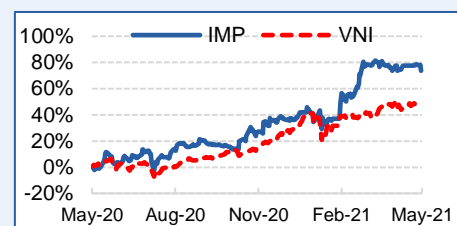




# Imexpharm (IMP) [OUTPERFORM +15.0%]

## Update Report

<b>Industry:</b>	<b>Pharma</b>		<b>2020</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
<b>Report Date:</b>	<b>May 20, 2021</b>	Rev Growth	-2.4%	24.1%	26.1%	21.6%
Current Price:	VND71,100	EPS Growth	28.0%	21.8%	29.7%	21.6%
Target Price:	VND80,300	GPM	39.9%	41.4%	41.7%	42.0%
Last Target Price:	VND72,200	NPM	15.3%	15.5%	15.9%	16.1%
Upside to TP:	+12.9%	EV/EBITDA	14.9x	11.7x	9.1x	7.4x
Dividend Yield:	+2.1%	P/CFO	49.6x	16.2x	20.8x	15.9x
TSR:	+15.0%	P/E	25.0x	20.5x	15.8x	13.0x



Market Cap:	USD206mn	<b>IMP</b>	<b>Peers*</b>	<b>VNI</b>
Foreign Room:	USD0	P/E (ttm)	25.2x	17.4x
ADTV30D:	USD188,000	P/B (curr)	2.7x	2.6x
State Ownership:	22.9%	Net D/E	0.0%	N/A
Outstanding Shares:	66.7 mn	ROE	12.5%	14.6%
Fully Diluted Shares:	66.7 mn	ROA	10.5%	10.5%
3-yr PEG:	1.0			2.4%

\* Domestic and foreign peers

### 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.

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## Strong growth prospects intact, led by hospital channel

- We downgrade our rating from BUY to OUTPERFORM as IMP's share price has rallied 35% in the last three months. That said, we lift our TP by 11% thanks to (1) a 50-bp decrease in our house cost of equity to 12.5% and (2) a rollover of our TP to mid-2022 vs YE2021 as previously.
- We believe IMP's leading production technology (EU-GMP standard) and ample spare capacity along with a supportive policy backdrop that favors high-quality, locally produced drugs in the hospital channel will lead to elevated earnings growth in the next few years.
- We trim our aggregate 2021F-2023F NPAT by 4% due to the late commencement of the new IMP4 factory and a recent resurgence of COVID-19 that will hurt pharmacy and hospital visits.
- We forecast an in-house product revenue CAGR of 25% in 2020-2023F, which will be mainly driven by a 46% CAGR in revenue from the hospital channel. Accordingly, we forecast the hospital channel's contribution to total revenue will widen from 41% in 2020 to 65% in 2023F.
- We forecast NPAT margin will advance from 15.3% in 2020 to 16.1% in 2023F on the back of increases in factory utilization, which will be partly offset by higher marketing expenses given stiffening competition in the pharmacy channel.
- Potential upside: Strategic investor SK Group's technological and distribution support could help IMP to better penetrate the tier-1 segment (highest quality tier in hospitals) and export markets.
- Downside risks to our positive view: Escalation of COVID-19 that would undermine consumer visits to pharmacies and hospitals; heightening competition; unfavorable policy movement.

**IMP4's pending EU-GMP approval is facing an extended delay due to COVID-19.** Due to COVID-19's disruptions on international travel that prevent European Medicines Agency (EMA) member experts to arrive in Vietnam for the final factory inspection, management expects IMP4 to obtain EU-GMP approval in late 2021 before starting to contribute revenue in mid-2022, which is later than our previous assumption of H2 2021. Therefore, in our revised projections, we lower IMP4's contributions to IMP's total in-house revenue from 3%/8%/14% to 0%/5%/8% in 2021F/2022F/2023F, respectively.

