

Medical device industry

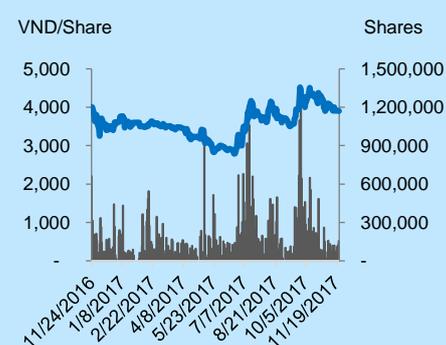
Update Report

November 2017

Recommendation	N/a
Target price (VND)	N/a
Market price (23/11/2017)	3,900
Expected profit	N/a

SHARES INFORMATION

Trading exchange	HSX
52-week price range	2,790-4,520
Market cap	439 Bil VND
Outstanding shares	112,500,171
10-day average volume	105,866
Foreign Ownership	46.37%
Foreign room	49%
Dividend per share	N/a
Dividend yield	N/a
Beta	0.2

PRICE MOVEMENTS


	YTD	1M	3M	6M
JVC	8.0%	-9.3%	8.3%	32.2%
VN-Index	38.9%	11.1%	19.3%	24.5%

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Japan Vietnam Medical Instrument JSC

Ticker: JVC

Reuters: JVC.HM

Bloomberg: JVC VN

Brighter Potential Ahead
Business Activities Started to Recover and Generate Profit

At the end of H1.2017, JVC earned VND256 billion in revenue, rising slightly by 3% yoy. Its gross profit reached VND65 billion, increasing by 45% yoy thanks to a strong surge in its gross margin from 18.1% in H1.2016 to 25.5% in H1.2017. Its selling expenses nearly tripled from VND18 billion in 1H/2016 to VND51 billion. In contrast, the general and administrative expenses tumbled by 70% yoy to VND16 billion as making no provision for doubtful debts. The company also received VND7.5 billion in advertisement allowance from the suppliers. Accordingly, JVC recorded VND4.6 billion in net profit (compared to a loss of VND46 billion in H1.2016).

Unit: Mil VND	Q1-2017	Q2-2017	1H2017	YoY
Revenue	128,101	128,157	256,258	3.1%
Cost of goods sold	(98,258)	(92,572)	(190,830)	-6.3%
Gross profit	29,843	35,585	65,428	45.3%
Financial income/loss	(790)	(669)	(1,459)	
Selling expenses	(21,307)	(29,599)	(50,906)	174.3%
General and administrative expenses	(7,736)	(8,325)	(16,061)	-73.9%
Operating profit/(loss)	10	(3,008)	(2,998)	-92.1%
Other income	1,913	2,629	4,542	
Profit/(loss) before tax	1,923	2,629	4,552	
Corporate income tax	7	44	51	
Net profit/(loss) after tax	1,930	2,673	4,603	

BVSC's assessment

JVC share, with consecutive accumulated losses, has been put under trade restrictions since August 1st, 2017. However, a full provision for doubtful debts and a gradual enhancement in its business results have shown that JVC has overcome the toughest period to recover its operating efficiency. We think the medical device segment still has high growth potential and JVC still has certain advantage when playing as exclusive agents for many big and popular device suppliers.

The risks for JVC are: (1) the relationship between JVC and the hospitals has been deteriorated by the incident and resulted in unfavorable sales result; (2) The high dependence on one supplier (Hitachi) may become harmful when this supplier changes its sales policy or when the consumers turn to favor other

enterprises. Siemens, GE and Phillips are the 3 biggest suppliers in the medical imaging device sector. However, JVC has a special advantage in CT segment as it's the sole enterprise that transfer the maintenance and device services to the agencies. This is also an advantage of JVC over other suppliers in the market when it can provide faster and cheaper healthcare services.

Business Activities Started to Recover and Generate Profit.

JVC has released its consolidated FSs for H1.2017 with improvements in revenue and profit over quarters. The company has started to gain profit compared to a deep loss in H1.2016 as making no large provision for doubtful debts.

JVC currently has 3 main operating segments:

- ▣ **Selling medical devices and consumables, including** the diagnostic imaging devices of Hitachi (Magnetic Resonance Imaging MRI, Computed Tomography CT, ultrasound, X-ray detectors and digital X-ray detectors DR, CR, etc), endoscopes, types of renal replacement devices, materials for renal replacement devices and infection control devices of Sakura.

