HO CHI MINH CITY SECURITIES CORPORATION

Company Update

Domesco Medical Import & Export JSC_Ticker: DMC - HOSE Mon, Dec 8th 2008

Chart 1A - Price Chart

Chart 1B: Stock Data

Stock Data as of 8 December 2008	
Price	51,000
Outstanding no of shares	13,769,999
Current room (no. of share)	778,183
52 Week high	167,000
52 week low	49,000
52 week total return	-67.28%
Market capitalization (VND)	702,270

Source: Company, HSC

Chart 1C: Key Numbers *Unit: VND million*

Item	2006	2007
Total Assets	380,219	602,866
Owers' Equity	220,342	461,317
Revenue	659,254	811,126
Pre-tax profit	54,037	64,266
Net profit	48,597	64,182

Source: Company, HSC

Chart 1D - Main Ratios

Ratio	2006	2007
Liquidity		
- Current Ratio	1.7	3.3
- Quick Ratio	0.7	1.7
Profitability		
- Gross profit margin	20.2%	21.3%
- Net profit margin	7.4%	7.9%
- ROE	25.8%	18.8%
- ROA	15.0%	13.1%
Operating Efficiency		
- Receivable Turnover	8.8	7.8
- Inventory Turnover	3.8	3.4
- Asset Turnover	2.0	1.7
- Equity Turnover	3.5	2.4

Source: Company, HSC

Health care and Pharmaceutical Team
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Q3 result comment

Chart 1 - DMC - financial snapshot first 9 months FY2008

	FY 2007 A	Q2 2008	Q3 2008	q/q	9 month result	Company Plan	% plan	Estimated FY 2008
Net sale	811,126	241,589	227,661	-5.8%	*674,065*	929,896	72.49%	*889,429*
Gross Profit	172,739	67,018	65,403	-2.4%	*184,067*	244,065	75.42%	*244,000*
Financial Income	10,616	2,681	4,110	53.3%	*7,292*			*9,200*
Financial expenses	11,893	8,947	3,065	-65.7%	*15,920*			*21,000*
Selling expenses	55,386	23,494	25,350	7.9%	*65,933*			*92,985*
Administration expense	52,279	19,215	18,102	-5.8%	*52,651*			*66,448*
Net profit from operating activities	63,789	18,043	22,996	27.4%	*56,855*			*72,767*
Pretax Profit	64,246	18,066	23,077	27.7%	*57,262*	73,500	78%	*73,148*
Net Profit	64,246	16,278	20,456	25.7%	*51,252*			*65,541*
Gross Margin	21.30%	27.74%	28.73%		27.31%			27.43%
Pretax Margin	7.92%	7.48%	10.14%		8.50%			8.22%
Net Margin	7.92%	6.74%	8.99%		7.60%			7.37%
Tax rate	0%	10%	10%	10%	10%			10%
Average Outstand share	12,800,981	13,769,999	13,769,999		13,769,999			13769999
EPS (VND)	5,019	1,182	1,486		3,722			4,760
Price								51,000
P/E								10.7
BVPS	36,092							36,282
P/B								1.4

Source - financial statements, all forecasts by HSC

***Investment conclusion** – DMC is likely to fall below sales target this year but we expect it to meet or come close to reaching profit targets. Gross margins have improved dramatically as a spike in raw material prices forced the company to cut output of low market products. A better product mix has led to higher gross margins but some of this benefit has been offset by forex losses, losses on equity sales and higher interest rate charge. In-house medicine is growing well however and this is likely to continue in FY2009 aided by lower input costs. However the lack of new capacity is a long term worry. Valuations seem reasonable for the sector as they trade a t a substantial discount to peers.*

DMC has chartered capital of VND137.69 billion, outstanding shares totaling 13.7 million and based on today's price of VND51,000 has a market capitalization of VND702 billion or US$41.3 million. We estimate FY2008 EPS of VND4,760, which values the company at a forward P/E of 10.7 times. (IMP is at 13.3 times and DHG at 16.38 times).

