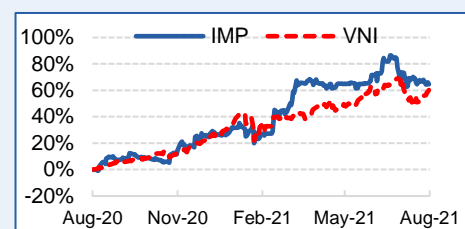




Imexpharm (IMP) [OUTPERFORM +11.3%]

Update Report

Industry:	Pharma		2020	2021F	2022F	2023F
Report Date:	August 6, 2021	Rev Growth	-2.4%	-4.1%	55.2%	28.4%
Current Price:	VND70,900	EPS Growth	28.0%	-3.4%	54.6%	27.7%
Target Price:	VND76,900	GPM	39.9%	41.2%	41.7%	42.1%
Last Target Price:	VND80,300	NPM	15.3%	15.9%	15.8%	15.9%
Upside to TP:	+8.5%	EV/EBITDA	14.7x	14.2x	9.4x	7.3x
Dividend Yield:	+2.8%	P/CFO	49.5x	17.6x	24.8x	18.9x
TSR:	+11.3%	P/E	24.9x	25.8x	16.7x	13.1x



Market Cap:	USD206mn		IMP	Peers*	VNI
Foreign Room:	USD0	P/E (ttm)	25.1x	16.3x	16.9x
ADTV30D:	USD25,000	P/B (curr)	2.8x	2.2x	2.7x
State Ownership:	22.9%	Net D/E	-0.1x	-0.1%	N/A
Outstanding Shares:	66.7 mn	ROE	12.9%	16.2%	16.1%
Fully Diluted Shares:	66.7 mn	ROA	10.2%	10.4%	2.6%
3-yr PEG:	1.0	* 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 outlook despite near-term COVID-19 headwinds

- We reiterate OUTPERFORM as we believe IMP's leading production technology and ample spare capacity along with a Government 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 target price by 4% as we lower our aggregate 2021F-2023F NPAT by 7% mainly due to a 24% downward revision to 2021F in-house product revenue given the current severe disruptions from COVID-19 on both pharmacy and hospital visits in Vietnam.
- Assuming softer COVID-19 disruptions based on Vietnam's ongoing vaccinations, we project revenue growth will strengthen in 2022 given IMP's robust winning contract value in hospitals.
- Our TP puts IMP's average 2021F-2022F PER at 22x vs a three-year peer average TTM PER of 16x, which we believe is justified by IMP's bright prospects (2020-2023F EPS CAGR of 24%).
- 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: Extended COVID-19 disruptions that would undermine pharmacy and hospital visits; heightening competition; unfavorable policy movement.

Thanks to ongoing vaccinations, we expect in-house product revenue growth to step up in 2022. Per IMP, after a 22% YoY slump in in-house product revenue in June, the current COVID-19 outbreaks crippled sales in July and into August. That said, we expect pharma spending to partially recover in the high sales season of Q4 (Q4 typically contributes ~40% to full-year in-house product sales) due to a partial ease of social distancing restrictions. As such, we forecast in-house product revenue to drop 10% YoY and 2% YoY in H2 2021 and 2021, respectively.

Robust outlook in the hospital channel as indicated by IMP's surging tender winning value. In 6M 2021, IMP won VND1.1tn (USD49mn) in contract value in hospital drug tender. 97% of this amount was attributed to tier 1 and 2 — the highest tiers of drug quality in hospitals. Despite current headwinds from COVID-19, the fact that IMP's winning value in 6M 2021 was equivalent to 120% of 2020's winning value bodes well for its medium-term growth, in our view. We forecast the hospital channel's contribution to total revenue will widen from 41% in 2020 to 64% in 2023F.

