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Imexpharm Pharmaceutical JSC (IMP)

NOT RATED

Industry	**Pharma**
Report Date	**July 23, 2024**
Current Price	VND81,000
Dividend Yield*	1.1%

* Dividend Yield based on 2023 DPS

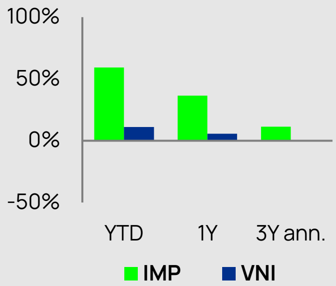
Market Cap	USD245.6mn
Foreign Room	USD62.1mn
30D ADTV	USD0.4mn
State Ownership	22%
Outstanding Shares	77mn

	IMP	Peers	VNI
P/E (ttm)	25.9x	14.7x	15.9x
P/B (cur.)	2.9x	1.5x	1.8x
ROA	11.5%	6.4%	1.9%
ROE	11.2%	11.3%	12.1%

Company overview

IMP is a generic pharmaceutical company in Vietnam. Its main products include antibiotics and specific treatment medicines. IMP utilizes advanced technology that meets EU-GMP production standards.

Share price performance



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	2021	2022	2023	Q1 2024
Revenue (VND bn)	1,267	1,644	1,994	491
Revenue % YoY	-7.5%	29.8%	21.3%	2.5%
NPAT-MI (VND bn)	189	224	300	62
NPAT-MI % YoY	-9.8%	18.2%	34.0%	-20.4%
EPS % YoY	-6.6%	11.1%	38.5%	-20.4%
GPM	38.5%	42.4%	40.6%	36.8%
EBITDA margin	23.6%	21.8%	23.4%	21.2%
OPM	18.5%	18.0%	19.1%	16.0%
NPM	14.9%	13.6%	15.0%	12.6%
EV/EBITDA*	16.1x	10.1x	13.0x	15.7x
P/E*	29.8x	21.3x	24.5x	25.9x
P/B*	2.8x	2.1x	3.0x	2.9x
ROE	10.7%	12.1%	15.1%	11.2%

*Based on historical share prices — except 2023 & Q1 2024, based on current share price and shares outstanding

ETC channel to drive 2024 revenue; new IMP5 factory in 2027

- Imexpharm Pharmaceutical JSC (HOSE: IMP) is the largest antibiotic provider in Vietnam.
- IMP reported record-high results in 2023 with net revenue of VND2tn (+21% YoY) and NPAT-MI of VND300bn (+34% YoY).
- IMP's sales from the ETC (essential therapeutic care) channel (channel for prescription drugs, mostly to hospitals) surged 40% YoY due to patient visits to hospitals increasing and higher health insurance coverage in 2023.
- Q1 2024 showed mixed results with net revenue growing 3% YoY due to stronger sales from the ETC channel (+58% YoY). Additionally, NPAT-MI declined 20% YoY because of rising input costs and higher expenses from the new IMP4 factory (entered operation in Q3 2023).
- IMP guides for 2024G PBT of VND432bn (+12% YoY). It completed 18% of the target in Q1 2024.
- IMP plans to prioritize the ETC channel in 2024, leveraging its strong antibiotics market position and favorable policies for EU-GMP compliant drugs. The recent launch of IMP4 should enhance production and boost revenue.
- IMP plans to expand toward non-antibiotic products with the IMP5 factory. With an expected launch in 2027, we believe IMP5 should help IMP meet the anticipated rising demand for chronic and cardiovascular medications in the medium term.
- IMP's TTM P/E is 25.9x (assuming 15% B&W/NPAT in Q1 2024) – higher vs our selected peer group median, reflecting strong expectations for IMP's future performance (see p. 11).
- Key risks: (1) ownership/leadership changes; (2) input price volatility; (3) intense competition, (4) unfavorable policy changes, (5) EPS dilution from ESOP, & (6) a large B&W fund (see p. 12).

ETC channel to drive 2024 revenue. In 2024, IMP targets to reach gross revenue from the ETC and OTC (over the counter) channels of VND1.3tn (+49% YoY) and VND1.2tn (+12% YoY), respectively. In anticipation of weaker OTC demand, IMP plans to prioritize the ETC channel. In our view, IMP's dominant position in the antibiotics market, combined with favorable policies for domestically produced EU-GMP medicines (see p.9), should give IMP an advantage in winning hospital tenders, thereby boosting sales through the ETC channel. The Q3 2023 launch of the IMP4 factory should boost revenue and efficiency in 2024. Additionally, the under-utilization of IMP's other three factories indicate potential for increased production to meet rising demand for high-quality drugs.

Strategic expansion to capture rising demand for drugs for chronic and cardiovascular conditions. IMP is planning to expand into non-antibiotic products - including cardiovascular, diabetes, eye-nose-throat, cough, and digestive medications - with the IMP5 factory in Dong Thap Province. Management expects to start construction in Q3 2024 and put IMP5 into operation in 2027 (see p. 10)

