

BSC RESEARCH

Analyst

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We recommend **Strong Buy** DBD at the target price of VND 42,800/share, upside 71%. On Jan 12th 2017, Bidiphar listed stocks on Upcom as code DBD with the reference price of VND 25,000/share, equivalent to P/E of 7.7x and P/B of 1.68x, which is relatively attractive compared with the median of peers (P/E of 13.2x and P/B of 2.15x). Bidiphar is one of the leading pharmaceutical enterprises in Vietnam on product quality, production technology, and diverse drug portfolio with high potential development. Business results are expected to improve thanks to consumption growth and the contribution from new factories under the standards PICs.

Business results. Net revenue and profit before tax in 2016 is estimated at VND 1.500 billion (+22% yoy) and VND 170 billion respectively, equivalent to EPS 2016 of VND 2,596/share. We project 2017 net revenue and net income reach VND 1.630 billion (+9% yoy) and VND 152 billion (+12% yoy) respectively, equivalent to EPS 2017 of VND 2.909/share..

Bidiphar will be the No.2 largest pharmaceutical manufacturing listed in terms of sales, just after DHG. During 9M2016, the total revenue reaches VND 1,000 billion (+14% yoy), higher than that of DMC (VND 897 billion). The most modern production technologies in the country and the specific drugs category in high value will be factors that attract attention of foreign pharmaceutical companies.

Product portfolio is diversified, the demand is expected to rise sharply. DBD's 2 main product lines are the anticancer medications and drugs applied lyophilization technology, accounting for about 27% of total revenue. The production capacity of these items continues to increase by investments in the high-tech factory Bidiphar. The consumption increases rapidly, especially in the anticancer drugs. On average, there are about 315 cases of death due to cancer every day. The number of new cases is expected to rise to 190,000 people by 2020.

Profits are expected to improve significantly. (1) Both the demand and production capacity continues to increase. (2) The selling price and profit margin will be expanded if DBD obtains the certification PICs and EU-GMP for production lines at 3 new plants. The gross profit margin and net profit margin from production and business of DBD was 37% and 10% in 2015, respectively, lower than that of Pymepharco, which owns the production lines under EU-GMP (48% and 18% in turn).

Dividends are stable. The company paid 10% and 15% dividend respectively in 2 years, 2014 and 2015. 2016 dividend is expected to be 15%.

	2012	2013	2014	2015	9T2016
Net revenues (VND Bil)	1,163	1,296	1,142	1,225	1,001
% yoy		11%	-12%	7%	14%
Total assets (VND Bil)	734	788	796	1,068	1,284
Equity (VND Bil)	269	268	309	554	780
Chartered Capital (VND Bil)		50	50	269	524
Net profit (VND Bil)	25	25	45	215	101
% yoy		0%	83%	373%	-48%
Book value (đ/cp)	53,963	53,836	11,520	13,220	14,898
Gross margin	19%	23%	19%	37%	39%
ROS	2%	2%	4%	18%	10%
ROE	18%	9%	16%	50%	17%
ROA	7%	3%	6%	23%	10%

OVERVIEW ABOUT DBD

Introduction	
Company	Binh Dinh Pharmaceutical and Medical Equipment JSC
Headquarter	498 Nguyen Thai Hoc Str., Quy Nhon City, Binh Dinh Province
Website	http://www.bidiphar.com
Phone	(84.56)3846500
Fax	(84.56)3846848
Charter capital	
Field work	Trading and production of pharmaceuticals

History	
Year	Event
1989	Pharmaceutical Factory Nghia Binh No.2 renamed Binh Dinh Pharmaceutical Factory (Bidiphar)
1994	Founded the CBF Pharma Co., Ltd
1995	Consolidated the Medicine- Equipment Binh Dinh company and the Binh Dinh Pharmaceutical factory into the Medicine-Medical Equipment Binh Dinh company
1999	Built the Pharmaceutical factory under GMP-ASEAN
2005	Founded 2 100%-owned subsidiaries: - Quy Nhon Mineral Water One member Ltd - Salt Binh Dinh One member Ltd
2006	Upgraded the pharmaceutical factory under GMP-WHO Founded Biotan Minerals Corporation
2007	Founded Bidiphar Rubber JSC
2008	Founded the Bidiphar 1 pharmaceutical JSC Bidiphar 1 contributed capital to found joint ventures Fresenius Kabi Biiiphar with German
2009	Divested CBF Pharma
2010	Converted to the one member limited company owned 100% by the provincial committees
2014	Has been in operation under the JSC model

