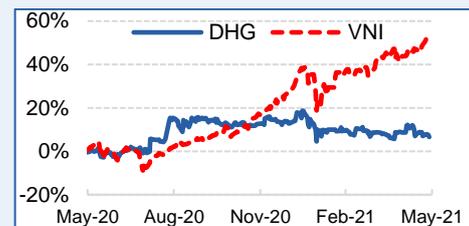


Industry:	Pharma		2020	2021F	2022F	2023F
Report Date:	May 31, 2021	Rev y/y	-3.6%	11.7%	5.3%	4.9%
Current Price:	VND94,100	EPS y/y	16.6%	5.4%	6.1%	6.4%
Target Price:	VND106,200	GPM	48.2%	46.7%	47.0%	47.4%
Last Target Price:	VND102,100	NPM	19.7%	18.6%	18.7%	19.0%
Upside to TP:	+12.9%	EV/EBITDA	11.4x	10.7x	10.0x	9.5x
Dividend Yield:	4.3%	P/Op CF	14.9x	18.2x	14.6x	13.6x
TSR:	+17.1%	P/E	17.3x	16.4x	15.5x	14.5x



			DHG	Peers*	VNI
Market Cap:	USD535mn	P/E (ttm)	16.8x	17.7x	18.1x
Foreign Room:	USD243mn	P/B (curr)	3.3x	2.4x	2.7x
ADTV30D:	USD94,000	Net D/E	-0.5x	0.0x	N/A
State Ownership:	45.2%	ROE	20.9%	13.6%	15.1x
Outstanding Shares:	130.7 mn	ROA	17.1%	10.4%	2.4x
Fully Diluted Shares:	130.7 mn				
3-yr PEG:	2.9				

Company Overview

DHG is the largest pharmaceutical company in Vietnam. Its main competitive advantage lies in its market-leading distribution network. DHG mainly produces generic drugs, with antibiotics and painkillers as major categories.

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Attractive valuations after share price correction

- We upgrade our rating from MARKET PERFORM to OUTPERFORM as we believe DHG now looks appealing with a 2021F PER of 16.4x compared to its five-year average of 18.5x and a five-year peer average of 18.9x after a 6% share price correction in the last three months.
- We raise our TP by 4% thanks to a 50-bp decrease in our house cost of equity to 12.5% and a rollover of our TP to mid-2022. Meanwhile, we cut our aggregate 2021F-2023F NPAT-MI by 5% as we lower our projected cash deposit rates partly due to DHG's plans to move its cash deposits from smaller banks to bigger banks — including foreign banks — in 2021.
- We maintain our outlook of mid-single-digit earnings growth per annum for DHG, which will be mainly driven by its longstanding, extensive presence in the pharmacy channel as well as Taisho's (DHG's controlling shareholder) product support in fast-growing lifestyle disease treatments such as neurological, cardiovascular and digestive drugs.
- We forecast an in-house product sales CAGR of 7% during 2020-2023F, including 9% in 2021F. These growth rates are slightly slower than the overall industry's due to DHG's small exposure to the faster-growing hospital channel, which accounted for ~14% of DHG's sales in 2020.
- Potential positive share price catalysts: Taisho's further ownership consolidation; better-than-expected realized business support from Taisho.

Moderate growth outlook for the pharmacy channel. We expect the pharmacy channel will grow slower than the hospital channel due to Vietnam's widening public health insurance coverage and the Government's potentially stricter enforcement on prescription drug sales in the pharmacy channel. Apart from DHG's limited hospital revenue, the fact that prescription drugs (mainly antibiotics) account for ~50% of DHG's in-house product revenue is another factor that could curb its sales growth.