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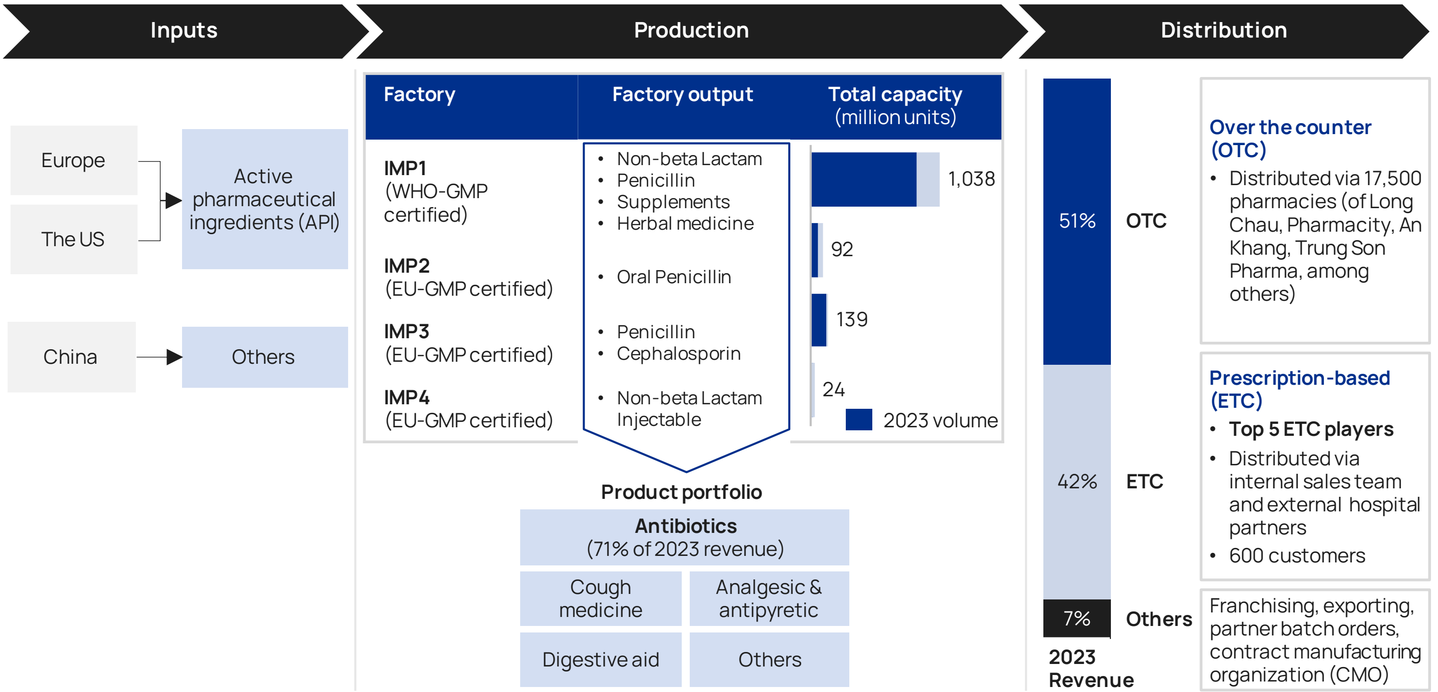
Company Overview

Imexpharm Pharmaceutical JSC (HOSE: IMP) was established in 1977 under the Dong Thap Department of Health. After nearly 50 years since its establishment, IMP is currently the largest antibiotic provider in Vietnam (with a 9% share in 2023). IMP was listed on HOSE in 2006.

IMP's business model is summarized in Figure 1 below. A more detailed analysis of the company's market position, key management, and shareholder structure is provided **below**.

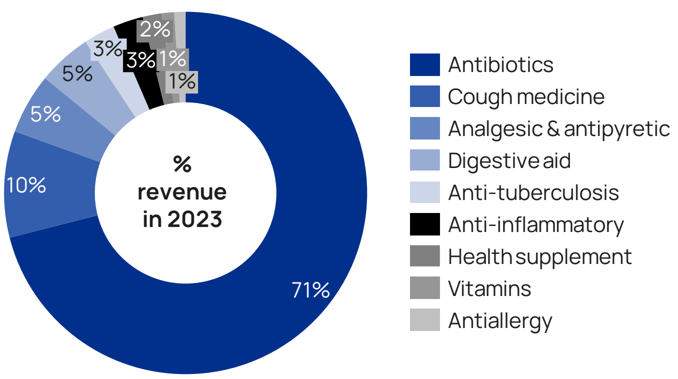
Figure 1: Business model of IMP



Source: IMP, Vietcap

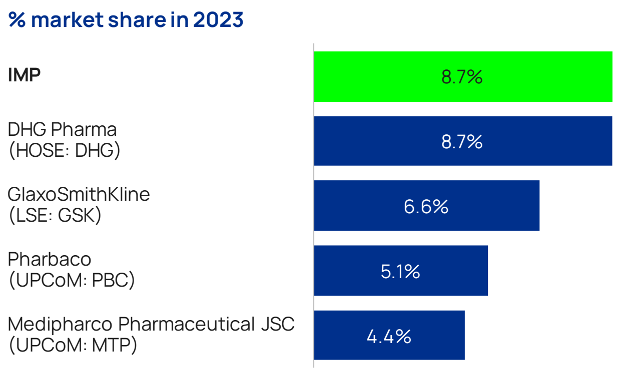
Leading antibiotics provider, top local ETC player in Vietnam

Figure 2: IMP's product portfolio



Source: IMP, Vietcap

Figure 3: Top five antibiotics providers in Vietnam



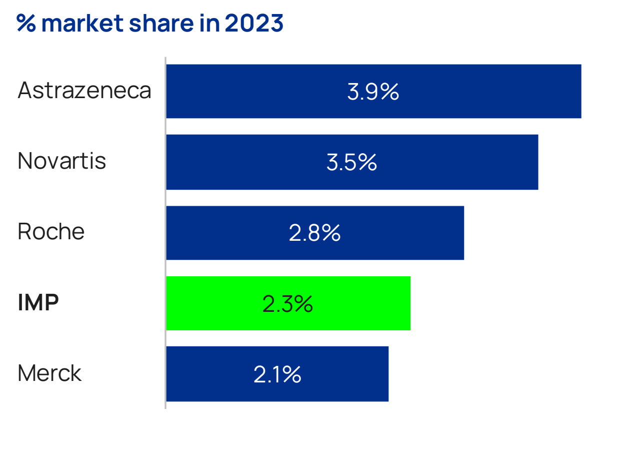
Source: IQVIA, Vietcap. Note: Share in the J01 therapeutic area.

A market leader for producing and selling antibiotics in Vietnam. IMP has a total of 333 products, with antibiotics, cough medicine, and analgesics and antipyretics being the top three product categories. In 2023, antibiotics contributed 71% of revenue, per management (**Figure 2**). According to IQVIA (a US-based provider of advanced analytics, technology solutions, and clinical research services), IMP and DHG Pharma (HOSE: DHG) shared the leading position in Vietnam's antibiotics market with a 9% share in 2023 (**Figure 3**).

Top local ETC players. Vietnam's pharmaceutical market is primarily divided into two segments: prescription based (ETC) and OTC drugs. For IMP, OTC drugs are sold through pharmacies, while ETC drugs are distributed through its internal sales team and external hospital tenders (**Figure 4**). In 2023, OTC contributed 51% of IMP's revenue, and ETC made up 42%, of which 79% was from external hospital tenders.

