

Pharmaceutical

STABLE GROWTH PHASE



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THE PHARMACEUTICAL INDUSTRY - ENTERING A STABLE GROWTH PHASE



Investment Rating

Negative

Neutral

Positive

In 2024, the pharmaceutical industry in Vietnam gradually entered a phase of stable growth after the COVID-19. The ETC channel (hospitals) continued to maintain double-digit growth thanks to a favorable policy environment following the National Assembly's approval of Law on Examination and Treatment No. 15/2023/QH15, Resolution No. 80/2023/QH15 on the extension of drug registration, and Circular No. 06/2023/TTBYT on easing difficulties in drug bidding at public facilities. Meanwhile, the market share of the OTC channel (pharmacies) continued to decline as people returned to hospitals more frequently but still achieved positive growth rates. Specifically:

- Domestic enterprises benefited from policies prioritizing the use of generic drugs over originator drugs to reduce costs and economic burdens on the Health Insurance Fund. Although the value of winning bids in the first four months of the year only reached VND 17 trillion (-14% YoY) due to the high base of the same period, the decline mainly came from brand-name drugs with a value of VND 1.540 billion (-83% YoY), which are imported drugs. However, the value of winning bids in tiers 2-4 reached VND 8 trillion (+50% YoY) with the proportion of domestic drugs accounting for 87% (+5pps YoY). We believe that companies targeting the ETC channel such as DBD and IMP will grow better than the industry average.
- Meanwhile, the OTC channel can still maintain positive single-digit growth thanks to the extensive distribution network of retail pharmacy chains along with over 62,000 traditional pharmacies and the habit of the majority of people to buy drugs at pharmacies instead of hospitals.

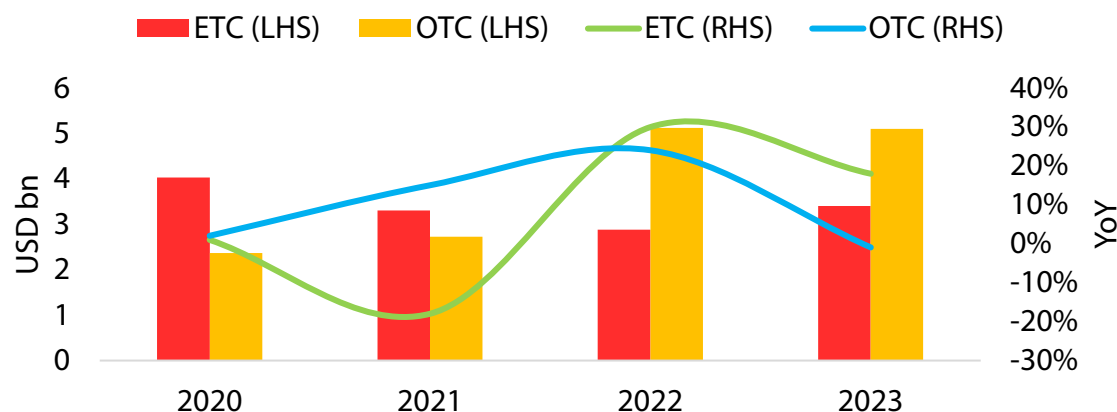
After a period of confusion caused by the COVID-19 pandemic, the pharmaceutical industry will return to the stable long-term growth.

- According to IQVIA, global pharmaceutical spending is forecasted to grow at a compound annual growth rate (CAGR) of 3-6% from 2023 to 2027, reaching USD 1.9 trillion in 2027. In developed countries like the United States, the market size is almost flat with a CAGR forecast of only -1% to 2%, due to the impact of patent expirations leading to competition between originator drugs and biosimilars. In the Asia-Pacific region (excluding China, Japan, and India), rapid growth in both drug consumption and pharmaceutical spending is forecasted.
- Vietnam is benefiting from the aging trend as the population over 60 is projected to increase to 29.22 million people, accounting for 25.35% of Vietnam's total population by 2050 from 13 million people, equivalent to 13.17% of Vietnam's total population in 2022. In developed countries with aging populations like Europe, pharmaceutical spending accounts for over 10% of GDP. At the same time, the average income of the population is forecasted to grow at a CAGR of 7-8% per year, contributing to increasing healthcare demand. In the general context of the entire region, Vietnam's pharmaceutical industry is forecasted to achieve a CAGR of 7-8% in the long term.

Risks to our call

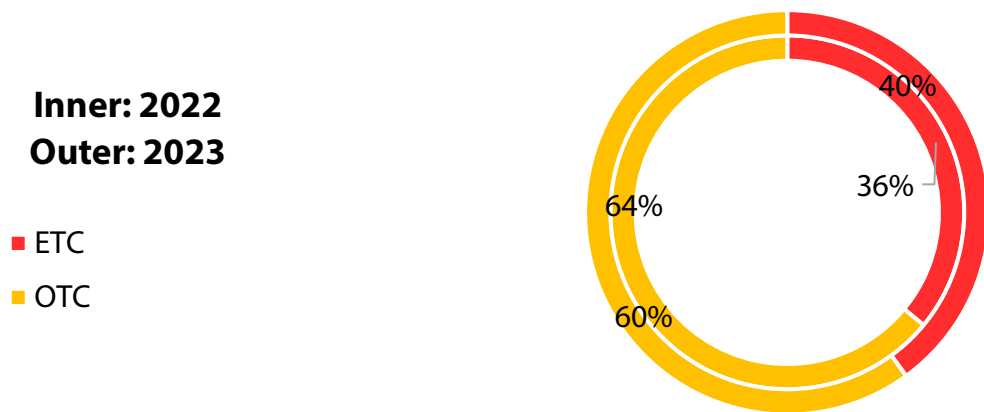
- The prices of API raw materials may rise rapidly because of exchange rates and high shipping costs narrowing pharmaceutical companies' profit margins.

Figure 1: The favorable policy environment paves the way for the continued growth of the ETC channel



Source: IQVIA, RongViet Securities

Figure 2: The market share of the OTC channel is shrinking as people return to hospitals



Source: DAV, RongViet Securities

The pharmaceutical industry in Vietnam has experienced strong growth with a compound growth rate of about 10% per year during the period 2020 - 2023.