New Japan-GMP factory to expand DHG's addressable market in the hospital channel; however, this factory will not contribute revenue until 2025, per DHG's plan. Recently, DHG announced the establishment of a new beta-lactam factory that will produce antibiotics such as penicillin and cephalosporin under the Japan-GMP standard (a top-tier manufacturing standard). This factory's products will be able to participate in the high-quality tiers (Tier 1 and Tier 2) in the hospital channel's drug tender. Currently, the majority of DHG's hospital revenue comes from Tier 3 or lower. Nevertheless, this new factory is set to commence in late 2024; as such, we do not expect any significant improvements in DHG's hospital revenue in the near term — especially in terms of revenue from high drug tiers. In 2020, DHG's winning value in the Tier 2 of hospital drug tender reached merely USD2.5mn (+158% YoY), which was insignificant vs DHG's 2020 in-house product revenue of USD142mn.

Q1 2021: Solid earnings growth despite last year's high base

Figure 1: DHG's Q1 2021 results

VND bn	Q1 2020	Q1 2021	YoY	VCSC comments
Net revenue	858	1,017	19%	
In-house products	763	803	5%	Q1 2021's growth is encouraging given that the aggressive stockpiling of pharmacies ahead of social distancing restrictions due to the emerging COVID-19 pandemic in March 2020 made Q1 2020 a high comparative base, in our view.
Trading and others	95	215	125%	Due to DHG's intensified offerings of promotional goods for pharmacies.
Gross profits	423	450	6%	
In-house products	417	444	6%	
Trading and others	6	6	8%	
SG&A expenses	-234	-226	-3%	This YoY decline could be due to fewer marketing activities in Q1 2021 amid the resurgence of COVID-19, in our view.
EBIT	190	225	19%	
Net interest income	32	28	-12%	Mainly because of lower deposit rates as DHG is moving its cash deposits from smaller banks to bigger banks — including foreign banks.
Net other non-operating items	-26	-24	-7%	
PBT	197	230	17%	
NPAT-MI	177	204	15%	
EBITDA	211	247	17%	
GPM	49.3%	44.3%		
In-house products	54.7%	55.3%		Thanks to economies of scale and a better product mix, per management. Based on our discussion with DHG, while prices of active pharmaceutical ingredients (API) are advancing due to elevated logistics costs and China's environmental crackdown, DHG already secured a large portion of its inputs for H1 2021, thereby mitigating this cost pressure.
Trading & others	6.2%	3.0%		Larger contribution from promotional goods.
SG&A/In-house products revenue	-30.6%	-28.1%		
EBIT margin	22.1%	22.1%		
EBITDA margin	24.6%	24.3%		
NPAT-MI margin	20.6%	20.1%		

Source: DHG, VCSC

2021F: We trim our NPAT-MI forecast by 5% primarily owing to lower cash deposit rates

Figure 2: VCSC's 2021 forecasts

VND bn	2020	Old 2021F	New 2021F	New 2021F YoY	VCSC comments on New 2021F
Revenue	3,756	3,985	4,195	12%	
In-house products	3,310	3,540	3,616	9%	We forecast a rebound in 2021 off a low 2020 base when COVID-19 hurt traffic to pharmacies in Q2-Q4 2020. After 2021, we forecast mid-single-digit annual growth given DHG's small exposure to the faster-growing hospital channel while there is limited headroom for the company to expand its already saturated pharmacy distribution coverage.
Trading & others	445	445	579	30%	At the same time, Taisho's product support is in its early stages; as such, it should have a non-material impact on revenue at this point, in our view. Q1 2021 results tracked ahead our expectation. That said, trading revenue generates very thin margins; therefore, its fluctuations do not have a material impact on DHG's earnings.
Gross profit	1,811	1,926	1,959	8%	
In-house products	1,784	1,903	1,938	9%	
Trading & others	27	22	21	-21%	
SG&A expenses	-1,002	-1,076	-1,095	9%	
EBIT	809	849	864	7%	
Net interest income	120	148	89	-25%	We cut our projected interest income from VND162bn (USD7mn) to VND102bn (USD4.4mn) as DHG plans to move its cash deposits from smaller banks to bigger banks — including foreign banks.
Net other non-operating items	-108	-82	-87	-19%	In 2020, DHG recognized VND16bn (USD690,000) of provision expenses for financial investments.
PBT	821	916	866	6%	
NPAT	739	824	779	6%	
NPAT-MI	740	824	779	6%	
EBITDA	897	946	961	7%	
GPM	48.2%	48.3%	46.7%		
In-house products	53.9%	53.8%	53.6%		We expect the rally in API prices to have a more pronounced impact on GPM in H2 2021. Nevertheless, we forecast a stable GPM YoY as we assume economies of scale and DHG's ability to pass costs onto consumers will offset the spike in API prices.
Trading & others	6.1%	5.0%	3.7%		
SG&A/In-house products revenue	30.3%	30.4%	30.3%		We expect DHG to intensify its marketing spending in the pharmacy channel from Q2 2021 to stimulate sales and fend off stiffening competition.
EBIT margin	21.5%	21.3%	20.6%		
EBITDA margin	23.9%	23.7%	22.9%		
NPAT-MI margin	19.7%	20.7%	18.6%		