**IMP's well-timed stocking and increasing factory utilization to overcome cost pressure from rising active pharmaceutical ingredient (API) prices.** Per IMP, most API prices jumped in Q1 2021 with paracetamol (used for painkillers and fever reducers) skyrocketing ~300% YoY. Nonetheless, IMP has already stocked up for production through Q3 2021 (and even up to Q4 2021 for some categories) at favorable prices. In addition, painkillers and fever reducers contribute less than 10% to IMP's revenue. Meanwhile, we forecast the utilization of IMP's EU-GMP factories will pick up from ~25% in 2020 (our estimate) to ~50% in 2023F. Accordingly, we project IMP's in-house product GPM to expand from 41.0% in 2020 to 42.8% in 2023F while its ROIC will climb from 16.3% in 2020 to 27.3% 2023F.

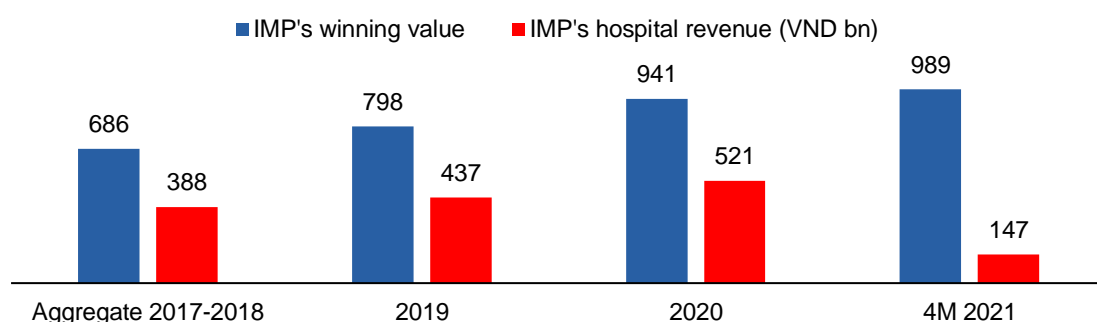
## 4M 2021: Robust revenue growth from the pharmacy and hospital channels

Figure 1: IMP's 4M 2021 results

VND bn	4M 2020	4M 2021	YoY	VCSC comments
<b>Net revenue</b>	<b>368</b>	<b>401</b>	<b>9%</b>	Pharmacy and hospital revenue increased 14% and 35% YoY, respectively. In the hospital channel, IMP gained market share against imported drugs in the Tier 2 of hospital drug tenders, which was backed by IMP's advanced manufacturing standard (EU-GMP standard) and cost advantages vs imported drugs. The Pharmacy and hospital channels accounted for 63% and 37% of IMP's in-house product revenue in 4M 2021, respectively.
In-house products	329	388	18%	For April 2021 alone, revenue surged 62% YoY to VND105bn (USD4.5mn), which we attribute partly to a low April 2020 base that was hurt by COVID-19's negative impact on traffic to both pharmacies and hospitals.  Meanwhile, IMP's winning value in hospital tender reached VND989bn (USD43mn) in 4M 2021 with Tier 1 and Tier 2 (i.e., the two highest drug tiers in hospital tender) accounting for 8% and 89%, respectively. 4M 2021's winning value surpassed VND941bn (USD41mn) that was achieved for full-year 2020.
Others <sup>(1)</sup>	39	13	-68%	Mostly due to a decrease in OEM revenue generated from Sandoz — a German pharmaceutical company.
<b>Gross profit</b>	<b>150</b>	<b>171</b>	<b>14%</b>	
SG&A	-85	-94	10%	
<b>EBIT</b>	<b>66</b>	<b>77</b>	<b>18%</b>	
Non-operating items	-4	-1	-68%	Abnormal gains from liquidating some fixed assets in 4M 2021, which partly offset financial expenses (i.e., mostly payment discounts and interest expenses).
<b>PBT</b>	<b>62</b>	<b>76</b>	<b>23%</b>	
Gross profit margin	40.8%	42.7%		Blended GPM advanced thanks to a smaller contribution from the low-margin OEM and trading goods segments. Meanwhile, in-house product GPM contracted mostly due to a rebound in promotions for pharmacies.
SG&A/in-house product sales	25.8%	24.1%		Thanks to economies of scale as well as the fact that some marketing activities were held back amid the third wave of COVID-19 that started in late January.
EBIT margin	17.8%	19.3%		
PBT margin	16.8%	19.0%		