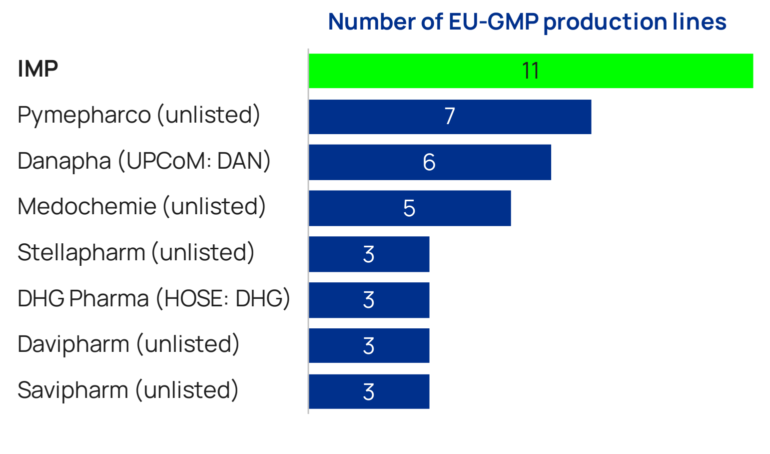
According to IQVIA, IMP ranked fourth and was the only domestic pharmaceutical company in the top five ETC players in Vietnam in terms of market share (excluding vaccine sales) (**Figure 4**). We attribute this position to IMP's key competitive advantages: **(1)** hospital-tailored drug portfolio (with a strong focus on antibiotics – as mentioned earlier), **(2)** high-quality manufacturing standards (EU-GMP certified), and **(3)** leveraging strong partnerships with external hospital tenders.

Figure 4: Top five ETC players in Vietnam



Source: IQVIA, Vietcap. Note: Exclusive vaccine sales value.

Figure 5: EU-GMP facilities of selected pharma companies



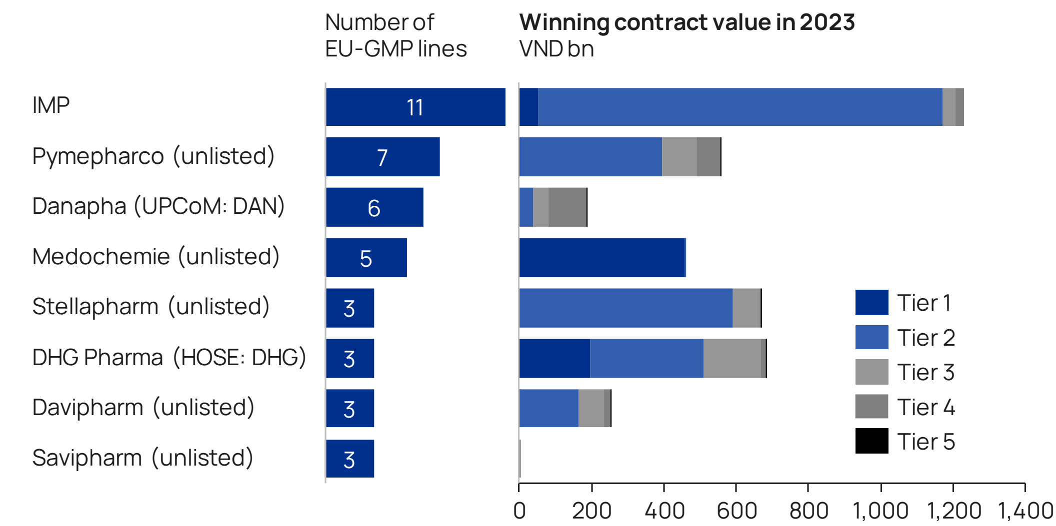
Source: IMP, Vietcap

Highest number of production lines certified EU-GMP standards in Vietnam (Figure 3). EU-GMP is Good Manufacturing Practices promogulated by the European Medicines Agency. According to Circular No. 07/2024/TT-BYT, drugs produced to the EU-GMP standards are eligible for drug tender of public hospitals in the top two tiers (with drugs in Tier 1 must additionally have export visas granted by the Stringent Regulatory Authority-member countries) (see **Appendix**). Compared to imported drugs, domestically produced EU-GMP medicines are often more affordable due to lower factory construction costs and operating costs.

In 2023, IMP launched its third EU-GMP factory – IMP4 and renewed its EU-GMP compliance status for IMP2 and IMP3 for a second and third time. These increased IMP's total EU-GMP production lines to 11, solidifying its position as a major player in the market where only 10% of local companies meet EU-GMP standards (or Japan's GMP equivalent).

Leveraging strong partnerships with external hospital tenders. According to management, IMP prioritizes partnering with external partners for hospital tenders instead of their own sales team. This strategic choice leverages the partners' deep expertise, experience, and relationships in the hospital tendering process. By collaborating with these third parties, IMP has become the leading local ETC player with its tender value nearly double the closest EU-GMP competitor (**Figure 6**).

Figure 6: Winning contract value of top pharmaceutical manufacturers (based on production lines) through hospital tenders in 2023



Source: IMP, DAV, Vietcap. Details for Tier 1-5 can be found in the **Appendix**.

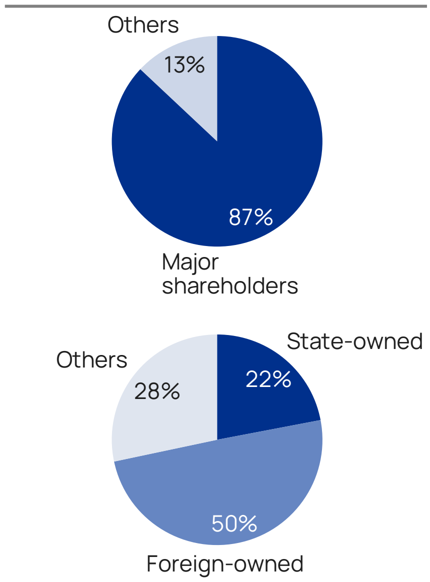
SK Investment's influence grew further in 2020-2023

Figure 7: IMP's key management and ownership structure

KEY MANAGEMENT (July 2024)	
Names	**Position**
Ms. Chun Chaerhan	Chairperson
Ms. Tran Thi Dao	General Director
Mr. Duong Hoang Vu	Chief Accountant

MAJOR SHAREHOLDERS (July 2024)		
Holders	**Shares, mn**	**%**
SK Investment Vina III Pte. Ltd.	31.8	48%
Vietnam Pharmaceutical Company (UPCoM: DVN)	14.7	22%
Sunrise Kim Investment JSC	6.5	10%
KBA Investment JSC	4.9	7%

Ownership structure by type
%, July 2024



Source: IMP, Vietcap

SK Investment Vina III Pte Ltd (SK Investment) – a subsidiary of South Korean conglomerate SK Group, has been steadily acquiring shares in IMP since May 2020. SK Investment started investing in IMP by purchasing a sizable portion (25% ownership, or 12.3 million shares) from major funds such as Dragon Capital, CAM Vietnam Mother Fund, Kingsmead, and Mirae Asset in May 2020. Since then, SK Investment has been gradually increasing its stake in IMP. As of July 2024, SK Investment is the largest shareholder of IMP with a 48% share. Combined with the two domestic related parties – Sunrise Kim Investment JSC (with 10% share) and KBA Investment JSC (with 7% share), the total ownership of SK Investment in IMP is around 65% as July 2024 (**Figure 7**). In 2023, SK Investment's influence grew further when its nominee, Ms. Chun Chaerhan, became IMP's chairwoman. She took over from her predecessor, Mr. Nguyen Quoc Dinh, who had held the position since 2013.