The rapid growth rate occurred during the outbreak of the COVID-19 pandemic when people spent more on respiratory and immune products. The growth momentum slowed down in 2023 as the pandemic passed, the entire industry scale reached USD 8.5 billion (+6% YoY) according to IQVIA. Specifically:

- Revenue on ETC channel (hospitals) reached USD 3.4 billion (+18% YoY), accounting for 40% (+4 pps YoY) market size. This strong growth benefited from Government's support policies through the amended Law on Examination and Treatment No. 15/2023/QH15, Resolution No. 80/2023/QH15 on extending drug registration, and Circular No. 06/2023/TTBYT on resolving difficulties in bidding for drugs at public facilities.
- Revenue on OTC channel reached USD 5.1 billion (-1% YoY), market share shrunk by 4 pps YoY, accounting for 60% of the market size. The OTC channel experienced negative growth as it passed through the pandemic period. Additionally, people returned to hospitals, reducing the demand for purchasing retail pharmacy products.

Figure 3: Forecasting the global pharmaceutical market's growth scale

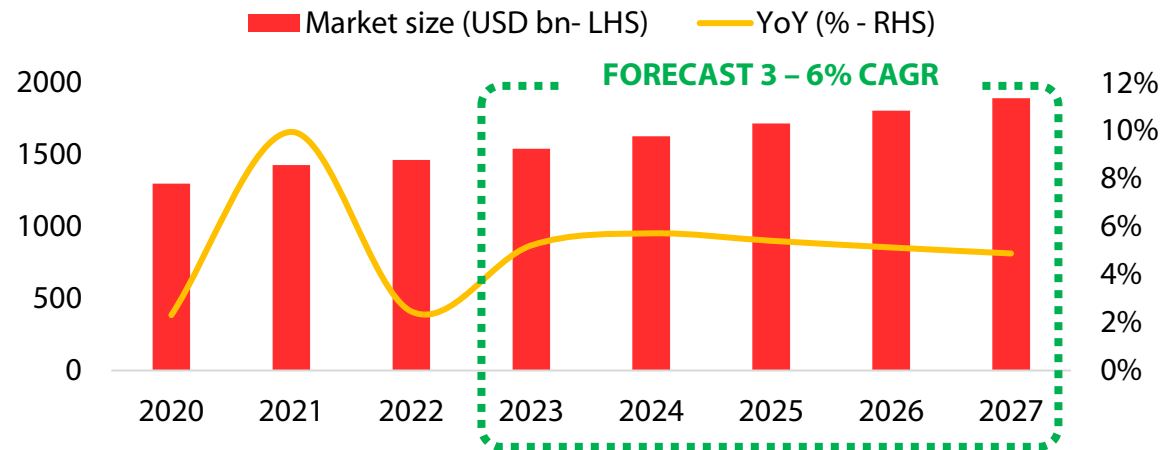
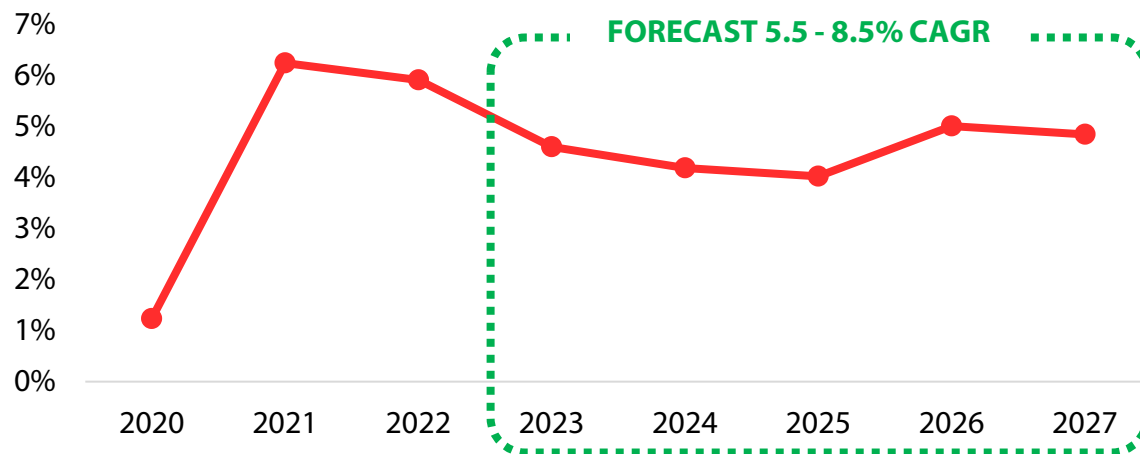


Figure 4: The Asia-Pacific region is one of the fastest-growing areas for pharmaceutical spending



Source: IQVIA, RongViet Securities

According to IQVIA, total global pharmaceutical spending is forecasted to grow at a compound annual rate of 3 - 6% during the period from 2023 to 2027, estimated to reach USD 1.9 trillion by 2027. After the significant fluctuations caused by the pandemic from 2020 to 2022, the overall growth rate will stabilize and return to a steady trajectory from 2024 onwards. However, different regions of the world are following different trends.

- In developed countries like the United States, the market size is almost flat with a projected compound annual growth rate ranging from -1% to 2%, due to the impact of patent expirations leading to competition between generic drugs and biosimilars.
- Meanwhile, countries in developing regions such as South America, Asia-Pacific (excluding China, Japan, and India), and the Middle East are expected to grow rapidly due to the aging population trend and the transition to expensive drugs as income levels rise.

In the general context of region, two main factors help Vietnam's pharmaceutical industry maintain a consistent long-term growth of 8%:

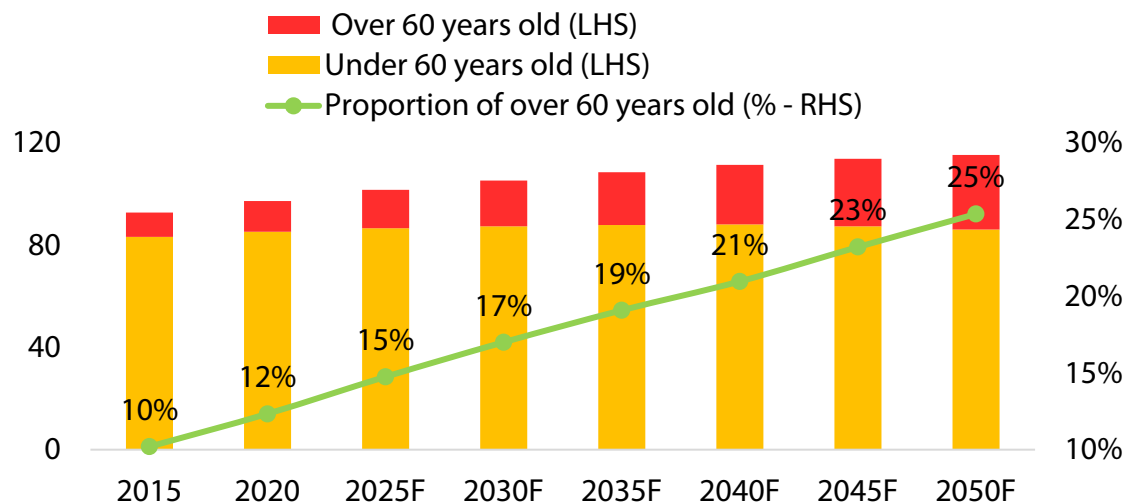
Demographic trends create favorable conditions for the pharmaceutical industry in the long term