Source: IMP, VCSC; <sup>(1)</sup> OEM, exports and trading goods

Figure 2: IMP's winning value in hospital tender and hospital revenue (our estimates)



Source: Drug Administration of Vietnam, VCSC (Winning value is a good indicator of future revenue; however, winning value tends to be larger than recognized revenue in a certain year because (1) actual delivery to hospitals depends on the actual demand of the hospitals and (2) winning contracts are typically executed over one to two years)

## 2021F: We trim our earnings forecast mainly due to COVID-19 resurgence and IMP4's late commencement

Figure 3: VCSC's 2021 forecasts

VND bn	2020	2021F old	2021F new	2021F new YoY	VCSC comments on new 2021F
<b>Net revenue</b>	<b>1,369</b>	<b>1,794</b>	<b>1,699</b>	<b>24%</b>	Pharmacy revenue to grow 10% off a low base and contribute 51% to in-house product revenue.  Hospital revenue to surge 55% thanks to IMP's broadening market share in this channel.  In 2021, we expect IMP will see more benefits from Circular 15's stipulation that PIC/S-GMP drugs granted by non-ICH members will be replaced by EU-GMP drugs and PIC/S-GMP drugs granted by ICH members. We note that successful bids of PIC/S-GMP drugs granted by non-ICH members before October 2019 — which was when Circular 15 became effective — would continue to be delivered until the contracts expire (these contracts typically span one to two years).  We curtail our forecast due to a late commencement of the new IMP4 factory (as mentioned on Page 1) and the recent resurgence of COVID-19 in Vietnam that will hurt pharmacy and hospital visits.
In-house products <sup>(1)</sup>	1,280	1,694	1,642	28%	We revise down our forecast as Q1 2021 results trailed our expectation for the reason we mentioned in <b>Figure 1</b> .
Others <sup>(2)</sup>	90	99	57	-37%	
<b>Total gross profits</b>	<b>547</b>	<b>736</b>	<b>703</b>	<b>28%</b>	
In-house products <sup>(1)</sup>	525	712	691	31%	
Others <sup>(2)</sup>	22	23	12	-44%	
<b>Selling expenses</b>	<b>-213</b>	<b>-286</b>	<b>-271</b>	<b>27%</b>	We expect IMP will intensify its marketing activities from Q2 2021 to stimulate sales and fend off stiffening competition.
<b>G&amp;A expenses</b>	<b>-71</b>	<b>-97</b>	<b>-92</b>	<b>29%</b>	In 2020, IMP imposed strict cost controls — including labor costs. We expect the situation will normalize in 2020.
<b>EBIT</b>	<b>263</b>	<b>353</b>	<b>340</b>	<b>29%</b>	
Non-operating items	-7	-14	-11	57%	Mainly consist of interest expenses and payment discounts.
<b>PBT</b>	<b>255</b>	<b>339</b>	<b>329</b>	<b>29%</b>	
<b>NPAT</b>	<b>210</b>	<b>271</b>	<b>263</b>	<b>25%</b>	
<b>Blended GPM</b>	<b>39.9%</b>	<b>41.0%</b>	<b>41.4%</b>		We expect GPM to narrow in the remaining quarters vs Q1 partly because of expected increases in API costs.
In-house product GPM	41.0%	42.1%	42.0%		Thanks to better utilization at the IMP2 and IMP3 factories, which will be partly offset by a projected increase in API prices.
<b>EBIT margin</b>	<b>19.2%</b>	<b>19.7%</b>	<b>20.0%</b>		
<b>NPAT margin</b>	<b>15.3%</b>	<b>15.1%</b>	<b>15.5%</b>		

Source: IMP, VCSC

<sup>(1)</sup> We assume all reported revenue deductions and promotional goods are attributed to in-house products

<sup>(2)</sup> OEM, exports and trading goods

## Valuation

We maintain our FCFE valuation approach for IMP given its simple business structure, stable revenue stream and expected robust cash generation.

In order to factor in the dilution impact of IMP's ESOP issuances from the perspective of an existing shareholder, we assign our projected FCFE with weightings that reflect the cumulative dilution of projected future ESOP issuances (**Figure 5**). In our five-year forecast period, we assume IMP will issue a 5% ESOP in 2023 based on its track record of carrying out 5% ESOP issuances every three years (the latest completed issuance took place in October 2020).