This partnership has been beneficial for both companies. In our view, through investing into IMP, SK Investment has gained a foothold in the growing Vietnamese pharmaceutical market. In addition, SK Investment has supported IMP with increased capital, improved corporate governance, and greater access to global markets – especially after Ms. Chun Chaerhan joined the board.

Historical performance

Record-high earnings in 2023

2023 results hit a record high. During 2020-2023, IMP's revenue grew at a CAGR of 14%, outperforming the market average of around 10%. 2021 was a challenging year for IMP when patient visits to hospitals and pharmacies substantially declined amid COVID-19 restrictions. However, after Vietnam reopened in March 2022, IMP's revenue during the year rebounded through increased drug demand and strategic market expansion. This momentum carried into 2023, resulting in record-high net revenue and NPAT-MI of VND2.0tn (+21% YoY) and VND300bn (+34% YoY), respectively.

Between 2020 and 2023, the ETC channel's revenue share grew from 41% to 42%, while the OTC channel declined from 59% to 51% (**Figure 8**). This shift aligns with the company's strategic focus on expanding the ETC channel through aggressive investments in EU-GMP facilities over the past four years. In 2023, sales from the ETC channel grew 40% YoY – much higher than that of the OTC channel at 8% YoY. Management attribute this to **(1)** the strong recovery of demand for medicine in hospitals as patient visits normalized post COVID-19, **(2)** increased health insurance coverage (93.2% of total population in 2023 vs 92.6% in 2022), and **(3)** more favorable Government policies toward the hospital tendering process. In July 2023, IMP also put into operation the IMP4 factory that is certified with the EU-GMP standard, adding VND80bn – or 4% of revenue after five months of operation, per management.

Larger sales contribution from high-margin products pushed up GPM. In 2020-2023, the gross revenue contribution from IMP's in-house products grew from 94% to 96%, while that of OEM products shrank from 5% to 3%. As the in-house products have a higher GPM than OEM products (with an average GPM of 51% and 27% in 2020-2023, respectively), blended GPM thus increased from 39.9% in 2020 to nearly 41% in 2023.

ROE improved 2 ppts between 2020-2023, reaching 15% in 2023. We attribute this to an increased overall utilization rate (from ~19% in 2019 to 63% in 2023 for the IMP1, IMP2, and IMP3 factories, per our estimate).

Mixed results in Q1 2024, completing 18% of the 2024G PBT target

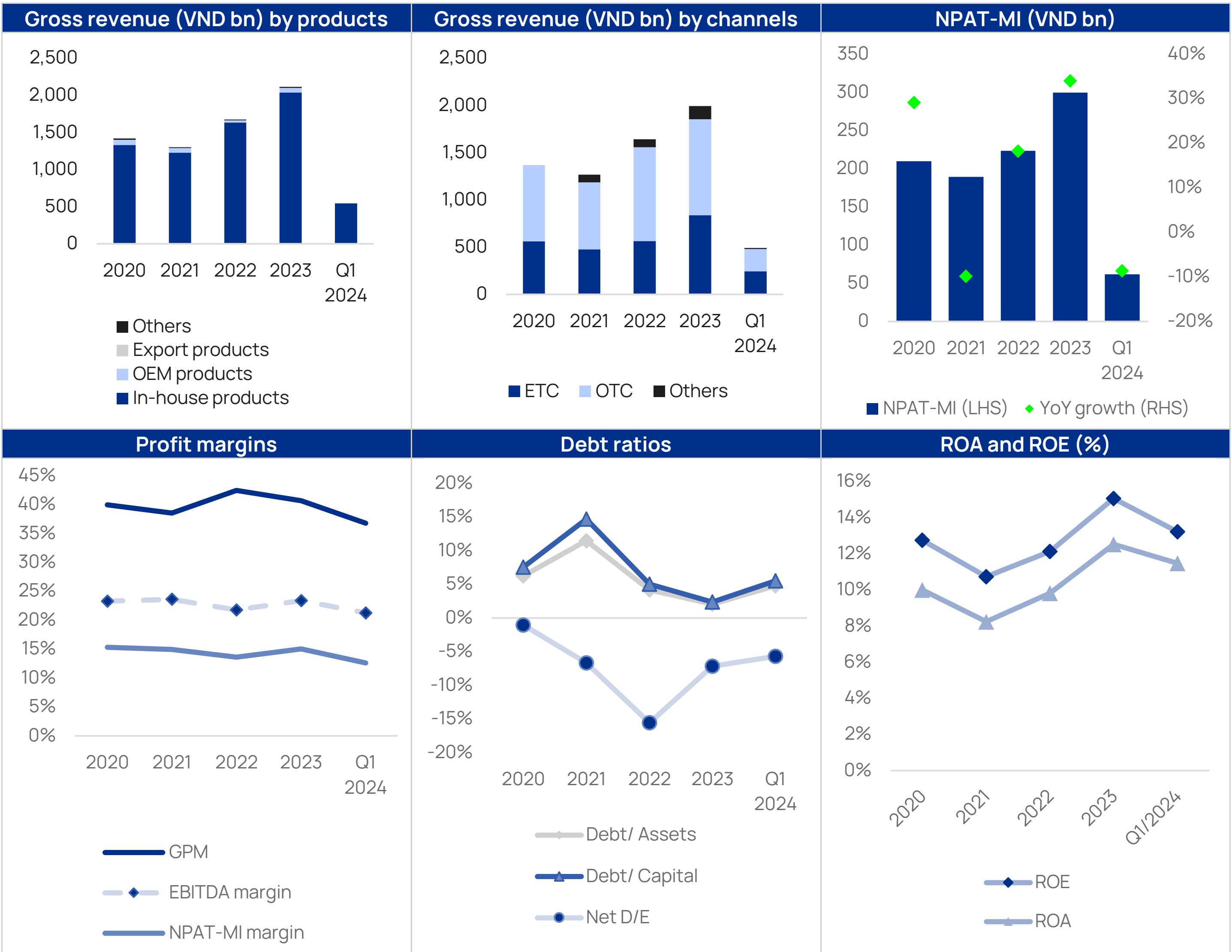
In Q1 2024, IMP reported that net revenue grew 3% YoY, while NPAT-MI declined 20% YoY. We attribute higher YoY revenue to strong sales from the ETC channel (+58% YoY), offsetting a slight reduction from the OTC channel (-9% YoY). On the other hand, the reduction in NPAT-MI largely came from (1) rising input costs as average API prices jumped 3% YoY (API typically accounts for 65-70% of total production costs), (2) less efficient production in the IMP1 factory as IMP reduced production volume amid sluggish demand from the OTC channel, and (3) higher depreciation expenses as the IMP4 factory went into operation in Q3 2023.