For the first nine months of FY2008, DMC posted net sales of VND674 billion up 19% y/y and fulfilling 72.5% of the full year target .However Q3 sales fell 5.76% q/q to VND228 billion. For the first nine months, the strategic in-house medicine segment, accounting for 50.8% of sales revenue and 85.6% of gross profit, saw sales of VND344 billion or 63.7% of the full year plan. We believe DMC may undershoot its sales target this year. Their original target called for sales of VND929 billion (up 10% y/y) and pretax profits of VND73.5 billion (up 10% y/y).

We forecast that DMC will make FY2008 sales of VND889 billion, up 9.7% y/y, pretax profits of VND73.1 billion and net profit of VND65.5 billion, up 2.1% y/y.

Despite the tough environment the company has improved its sales mix by gravitating to higher margin products. The switch is partly to cope with the spike in raw material prices, but it also fits into the firm's long-term strategy. Restructuring its product portfolio and investing on sale and distribution network helped DMC to maintain its gross profit margin at 28.7% in Q3. In the 1-H gross profit margins came to 26.58% and were 27.31% for the first nine months of FY2008. This represents a big improvement on last year when gross margin came to 21.3%. The higher margins are being driven by the in-house medicine segment which saw gross margins of 47.3% in Q3 and 45% in the 1-H compared to just 34% in FY2007.

In the first nine months, cumulative gross profit rose 48% y/y but pretax profit grew just 12% y/y to VND57.2 billion, fulfilling 78% of the full year plan. Pretax margins for the first 9 month came to 8.5%, slightly down from the 9% achieved in the same period last year. This is due to an increase in financial expense to about VND15.9 billion, up 124% y/y due to higher forex related expenses and losses incurred in the sale of their short-term equity investment portfolio. However in Q3, as forex rates stabilized and after having liquidated their entire portfolio of short-term securities, DMC's financial expense dropped 65% q/q boosting pretax margins back to a new high of 10%.

Nonetheless net profit however in the first nine months of FY2008 was almost flat, up only 0.5% year to date at VND51.25 billion due to the fact that DMC has to pay corporate income tax (CIT) at a rate of 10% this year, up from 0% in FY2007.

Looking forward we see input prices starting to decrease. Global active pharmaceutical ingredients prices (APIs), although still high have started to dip. We estimate that from the end of FY2007 to August 2008, key raw material prices rose an average of 37%, but currently the price increase has moderated significantly to just 20% up year to date.

The price of basic APIs generally increased more than more sophisticated ingredients.

And given that a large number of pharmaceutical raw materials are extracted from chemicals that have crude oil as their base the collapse in crude oil prices has had a knock on effect. Therefore we expect input prices to fall further in Q4 and into next year.

Looking at DMC in-house medicine portfolio, diabetes and anti-virus drugs saw the highest growth with y/y growth rates of 74% and 71% respectively although in absolute terms they are still insignificant. We expect diabetic drugs (up over 35% y/y) to continue to grow sharply as Vietnam has been shown to have the world highest rate of contracting the disease in FY2008. And then hormonal group sales were up 25% y/y; cardiovascular drugs saw growth of 24% y/y, and metabolic drug segment grew 21%. Antibiotics drugs, the largest segment, managed growth of 10% y/y, mostly from more expensive new generation antibiotics despite the sharp cut in output.

We feel DMC still has plenty of room for margin improvement going forward. For the first 9 months, DMC gross margins of 27.3% were far lower than IMP (44.06%) and DHG (48.1%). Currently 49% of DMC's revenues come from trading which carry tiny gross margins of about 8%. If we compare the in-house medicine segment only, the gap in gross margin is smaller; 45.8% for DMC, versus 47.7% for IMP and 55.98% for DHG. However DMC enjoys net margins of 15.1% while IMP and DHG had net margins of 14.6% and 12.4% respectively.

