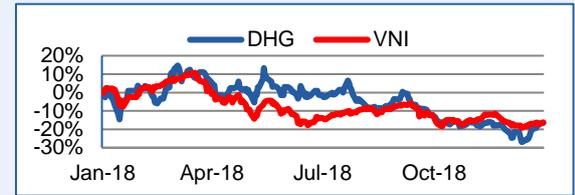


Industry:	Pharma	2017	2018
Report Date:	January 21, 2019		
Current Price:	VND84,300	Rev Growth 7.4%	-4.3%
Last Target Price:	VND85,400	EPS Growth -6.3%	1.7%
Upside:	+1.3%	GPM 43.9%	44.2%
Dividend yield:	+3.6%	NPM 15.8%	16.8%
TSR:	+4.9%	EV/EBITDA 12.2x	12.6x
Rating:	MARKET PERFORM	P/Op CF 19.6x	29.2x
		P/E 19.1x	18.7x



		DHG	Peers*	VNI
Market Cap:	\$473.0mn	18.7x	18.1x	15.9x
Foreign Room:	\$241.2mn	P/E (ttm)		
ADTV30D:	\$0.4mn	P/B (curr)	3.7x	2.4x
State Ownership:	43.0%	Net D/E	-31.1%	-15.3%
Outstanding Shares:	130.7 mn	ROE	22.1%	11.5%
Fully Diluted Shares:	130.7 mn	ROA	15.8%	7.5%
				2.4%

*including foreign and domestic peers

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 its major categories.

Dao Nguyen
Manager
dao.nguyen@vcsc.com.vn
+848 3914 3588 ext. 185

Phap Dang, CFA
Associate Director
phap.dang@vcsc.com.vn
+848 3914 3588 ext. 143

Product mix drives better-than-expected GPM

DHG released 2018 results that included revenue of VND3.9tn (USD174mn, -4% YoY) and NPAT of VND654bn (USD29mn, +2% YoY). In-house product revenue inched up 4% vs 2017, which is broadly in line with our expectation. However, 2018 EBIT surpassed our forecast by 4% mostly thanks to a higher-than-expected GPM for in-house products in Q4 2018. Given this, we see potential slight upside risk to our current 2019/2020 NPAT forecasts of VND619bn/VND646bn (USD26.6mn/USD27.7mn), pending a more extensive review. Having said that, we expect no change to our current MARKET PERFORM rating for DHG at the current share price of VND84,300.

Q4 2018 in-house product sales stayed flat vs Q4 2017. This reinforces our conservative view on DHG's volume growth due to intensifying competition in the pharmacy channel and its lack of product differentiation.

Q4 2018 trading revenue overshot our projection due to the recognition of promotional goods but was non-material to earnings. We penciled in no trading revenue for Q4 2018 as DHG ceased its third-party trading business in H2 2018 to pave way for its FOL removal. Nonetheless, in Q4 2018, DHG recognized revenue of VND252bn (USD10.8mn), or 6.5% of total 2018 revenue, from promotional goods as part of trading revenue, which generates slim margins.

Q4 2018 EBIT fell 14% YoY but beat our forecast by 14% thanks to better-than-expected in-house product GPM. In-house product GPM expanded by 1.8 ppts in Q4 2018 vs 9M 2018 to 54.0% (-1.3 ppts vs Q4 2017). This was in contrast to our expectation that Q4 2018 would contract vs 9M 2018 amid increasing input active ingredient (API) prices. Management attributed such GPM improvement to a better sales mix in Q4 2018 vs 9M 2018, driven by higher-margin categories such as vitamin supplements. Overall, 2018 EBIT declined by 4% YoY due to dwindling in-house product GPM (-2.5 ppts vs 2017 to 52.7%) caused by API price hikes, partly offset by easing SG&A expenses mostly owing to lower staff bonuses as DHG failed its full-year sales target.

Non-operating income cushioned Q4 2018 PBT. Net financial income and other income reached VND17.4bn (USD750,000) in Q4 2018 vs a loss of VND12.5bn (USD536,000) in Q4 2017. This was thanks to an increase in interest income on a ballooning cash balance and a provision reversal of VND10.8bn (USD463,000) related to a long-term financial investment. This helped Q4 2018 PBT to slip by only 1% vs Q4 2017 despite a 14% slump in EBIT.