IMP has completed 18% of its 2024G PBT target. At the company's April 2024 AGM, IMP guided for 2024G net revenue and PBT of VND2.6tn and VND423bn, respectively. In Q1 2024, IMP thus completed 21% and 18% of its respective 2024G revenue and PBT targets.

Net cash position

Net cash position. IMP maintained a net cash position with net D/E ranging from -16% to -1% in 2020-Q1 2024. As of end-Q1 2024, the company reported total debt of VND119bn – equivalent to a net D/E of -6% (**Figure 8**)

Figure 8: Financial results in 2020-Q1 2024



Source: IMP, Vietcap

Outlook

Market Outlook

Growing demand for healthcare, especially high-quality drugs

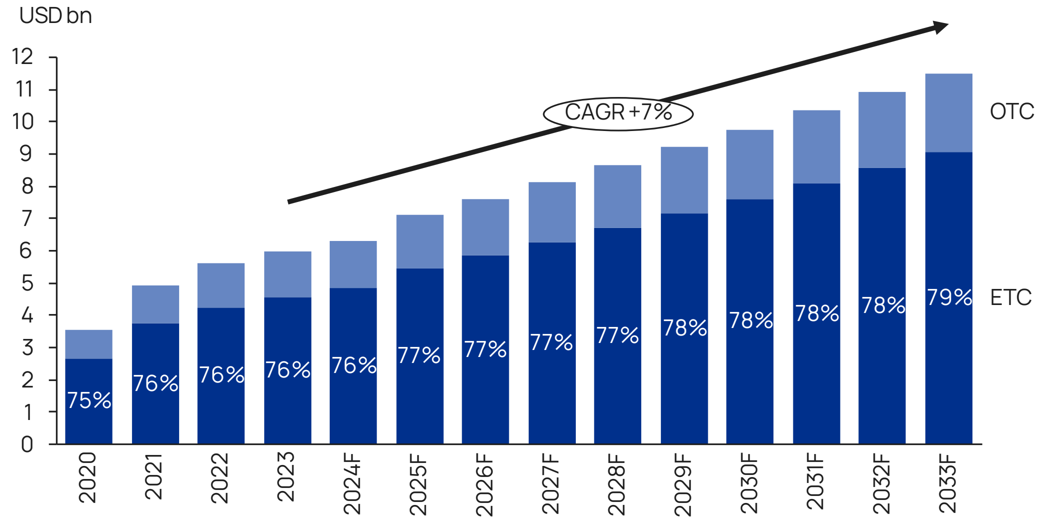
Vietnam's healthcare sector is experiencing robust growth. According to the United Nations Population Fund (UNFPA), Vietnam is one of the most rapidly aging countries in the world. People aged 60 and older made up ~12% of the total population in 2019, and by 2050, it should rise to more than 25%. By the year 2036, Vietnam should have an aged population, transitioning from an "aging" to an "aged" society. This highlights the growing need for healthcare services. Fitch Solutions (a US-based provider of insights, data, and analytics) predicts that consumer healthcare spending should nearly double from USD6bn in 2023 to USD10bn in 2028 – equivalent to a CAGR of 10%.

Stronger demand for high-quality drugs but domestic supply still low. Vietnam's burgeoning middle and upper-income classes, coupled with heightened awareness of healthcare and wellness, are driving robust demand for high-quality pharmaceutical products. However, a substantial gap exists between this demand and the domestic supply of high-quality drugs. In Vietnam, there are only 10% of local factories certified for EU-GMP (or Japan-GMP equivalent) standards. This presents a substantial opportunity for pharmaceutical companies such as IMP that can meet international quality standards.

Market share of ETC channel on the rise while growth from OTC channel to slow

ETC channel to be dominant over the next ten years. Fitch Solutions predicts total pharmaceutical sales to surpass USD11bn by 2033, growing at a CAGR of 7% from 2023 to 2033. The ETC channel's share of this market is expected to increase from 76% in 2023 to 79% in 2033, while the OTC channel's share should slightly decline from 24% to 21% (**Figure 9**).

Figure 9: Vietnam's pharmaceutical sales in 2020-2033



Source: Fitch Solutions, Vietcap

According to Fitch Solutions, a larger patient population with better access to healthcare through the expansion of national health insurance and improved hospital infrastructure should lead to a higher demand for ETC drugs. Additionally, more favorable policies toward high-quality domestic drugs should push up sales for local pharmaceutical companies in the ETC channel (see below).

More favorable policies toward domestically produced, high-quality drugs

Recently, the Vietnamese Government has continued to introduce additional policies to support the pharmaceutical industry. These include measures to improve quality of care, thus boosting demand or high-quality medicines, such as the revised Law on Medical Examination and Treatment No. 15/2023/QH15 to grant public hospitals financial autonomy, and Decree No. 75/2023/ND-CP to expand health insurance coverage. Additionally, the local pharmaceutical companies should further benefit from the Government's initiatives to prioritize domestically produced high-quality drugs such as Resolution No. 30/NQ-CP in March 2023 to ease drug procurement processes, Circular No. 06/2023/TT-BYT to promote the use of generic drugs in Vietnam, the 2023 Law on Bidding, and the recent Circular No. 03/2024/TT-BYT to prioritize procuring domestically produced drugs meeting EU-GMP standards.

In our view, these measures should drive growth in the ETC channel, giving local pharmaceutical companies – especially those producing high-quality drugs, a substantial advantage in winning hospital tenders.

