views expressed in this research report accurately reflect his/her/our own personal views about the securities and/or the issuers and (2) no part of the research analyst(s)' compensation was, is, or will be directly or indirectly related to the specific recommendation or views contained in this research report.

RATING

Buy: Expected to provide price gains of at least 10 percentage points greater than the market over next 12 months

Outperform: Expected to provide price gains of up to 10 percentage points greater than the market over next 12 months.

Market Perform: Expected to provide price gains similar to the market over next 12 months.

Underperform: Expected to provide price gains of up to 10 percentage points less than the market over next 12 months.

Sell: Expected to provide price gains of at least 10 percentage points less than the market over next 12 months

In some cases, the recommendation based on 1Y return could be re-adjusted by the analysts after considering a number of market factors that could have impact on the stock price in the short and medium term.

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