Magnetic Resonance Imaging MRI



Computed Tomography CT



Portable X-ray detector



Stellant injector



(Source: JVC)

In this sector, JVC is the sole distributor of Hitachi (accounting for 20% market share of medical devices in Vietnam) to compete directly with the distributors of GE, Phillip and Siemens, etc. The competitive advantage of JVC over other competitors is that JVC directly imports the products from Hitachi Japan to resell to hospitals or general contractors. Meanwhile, the competitors of JVC place orders via the representative offices in Vietnam of the manufacturers. Therefore, a business model with fewer intermediates has helped JVC reduce cost, purchase the medical devices at better prices to offer more competitive selling prices. Besides large medical devices, JVC also supplies the

consumables such as Fuji and Konica's films. JVC has also added the prestigious domestic products, such as the infection control device of Sakura, into its product portfolio. This segment contributes about 70% of JVC's revenue with the profit margin to surge from 20.3% in Q1.2017 to 28% in Q2.2017.

- **Cooperating with hospitals** by purchasing and installing the medical devices at the hospital to share the profit/loss from those devices in a ratio of 7:3 or 6:4. Accordingly, JVC can enjoy ~60-70% of the gross profit from the medical devices and the hospital gets the remaining. Net income equals to revenue deducting operating expenses. The payback period of each machine is about 1.5-3 years. The cooperation agreement usually lasts from 7-10 years, with about 3-5 more years of extension. We think this is a potential business segment, bringing stable revenues, profits and cash flows to the company. As shared, JVC is a pioneer in cooperating with hospitals when having 130 investment projects with over 80 hospitals.

This segment contributes ~26% of JVS's revenue. Gross profit margin for this segment rose from 23% in Q1.2017 to 32% in Q2.2017.

- **Portable medical vehicles and repair services** only contributed ~ 4% of JVC's sales but this segment creates a special value for JVC over other competitors. Specifically, JVS has good after-sales services, with available technicians for device usage guidance and maintenance for the hospitals, helping to cut the operating cost for these hospitals. Hitachi also provides training for JVC technicians and assistances when needed. While JVC's competitors can hardly offer the same services as they must rely on the warranty policies from the suppliers. These services also help JVC to timely catch hospitals' demands on device purchasing and deeply understand about the distributed products.

At the end of H1.2017, JVC earned VND256 billion in revenue, rising slightly by 3% yoy. Its gross profit reached VND65 billion, increasing by 45% yoy thanks to a strong surge in its gross margin from 18.1% in H1.2016 to 25.5% in H1.2017.

With its role as a general contraction, JVC mostly won the projects based on the relationship of its top management. As a result, its operation will severely be affected when there is any bad thing happening to the top management. Currently, JVC has focused on enhancing its selling competence via holding seminars and building relationships with doctors (the direct product users) to help them know more about the products for better exploitations. This is the reason for its selling expenses to triple from VND18 billion in 1H/2016 to VND51 billion in 1H.2017. In contrast, the general and administrative expenses tumbled by 70% yoy to VND16 billion as making no provision for doubtful debts. The company still suffered a gross operating loss of VND3 billion and received VND7.5 billion of advertisement allowance from the suppliers. Accordingly, JVC recorded VND4.6 billion of net profit (compared to a loss of VND46 billion in H1.2016).

JVC has targeted its FY revenue at VND630 billion (+26% yoy) and net profit at VND19 billion. As usual, the company often reaches higher results in 2 ending quarters as most hospitals purchase their medical devices during this period. Therefore, we expect for higher profit results from JVC in the coming quarters.

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(Source: JVC, financial year: 1/4/2017-31/3/2018)

Gradually regaining suppliers' beliefs and solving the persistent problems in the past