Strong focus on chronic and cardiovascular treatment

Long-term opportunities for prescription drugs due to the rise of chronic and cardiovascular diseases. The burden of chronic diseases in Vietnam is rising even as the market sees a significant fall in the burden of communicable conditions. Out of the 516,000 deaths that occurred in 2022 in Vietnam, 341,000 were due to chronic diseases. According to Fitch Solutions, current health challenges such as environmental pollution, food safety issues, and work pressure are driving demand for drug groups that treat respiratory, digestive, cardiovascular, and diabetic diseases. These product groups are forecast to see annual growth rates of 11.6% to 13.2% by 2027, per Fitch Solutions.

Company Outlook

ETC channel to drive 2024 revenue

ETC channel to drive 2024 revenue. In 2024, IMP targets to reach gross revenue from the ETC and OTC channels of VND1.3tn (+49% YoY) and 1.2tn (+12% YoY), respectively. In 2024, IMP plans to prioritize the ETC channel, leveraging its strong position in the antibiotics market and benefiting from favorable policies for domestically produced, EU-GMP compliant drugs (as mentioned earlier). The recent launch of the IMP4 factory in Q3 2023 should also further enhance production capabilities and drive revenue growth in 2024. In addition, under-utilization of the other three factories suggests ample room for expansion to meet rising demand for high-quality drugs, in our view.

To increase share in the OTC channel by expanding toward northern Vietnam. Management anticipates weaker OTC demand in 2024, due to lower spending on non-essential drugs amid rising inflation. In 2024, IMP expects to expand its share in the OTC channel by approaching the northern Vietnam market. Previously, IMP mainly focused on the southern and central Vietnam markets. As of end-Q1 2024, the company has 12 branches and 148 sales representatives in southern Vietnam; 5 branches and 61 sales representatives in central Vietnam; but only one branch and 45 sales representatives in northern Vietnam.

Lower GPM but EBITDA margin to be maintained in 2024

Lower GPM due to higher costs from IMP4 and rising input API costs. Management forecasts GPM in 2024 to be around 40% - slightly lower vs that in 2023 (of 41%). The main reasons are higher operating and depreciation costs from the new IMP4 factory (entered operation in July 2023) and rising API input costs in early 2024. To counteract these cost pressures and improve profitability, the company is implementing several cost-saving measures such as a recent cost center model and tighter financial controls, per management. In 2024, IMP thus projects to maintain its EBITDA margin at the 2023 level of 23%.

Management is guiding for 2024G PBT growth of 12% YoY. IMP has set 2024G gross revenue/ PBT at VND2.6tn (+24% YoY)/ VND423bn (+12% YoY), respectively. In our view, this target is feasible due to **(1)** our expectation of more favorable policies to support IMP's sales through the ETC channel, **(2)** improved overall efficiency as the new IMP4 factory contributes to higher production volume – especially in the ETC channel, and **(3)** IMP's strong track record. IMP has a history of exceeding its PBT targets. In 2021-2023, except for an exceptionally challenging year in 2021, IMP completed 106-108% of its PBT targets.

Figure 10: IMP's guidance for 2024G

VND bn	2024G	% YoY
Gross revenue	2,630	24%
ETC	1.361	49%
OTC	1,214	19%
Net revenue	2,365	19%
PBT	423	12%
EBITDA	550	18%

Source: IMP, Vietcap

To expand in non-antibiotic drugs with the IMP5 factory starting 2027

Strategic expansion in non-antibiotic drugs. In addition to the core antibiotic products, IMP is planning to expand its non-antibiotic products including cardiovascular, diabetes, eye-nose-throat, cough, and digestive medications. To support this expansion, IMP is planning to build its IMP5 factory in Dong Thap Province, which will be dedicated to producing these drugs. Management expects to start the construction in Q3 2024 and put IMP5 into operation in 2027. Details about the factory (such as the production capacity) have not yet been provided.

Additionally, IMP has formed a strategic partnership with Genuone Sciences, a South Korean pharmaceutical company in February 2024. This collaboration aims to develop and produce a wider range of treatments for chronic conditions like cardiovascular disease and diabetes. Through technology transfer from Genuone, IMP expects to produce its own high-quality, original brand drugs in these therapeutic areas.

We expect IMP5 to capitalize on the rising demand for drugs for chronic and cardiovascular conditions. Given our expectation of a rise of chronic and cardiovascular diseases in the future, the upcoming IMP5 factory should support IMP in supplying this market. In our view, as IMP5's output is non-antibiotic and typically price sensitive, there should be little room for margin improvement. Compared to antibiotics, non-antibiotic medications are more price sensitive due to (1) more generic brands for less critical treatment conditions that allows for brand switching, and (2) many are over the counter, putting the cost burden directly on patients. We see the potential for substantial volume growth presenting a more compelling opportunity. By focusing on expanding its market share and securing a loyal customer base in the non-antibiotic category, IMP can generate a substantial, new, and sustainable revenue stream in the medium-term, in our view.

Valuation

We have selected listed Vietnamese pharmaceutical companies that are similar to IMP to use as peer references.

IMP is currently trading at a TTM P/E of 25.9x. Assuming a similar B&W/NPAT ratio of 15% in 2023 for Q1 2024, IMP's TTM P/E is higher than the 14.7x peer median that we have chosen. We believe the high TTM P/E of IMP reflects the strong expectation of investors regarding IMP's market position and robust growth prospects driven by the expansion of its manufacturing capacity in the future.