Source: DHG, VCSC

Valuation

We adopt a DCF valuation approach for DHG given its simple business structure, stable revenue stream and robust cash generation.

Figure 3: DCF valuation for DHG

Cost of Capital	Previous Report	Revised	FCFF (Five Year)	VND bn
Beta	0.8	0.8	PV of Free Cash Flows	3,173
Market risk premium %	9.9	9.9	PV of Terminal Val (2.5% g)	8,674
Risk Free Rate %	3.1	2.6	PV of FCF and TV	11,848
Cost of Equity %	10.8	10.3	+ Cash & ST investments	2,486
Cost of Debt %	5.0	5.0	- Debt	-439
Debt %	8.5	8.5	- Minority Interest	-4
Equity %	91.5	91.5	Equity Value	13,892
Corporate Tax Rate %	11.0	11.0	Shares (million)	130.7
WACC %	10.3	9.8	Price per share, VND	106,200
			2021F/2022F PER @ TP	18.5x/17.4x

Source: VCSC

Figure 4: Cash flows (FCFF)

VND bn	2021F	2022F	2023F	2024F	2025F
Earnings before interest & tax	849	901	956	1,012	1,068
- Tax	-88	-94	-99	-115	-121
+ Depreciation	97	107	114	120	128
- Capex	-101	-65	-68	-71	-74
- Working cap increase	-170	-60	-59	-58	-55
Free cash flows (FCF)	587	790	844	889	945
Present value of FCF	560	686	667	640	620
Total PV of FCF	560	1,246	1,914	2,554	3,173

Source: VCSC

Figure 5: Sensitivity analysis of our target price for DHG in relation to DCF's WACC and terminal growth rate, ceteris paribus

DHG Target Price (VND)	WACC				
	7.8%	8.8%	9.8%	10.8%	11.8%
0.5%	111,700	100,100	91,000	83,700	77,600
1.5%	123,700	108,900	97,700	88,900	81,800
2.5%	140,200	120,500	106,200	95,400	86,900
3.5%	164,300	136,500	117,500	103,700	93,200
4.5%	203,000	159,900	133,000	114,600	101,200