In terms of pricing, we saw some modest price rises but only for the imported medicines segment which accounts for about 5% of sales and saw prices rise in the range of 5-10%% so far this year. Prices in the in-house medicine segment were tightly controlled and with raw materials prices soaring DMC had no choice but to re-focus on higher margin products when input costs soared. And sharply cut the output of low margin products. For the first 9 months, output reached 679 million units, equivalent to just 64% of FY2007 output. With the result that in the first 9 months, in-house revenue was equivalent to 78% of last year's figure and 64% of this year's plan.

The largest output cuts occurred in product lines such as antibiotics and vitamins which suffered the most from raw material price surges. Antibiotics, which accounted for 47% total sale and vitamins accounting for 3% of sales have seen 9 months output reaching just 55% and 52% of FY2007 levels respectively. DMC's gross margin in antibiotics was a lowly 24.7% in FY2007. By cutting out all the low margin products, they have now boosted antibiotic segment margins to 38% for the first 9 months. All of this helped the sales value of in-house medicine for the first 9 months to grow by 16%, which is similar to the total industry growth.

Cash on hand fell from VND53.7 billion in Q2 to VND28.89 billion in Q3 as the company repaid short term loans of VND31 billion and also paid for fixed asset purchases of VND16 billion. However Interest expense doubled from VND1 billion in Q2 to VND2.5 billion in Q3, although total financial expense went down from VND8.95 to VND3.0 billion. This doubling in interest payments was due to the fact that borrowings in Q2 occurred mostly at the end of May only, while in Q3; the short-term borrowing lasted for 2.5 months with the principal being paid back only at the end of September. At the end of September, DMC's average interest rate stood at 17%.

DMC current debt including short-term loan is VND35.49 billion, up from VND19.83 billion at the end of Q3 2007. the balance sheet is fairly strong with Q3 current ratio at 2.77 times and the quick ratio to 1.35 times, an improvement from 1.7 times and 0.7 times respectively at the end of FY2007.

In Q2, DMC had the short-term security investment portfolio of VND5.4 billion and made provision for losses in securities invested of VND3.2 billion. This enabled them to add back VND0.5 billion from the over-provisioning and reduce Q3 financial expenses.

However if we eliminate this effect actual expense rose from VND5.99 billion in Q2 to VND6.24 billion in Q3. The reduced forex loss which dropped from VND1.5 billion in Q2 to VND0.8 billion in Q3 also minimized the increase in Q3 financial expenses.

The delay in establishing the new factory may not have much effect on FY2009 production. However we are quite concerned about FY2010 growth prospects as a GMP- WHO or cGMP (US standard) facility would take about 2 years to build.

In FY2009, we think DMC in-house segment can still enjoy strong sales growth for two reasons; (1) DMC continues to migrate to a higher value added product portfolio. (2) They have room to increase prices for new products, which are on average still priced 80% below the ceiling prices for suggested by the Drug Administration of Vietnam (DAV). Therefore even without any increase in available capacity, we believe DMC can grow the in-house medicine segment by 16%-18% again in FY2009 .

DMC cannot relying on trying to increase prices (where there is room) or filing for a higher ceiling or registered price in established medicine lines. And even for new products where the gap between the actual price and registered ceiling price is still wide they will keep price increases as a last resort if raw material prices spike. Even so we understand DMC will aims for a gross margin of 49-50% in FY2009 for in-house segment.

This year DMC intends to pay cash dividend of 15% to 18% of par value, with the advance payment of VND1,000 recently. We haven't heard of any specific plan the company might have to raise capital. Next year, they intend to find a multinational pharmaceutical company as a strategic partner before issuing more shares.

Appendix: Company Profile

CORPORATE ACTIONS

DMC: Dividend Advance in 2008 (stage 1)
Name of the listed firm: Domesco Medical Import Export Joint Stock Corporation
Short name: DOMESCO
Stock symbol: DMC
Stock type: Common stock
Par value: VND10,000
Ex-right date: November 26th, 2008
Record date: November 28th, 2008
Dividend pay-out ratio: 10%/par value (VND1,000/share)
Payment date: December 25th, 2008
Vietnam Securities Depository _ HCMC Branch will temporarily suspend the depository activities for DMC on November 27th, 28th & December 01st, 2008.

