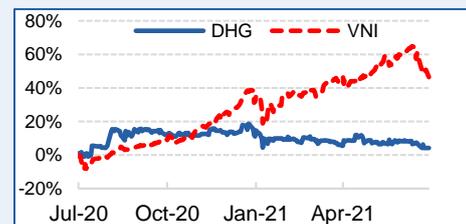


Industry:	Pharma		2020	H1/2021	2021F
Report Date:	July 20, 2021	Rev Growth	-3.6%	17.1%	11.7%
Current Price:	VND93,000	EPS Growth	16.6%	11.9%	5.4%
Target Price**:	VND106,200	GPM	48.2%	46.5%	46.7%
Upside to TP:	+14.2%	NPM	19.7%	20.6%	18.6%
Dividend Yield:	4.3%	EV/EBITDA	11.7x	N/A	10.9x
TSR:	+18.5%	P/CFO	14.7x	N/A	18.0x
Rating**:	OUTPERFORM	P/E	17.1x	N/A	16.2x



		DHG	Peers*	VNI
Market Cap:	USD534mn			
Foreign Room:	USD242mn	P/E (ttm)	16.3x	18.0x
ADTV30D:	USD79,300	P/B (curr)	3.6x	2.3x
State Ownership:	43.3%	Net D/E	-0.5x	0.0%
Outstanding Shares:	130.7 mn	ROE	23.5%	13.6%
Fully Diluted Shares:	130.7 mn	ROA	17.6%	10.7%
3-yr PEG	2.9			2.4%

**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.

Son Tran  
 Senior Analyst  
[son.tran@vcsc.com.vn](mailto:son.tran@vcsc.com.vn)  
 +8428 3914 3588 ext. 185

Phap Dang, CFA  
 Associate Director  
[phap.dang@vcsc.com.vn](mailto:phap.dang@vcsc.com.vn)  
 +8428 3914 3588 ext. 143

## Q2 sales grow off a low base — results in line

- DHG released its Q2 2021 results with net revenue of VND948bn (USD411mn; +16% YoY) and NPAT-MI of VND201bn (USD8.7mn; +8% YoY). For H1 2021, net revenue reached VND2tn (USD85mn; +17% YoY) while NPAT-MI amounted to VND405bn (USD18mn; +12% YoY), which completed 47% and 52% of our respective full-year forecasts. These results were in line with our expectations. That said, given the potential negative impact from the current COVID-19 outbreak on pharmacy visits, we see potential downside risk to our current forecasts — pending a fuller review — given that the pharmacy channel accounts for ~90% of DHG's revenue.
- In-house product revenue (83% and 98% of DHG's revenue and gross profit in H1 2021, respectively) increased 10% YoY in Q2 2021 from a low Q2 2020 base that was hurt by pharmacies digesting their stockpiles after they stocked up in Q1 2020 ahead of social distancing restrictions.
- Per DHG, after social distancing restrictions were imposed in July 2021 in the southwest region — one of DHG's key markets — its sales started to feel some negative impact.
- In-house product GPM edged up 30 bps YoY to 54.9% in Q2 2021 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) have been advancing due to elevated logistics costs and China's environmental crackdowns, DHG secured favorable prices for a large portion of its inputs for H1 2021 production, thereby mitigating this cost pressure. The rally in API prices will likely have a more pronounced impact on GPM from H2 2021; nonetheless, we believe DHG will be able to pass some of this cost inflation onto consumers given the price inelasticity of pharmaceutical demand.
- The bottom line was also supported by soft operating expenses, which edged up only 2% YoY in Q2 2021. According to DHG, some advertising and promotional activities have been held off amid the resurgence of COVID-19.
- Meanwhile, financial income dropped 14% YoY to VND64bn (USD2.8mn) in H1 2021 mainly due to lower deposit rates as DHG moved its cash deposits from smaller banks to bigger banks — including foreign banks.