The process of changing the charter capital

01/07/2015	Released to swap, merged with Bidiphar 1 to increase the capital from VND 269 billion to VND 419 billion
09/15/2016	Issued stocks to existing shareholders, raising the capital from VND 419 billion to VND 534 billion

No	Associated companies	Charter capital (VND billion)	Ownership
1	CTCP Cao su Bidiphar	276	35.58%

List of shareholders holding more than 5% of charter capital

No	Name	Number of shares	Ownership
1	Fund of investment and development Binh Dinh	17,460,775	33.34%

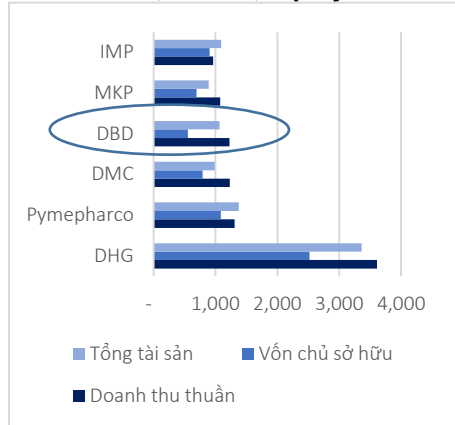
Shareholder structure on Dec 02nd 2016

No	Portfolio	Number of shares	Percentage (%)	Number of shareholders
1	Domestic shareholders	52,378,915	100%	1,626
	Individual	32,862,196	62,74%	1,620
	Institutional	19,516,719	37,26%	06
	Including: Government	17,460,755	33,34%	01
2	Foreign shareholders	0	0%	0
3	Treasury shares	85	0%	
	Total			

Source: BSC research

PROSPECTS FROM THE HIGH-TECH DRUG FACTORY

Revenue, assets, equity 2015



Source: Financial Statements, BSC research

Some drugs of Bidiphar¹ have average winning bid higher than the ones having licensed technical criteria and standards technology in the higher group (in 2014-2015)

Name	Average Price	Group	Higher price than the Generic
Lyoxatin 100	VND 2.3 m /potion	Group 3	Group 1
Lyoxatin 500	VND1.2m /potion	Group 3	Group 1
Oxaliplatin 50mg	VND1.1 m/ potion	Group 3	Group 1
Docetaxel polysorbat	VND4.2 m/ potion	Group 3	Group 1

Source: Social Insurance

Bidiphar will be the second largest pharmaceutical manufacturer listed in terms of sales, just after DHG. During 9M2016, the total revenue reached VND 1,000 billion (+14% yoy), higher than that of DMC (reaching VND 897 billion). Bidiphar is also a manufacturer No.3 in the Top 10 reputed pharmaceutical companies in 2016 by Vietnam Report in terms of financial capacity, communication, quality and distribution of drugs.

Diversified product portfolio, high demand. The company is currently operating a drug factory under GMP-WHO in Binh Dinh province. The revenue from pharmaceutical production reached VND 1.155 billion in 2015. The factory offers more than 400 drug products, divided into 19 groups of primary care including anticancer medications, antibiotics, cardiovascular drugs, gastrointestinal, hepatobiliary, psychotropic drugs and so on. It is noticeable that Bidiphar is not only a pioneer of applying the first manufacturer to apply lyophilization technology (2003) which is the most modern in the world, but also the first manufacture of anticancer medications and only one in Vietnam(in 2008).

- **High demand for anticancer drugs.** The anticancer drugs contribute about VND 80 billion in revenue 2016 and is expected to bring VND 150-180 billion in revenue 2017 due to increased sales volume. WHO put Vietnam on the top 2 on the map of the world in the number of cancer cases (group 1 consists of 50 countries). On an average day, there are 315 people who died of cancer in Vietnam. The number of new infections increased from 68,000 cases to 126,000 cases in 2000 to 2010 and is forecast to go up further 190,000 new cancer cases in 2020.