Source: VCSC

Comparable peers

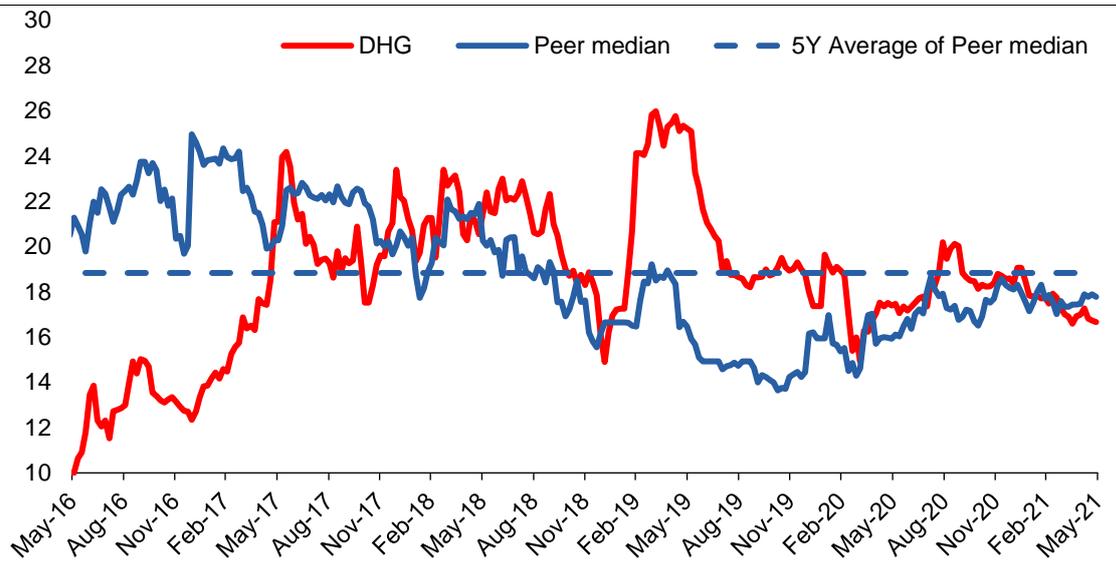
For peer references, we look at leading generic pharma companies in India, China and Indonesia as well as the four largest listed pharma companies in Vietnam apart from DHG.

Figure 6: Comparable peers

USD mn Company	Country	Market cap	TTM Net Sales	YoY %	TTM NPAT	YoY %	Net D/E x	TTM ROE %	TTM P/E	LQ P/B
Regional peers										
Aurobindo Pharma	India	8,272	3,208	18.3	399	19.7	0.2	18.4	21.2	3.6
Glenmark Pharmaceuticals	India	2,368	1,456	3.9	131	25.0	0.5	14.8	17.7	2.4
Beijing SI Pharmaceutical	China	1,876	173	-33.4	58	13.6	-0.3	7.9	30.2	2.3
Shanghai Shyndec	China	1,730	1,947	6.9	108	21.0	0.2	9.1	15.0	1.3
Eris Lifesciences	India	1,317	163	14.5	48	19.8	-0.1	24.7	26.8	6.0
Zhejiang Jingxin Pharmaceu	China	1,192	485	-7.4	101	41.7	-0.4	17.6	11.0	1.9
Kpc Pharmaceutical	China	1,163	1,188	1.7	83	26.4	-0.2	12.5	13.2	1.6
Guizhou Yibai Pharmaceutic	China	746	524	10.1	35	68.4	0.2	6.8	19.8	1.4
Local peers										
Pymepharco	Vietnam	256	87	5.0	14	1.3	0.0	15.9	17.8	2.8
Imexpharm	Vietnam	210	59	-4.9	9	25.9	0.0	11.2	25.4	2.7
Traphaco	Vietnam	126	86	14.5	9	37.8	-0.3	17.7	15.6	2.7
Domesco	Vietnam	70	63	0.2	7	-28.7	-0.2	12.2	10.0	1.2
Median		1,177	329	4.5	53	23.0	0.0	13.6	17.7	2.4
Average		1,610	787	2.5	84	22.6	0.0	14.1	18.6	2.5
DHG	Vietnam	535	169	-1.8	33	13.4	-0.5	20.9	16.8	3.3

Source: Bloomberg, VCSC (data as of May 31, 2021)