- For the elderly, health issues will become more prevalent, leading to a higher demand for pharmaceutical products compared to the working-age population. In developed countries, pharmaceutical spending in the United States accounts for 18% of GDP and about 10% of GDP in the European region.
- According to the General Statistics Office, the number of people over 60 years old is approximately 13 million, equivalent to 13.17% of Vietnam's total population in 2022. This figure is projected to increase to 29.22 million people, accounting for 25.35% of Vietnam's total population by 2050.

People are spending more on pharmaceuticals as average income rises

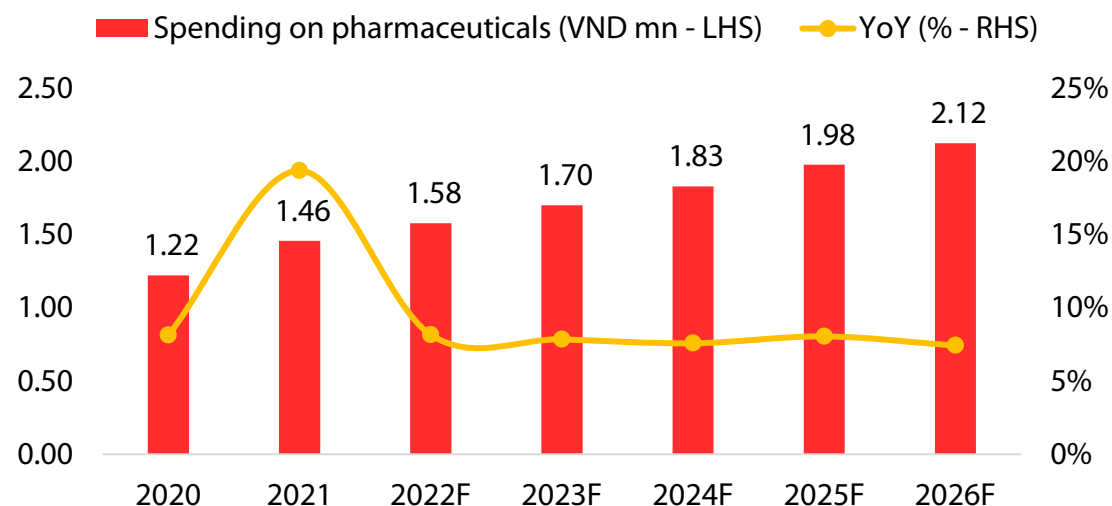
- Fitch Solutions forecasts that per capita spending on pharmaceuticals is expected to increase from VND 1.46 million in 2021 to VND 2.12 million in 2026F, equivalent to a compound annual growth rate of +7.8% over the next 5 years, accounting for an average annual income growth of 5%.

Figure 5: The aging population trend



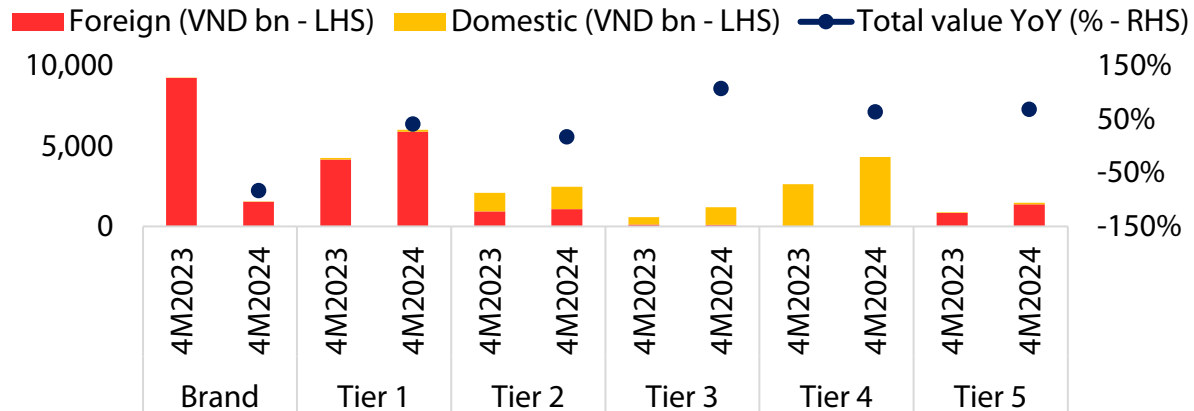
Source: GSO, RongViet Securities

Figure 6: Spending on pharmaceuticals (million VND).



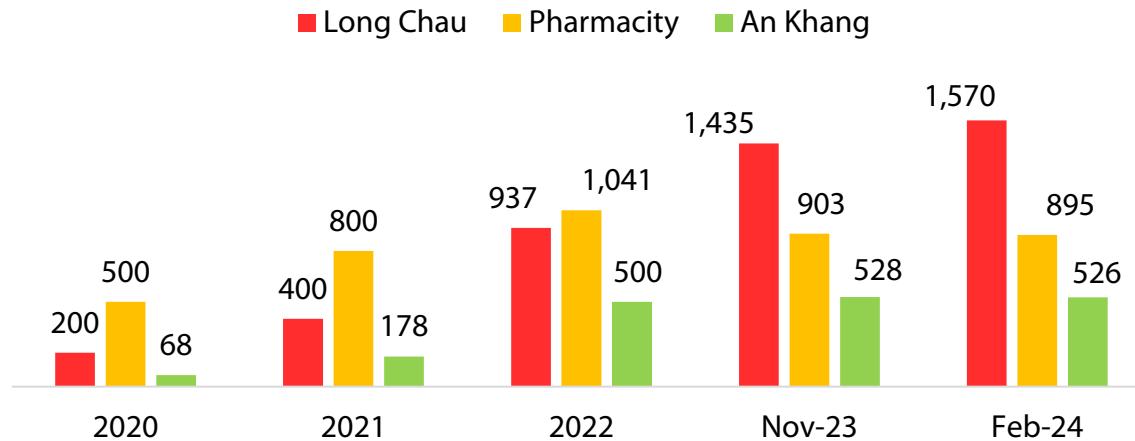
Source: Fitch Solutions, RongViet Securities