**A summary of H1 2021 financials is presented on the next page.**

DHG's H1 2021 results

VND bn	Q2 2020	Q2 2021	YoY	H1 2020	H1 2021	YoY	H1 2021 /VCSC's 2021F
<b>Net revenue</b>	<b>820</b>	<b>948</b>	<b>16%</b>	<b>1,679</b>	<b>1,965</b>	<b>17%</b>	<b>47%</b>
In-house products	756	830	10%	1,519	1,633	7%	45%
Trading and others	64	118	84%	160	332	108%	57%
<b>Gross profits</b>	<b>422</b>	<b>463</b>	<b>10%</b>	<b>845</b>	<b>914</b>	<b>8%</b>	<b>47%</b>
In-house products	413	456	10%	830	900	8%	46%
Trading and others	9	8	-10%	14	14	-3%	66%
SG&A expenses	-233	-238	2%	-466	-463	-1%	42%
<b>Operating profit</b>	<b>189</b>	<b>226</b>	<b>20%</b>	<b>378</b>	<b>450</b>	<b>19%</b>	<b>52%</b>
<b>PBT</b>	<b>205</b>	<b>223</b>	<b>9%</b>	<b>402</b>	<b>453</b>	<b>13%</b>	<b>52%</b>
<b>NPAT-MI</b>	<b>186</b>	<b>201</b>	<b>8%</b>	<b>363</b>	<b>405</b>	<b>12%</b>	<b>52%</b>
Blended GPM	51.4%	48.9%		50.3%	46.5%		
In-house product GPM	54.6%	54.9%		54.7%	55.1%		
EBIT margin	23.0%	23.8%		22.5%	22.9%		
PBT margin	25.0%	23.6%		23.9%	23.1%		
NPAT-MI margin	22.6%	21.2%		21.6%	20.6%		

Source: DHG, 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
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED, COVERAGE TERMINATED	A rating may be suspended, or coverage terminated, if fundamental information is deemed insufficient to determine a target price or investment rating or due to a reallocation of research resources. Any previous investment rating and target price are no longer in effect.

Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

**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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## Contacts

### Corporate

[www.vcsc.com.vn](http://www.vcsc.com.vn)

#### Head Office

Bitexco Financial Tower, 2 Hai Trieu Street  
District 1, HCMC  
+84 28 3914 3588

#### Transaction Office

10 Nguyen Hue Street  
District 1, HCMC  
+84 28 3914 3588

### Research

**Research Team:** +84 28 3914 3588  
[research@vcsc.com.vn](mailto:research@vcsc.com.vn)

#### Banks, Securities and Insurance

##### Long Ngo, Associate Director, ext 123

- Truc Ngo, Analyst, ext 116
- Tu Hoang, Analyst, ext 139
- Ngoc Huynh, Analyst, ext 138

#### Consumer and Pharma

##### Phap Dang, Associate Director, ext 143

- Ha Dao, Senior Analyst, ext 194
- Son Tran, Senior Analyst, ext 185
- Vinh Bui, Analyst, ext 191

#### Real Estate, Construction and Materials

##### Hong Luu, Senior Manager, ext 120

- Vy Nguyen, Manager, ext 147
- Duc Pham, Analyst, ext 174

#### Retail Client Research

##### Duc Vu, Senior Manager, ext 363

- Trung Nguyen, Senior Analyst, ext 129
- Anh Tong, Analyst, ext 363
- Ha Bui, Analyst, ext 364

### Institutional Sales and Brokerage

& Foreign Individuals

#### Dung Nguyen

+84 28 3914 3588, ext 136  
[dung.nguyen@vcsc.com.vn](mailto:dung.nguyen@vcsc.com.vn)

#### Hanoi Branch

109 Tran Hung Dao  
Hoan Kiem District, Hanoi  
+84 24 6262 6999

#### Transaction Office

236-238 Nguyen Cong Tru Street  
District 1, HCMC  
+84 28 3914 3588

#### Alastair Macdonald, Head of Research, ext 105

[alastair.macdonald@vcsc.com.vn](mailto:alastair.macdonald@vcsc.com.vn)

#### Macro

##### Luong Hoang, Manager, ext 364

- Nguyen Truong, Senior Analyst, ext 132

#### Oil & Gas and Power

##### Duong Dinh, Senior Manager, ext 140

- Tram Ngo, Manager, ext 135
- Nghia Le, Analyst, ext 181
- Duc Le, Analyst, ext 196

#### Industrials and Transportation

##### Nam Hoang, Manager, ext 124

- Dang Thai, Senior Analyst, ext 149
- Huy Phan, Analyst, ext 173

### Retail & Corporate Brokerage

Ho Chi Minh & Hanoi

#### Quynh Chau

+84 28 3914 3588, ext 222  
[quynh.chau@vcsc.com.vn](mailto:quynh.chau@vcsc.com.vn)