



# Company Visit Note

DHG - PHARMACEUTICAL JSC

## BSC RESEARCH

### Equity analyst

Trần Thị Hồng Tươi  
tuoith@bsc.com.vn

On Nov, 4<sup>th</sup>, 2016, DHG was traded at VND 98,500 per share, equivalent to a P/ E FW of 14,05x and P/ B of 3,24x.

**Business results.** In 9M2016, DHG's net revenue and profit before taxes was recorded VND 2,608 billion (+6% yoy) and VND 513 billion respectively, remained unchanged compared in the same period. It is noticeable that DHG's profit margin improved significantly, rising from 40% in 9M2015 to 45% in 9M2016. However, due to an increase in sales and marketing costs (put on the level in 2014), DHG's net profit margin from production and business activities experienced almost stable. Net income was VND 469 billion (+11% yoy) thanks to boost production and consumption at the A&G Pharma One-member Limited Company (A&G Pharma). DHG strives to complete the 2016 earning target that reaches the profit before taxes of VND 750 billion or net income of VND 679 billion, EPS 2016 is VND 7,011/share. The company set themselves a goal of sales growth and average earnings at 16%/year and 11%/year from 2016 to 2020 in turn.

**Promote production and consumption at DHG Pharma Ltd, 100% owed by DHG.** DHG pharma Ltd holds 2 latest factories namely Nonbetalactam (capacity of 4 billion units/year) and Betalactam (capacity of 1 billion units/year, with first products from Q32016). As mentioned in the previous updated reports, the production activities in the two old factories No. I, II in Nguyen Van Cu have been transferred gradually to the new plant in order to enjoy tax incentives (0% for 2015-2018, 5% for 2019-2027 and 10% for 2028-2029). During the first half of 2016, DHG's total production output was 2.18 billion units, DHG Pharma Ltd produce 1.32 billion units, rising by 80.9% yoy (value of production increased by 132.27%). Net profit of DHG Pharma Ltd reached VND 265 billion in 9M2016, equivalent to the corporate income tax savings of VND 53 billion. It is likely that DHG Pharma Ltd will operate approximately 70% of design capacity by 2016 and grow that to 75% in 2017. Total corporate income tax savings from the factory is expected over VND 80 billion in 2016 and about VND 129 billion in 2017.

**Profit margins has a positive outlook.** DHG's gross profit margin went up from 42% in 6M2015 to 45% in 6M2016. (1) The proportion of manufacturing products increased from 79% in 6M2015 to 82% 6T2016. (2) Gross profit margin of manufacturing products rose from 51% in 6M2015 to 54% in 6M2016 after DHG reduced their ineffective direct wholesale segment. It is

considerable that since 2016, there has been a sharp rise in DHG's administration and advertising costs compared to 2015 because of their business performance improvement. The pre-tax profit margin was 20% in 6M2016. We believe that, after the restructuring operations in 2015 help the sales volume rise more substantially, DHG continues to maintain this level of profit margins in the future.

**Taisho supports DHG's business activities.** At present, Taisho is the leading shareholder, accounting for 24.44% of shares, plans to raise up to 49% ownership in the company. As can be seen in the updated report DHG, Taisho will support DHG (1) Restructuring the product portfolio, (2) Promoting of scientific studies about the effectiveness of their product lines; (3) Developing export markets, (4) Production cooperation. Taisho is actively reviewing and consulting DHG including upgrade the drug lines at the factory Betalactam and Nonbetamlactam (Tan Phu Thanh) from GMP-WHO to PICs, instead of building a new factory under PICs standard as before.

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

## DISCLAIMER

*The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. BSC and other companies in the BSC and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. This document is for private circulation only and is not for publication in the press or elsewhere. BSC accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user.*

### Sales & Advisory

**Duong Le**

Tel: 0439352722 (155)

Email: [duonglh@bsc.com.vn](mailto:duonglh@bsc.com.vn)

### Head of Research

**Long Tran**

Tel: 0439352722 (118)

Email: [longtt@bsc.com.vn](mailto:longtt@bsc.com.vn)

## CONTACT INFORMATION

### BSC Head Office

10th, 11th Floor – BIDV Tower  
35 Hang Voi – Hoan Kiem – Hanoi

Tel: 84 4 39352722

Fax: 84 4 22200669

Website: [www.bsc.com.vn](http://www.bsc.com.vn)

### BSC Ho Chi Minh Branch

9th Floor – 146 Nguyen Cong Tru Str  
District 1, Ho Chi Minh City

Tel: 84 8 3 8218885

Fax: 84 8 3 8218510

Website: [www.facebook.com/BIDVSecurities](http://www.facebook.com/BIDVSecurities)

### **BIDV Securities Company (BSC)**

*No part of this material may be (i) copied, photocopied or duplicated in any form by any mean or (ii) redistributed without the prior written consent of BIDV Securities Company (BSC).*