IMP's well-timed stocking and increasing factory utilization will overcome cost pressure from rising active pharmaceutical ingredient (API) prices. While API prices have been advancing due to elevated logistics costs and China's environmental crackdowns, IMP stocked up for production through Q3 2021 (and even up to Q4 2021 for some categories) at favorable prices in early 2021. Meanwhile, we forecast the utilization of IMP's EU-GMP factories will pick up from ~25% in 2020E to ~50% in 2023F. Accordingly, we project IMP's in-house product GPM to expand from 41.0% in 2020 to 42.6% in 2023F while its ROIC will climb from 16.3% in 2020 to 27.0% 2023F.

H1 2021: COVID-19, marketing expenses curb earnings

Figure 1: IMP's H1 2021 results

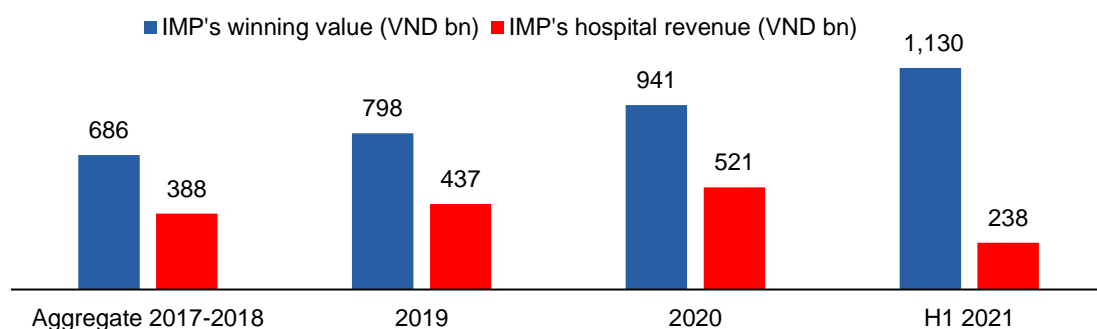
VND bn	H1 2020	H1 2021	YoY	VCSC comments
Net revenue	592	614	4%	Pharmacy and hospital revenue increased 8% and 21% YoY, respectively. In the hospital channel, IMP gained market share against imported drugs in the Tier 2 of hospital drug tenders, which was backed by IMP's advanced manufacturing standard (EU-GMP standard) and cost advantages vs imported drugs. The pharmacy and hospital channels accounted for 60% and 40% of IMP's in-house product revenue in H1 2021, respectively.
In-house products ⁽¹⁾	535	586	9%	
Others ⁽²⁾	57	28	-51%	
Total gross profits	234	261	11%	According to IMP, its in-house product revenue slumped 22% YoY in June 2021 when the Government stepped up social distancing restrictions — especially in HCMC, which is one of IMP's key markets.
In-house products ⁽¹⁾	226	255	13%	
Others ⁽²⁾	8	6	-27%	
SG&A	-121	-143	18%	Mostly due to a decrease in OEM revenue generated from Sandoz — a German pharmaceutical company.
EBIT	114	118	4%	
Non-operating items	-3	-1	-64%	
PBT	111	117	6%	
NPAT	88	91	3%	
Blended GPM	39.6%	42.5%		
In-house product GPM	42.3%	43.5%		Driven by economies of scale and a better product mix, which overcame rising API prices and a rebound in promotions for pharmacies.
SG&A/In-house product sales	-22.5%	-24.3%		Mostly due to intensified marketing activities in April and May 2021.
EBIT margin	19.2%	19.2%		
NPAT margin	14.9%	14.9%		

Source: IMP, VCSC

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

⁽²⁾ 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 cut our NPAT forecast by 21% due to worse-than-expected COVID-19 resurgence