Figure 7: The value of winning bids for drugs through the ETC channel



Source: DAV, RongViet Securities

Figure 8: The number of pharmacy retail chain stores



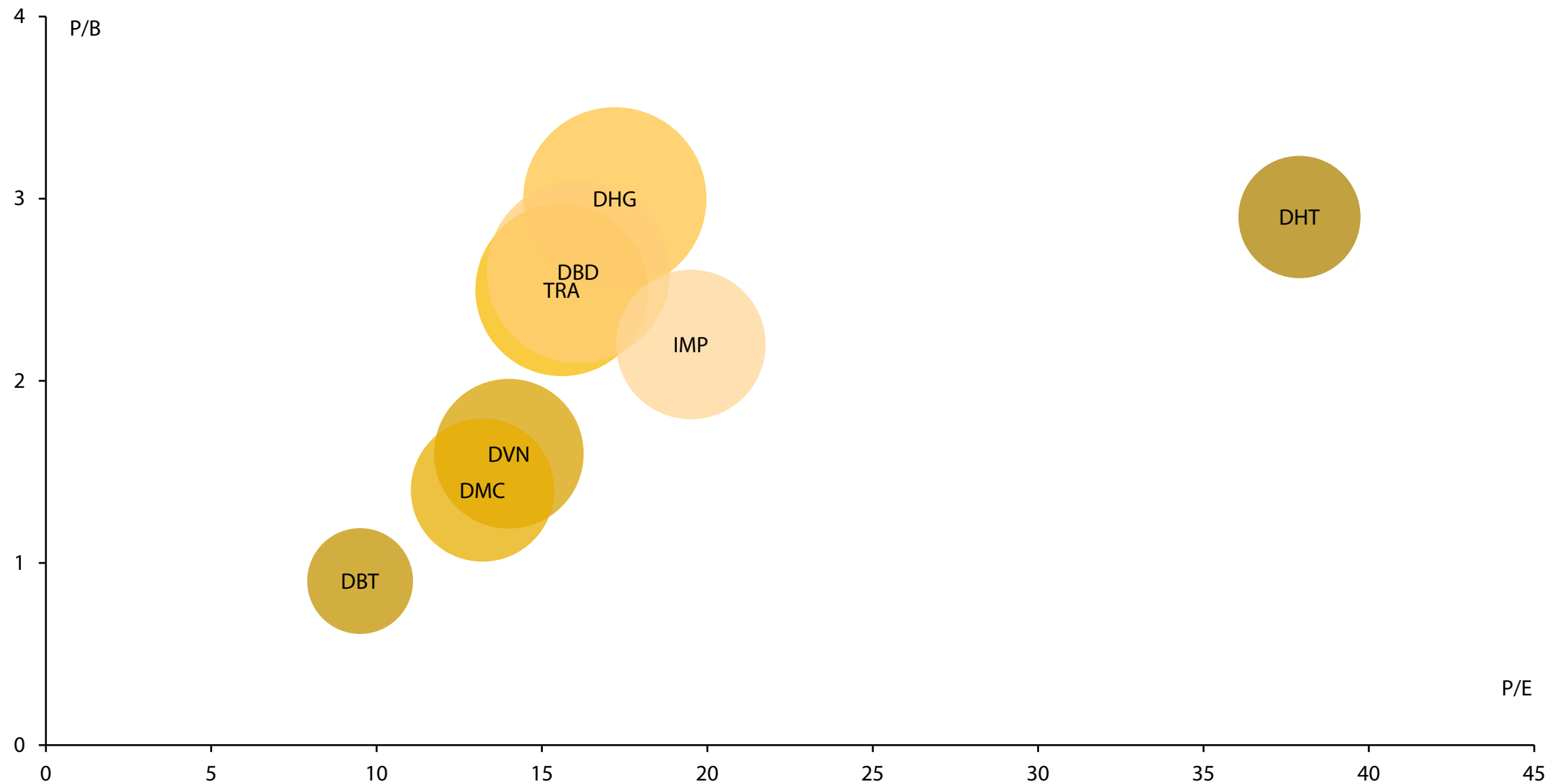
Source: MWG, FRT, Pharmacy, RongViet Securities

Under a favorable policy environment, we believe that the ETC channel will continue to be the main growth driver for the pharmaceutical industry in 2024.

- Although the value of winning bids in the first two months of the year reached only VND 17 trillion (-14% YoY) (figure 7) due to the high base of the same period last year, the main decline came from brand-name drugs with a value of VND 1.540 billion (-83% YoY), which are drugs imported from abroad. Based on the policy of prioritizing the use of generic drugs instead of brand-name drugs to reduce costs and ease the economic burden on the Health Insurance Fund, the value of winning bids in groups 2 - 4 reached VND 8 trillion (+50% YoY) with the proportion of domestic drugs up to 87% (+5pps YoY). This is seen as an early indicator of the growth trend of domestic pharmaceutical companies.
- On the other hand, the OTC channel is expected to grow steadily, in line with the industry's overall growth rate of about 7-8% YoY, thanks to (1) the extensive distribution network of retail pharmacy chains (figure 8) and over 62,000 traditional pharmacies (2) the habit of purchasing drugs from retail pharmacies instead of going to hospitals.