DMC: Buy shares back for treasury stock
Stock symbol: DMC
Volume to buy back: 200,000 shares
Owning volume after trading: 200,000 shares
Trading method: order matching
Trading period: from 20/10/2008 to 20/12/2008

DMC: Trading result (Nguyen Van Hoa)
Stock symbol: DMC
Trader: Mr. Nguyen Van Hoa
Position in the listed firm: Member of the Board of Directors
Owning volume before trading: 54,064 shares (0.39%)
Bought volume: 5,940 shares
Owning volume after trading: 60,004 shares (0.43%)
Finish date: September 23, 2008

DMC: Insider trading (Nguyen Van Hoa)
Stock symbol: DMC
Trader: Mr. Nguyen Van Hoa
Position in the listed firm: BOD Member
Current owning volume: 54,064 shares
Volume registered to be bought: 5,940 shares
Owning volume after trading: 60,004 shares
Trading period: from 09/19/2008 to 10/19/2008

Chart 1 - Income Statement

Unit: VND million	FY2006	FY2007	FY2008F (HSC)	Q1 2008	Q2 2008	Q3 2008
Net sales	659,254	811,126	877,666	204,815	241,589	227,661
Cost of goods sold	526,117	638,387	635,086	153,169	174,570	162,259
Gross profit	133,137	172,739	244,000	51,646	67,018	65,403
Net financial income	(4,709)	(1,277)	-11,800	(3,407)	(6,266)	1,045
Selling & GA expenses	75,387	107,664	159,433	32,423	42,709	43,452
Net profit from operating actitivies	53,041	63,798	72,767	15,816	18,043	22,996
Other profit	996	468	381	303	23	81
Profit before tax	54,037	64,266	73,148	16,120	18,066	23,077
Corporate income tax	5,439	84	7,607	1,601	1,788	2,621
Net profit	48,597	64,182	65,541	14,519	16,278	20,456
Profit after tax of parents' shareholders	48,597	64,182	65,541	14,519	16,278	-

Source - DMC, HSC

Scope of business

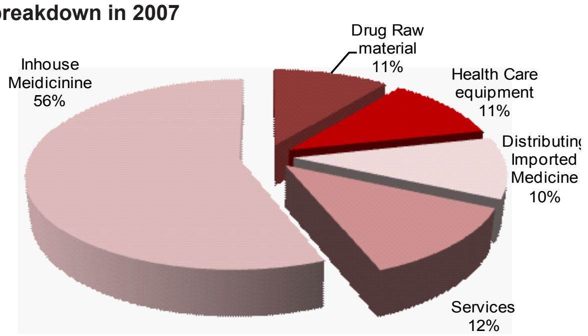
- Producing, trading and import-export in medicine, raw materials and additive to produce medicine for human; packing for pharmaceutical products, foods; raw materials, tools and equipments for health and pharmaceuticals and other sciences; chemical substance for health test and industrial use; equipments for laboratory (physics, chemistry and biology); repairing, maintaining and erecting science equipments for manufacturers, schools and laboratories.
- Producing, trading and import-export in perfume and cosmetics made from domestic and imported raw material sources.
- Marine services, verifying goods, ship sanitizing, ship dealer, marine transportation agency, ship providing and mediating, ship pilotage and good loading services at seaport, and custom declaration service.

Main products , Services and Market

- **Main products:** The company has 3 main product groups: Pharmaceutical chemistry products, drug products and nutrition products. Regarding the treatment purpose, the company produces antibiotic medicines, antiphlogistic medicines, specific remedy, restorative medicines and food.