**Figure 4: DCF valuation for IMP**

Cost of Equity	Current	Previous	FCFE (Five Year)	VND bn
Beta <sup>(1)</sup>	0.8	0.8	PV of Free Cash Flows	898
Market risk premium %	9.9%	9.9%	PV of Terminal Val (5.0% g)	4,459
Risk Free Rate %	2.6%	3.1%	<b>PV of FCF and TV</b>	<b>5,357</b>
Cost of Equity %	10.5%	11.0%	- Minority Interest	0
			<b>Equity Value</b>	<b>5,357</b>
			Shares (million)	66.7
			<b>Value per share, VND</b>	<b>80,300</b>

Source: VCSC; <sup>(1)</sup> based on median of peer beta (two-year period)

**Figure 5: Cash flows**

VND bn	2021F	2022F	2023F	2024F	2025F
Net income	231	300	370	455	524
- Capex	-68	-68	-68	-68	-68
+ Depreciation	60	81	101	106	110
- Change in working cap	2	-153	-172	-206	-180
+ Net borrowing	99	-50	-180	0	0
+ ESOP proceeds	-	-	40	-	-
<b>FCFE + ESOP proceeds <sup>(1)</sup></b>	<b>325</b>	<b>111</b>	<b>91</b>	<b>287</b>	<b>386</b>
ESOP-adjustment weighting <sup>(2)</sup>	100%	100%	95%	95%	95%
<b>ESOP-adjusted attributed FCFE (1 x 2)</b>	<b>325</b>	<b>111</b>	<b>86</b>	<b>273</b>	<b>368</b>
<b>Present Value of attributed FCFE</b>	<b>309</b>	<b>95</b>	<b>67</b>	<b>192</b>	<b>234</b>
<b>Cumulative PV of attributed FCFE</b>	<b>309</b>	<b>404</b>	<b>471</b>	<b>664</b>	<b>898</b>

Source: VCSC

**Figure 6: Sensitivity analysis of our target price for IMP to cost of equity and terminal growth rate, ceteris paribus**

Target Price (VND)		Cost of equity (Ke)				
Terminal growth (g)		10.0%	10.5%	11.0%	11.5%	12.0%
	3.0%	71,600	66,200	61,600	57,500	54,000
	4.0%	82,700	75,600	69,500	64,300	59,800
	5.0%	98,800	88,600	<b>80,300</b>	73,400	67,500
	6.0%	124,000	108,200	95,900	86,000	78,000
	7.0%	169,200	140,700	120,300	105,000	93,000

Source: VCSC

## Comparable peers

For peer reference, we look at leading generic pharma companies in India, China and Indonesia as well as the four largest listed pharma companies in Vietnam apart from IMP.

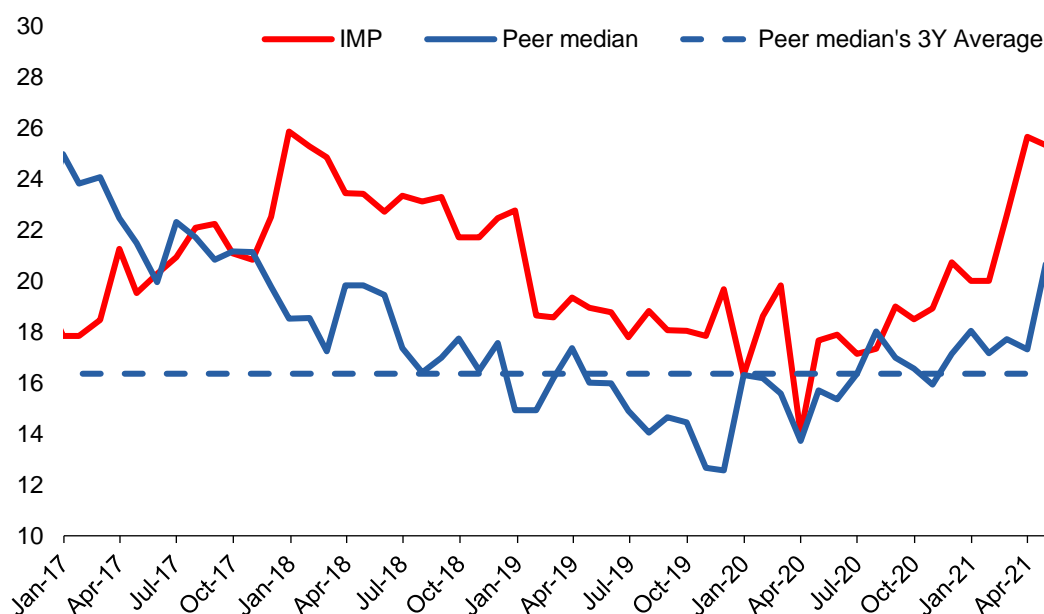
While IMP's current TTM PER is well above the current peer median and as our target price implies 2021F/2022F PERs of 23.2x/17.9x for IMP compared to a peer three-year average TTM PER of 16.4x, we believe our implied earnings multiple premium for IMP vs peers is justified by its strong competitive advantages and earnings growth outlook.