Figure 3: VCSC's 2021 forecasts

VND bn	2020	2021F old	2021F new	2021F new YoY	VCSC comments on new 2021F
Net revenue	1,369	1,699	1,313	-4%	Hospital revenue to advance 10% thanks to IMP's broadening market share in this channel, contributing 46% to in-house product revenue. Meanwhile, we forecast a 10% drop in pharmacy revenue. We reduce our forecast due to the significant negative impact from the fourth wave of COVID-19 on pharmacy and hospital visits.
In-house products ⁽¹⁾	1,280	1,642	1,256	-2%	
Others ⁽²⁾	90	57	57	-37%	
Total gross profits	547	703	541	-1%	
In-house products ⁽¹⁾	525	691	529	1%	
Others ⁽²⁾	22	12	12	-44%	
SG&A	-284	-363	-274	-4%	
EBIT	263	340	267	2%	
Non-operating items	-7	-11	-7	-5%	Mainly consist of interest expenses and payment discounts.
PBT	255	329	261	2%	
NPAT	210	263	208	-1%	
Blended GPM	39.9%	41.4%	41.2%		Driven by economies of scale and a better product mix. Nevertheless, we expect a more pronounced impact from rising API prices on GPM in H2 2021 compared to H1 2021 that was supported by IMP's well-timed stocking (as discussed on the front page). We expect IMP's marketing activities to ease in H2 2021 given the current COVID-19 situation.
In-house product GPM	41.0%	42.0%	42.1%		
SG&A/in-house product sales	-22.2%	-22.1%	-21.8%		
EBIT margin	19.2%	20.0%	20.4%		
NPAT margin	15.3%	15.5%	15.9%		

Source: IMP, VCSC

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

⁽²⁾ OEM, exports and trading goods

2022F: Earnings to rebound strongly from low base

Figure 4: VCSC's 2022 forecasts

VND bn	2021F	2022F	YoY	VCSC comments on 2022F
Net revenue	1,313	2,037	55%	Pharmacy and hospital revenues to surge 20% and 100% off their respective low bases and contribute 42% and 58% to in-house product revenue, respectively.
In-house products ⁽¹⁾	1,256	1,966	56%	IMP's hospital revenue to be elevated by its rising winning value in the hospital channel's drug tender that is backed by its expanding EU-GMP capacity and product portfolio.
Others ⁽²⁾	57	72	26%	We assume the new factory IMP4 — which will add new product lines such as non-beta-lactam antibiotics — will come online in H2 2022 and contribute revenue of ~VND50bn (USD2.1mn).
Total gross profits	541	850	57%	
In-house products ⁽¹⁾	529	835	58%	
Others ⁽²⁾	12	15	20%	
SG&A	-274	-439	60%	Partly due to our assumption that IMP will intensify its marketing spending from a low 2021F base to cope with fierce competition in the pharmacy channel.
EBIT	267	410	53%	
Non-operating items	-7	-7	8%	Mainly consist of interest expenses and payment discounts.
PBT	261	403	55%	
NPAT	208	322	55%	
Blended GPM	41.2%	42.1%		
In-house product GPM	42.1%	42.5%		Thanks to better utilization at IMP2 and IMP3 factories, which will be partly offset by depreciation expenses at IMP4 and a projected increase in API prices.
SG&A/In-house product sales	-21.8%	-22.3%		
EBIT margin	20.4%	20.4%		
NPAT margin	15.9%	15.9%		

Source: IMP, VCSC

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

⁽²⁾ 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 6**). 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 5: DCF valuation for IMP

Cost of Equity	Current	Previous	FCFE (Five Year)	VND bn
Beta ⁽¹⁾	0.8	0.8	PV of Free Cash Flows	787
Market risk premium %	9.9%	9.9%	PV of Terminal Val (5.0% g)	4,345
Risk Free Rate %	2.6%	2.6%	PV of FCF and TV	5,131
Cost of Equity %	10.5%	10.5%	- Minority Interest	0
			Equity Value	5,131
			Shares (million)	66.7
			Value per share, VND	76,900

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

Figure 6: Cash flows

VND bn	2021F	2022F	2023F	2024F	2025F
Net income	183	284	367	457	528
- Capex	-68	-68	-68	-68	-68
+ Depreciation	60	81	101	106	110
- Change in working cap	25	-174	-219	-221	-194
+ Net borrowing	101	-90	-142	0	0
+ ESOP proceeds	-	-	40	-	-
FCFE + ESOP proceeds ⁽¹⁾	302	33	80	274	376
ESOP-adjustment weighting ⁽²⁾	100%	100%	95%	95%	95%
ESOP-adjusted attributed FCFE (1 x 2)	302	33	76	261	358
Present Value of attributed FCFE	287	28	59	184	228
Cumulative PV of attributed FCFE	287	316	375	558	787