Ticker	Market Cap. (VND bn)	3M.daily turnover AVG. (VND mn)	Current P/E (x)	Current P/B (x)	Trailing 12 M ROE (%)	Target price	Market price as of 05/26/24	Expected return	2023A			2024F			Revenue Growth		NPAT Growth	
									Revenue	NPAT	EPS	Revenue	NPAT	EPS	2023	2024F	2023	2024F
DBD	3,929	4,662	16.08	2.63	18.4%	62,000	52,500	18.1%	1,652	269	3,092	1,787	290	3,866	6.2%	8.2%	10.5%	7.8%
IMP	4,725	1,972	19.84	2.20	11.6%	67,700	67,500	0.3%	1,994	300	3,637	2,166	296	3,721	21.3%	8.6%	34.0%	-1.2%
DHG	15,350	2,080	17.42	3.02	18.1%	N.R	117,400	n.a	5,015	1,051	7,780	n.a	n.a	n.a	7.3%	n.a	6.3%	n.a
DHT	2,997	4,618	38.38	2.96	8.1%	N.R	36,400	n.a	1,999	85	1,033	n.a	n.a	n.a	8.8%	n.a	-10.7%	n.a
DCL	2,118	6,627	30.58	1.48	4.9%	N.R	29,000	n.a	1,144	62	845	n.a	n.a	n.a	12.6%	n.a	-44.7%	n.a
TRA	3,440	200	16.22	2.56	16.0%	N.R	83,000	n.a	2,299	263	5,535	n.a	n.a	n.a	-4.2%	n.a	-2.2%	n.a
PBC	757	34	57.73	0.87	1.5%	N.R	10,800	n.a	1,882	17	187	n.a	n.a	n.a	1.7%	n.a	-73.8%	n.a
OPC	1,505	114	13.39	1.83	14.1%	N.R	23,500	n.a	1,005	122	1,634	n.a	n.a	n.a	-14.2%	n.a	-14.0%	n.a
DVN	1,220	50	1.44	1.02	n.a	N.R	13,100	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a

Source: Bloomberg, RongViet Securities, share price as of 26th May 2024



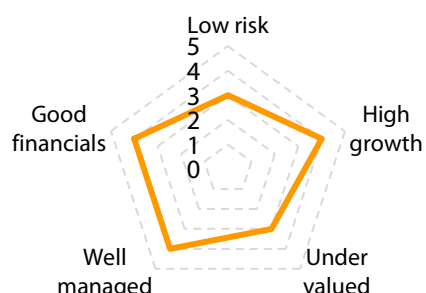
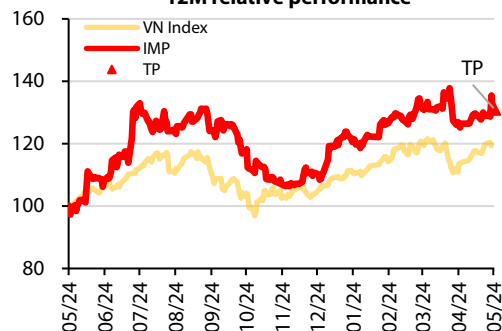
Source: Bloomberg, RongViet Securities, bubble size equals respective ROE, share price as of 26th May 2024

ACCUMULATE: 2%

MP: 67,500

TP: 67,700

12M relative performance



STOCK INFO

Sector	Health Care
Market Cap (\$ mn)	186
Current Shares O/S (mn shares)	70
3M Avg. Volume (K)	29
3M Avg. Trading Value (VND Bn)	2
Remaining foreign room (%)	25.3
52-week range ('000 VND)	50.48 - 71.43

FINANCIALS

	2023A	2024F	2025F
Revenue (VND bn)	1,994	2,166	2,325
NPATMI (VND bn)	300	296	324
ROA (%)	12.5	11.2	11.3
ROE (%)	14.4	13.3	13.3
EPS (VND)	3,637	3,721	4,069
Book Value (VND)	29,763	31,790	34,900
Cash dividend (VND)	1,500	1,000	1,000
P/E (x)	19.1	18.3	16.7
P/B (x)	2.3	2.1	1.9

INVESTMENT RATIONALES

Factories meeting EU-GMP standards improving operational efficiency is a positive signal for 2024

- After two years of operating at low capacity due to the impact of COVID-19, the contract value of IMP 2 factory witnessed a breakthrough by tripling compared to the SPLY. Additionally, the IMP 4 factory also made significant contributions to the contract value right in its first year of operation on the EU-GMP production line. This is seen as an early indicator of revenue growth through the ETC channel.
- The significant progress in contract value in 2023 will help improve capacity and increase consumption of factories meeting EU-GMP standards. Furthermore, the universal health insurance policy and expanded list of drugs covered by health insurance will provide growth opportunities for domestic enterprises in the ETC channel. The gross revenue forecast for the ETC channel is expected to reach VND 1,203 billion (+37% YoY).
- To maintain growth in the OTC channel, IMP aims to increase depth and expand the product portfolio for each customer after achieving the coverage target with a number of retail customers from 20,000 to 22,000. The gross revenue forecast for the OTC channel is projected to reach VND 1,036 bn (+7% YoY), equivalent to the industry's overall growth rate.

Despite maintaining a positive outlook on revenue growth rate, we adjust the discount rate as we observe changes in the sales policy with the commercial discount rate increasing significantly (about 10% of gross revenue) over three consecutive quarters. For 2024F, the forecasted net revenue and NPAT are VND 2,166 bn (+9% YoY) and VND 296 bn respectively.

Valuation With its position as a company with good asset quality, owning the highest number of EU-GMP standard factories in Vietnam, but ROE and NPAT in 2024 are not expected to show a significant improvement compared to the SPLY. At the target price, the P/E and P/B ratios are 18.2x and 2.4x, respectively. We believe that IMP is currently reasonably priced for long-term.

RISKS TO OUR CALL

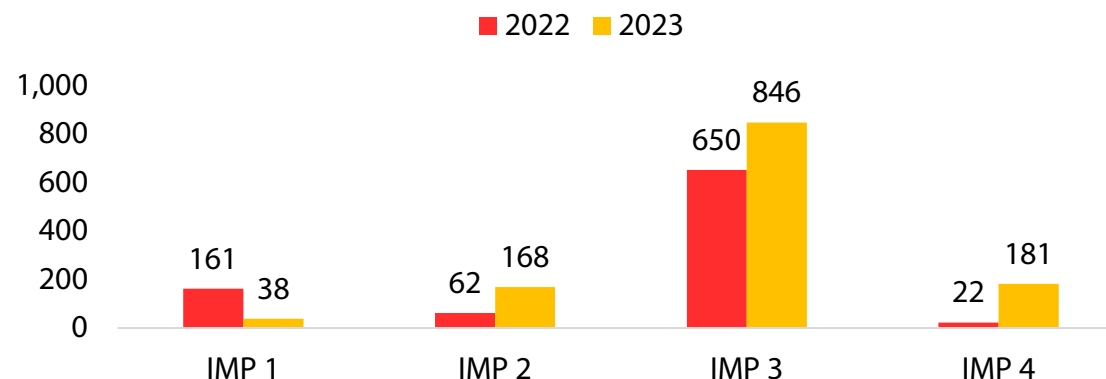
- Profit margins have narrowed due to increased raw material costs.