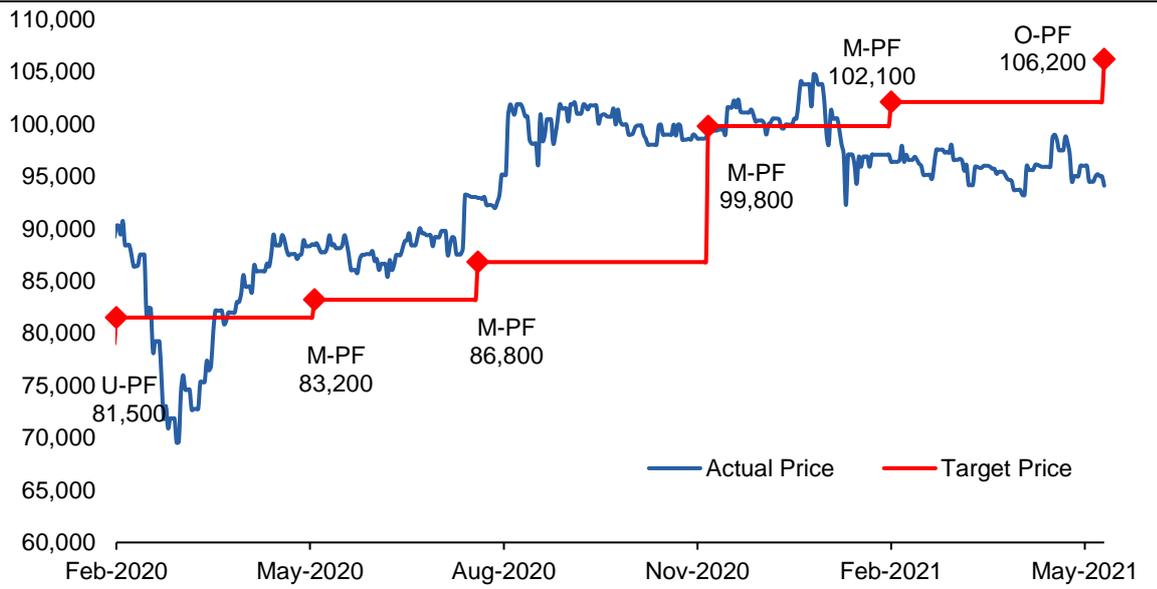
Figure 7: DHG's TTM PER vs peers



Source: Bloomberg, VCSC

Recommendation History

Figure 8: Recommendation history; share prices (VND/share) adjusted for share splits



Source: Bloomberg, VCSC

Financial Statements

P&L (VND bn)	2020	2021F	2022F	2023F
Revenue	3,756	4,195	4,416	4,634
COGS	-1,944	-2,236	-2,338	-2,440
Gross Profit	1,811	1,959	2,077	2,194
Sales & Marketing exp	-699	-805	-855	-903
General & Admin exp	-303	-289	-307	-324
Operating Profit	809	864	916	966
Financial income	140	108	116	128
Financial expenses	-119	-106	-113	-117
- o/w interest expense	-14	-12	-13	-11
Associates	-1	0	0	0
Net other income/(loss)	-9	0	0	0
Profit before Tax	821	866	919	977
Income Tax	-82	-87	-92	-98
NPAT before MI	739	779	827	880
Minority Interest	1	0	0	0
NPAT less MI, reported	740	779	827	880
NPAT less MI, adjusted⁽¹⁾	740	779	827	880

EBITDA	897	961	1,023	1,080
EPS reported, VND	5,443	5,735	6,088	6,480
EPS adjusted ⁽¹⁾ , VND	5,443	5,735	6,088	6,480
EPS diluted, adj ⁽¹⁾ , VND	5,443	5,735	6,088	6,480
DPS, VND	4,000	4,000	4,000	4,000
DPS/EPS (%)	73%	70%	66%	62%