Source: VCSC

Figure 7: 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)		9.5%	10.0%	10.5%	11.0%	11.5%
	3.0%	68,400	63,200	58,700	54,700	51,300
	4.0%	79,300	72,300	66,400	61,400	57,000
	5.0%	94,900	85,000	76,900	70,200	64,500
	6.0%	119,500	104,100	92,100	82,500	74,700
	7.0%	163,500	135,700	115,900	100,900	89,400

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.

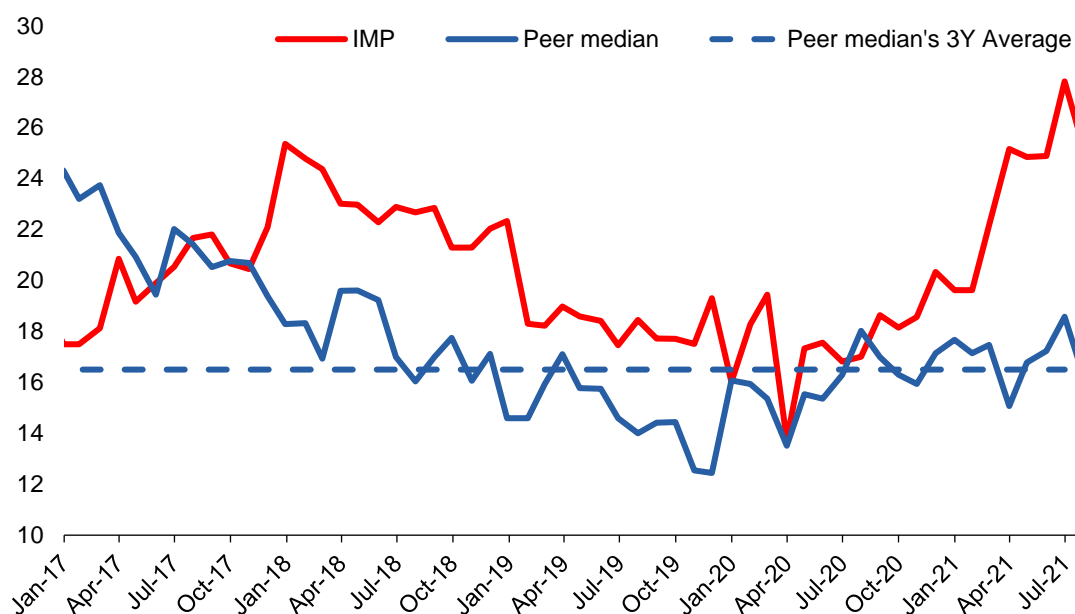
While IMP's current TTM PER is well above the current peer median and as our target price implies 2021F/2022F PERs of 28.0x/18.1x for IMP compared to a peer three-year average TTM PER of 16.5x, we believe our implied earnings multiple premium for IMP vs its peers is justified by the company's strong competitive advantages and earnings growth outlook.