Table 1: Results in Q1-FY24

Unit: VND bn	Q1-FY24	+/- YoY	%Completion of our forecast	%Completion of the annual plan
Revenue	542	13%	23%	21%
Self-produced	538	3%	23%	
ETC (*)	277	55%	23%	21%
OTC (*)	265	-11%	26%	22%
Others	3	-24%	4%	
Discount	-54	2,227%	26%	
Net revenue	491	2%	23%	21%
COGS	311	28%	24%	
Gross profit	181	-15%	21%	
GPM	37%	-11 pps		
SG&A expenses	98	-25%	20%	
Operating profit	79	-18%	21%	
EBIT margin	17%	-4 pps		
PBT	78	-22%	21%	12%
NPAT	62	-20%	21%	
Net margin	13%	-3 pps		

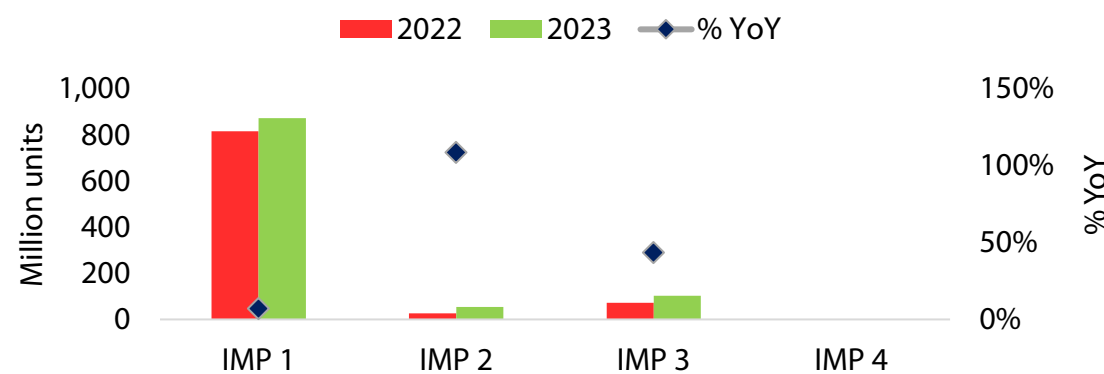
Source: IMP, RongViet Securities, (*) estimated

Figure 1: The winning bid values (WBVs) of both IMP 2 and 4 factories experienced outstanding growth, laying the foundation for the ETC channel in 2024



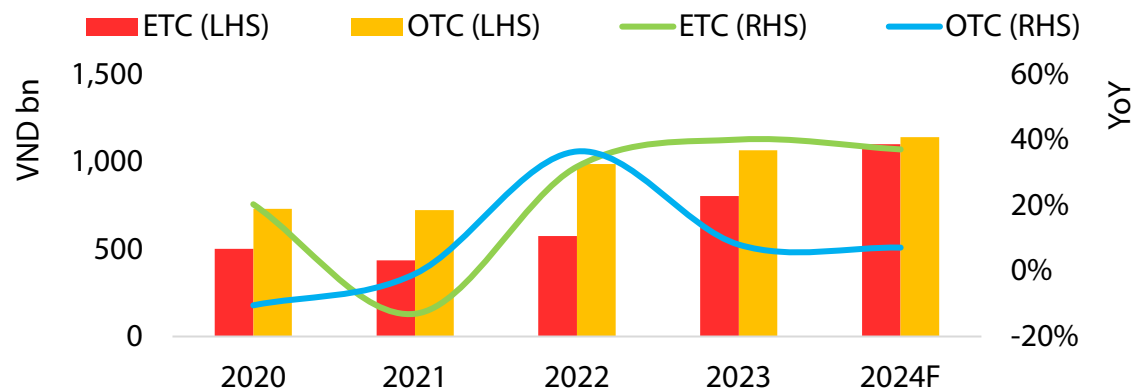
Source: DAV, RongViet Securities

Figure 2: The EU-GMP compliant factories (IMP 2 - 4) significantly increased their production output in 2023. We expect these factories to continue rising up production capacity in 2024.



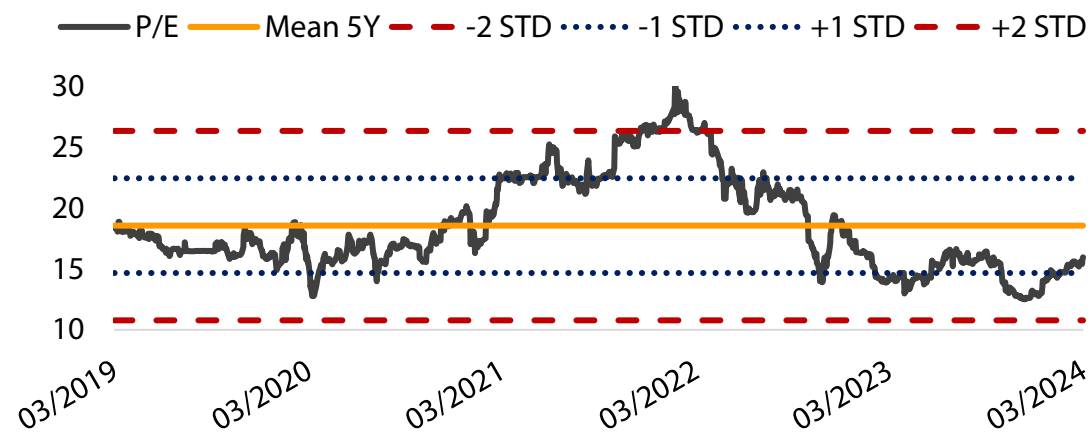
Source: IMP, RongViet Securities

Figure 7: The ETC channel maintains its growth momentum with expectations for both IMP 2 and IMP 4 factories to continue increasing their capacity in 2024.