Figure 11: Peer comparison

	Company	Mkt cap (USD mn)	TTM Net Sales (USD mn)	Y-o-Y (%)	TTM NPAT-MI (USD mn)	Y-o-Y (%)	Net debt/ Equity (%)	ROE (%)	ROA (%)	TTM P/E (x)	LQ P/B (x)
DHG	DHG Pharma	572.4	198.6	103.3	35.9	81.4	9.7	19.3	15.2	15.9	2.9
DHT	Ha Tay Pharmaceutical	230.2	79.0	99.5	2.9	68.5	30.0	7.7	4.3	79.7	5.8
TRA	Traphaco	128.3	87.6	92.4	9.6	96.0	-2.8	16.4	12.4	13.3	2.4
DBD	Binh Dinh Pharmaceutical	154.9	65.1	101.2	10.6	104.8	0.4	18.9	13.9	14.7	2.6
DMC	DOMESCO Medical	90.0	68.2	105.7	7.5	94.5	-3.9	12.8	10.4	12.0	1.5
DTP	Ha Noi CPC1 Pharmaceutical	89.2	45.8	118.0	9.0	114.4	6.8	30.2	22.2	9.9	2.7
PBC	Pharbaco	36.1	50.4	111.4	1.7	45.0	126.6	3.4	1.3	21.3	0.7
MKP	Mekophar Pharmaceutical	29.0	36.0	86.0	1.4	140.0	-12.3	2.9	2.3	20.6	0.6
DAN	Danapha Pharmaceutical	24.8	23.1	99.3	3.2	125.7	47.0	11.3	6.4	7.9	0.9
CDP	Codupha Central Pharmaceutical	7.9	119.0	97.9	0.6	75.0	352.4	7.6	0.8	12.4	0.9
AMP	Armephaco	6.4	28.4	417.1	0.1	404.2	189.2	3.0	0.5	60.0	0.9
	Average	**124.5**	**72.8**	**130.2**	**7.5**	**122.7**	**67.6**	**12.1**	**8.2**	**24.3**	**2.0**
	Median	**89.2**	**65.1**	**101.2**	**3.2**	**96.0**	**9.7**	**11.3**	**6.4**	**14.7**	**1.5**
IMP	**Imexpharm Pharmaceutical**	**245.6**	**79.0**	**107.1**	**11.2**	**105.7**	**-5.7**	**13.9**	**11.5**	**25.9**	**2.9**

Source: FiinPro, Vietcap (data as of July 23, 2024)

Investment Risks

Substantial change in ownership / leadership. Before SK Investment became IMP's strategic shareholder, the company had enjoyed a period of stable leadership under Mr. Nguyen Quang Dinh. With Ms. Chun Chaerhan joining the board since late April 2023, IMP initially saw positive earnings results and we believe this partnership has been beneficial to both companies. However, as SK Group – SK Investment's parent company, is planning to sell its holding in major Vietnamese companies (such as Masan Group (HOSE: MSN), or Vingroup (HOSE: VIC)) to recover its initial investment, there is potential risk of a similar move regarding IMP. However, we believe the risk is minimal as SK Investment's relatively recent entry into IMP and the ongoing expansion plans with its new chairman suggest a longer-term commitment compared to other SK Group investments in Vietnam.

Volatility in input API prices. 65-70% of IMP's production costs come from importing API. As a result, unfavorable movement of API prices could negatively impact the company's bottom line, in our view. According to management, Amoxicillin and Cephalexin are particularly volatile APIs. IMP thus typically enters a one-year contract for these APIs to minimize fluctuations, per management.

More intense competition. The pharmaceutical sector is becoming increasingly competitive, with competitors investing in advanced technology, such as EU-GMP certified manufacturing facilities. More intense competition could lead to lower prices, smaller profit margins, and a decline in market share for IMP. However, in our view, achieving EU-GMP standards is a lengthy and resource-intensive process.

Unfavorable policy changes. Government policies substantially influence the ETC channel. Nevertheless, we believe the risk of unfavorable policies for high-quality, locally produced drugs is low – given the Government's focus on improving drug quality and affordability.

EPS dilution from upcoming ESOP. Since 2014, IMP has had a track record of issuing 5% ESOP every three years, which could raise dilution concerns for investors. IMP has carried out a 5-6% ESOP issuance in 2013, 2017, and 2020, and plans to do the same for 2024-2025. Specifically, IMP aims to issue 4.5 million ESOP in Q4 2024-Q1 2025, at an issuing price of VND5,000/share with a lock-up period of one year. Based on the current number of shares in issue of 77 million, assuming a tax rate of 20% and no transfers from NPAT to bonus and welfare funds, management's 2024G PBT of VND423bn would imply 2024G EPS of VND4,400 and a PER of 18.4x. If the ESOP proceeds — and assuming full subscription — the company's 2024G PBT guidance would imply an ex-ESOP share price of VND76,800 and an effective 2024G PER of 18.5x.

Large transfers to B&W funds. In 2020-2023, IMP consistently paid out bonus & welfare (B&W) funds ranging from 12-18% of NPAT in each year. In our view, a strong B&W program can be a competitive advantage for attracting and retaining top talent, which can benefit IMP's overall success – especially in the pharmaceutical sector. However, large B&W allocations could limit resources available for research & development, marketing initiatives, or potential acquisitions that could drive future growth. This could hinder IMP's long-term competitiveness.

Appendix

Figure 12: Summary of quality requirements of Vietnam's public tender for generic drugs

Quality category	Circular 15/2019/TT-BYT	Circular 07/2024/TT-BYT
	Effective from October 1, 2019	Effective from May 17, 2024
Tier 1	Drugs that comply with EU-GMP standards or equivalents and are manufactured entirely in an SRA country. EU-GMP drugs (and equivalents) that are made entirely in Vietnam and have certificates of free sale in an SRA country. Drugs on the list of proprietary drugs or reference biological medicines announced by the Ministry of Health (MoH), except for proprietary medicines whose prices are negotiated between the MoH and pharma companies.	Drugs that comply with EU-GMP standards or equivalents and are manufactured entirely in an SRA country. EU-GMP drugs (and equivalents) that are made entirely in Vietnam and have certificates of free sale in an SRA or EMA country. Drugs on the list of original brand-name drugs or reference biologicals announced by the Ministry of Health of Vietnam.
Tier 2	Other EU-GMP drugs. Drugs manufactured entirely by a manufacturing line in a country that is a member state of both PIC/S and ICH.	Other EU-GMP drugs. Drugs manufactured entirely by a manufacturing line in a country that is a member state of both PIC/S and ICH.
Tier 3	Drugs that meet WHO-GMP standards and have evidence of bioequivalence announced by the MoH.	Drugs are granted a certificate of marketing authorization or import license for sale in Vietnam and have evidence of bioequivalence announced by the MoH.
Tier 4	Other WHO-GMP drugs made entirely in Vietnam.	Other WHO-GMP drugs made entirely in Vietnam.
Tier 5	Other WHO-GMP drugs.	Drugs are granted a certificate of marketing authorization or import license for sale in Vietnam.

Source: Ministry of Health, Vietcap. Note: The European Medicines Agency (EMA) is a decentralized agency of the European Union responsible for the scientific evaluation, supervision, and safety monitoring of medicines in the EU. A list of the participating countries can be found here.