Figure 8: 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
Regional peers										
Aurobindo Pharma	India	7,180	3,309	8.0	719	88.4	0.0	27.5	10.0	2.4
Glenmark Pharmaceuticals	India	2,281	1,456	3.9	131	25.0	0.5	14.8	17.4	2.4
Beijing SI Pharmaceutical	China	1,521	173	-33.4	58	13.6	-0.3	7.9	24.8	1.9
Shanghai Shyndec	China	1,498	1,947	6.9	108	21.0	0.2	9.1	13.2	1.2
Eris Lifesciences	India	1,370	163	14.5	48	19.8	-0.1	24.7	28.6	6.4
KPC Pharma	China	1,060	1,188	1.7	83	26.4	-0.2	12.5	12.2	1.5
Zhejiang Jingxin Pharma	China	1,013	485	-7.4	101	41.7	-0.4	17.6	9.5	1.6
Guizhou Yibai Pharmaceutic	China	651	524	10.1	35	68.4	0.2	6.8	17.5	1.2
Local peers										
Hau Giang Pharma	Vietnam	542	175	5.5	34	14.1	-0.5	22.8	16.5	3.6
Pymepharco	Vietnam	276	94	20.4	15	10.7	0.0	17.5	18.4	3.1
Traphaco	Vietnam	145	90	18.5	10	35.5	-0.3	18.8	16.1	2.9
Domesco	Vietnam	73	62	-3.0	6	-40.9	-0.2	10.9	12.1	1.3
Median		1,037	330	6.2	53	23.0	-0.1	16.2	16.3	2.2
Average		1,467	806	3.8	112	27.0	-0.1	15.9	16.4	2.5
IMP	Vietnam	206	60	-3.1	9	16.8	-0.1	12.9	25.1	2.8

Source: Bloomberg, VCSC (data as of August 6, 2021)