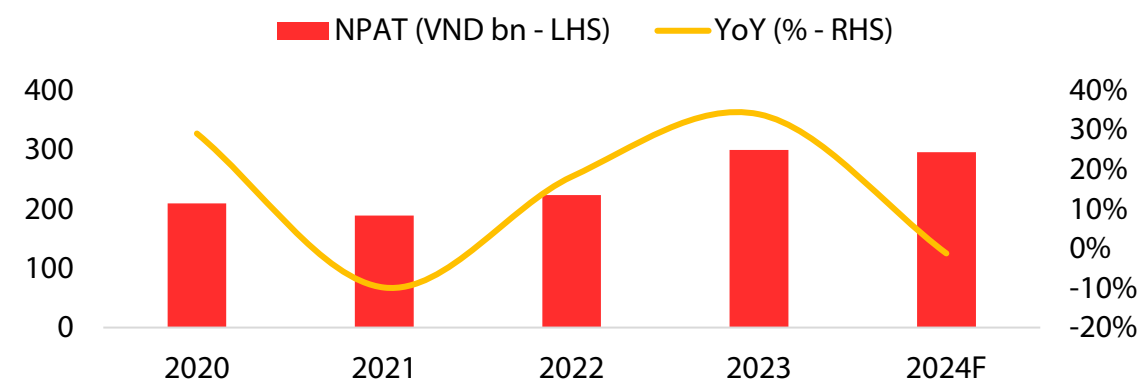
Source: RongViet Securities

Figure 8: P/E valuation



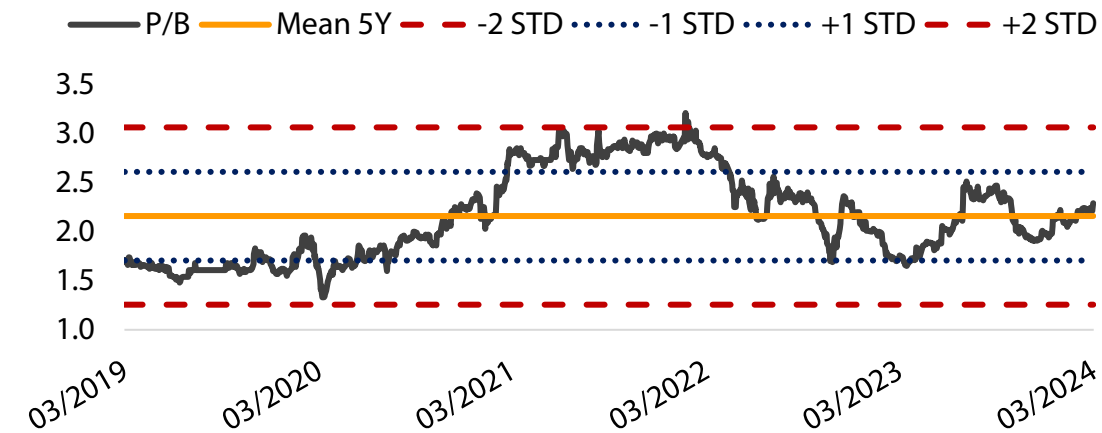
Source: Fiinx, RongViet Securities

Figure 7: Following the revenue trend, but profit margins have narrowed, resulting in net profit after tax remaining flat compared to the same period.



Source: Fiinx, RongViet Securities

Figure 9: P/B valuation

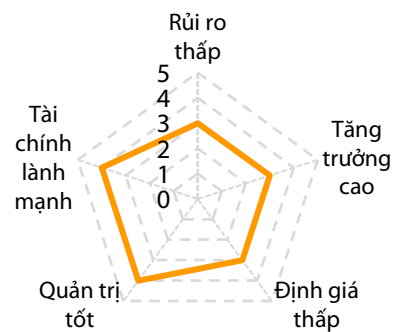
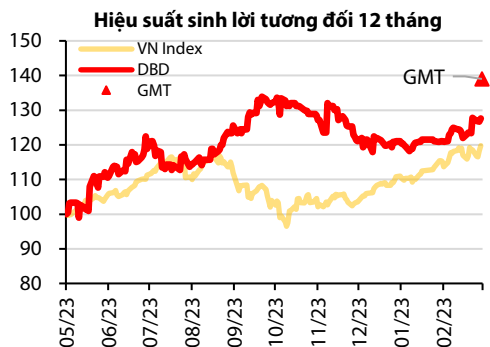


Source: Fiinx, RongViet Securities

ACCUMULATE: 18%

GTT: 52,500

GMT: 62,000



STOCK INFO

Sector	Health Care
Market Cap (\$ mn)	154
Current Shares O/S (mn shares)	75
3M Avg. Volume (K)	84
3M Avg. Trading Value (VND Bn)	5
Remaining foreign room (%)	86.5
52-week range ('000 VND)	44.15 - 60

FINANCIALS

	2023A	2024F	2025F
Revenue (VND bn)	1,652	1,787	2,054
NPATMI (VND bn)	265	290	347
ROA (%)	13.3	11.8	11.4
ROE (%)	18.6	17.1	17.2
EPS (VND)	3,596	3,866	4,631
Book Value (VND)	19,080	22,637	26,899
Cash dividend (VND)	2,000	0	0
P/E (x)	15.1	14.0	11.7
P/B (x)	2.8	2.4	2.0

INVESTMENT RATIONALES

Business operations remained stable ahead of transition period

- Under the favorable policy environment of 2023, core product groups such as antibiotics, cancer drugs, and blood purification all experienced double-digit growth. In 2023, DBD's winning bid value reached 866 billion VND (+34% YoY), which is considered as an early indicator ensuring revenue in the ETC channel. The projected revenue for the ETC channel for 2024 is expected to reach VND 1.093 trillion (+13% YoY).
- In 2024, DBD focuses on developing customer quality, increasing the number of products, and expanding coverage after the period of 2020 - 2023. The projected revenue for the OTC channel is estimated at VND 631 billion (+5% YoY), with expectations for an increase in the number of regular customers and improved order values.
- By the end of 2024, DBD plans to submit an application for EU-GMP certification for the injectable cancer drug production in Nhon Hoi. Consequently, the gross profit margin of the cancer drug segment will expand upon achieving EU-GMP standards

The presence of strategic investors will provide financial and technological support to help DBD maintain long-term growth