**Figure 7: Comparable peers**

USD mn Company	Country	Market cap	TTM Net Sales	YoY %	TTM NPAT	YoY %	Net D/E x	ROE %	TTM P/E	LQ P/B
<b>Regional peers</b>										
Aurobindo Pharma	India	8,150	3,208	18.3	399	19.7	0.2	18.4	21.1	3.5
Glenmark Pharmaceuticals	India	2,370	1,467	7.1	109	-16.1	0.7	13.3	22.3	2.9
Beijing SI Pharmaceutical	China	1,990	173	-33.4	58	13.6	-0.3	7.9	32.4	2.5
Shanghai Shyndec	China	1,804	1,947	6.9	108	21.0	0.2	9.1	15.8	1.4
Eris Lifesciences	India	1,337	163	14.5	48	19.8	-0.1	24.7	27.5	6.2
Zhejiang Jingxin Pharmaceu	China	1,183	485	-7.4	101	41.7	-0.4	17.6	11.1	1.9
KPC Pharma	China	1,092	1,188	1.7	83	26.4	-0.2	12.5	12.5	1.5
Guizhou Yibai Pharmaceutic	China	780	524	10.1	35	68.4	0.2	6.8	20.9	1.5
<b>Local peers</b>										
Hau Giang Pharma	Vietnam	545	169	-1.8	33	13.4	-0.5	20.2	17.0	3.3
Pymepharco	Vietnam	257	87	5.0	14	1.3	0.0	15.9	17.9	2.8
Traphaco	Vietnam	123	86	14.5	9	37.8	-0.3	17.7	15.2	2.6
Domesco	Vietnam	69	63	0.2	7	-28.7	-0.2	12.2	9.9	1.2
<b>Median</b>		<b>1,138</b>	<b>329</b>	<b>6.0</b>	<b>53</b>	<b>19.7</b>	<b>-0.1</b>	<b>14.6</b>	<b>17.4</b>	<b>2.6</b>
<b>Average</b>		<b>1,642</b>	<b>797</b>	<b>3.0</b>	<b>84</b>	<b>18.2</b>	<b>-0.1</b>	<b>14.7</b>	<b>18.6</b>	<b>2.6</b>
<b>IMP</b>	<b>Vietnam</b>	<b>206</b>	<b>59</b>	<b>-4.9</b>	<b>9</b>	<b>25.9</b>	<b>0.0</b>	<b>12.5</b>	<b>25.2</b>	<b>2.7</b>