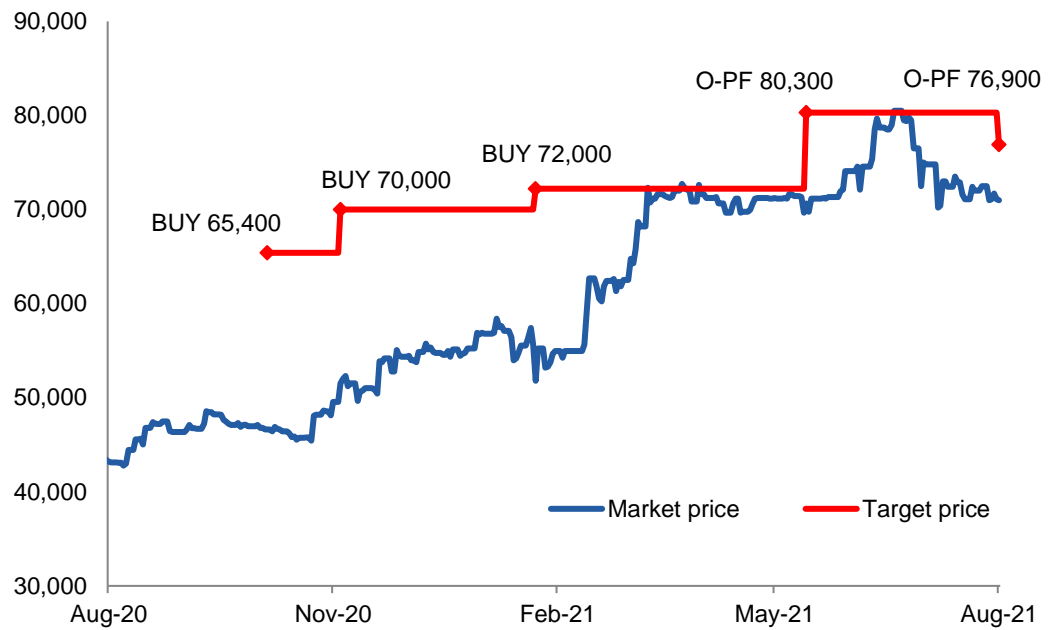
Figure 9: IMP's TTM PER vs peers



Source: Bloomberg, VCSC

History of VCSC's recommendations

Figure 10: 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
Revenue	1,369	1,313	2,037	2,616	Cash & equivalents	85	149	76	72
COGS	-822	-772	-1,188	-1,515	ST investments	64	200	150	50
Gross Profit	547	541	850	1,101	Accounts receivables	318	255	402	523
Sales & Marketing exp	-213	-210	-333	-431	Inventories	424	423	504	643
General & Admin exp	-71	-64	-106	-136	Other current assets	91	102	159	204
Operating Profit	263	267	410	535	Total Current assets	982	1,129	1,291	1,492
Financial income	10	10	16	10	Fixed assets, gross	1,463	1,531	1,599	1,667
Financial expenses	-20	-22	-26	-26	- Depreciation	-438	-498	-579	-680
- o/w interest expense	-5	-10	-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	39	61	78
Profit before Tax	255	261	403	521	Total LT assets	1,114	1,125	1,133	1,117
Income Tax	-46	-52	-81	-104	Total Assets	2,096	2,254	2,424	2,609
NPAT before MI	210	208	322	417	Accounts payable	60	63	104	136
Minority Interest	0	0	0	0	Short-term debt	131	140	50	0
NPAT less MI, reported	210	208	322	417	Other ST liabilities	156	125	195	250
NPAT less MI, adjusted⁽¹⁾	210	208	322	417	Total current liabilities	347	329	349	386
EBITDA	316	327	491	636	Long-term debt	0	92	92	0
EPS reported, VND	2,847	2,750	4,253	5,432	Other LT liabilities	19	19	19	19
EPS adjusted ⁽¹⁾ , VND	2,847	2,750	4,253	5,432	Total Liabilities	366	440	460	405
EPS diluted, adj ⁽¹⁾ , VND	2,847	2,750	4,253	5,432	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%	72.7%	58.8%	55.2%	Share premium	507	507	507	514
⁽¹⁾ Adjusted for one-offs					Retained earnings	205	289	439	639
RATIOS	2020	2021F	2022F	2023F	Other equity	351	351	351	351
Growth					Minority interest	0	0	0	0
Revenue growth	-2.4%	-4.1%	55.2%	28.4%	Total equity	1,730	1,814	1,964	2,204
Op profit (EBIT) growth	29.3%	1.8%	53.4%	30.3%	Liabilities & equity	2,096	2,254	2,424	2,609
PBT growth	26.2%	2.0%	54.6%	29.3%					
EPS growth, adjusted	28.0%	-3.4%	54.6%	27.7%	Y/E shares out, mn	66.7	66.7	66.7	70.0
Profitability					Y/E treasury shares, mn	0.0	0.0	0.0	0.0
Gross Profit Margin	39.9%	41.2%	41.7%	42.1%	CASH FLOW (VND bn)	2020	2021F	2022F	2023F
Op Profit, (EBIT) Margin	19.2%	20.4%	20.1%	20.4%	Beginning Cash Balance	75	85	149	76
EBITDA Margin	23.1%	24.9%	24.1%	24.3%	Net Income	210	208	322	417
NPAT-MI Margin, adj,	15.3%	15.9%	15.8%	15.9%	Dep'n & amortization	53	60	81	101
ROE	12.7%	11.8%	17.1%	20.0%	Change in Working Cap	-142	25	-174	-219
ROA	10.6%	9.6%	13.8%	16.6%	Other adjustments	-25	-25	-39	-50
Efficiency					Cash from Operations	96	269	191	250
Days Inventory On Hand	171.9	200.3	142.5	138.3	Capital Expenditures, net	-112	-68	-68	-68
Days Accts, Receivable	74.3	79.7	58.9	64.5	Investments, net	-47	-139	28	83
Days Accts, Payable	30.7	29.1	24.1	26.5	Cash from Investments	-159	-207	-40	15
Cash Conversion Days	215.6	250.9	177.2	176.3	Dividends Paid	-49	-100	-133	-167
Liquidity					Δ in Share Capital	30	0	0	40
Current Ratio x	2.8	3.4	3.7	3.9	Δ in ST debt	93	9	-90	-50
Quick Ratio x	1.6	2.1	2.3	2.2	Δ in LT debt	0	92	0	-92
Cash Ratio x	0.2	0.5	0.2	0.2	Other financing C/F	0	0	0	0
Debt / Assets	0.1	0.1	0.1	0.0	Cash from Financing	74	1	-223	-269
Debt / Capital	0.1	0.1	0.1	0.0					
Net Debt / Equity	-0.0	-0.1	-0.0	-0.1	Net Change in Cash	10	63	-72	-4
Interest Coverage x	48.6	26.4	50.6	182.5	Ending Cash Balance	85	149	76	72

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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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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