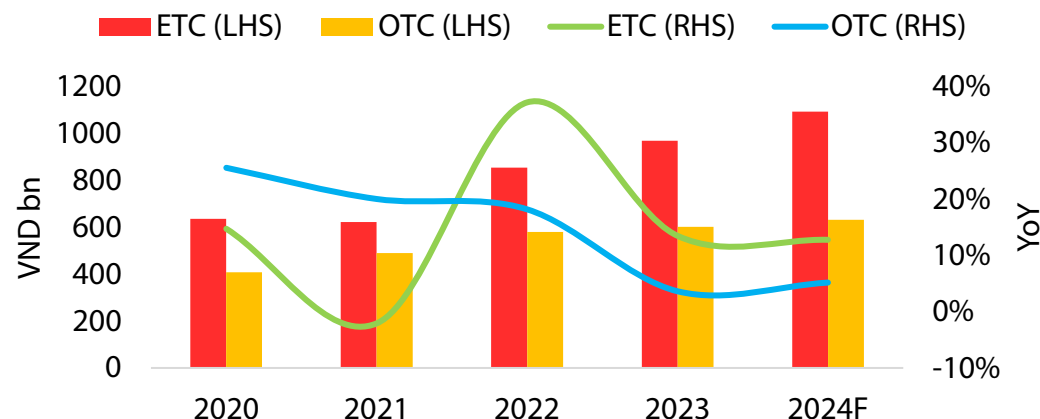
- The total investment amounting to VND 1.6 trillion will be used to construct two new sterile injectable and OSD tablet manufacturing plants according to EU-GMP standards. With such a large investment capital, DBD plans to privately issue 18.7 million shares to strategic investors, equivalent to 25% of outstanding shares, at a minimum offer price of 50,000 VND/share, with an expected proceeds of 1.2 trillion VND. Foreign investors often offer favorable pricing for pharmaceutical companies. This could serve as a catalyst to support stock prices.

Valuation: For 2024, the projected revenue and net profit of DBD are expected to reach VND 1.787 trillion (+8% YoY) and VND 290 billion (+9% YoY), respectively. We believe this is an appropriate valuation with P/E and P/B ratios of DBD at 16x and 2.7x, respectively, given DBD's stable business operations.

RISKS TO OUR CALL

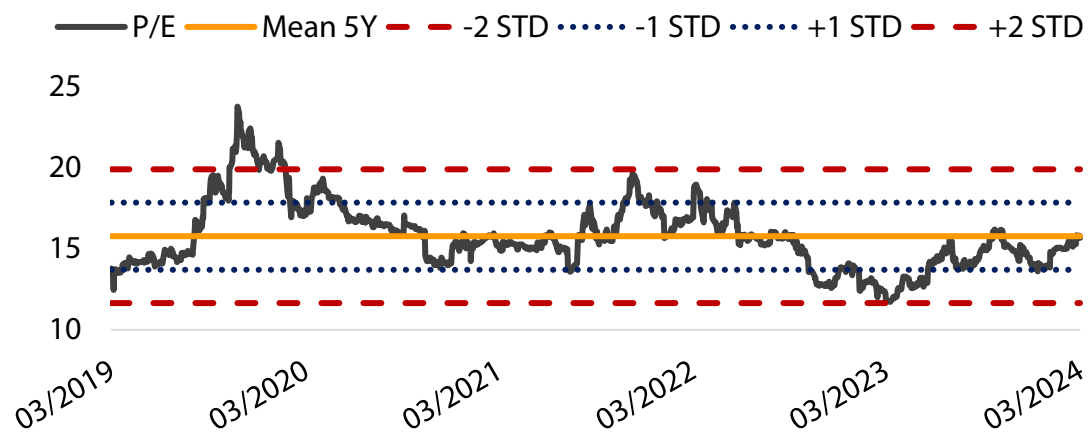
- The issuance for strategic shareholders was unsuccessful. EU-GMP certification for the cancer drug production line is behind schedule.

Figure 1: Both sales channels maintain growth momentum, with the ETC channel being considered the main pillar of DBD.



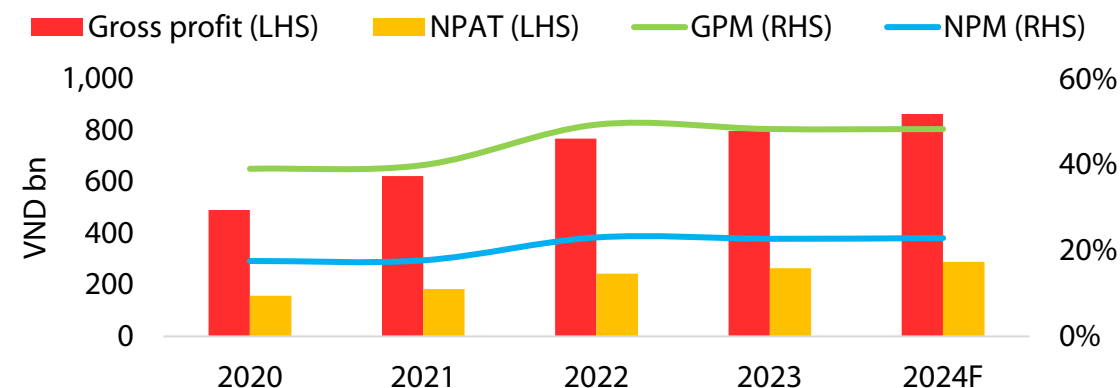
Source: DBD, RongViet Securities

Figure 8: P/E valuation



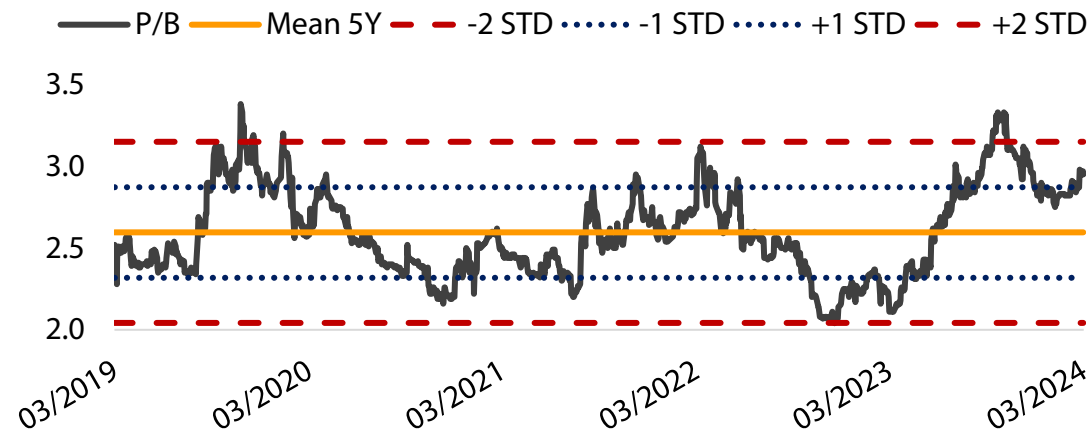
Source: Fiinx, RongViet Securities

Figure 2: It is expected that there won't be significant fluctuations in API raw material prices, and DBD's profit margin will remain stable at a high level.



Source: DBD, RongViet Securities

Figure 9: P/B valuation



Source: Fiinx, RongViet Securities



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