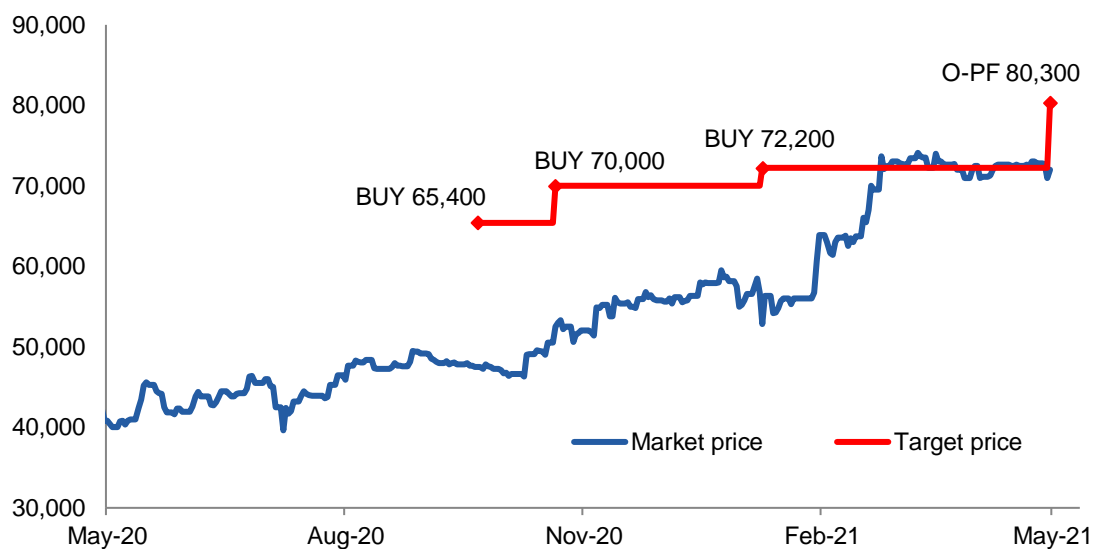
Source: Bloomberg, VCSC (data as of May 20, 2021)

**Figure 8: IMP's TTM PER vs peers**



Source: Bloomberg, VCSC

Figure 9: Recommendation history (share prices adjusted for share splits – VND/share)