The Pharmaceutical Inspection Co-operation Scheme (PIC/S) is a non-binding, informal cooperative arrangement among regulatory authorities in the field of good manufacturing practices (GMP) of medicinal products for human or veterinary use. It is open to any authority having a comparable GMP inspection system. PIC/S is presently comprised of 52 participating authorities from all over the world. A list of the participating countries can be found here.

The International Council for Harmonization of Technical Requirements for Pharmaceuticals for Human Use (ICH) is an initiative that brings together regulatory authorities and the pharmaceutical industry to discuss and issue harmony guidelines on scientific and technical aspects of pharmaceutical product development and registration. The ICH currently has 16 participating authorities and 32 observers, which can be found here.

Stringent Regulatory Authority (SRA) comprised of the ICH's members and observers prior to October 23, 2015, and regulatory authorities associated with an ICH member through a legally-binding, mutual recognition agreement prior to October 23, 2015. SRA's 36 members include the US, Japan, Canada, Australia, Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, United Kingdom.

Financial Statements

P&L (VND bn)	2020	2021	2022	2023
Revenue	**1,369**	**1,267**	**1,644**	**1,994**
COGS	-822	-779	-946	-1,184
Gross Profit	**547**	**488**	**697**	**811**
Sales & Marketing exp.	-213	-181	-269	-310
General & Admin exp.	-71	-73	-132	-120
Operating Profit	**263**	**234**	**297**	**381**
Financial Income	10	18	24	25
Financial Expenses	-20	-18	-29	-31
- o/w Interest Expense	-5	-5	-4	-6
Associates	0	0	0	0
Net Other Income/(Loss)	3	4	1	3
Profit Before Tax	**255**	**239**	**291**	**377**
Income Tax	-46	-50	-68	-78
NPAT Before MI	**210**	**189**	**224**	**300**
Minority Interest	0	0	0	0
NPAT Less MI, Reported	**210**	**189**	**224**	**300**
NPAT Less MI, Adjusted (1)	**185**	**165**	**184**	**255**
(1) Adjusted for bonus & welfare				
EBITDA	319	299	358	467
EPS Reported, VND (2)	2,300	2,149	2,387	3,307
DPS Reported, VND (2)	1,247	1,299	866	910
DPS/EPS (%)	54.2%	60.5%	36.3%	27.5%

RATIOS	2020	2021	2022	2023
Growth YoY				
Revenue	-2.4%	-7.5%	29.8%	21.3%
Op. Profit (EBIT)	29.3%	-10.8%	26.7%	28.5%
PBT	26.2%	-6.5%	22.0%	29.5%
Reported EPS	29.1%	-6.0%	-2.8%	38.5%
Profitability				
Gross Profit Margin	39.9%	38.5%	42.4%	40.6%
Op. Profit, (EBIT) Margin	19.2%	18.5%	18.0%	19.1%
EBITDA Margin	23.3%	23.6%	21.8%	23.4%
NPAT-MI Margin	15.3%	14.9%	13.6%	15.0%
ROE	12.7%	10.7%	12.1%	15.1%
ROA	10.6%	8.6%	9.8%	12.8%
Efficiency				
Days Inventory On Hand	103.2	132.0	103.0	103.9
Days Accts, Receivable	97.0	99.9	62.8	51.9
Days Accts, Payable	20.1	22.0	19.8	14.3
Cash Conversion Days	180.2	209.9	146.0	141.5
Liquidity				
Current Ratio	2.8x	2.9x	2.9x	3.9x
Quick Ratio	1.6x	1.7x	1.7x	1.6x
Cash Ratio	0.2x	0.7x	0.5x	0.3x
Debt / Assets %	6.2%	11.5%	4.2%	2.1%
Debt / Capital %	7.0%	12.8%	4.8%	2.3%
Net Debt / Equity	-1.0%	-6.7%	-15.6%	-7.2%
Interest Coverage	48.6x	42.6x	78.1x	63.1x
(Figures may not sum up due to rounding)				

B/S (VND bn)	2020	2021	2022	2023
Cash & Equivalents	85	271	179	106
ST Investment	64	112	211	93
Accounts Receivables	398	295	271	297
Inventories	424	492	436	699
Other Current assets	11	5	7	12
Total Current Assets	**982**	**1,176**	**1,104**	**1,207**
Fixed Assets, Gross	941	999	1,036	1,553
- Depreciation	-438	-489	-547	-617
Fixed Assets, Net	503	510	489	936
LT investments	52	51	71	71
LT assets, other	560	558	613	179
Total LT Assets	**1,114**	**1,118**	**1,173**	**1,185**
Total Assets	**2,096**	**2,295**	**2,277**	**2,393**
Accounts Payable	60	93	86	71
ST Debt	131	172	95	49
Other ST Liabilities	156	144	202	188
Total Current Liabilities	**347**	**409**	**382**	**308**
LT Debt	0	92	0	0
Other LT liabilities	19	0	0	0
Total Liabilities	**366**	**500**	**382**	**308**
Preferred Equity	0	0	0	0
Paid in capital	667	667	667	700
Share premium	507	507	507	507
Retained earnings	205	197	265	440
Other equity	351	423	455	437
Minority interest	0	0	0	0
Total equity	**1,730**	**1,794**	**1,894**	**2,085**
Liabilities & equity	**2,096**	**2,295**	**2,277**	**2,393**
Y/E shares out, mn	66.7	66.7	66.7	70.0
Y/E shares out, mn (3)	77.0	77.0	77.0	77.0
(3) Adj for share div in 23-24				

CASH FLOW (VND bn)	2020	2021	2022	2023
Beginning Cash Balance	**75**	**85**	**271**	**179**
Net Income	210	189	224	300
Dep, & Amortization	53	60	60	83
Δ in Working Capital	-178	50	121	-367
Other Adjustments	-12	-64	-26	-55
Cash from Operations	**73**	**235**	**379**	**-40**
Capital Expenditures, Net	-90	-53	-99	-64
Investments, Net	-47	-30	-100	143
Cash from Investments	**-136**	**-83**	**-199**	**79**
Dividends Paid	-49	-100	-100	-67
Δ in Share Capital	30	0	0	0
Δ in ST Debt	93	41	-77	-46
Δ in LT Debt	0	92	-92	0
Other financing C/F	0	2	-3	0
Cash from Financing	**74**	**34**	**-272**	**-112**
Net Change in Cash	**10**	**186**	**-92**	**-73**
Ending Cash Balance	**85**	**271**	**179**	**106**

Source: IMP, Vietcap. Note: (2) Ad for ESOP, share dividend & bonus in 2020, share dividend in 2023-2024.

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