Disproportionate tax expense allocation in 2017 boosted Q4 2018 NPAT growth of 40% YoY; effective tax rate edged up by 0.3 ppt in 2018. We note that in Q4 2017, the Tax Authority issued a decision on the calculation of DHG's tax rate, which resulted in a significant upward adjustment in the effective tax rate. In addition, all tax adjustments for FY2017 were made in Q4 2017 alone, i.e., not retrospectively adjusted for 9M 2017. This resulted in a surge in NPAT in Q4 2018 vs Q4 2017. Overall, the effective tax rate reached 11.0% in 2018 vs 10.7% in 2017.

DHG's Q4 2018 and full-year 2018 results

VND bn	Q4 2017	Q4 2018	YoY	2017	2018	YoY	% of VCSC's 2018 forecasts
Net revenue	1,354	1,218	-10%	4,064	3,888	-4%	108%
In-house products	962	967	1%	3,055	3,177	4%	101%
Trading and others	392	252	-36%	1,009	711	-30%	155%
Gross profits	564	524	-7%	1,784	1,720	-4%	103%
In-house products	532	522	-2%	1,689	1,676	-1%	103%
Trading and others	33	3	-92%	95	45	-53%	105%
Selling expenses	-243	-234	-3%	-733	-726	-1%	99%
G&A	-85	-87	2%	-318	-287	-10%	110%
Operating profit	236	203	-14%	733	707	-4%	104%
PBT	223	220	-1%	719	732	2%	105%
NPAT	145	204	40%	642	654	2%	106%

Source: DHG and VCSC

VCSC Rating and Valuation Methodology

Absolute, long-term (fundamental) rating: The recommendation is based on implied total return for the stock defined as (target price – current price)/current price + dividend yield, and is not related to market performance.

RATING	DEFINITION
BUY	Total stock return including dividends over next 12 months expected to exceed 20%
OUTPERFORM (O-PF)	Total stock return including dividends over next 12 months expected to be positive 10%-20%
MARKET PERFORM (M-PF)	Total stock return including dividends over next 12 months expected to be between negative 10% and positive 10%
UNDERPERFORM (U-PF)	Total stock return including dividends over next 12 months expected to be negative 10%-20%
SELL	Total stock return including dividends over next 12 months expected to be below negative 20%
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	A rating that happens when fundamental information is insufficient to determine an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.

Unless otherwise specified, these performance parameters only reflect capital appreciation and are set with a 12-month horizon. Future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation, thus these performance parameters should be interpreted flexibly.

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Contacts

Corporate

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

Banks and Securities

Long Ngo, Associate Director, ext 123

- Nghia Dien, Analyst, ext 138
- Son Tong, Analyst, ext 116
- Anh Dinh, Analyst, ext 139

Consumer and Pharma

Phap Dang, Associate Director, ext 143

- Dao Nguyen, Manager, ext 185
- Nghia Le, Analyst, ext 181

Real Estate, Construction and Materials

Hong Luu, Senior Manager, ext 120

- Anh Nguyen, Senior Analyst, ext 174
- Vy Nguyen, Senior Analyst, ext 147

Retail Client Research

Duc Vu, Senior Manager, ext 363

- Ha Dao, Analyst, ext 194
- Tra Vuong, Analyst, ext 365
- Ninh Chu, Analyst, ext 129

Institutional Sales and Brokerage

& Foreign Individuals

Head of Institutional Sales

Michel Tosto, M. Sc.
+84 28 3914 3588 ext 102
michel.tosto@vcsc.com.vn

Retail & Corporate Brokerage

Ho Chi Minh City

Quynh Chau
+84 28 3914 3588, ext 222
quynh.chau@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

Macro and Insurance

- Cameron Joyce, Manager, ext 163

Macro

- Luong Hoang, Senior Analyst, ext 364
- Nguyen Truong, Analyst, ext 132

Oil & Gas and Power

Duong Dinh, Senior Manager, ext 140

- Tram Ngo, Senior Analyst, ext 135
- Thanh Nguyen, Analyst, ext 173
- Nam Hoang, Analyst, ext 196

Industrials and Transportation

Lucy Huynh, Senior Manager, ext 130

- Phu Pham, Analyst, ext 124
- Dang Thai, Analyst, ext 149

Vietnamese Sales

Dung Nguyen
+84 28 3914 3588 ext 136
dung.nguyen@vcsc.com.vn

Hanoi

Quang Nguyen
+84 24 6262 6999, ext 312
quang.nguyen@vcsc.com.vn