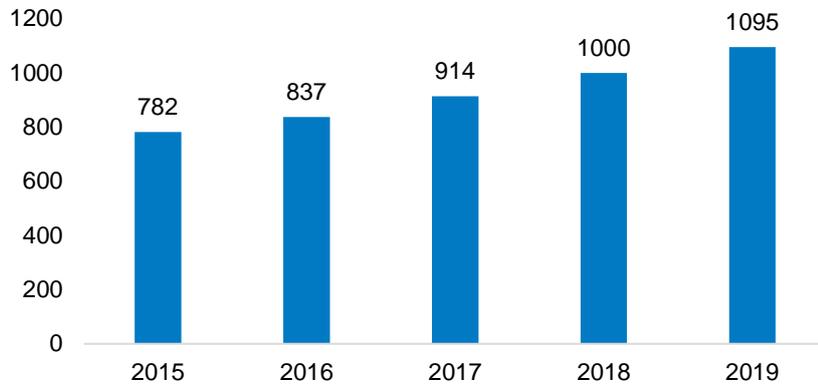
Many suppliers planned to discontinue their co-operations with JVC when the company encountered difficulties in its business operations. However, thanks to the support of its strategic partner from Japan and the efforts of its new management team, JVC has gradually regained suppliers' beliefs. Therefore, Hitachi has reallocated JVC to be its distributor in the Southern market since Mar.2017 after cutting the cooperation contract in 2016. Hitachi has also extended the deferred payment term for JVC. The company continues to solve the persistent problems in the past and make full provisions for all doubtful debts.

The medical device segment has favorable growth prospects.

The increasing per capita income leads to an increase in the healthcare demand. However, Vietnam has such an outdated health infrastructure which are often in overloaded status. Therefore, our hospitals have extremely high demands for medical devices. As estimated by Espicom Business Intelligence, medical equipment value will likely increase from about USD837 million in 2016 to USD1 billion in 2018. This positive growth prospects for the medical device industry are built based on:

- (1) An aging population structure resulted from an increase in Vietnam's average life expectancy will boost up demand for medical device usage.
- (2) Our government has focused on developing and modernizing the medical infrastructures and devices in big cities and provinces to meet the increasing demands and reduce the hospital overload. Other international organizations have also supported to enhance our healthcare quality.
- (3) The demand for replacing the old devices by the new ones with more updated technologies.

Medical device demand in Vietnam (Mil USD)



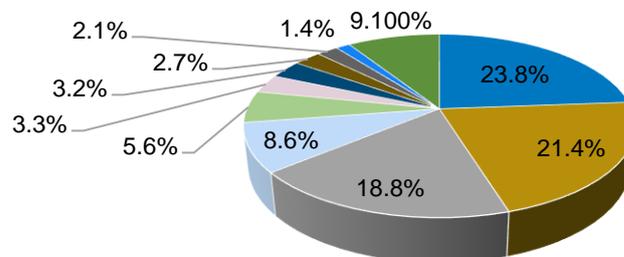
(Source: Business Monitor)

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Global diagnostic equipment market share in 2016



- Siemens
- GE
- Phillips
- Canon
- Fujifilm Holdings
- Carestream Health
- Vaex Imaging
- Hitachi
- Konica Minolta
- Shimazu
- Khác

(Source: Statista)

FINANCIAL RATIOS

Profit and loss statement				
Unit (VND billion)	2013	2014	2015	2016
Revenues	594	923	598	476
Cost of goods sold	420	617	410	536
Gross profit	174	306	188	(60)
Financial income	2	1	1	0
Financial expenses	54	48	35	116
Net income	42	178	(579)	(761)

Balance sheet				
Unit (VND billion)	2013	2014	2015	2016
Cash and cash equivalents	57	503	48	26
Accounts receivable – short-term	407	685	510	488
Inventories	456	308	265	80
Tangible fixed assets	375	335	385	395
Long-term investments	13	13	112	-
Total assets	1,630	2,285	1,673	764
Short-term loans	612	677	254	164
Long-term debt	67	177	148	89
Owners' equity	951	1,430	1,272	511
Total resources	1,630	2,285	1,673	764

Financial ratios				
Items	2013	2014	2015	2016
Growth				
Revenue growth (%)	-22.0%	55.4%	-35.2%	-20.4%
Net profit growth (%)	-75.5%	326.6%	N/a	N/a
Yield				
Gross profit margin (%)	29.3%	33.1%	31.4%	N/a
Net profit margin (%)	7.0%	19.3%	N/a	N/a
ROA (%)	2.8%	9.1%	N/a	N/a
ROE (%)	5.1%	14.9%	N/a	N/a
Capital structure				
Total liabilities to total asset (%)	0.42	0.37	0.24	0.33
Total liabilities to owners' equity (%)	0.71	0.60	0.32	0.50
Per shares				
EPS (VND/share)	734	2,105	N/a	N/a
Book value (VND/share)	16,746	16,931	11,306	4,543

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