- The anticancer medicines have a high value, lower competition than the other popular Generic drugs. Because of the cancer characteristics, big research costs, and investment in technology, anticancer drugs are often of high value. The lower level of competition is caused by (1) Bidiphar is the only one anticancer drug producer in Vietnam, (2) The drug is designed according to each treatment methods, subject to the stage and disease progression. It allows Bidiphar to maintain high winning bid. Observing the winning bid price of DBD's anticancer drugs, we notice about some products of the company such as Oxaliplatin, Docetax that although the bidding is in group No.3

but the winning rate is even higher than the Generic drugs, which is equivalent to group No.1².

Bidiphar is a pioneer of applying modern technology in production.

Bidiphar is a first company of studying and manufacturing many kinds of pharmaceutical products such as injectable antibiotic (in 1992), continuous infusion of antibiotics, vitamin and acidamin (in 1997), , and anticancer medications (in 2008), and a pioneer of applying lyophilization technology, which is the most modern in Vietnam. Many Vietnamese pharmaceutical companies using that technology are Bidiphar, Pymepharco, Vinphaco, Pharmaceutical Central 1 – Pharbaco and so on. The revenue of lyophilized drug products reaches about VND 300-350 billion in 2016 (equivalent to 20% of the turnover of the company).

The production capacity rises, especially of anticancer and lyophilized drugs. DBD is building the Bidiphar high-tech factory specialized in producing 2 main product lines as cancer drugs and lyophilized injections. Currently the plant is being advised by the European experts. Accordingly, the production technology is fully automated, integration between sterile drug manufacturing technology with lyophilized and isolated technology. These are the advanced technologies which are not available in Vietnam. The production capacity of anticancer drugs is 2,500 vials/hour, 5kgs of tablets/batch and from 36,000-54,000 bottles/batch of lyophilized injections (depending on size). It is likely that the products manufactured under PICs line will be commercialized in Jan 2019. In addition, the company also plans to run 2 plants of the Betalactamand Non-betalacta under the standards EU-GMP or PICs, bringing the total number of plants in operation to 4 mills.

The selling prices and margins are expected to improve

- 70% of DBD's revenue is from distribution ETC, in which, the majority of pharmaceuticals is bidden in group No.3. This group has a high level of competition on prices due to direct competition with Vietnamese and India, South Korea enterprises. The bid price of most domestic ones fell sharply due to the circular No.36/2013/TTLT-BYT-BTC as mentioned in the previous sector reports. According to company's estimation, the average winning bid price of the product has fallen by from 10% -30% since 2012 (depending on the product line).
- If the construction of new 3 plants is recognized under the standards PICs/GMP-EU, it will be the necessary condition for the products of the company to join the bidding group of

developed countries (group No.2 and No.1) and export. This is the segment that domestic products have advantages in price (20-30% lower than the average one compared to foreign drugs). Therefore, we expect that the selling price and profit margin of DBD will be improved after the new plant is recognized the standard PICs or EU-GMP. DBD's gross profit margin and net profit margin from production and business 2015 was 37% and 10% respectively, lower than that of Pymepharco, which has production lines under the EU-GMP (48% and 18% respectively).

Auction groups under Circular NO. 36/2013/TTLT-BYT-BTC

Standard of production lines	Nation	Group
EU-GMP/PICs	ICH member	Group 1
	Not ICH member	Group 2
WHO-GMP	Owning licences to circulate in ICH members	Group 1
	Franchising from manufacturers who got PICs or EU-GMP in ICH members	Group 2
	Others	Group 3
Bioequivalence drugs		Group 4
Remaning drugs		Group 5

Size and efficiency of pharmaceutical firms in 9M2016

	DHG	DMC	DBD	MKP	IMP
Size					
Net revenues	2,608	897	1,000	922	644
Gross profit	1,181	344	393	189	257
Operating profit	535	157	124	79	81
Profit before tax	513	160	126	96	79
Net profit	469	128	101	72	64
Equity	2,652	843	780	783	909
Total assets	3,548	995	1,285	953	1,043
Tangible fixed assets (historical cost)	1,290	429	335	238	467
Efficiency					
Gross margin	45%	38%	39%	21%	40%
Operating margin	21%	18%	12%	9%	13%
Profit before tax margin	20%	18%	13%	10%	12%

Sources: Financial statements, BSC research

Distribution network. ETC accounted for about 70% revenues of Bidiphar thanks to product portfolio relating anticancer and lyophilized drugs. For OTC channel, Bidiphar owns 18 branches, 51 drugstores. It is more sparse than DHG, TRA distribution network. However, we suppose that it is consistent with ETC and special drugs orientation of the firm.