Source: Bloomberg, VCSC

## Financial Statements

P&L (VND bn)	2020	2021F	2022F	2023F	B/S (VND bn)	2020	2021F	2022F	2023F
<b>Revenue</b>	<b>1,369</b>	<b>1,699</b>	<b>2,143</b>	<b>2,606</b>	Cash & equivalents	85	160	124	134
COGS	-822	-996	-1,249	-1,511	ST investments	64	200	200	100
<b>Gross Profit</b>	<b>547</b>	<b>703</b>	<b>894</b>	<b>1,095</b>	Accounts receivables	318	331	423	521
Sales & Marketing exp	-213	-271	-346	-424	Inventories	424	396	496	600
General & Admin exp	-71	-92	-114	-136	Other current assets	91	132	167	203
<b>Operating Profit</b>	<b>263</b>	<b>340</b>	<b>434</b>	<b>535</b>	<b>Total Current assets</b>	<b>982</b>	<b>1,218</b>	<b>1,409</b>	<b>1,558</b>
Financial income	10	10	16	13	Fixed assets, gross	1,463	1,531	1,599	1,667
Financial expenses	-20	-26	-27	-27	- Depreciation	-438	-498	-579	-680
- o/w interest expense	-5	-11	-8	-3	Fixed assets, net	1,026	1,034	1,020	987
Associates	0	0	0	0	LT investments	52	52	52	52
Net other income/(loss)	3	5	3	3	LT assets other	37	51	64	78
<b>Profit before Tax</b>	<b>255</b>	<b>329</b>	<b>426</b>	<b>525</b>	<b>Total LT assets</b>	<b>1,114</b>	<b>1,136</b>	<b>1,136</b>	<b>1,117</b>
Income Tax	-46	-66	-85	-105	<b>Total Assets</b>	<b>2,096</b>	<b>2,354</b>	<b>2,546</b>	<b>2,675</b>
<b>NPAT before MI</b>	<b>210</b>	<b>263</b>	<b>341</b>	<b>420</b>	Accounts payable	60	81	113	136
Minority Interest	0	0	0	0	Short-term debt	131	50	0	0
<b>NPAT less MI, reported</b>	<b>210</b>	<b>263</b>	<b>341</b>	<b>420</b>	Other ST liabilities	156	162	205	249
<b>NPAT less MI, adjusted<sup>(1)</sup></b>	<b>210</b>	<b>263</b>	<b>341</b>	<b>420</b>	Total current liabilities	347	294	318	385
EBITDA	316	400	515	637	Long-term debt	0	180	180	0
EPS reported, VND	2,847	3,468	4,498	5,471	Other LT liabilities	19	19	19	19
EPS adjusted <sup>(1)</sup> , VND	2,847	3,468	4,498	5,471	<b>Total Liabilities</b>	<b>366</b>	<b>493</b>	<b>517</b>	<b>404</b>
EPS diluted, adj <sup>(1)</sup> , VND	2,847	3,468	4,498	5,471	Preferred equity	0	0	0	0
DPS, VND	1,500	2,000	2,500	3,000	Paid-in capital	667	667	667	700
DPS/EPS (%)	52.7%	57.7%	55.6%	54.8%	Share premium	507	507	507	514
<sup>(1)</sup> Adjusted for one-offs					Retained earnings	205	337	503	706
<b>RATIOS</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>	Other equity	351	351	351	351
<b>Growth</b>					Minority interest	0	0	0	0
Revenue growth	-2.4%	24.1%	26.1%	21.6%	<b>Total equity</b>	<b>1,730</b>	<b>1,862</b>	<b>2,028</b>	<b>2,271</b>
Op profit (EBIT) growth	29.3%	29.4%	27.6%	23.4%	<b>Liabilities &amp; equity</b>	<b>2,096</b>	<b>2,354</b>	<b>2,546</b>	<b>2,675</b>
PBT growth	26.2%	28.7%	29.7%	23.2%	Y/E shares out, mn	66.7	66.7	66.7	70.0
EPS growth, adjusted	28.0%	21.8%	29.7%	21.6%	Y/E treasury shares, mn	0.0	0.0	0.0	0.0
<b>Profitability</b>					<b>CASH FLOW (VND bn)</b>	<b>2020</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>
Gross Profit Margin	39.9%	41.4%	41.7%	42.0%	<b>Beginning Cash Balance</b>	<b>75</b>	<b>85</b>	<b>160</b>	<b>124</b>
Op Profit, (EBIT) Margin	19.2%	20.0%	20.2%	20.5%	Net Income	210	263	341	420
EBITDA Margin	23.1%	23.5%	24.0%	24.4%	Dep'n & amortization	53	60	81	101
NPAT-MI Margin, adj,	15.3%	15.5%	15.9%	16.1%	Change in Working Cap	-142	2	-153	-172
ROE	12.7%	14.6%	17.5%	19.5%	Other adjustments	-25	-32	-41	-50
ROA	10.6%	11.8%	13.9%	16.1%	<b>Cash from Operations</b>	<b>96</b>	<b>293</b>	<b>229</b>	<b>299</b>
<b>Efficiency</b>					Capital Expenditures, net	-112	-68	-68	-68
Days Inventory On Hand	171.9	150.2	130.3	132.4	Investments, net	-47	-150	-13	86
Days Accts, Receivable	74.3	69.7	64.2	66.1	<b>Cash from Investments</b>	<b>-159</b>	<b>-218</b>	<b>-81</b>	<b>18</b>
Days Accts, Payable	30.7	26.6	26.3	28.1	Dividends Paid	-49	-100	-133	-167
Cash Conversion Days	215.6	193.3	168.2	170.4	Δ in Share Capital	30	0	0	40
<b>Liquidity</b>					Δ in ST debt	93	-81	-50	0
Current Ratio x	2.8	4.1	4.4	4.1	Δ in LT debt	0	180	0	-180
Quick Ratio x	1.6	2.8	2.9	2.5	Other financing C/F	0	0	0	0
Cash Ratio x	0.2	0.5	0.4	0.3	<b>Cash from Financing</b>	<b>74</b>	<b>-1</b>	<b>-183</b>	<b>-307</b>
Debt / Assets	0.1	0.1	0.1	-	<b>Net Change in Cash</b>	<b>10</b>	<b>74</b>	<b>-36</b>	<b>10</b>
Debt / Capital	0.1	0.1	0.1	-	<b>Ending Cash Balance</b>	<b>85</b>	<b>160</b>	<b>124</b>	<b>134</b>
Net Debt / Equity	-0.0	-0.1	-0.1	-0.1					
Interest Coverage x	48.6	30.6	55.5	163.0					

Source: Company data, VCSC





## VCSC Rating System

**Stock ratings** are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
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**Target prices** are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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