(1) Adjusted for one-offs

RATIOS	2020	2021F	2022F	2023F
Growth				
Revenue growth	-3.6%	11.7%	5.3%	4.9%
Op profit (EBIT) growth	17.0%	6.8%	6.0%	5.5%
PBT growth	15.1%	5.5%	6.1%	6.3%
EPS growth, adjusted	16.6%	5.4%	6.1%	6.4%

Profitability	2020	2021F	2022F	2023F
Gross Profit Margin	48.2%	46.7%	47.0%	47.4%
Op Profit, (EBIT) Margin	21.5%	20.6%	20.7%	20.9%
EBITDA Margin	23.9%	22.9%	23.2%	23.3%
NPAT-MI Margin, adj,	19.7%	18.6%	18.7%	19.0%
ROE	21.3%	21.2%	21.1%	20.8%
ROA	17.2%	17.2%	17.4%	17.5%

Efficiency	2020	2021F	2022F	2023F
Days Inventory On Hand	145.7	137.5	136.9	137.1
Days Accts, Receivable	51.4	44.1	43.9	43.9
Days Accts, Payable	33.2	31.2	21.2	21.2
Cash Conversion Days	163.8	150.4	159.6	159.8

Liquidity (x)	2020	2021F	2022F	2023F
Current Ratio	4.3	4.8	5.3	6.1
Quick Ratio	3.2	3.6	4.1	4.7
Cash Ratio	2.6	3.0	3.4	3.9
Debt / Assets	0.0	0.1	0.1	0.0
Debt / Capital	0.1	0.1	0.1	0.0
Net Debt / Equity	-0.5	-0.5	-0.6	-0.6
Interest Coverage	57.7	70.6	70.3	85.9

Source: Company data, VCSC

B/S (VND bn)	2020	2021F	2022F	2023F
Cash & equivalents	73	65	86	60
ST investment	2,074	2,200	2,400	2,700
Accounts receivable	496	517	544	571
Inventories	827	858	897	936
Other current assets	11	11	11	11
Total Current assets	3,481	3,651	3,939	4,278
Fixed assets, gross	1,723	1,824	1,889	1,957
- Depreciation	-807	-904	-1,011	-1,125
Fixed assets, net	916	920	878	832
LT investment	4	4	4	4
LT assets other	47	47	47	47
Total LT assets	967	971	929	883
Total Assets	4,448	4,622	4,867	5,160

Accounts payable	252	135	141	147
Short-term debt	212	277	243	206
Other ST liabilities	352	352	352	352
Total current liabilities	816	764	736	705
Long term debt	0	0	0	0
Other LT liabilities	63	63	63	63
Total Liabilities	879	827	799	768

Preferred Equity	0	0	0	0
Paid in capital	1,307	1,307	1,307	1,307
Share premium	7	7	7	7
Retained earnings	770	997	1,270	1,594
Other equity	1,480	1,480	1,480	1,480
Minority interest	4	4	4	4
Total equity	3,568	3,795	4,068	4,392
Liabilities & equity	4,448	4,622	4,867	5,160

Y/E shares out, mn	130.7	130.7	130.7	130.7
Y/E treasury shares, mn	0.0	0.0	0.0	0.0

CASH FLOW (VND bn)	2020	2021F	2022F	2023F
Beginning Cash Balance	70	73	65	86
Net Income	740	779	827	880
Dep, & amortization	88	97	107	114
Chge in Working Cap	126	-170	-60	-59
Other adjustments	-128	-29	-31	-32
Cash from Operations	826	677	843	901

Capital Expenditures, net	-89	-101	-65	-68
Investments, net	-159	-126	-200	-300
Cash from Investments	-248	-227	-265	-368

Dividends Paid	-523	-523	-523	-523
Δ in Share Capital	0	0	0	0
Δ in LT debt	0	0	0	0
Δ in ST debt	-52	65	-34	-37
Other financing C/F	0	0	0	0
Cash from Financing	-575	-458	-557	-560

Net Change in Cash	3	-8	21	-26
Ending Cash Balance	73	65	86	60

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%
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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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