Business performance. 9M2016, Bidiphar's revenues was VND 1000 billion (+14% yoy) and net profit was VND 101 billion (-48% yoy). Profit drop sharply because in 2015, the firm recorded VND 144 billion from merger with Bidiphar 1. Therefore, we believe that the growth rate of operating profit reflects more accurate core growth of the firm. Operating profit was VND 126 billion, up 22% yoy. The firm estimates that 2016 revenues will be VND 1400-1500 billion, profit before tax will be VND 170 billion, equal to 2016 EPS of VND 2,596 /share.

2017 forecasted results. We project that 2017 revenues and net profit will be VND 1,630 billion (+9% yoy) and VND 152 billion (+12% yoy), equal to 2017 EPS of VND 2,909/share.

Risk. (1) The new production lines will not be accepted under PICs. **(2)** The firm operates inefficiently the new factories. Total investment of the first new factory is VND 293 billion, in which the firm will borrow VND 123 billion. We estimate that total interest and depreciation expenses after operating the factory will be VND 49 billion. **(3)** Interest rate increase. **(4)** Competition is fiercer. **(5)** Risk of default insurance budget will impact negatively on drug auction.

HEALTHY FINANCIAL POSITION

Revenues grew slowly. CAGR of revenues was 5% from 2012 to 2015, lower than growth rate of pharmaceutical sector. Because average selling price of drugs reduce under Circular No 36/2013/TTLT-BYT-BTC

Strong improvement after merger with Bidiphar 1 in March, 2014. Before the merger, Bidiphar 1 manufactures drugs in GMP-WHO factory, while Bidiphar is a distributor for Bidiphar 1, Fresenius Kabi Bidiphar and other firms. Gross margin of distributor was at 19-23% while this kind of margin of Bidiphar 1 was 38%. After the merger, gross margin of DBD was 39% in 9M2016.

More efficient operation. Gross margin of DBD went up from 37% in 2015 to 39% in 9M2016. Operating margin expanded from 11% in 2015 to 13% in 9M2016. However, these margins are still lower than Pymepharco which operates lyophilized drugs under EU-GMP production lines.

Abundant cash. Total of cash, equivalent cash and bank deposit was VND 323 billion, equal to 34% of current assets and 25% of total assets.

High liquidity. Current and quick ratio was 2.01x and 1.52x, respectively.

Virtually no bank debt. Total outstanding bank loans reached VND51 billion at the end of the third quarter, 2016, equal 4% of the total assets.

fundermentals	2012	2013	2014	2015	9T2016
Solvency					
Debt/Equity	0.39	0.35	0.23	0.16	0.07
Assets/Equity	2.73	2.94	2.57	1.93	1.65
Assets Structure					
Long-term Assets/Total	37%	35%	38%	28%	26%
Short-term Assets/Total	63%	65%	62%	72%	74%
Liquidity					
Quick Ratio	0.87	0.86	0.83	1.23	1.52
Current Ratio	1.06	1.03	1.03	1.60	2.01
Operational Capacity					
Days Inventory	51	93	93	75	86
Days Reveiables	15	29	35	63	96
Days Payables	46	100	120	99	79
Profitability					
Gross Profit Margin	19%	23%	19%	37%	39%
ROS	2%	2%	4%	18%	10%
ROE	18%	9%	16%	50%	17%
ROA	7%	3%	6%	23%	10%

Sources: Bidiphar, BSC research

BSC RATING SYSTEM AND VALUATION METHODOLOGY

Rating System: Our recommendations are relative to the market development and are based on the difference between the current price and our 12-month price target includes dividends over the period (Unless otherwise specified). This structure applies from 1st Jan 2014.

Valuation Methodology: The selection of methods depends on the industry, the company, the stock. Our valuations are based on a single or a combination of one of the following valuation methods: 1) Relative models (P/E, P/B, EV/EBIT, EV/EBITDA); 2) Discount models (DCF, DVMA, DDM); 3) Asset-based evaluation methods (NAV, RNAV).

Rating System	Note
STRONG BUY	If the target price is 20% higher than the market price
BUY	If the target price is 5% to 20% higher than the market price
HOLD	If the target price is 5% higher or lower than the market price
SELL	If the target price is more than 5% lower than the market price
NOT RATED	The investment rating and target price have been removed pursuant to BSC policy when BSC

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