- **Market:** Domesco is gradually expanding and diversifying markets in domestic and overseas. In domestic market, besides 4 branches in HCMC, Hanoi, Danang and Cantho, the company set up marketing teams to promote the consumption in West North, East North, North Centre and East Highland. In overseas market, the company has sent marketing representatives in Laos, Myanmar, Cambodia and been expanding to the US, Japan.... Recently, company have diversified to Africa countries. In FY2007, Domesco revenue was equivelent to about 4.48% of the total market.

Chart 2- Sales breakdown in 2007



Source - Company, HSC

SWOT analysis

SWOT	
Strength	**Weekness**
- *Distribution network:* Wide and strong national distribution network. Succeeded in creating distribution networks in Africa, Japan and SEA countries. In domestic market, DMC network ranked the fifth in terms of total sales and place sixth in terms of in-house medicine sale. DMC still broaden distribution network with the assistance from SCIC. - *Brand value:* DMC"s special remedy ranges such as cardiovascular, diabetics and new generation antibiotics are well-known in local market. - *Market Oriented:* Intensive knowledge of medicine import business helps the company build a flexible in-house portfolio structure. DMC is able to focus on remedy niche segment with less domestic competition. - *Price advantage:* Price of DMC's special remedy are just equivalent to 30%-40% of imported medicine. - *Research and development:* Young and large talent pool in research and development. The company aim is to replace imported generic product. - *Quality*: Scoring higher than industry average for some quality standard: GMP WHO for manufacturing process (in comparison with than average of GMP ASEAN for the industry), GDP, Six-sigma and pioneering at Bioequivalent test.	- Relatively weaker in high-end OTC market segment and in the North market. - DMC has not established partnership with top international drug makers yet. So there are limited opportunities to approach state-of-the-art technologies. - Lack of long term strategy for in-house products portfolio so far. The strategic brand umbrella has not yet established.
Opportunities	**Threat**
- *Fast growing market:* Vietnam pharmaceutical market can achieve the high growth rate of about 13.9% for the period from 2008 to 2012. - DMC is currently targeting at special remedy, the most potential market segment. This is also considered as the fatest growing segment in local drug market with stronger demand. Meanwhile, most of local drug manafacturers have not paid much attention to this market yet. - *Generic tendency:* The tendency to produce generic medicine has become more popular all over the world. This creates opportunities for pharmaceutical companies in developing countries to take advantage of low cost to expand market. - *International co-operation:* Thanks to its wide distribution network and strong brand name, DMC has capability to create international partnership with leading international pharmaceutical companies.	- There is a high possibility that input price will continue to fluctuate in the coming time. - Revenue from trading activities of imported mecidine is expected to gradually lessen since 2009 when foreign companies are allowed to directly import medicine to domestic market. Fiercer completion will affect the whole industry. - Capacity constraint: If the non-betalactam factory fails to come on stream in 2010 as planned, there will be a shortage of capacity. We are concerning about progress of the project, given unclear outlook of the economy in the middle term.

Business strategy

- Cooperating with domestic and overseas organization in investment, production, distribution and import pharmaceuticals.
- Continuing the modernization and industrialization of equipments for production to meet the GMP-WHO standards.
- Producing and supplying high quality products to meet customer's demands.
- Expanding business sphere and maintain quality policy to expand domestic market and increase the prestige in oversea market. Enhancing the competitiveness.

Basic information

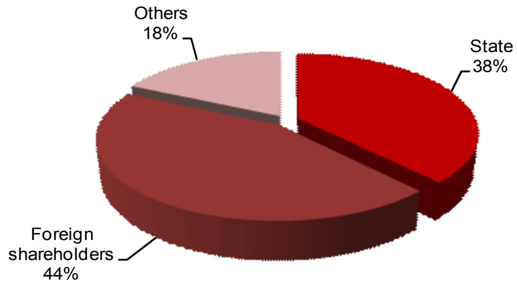
Name:	Domesco Medical Import Export Joint Stock Corporation
Abbreviation:	DMC
Symbol:	DOMESCO
Headquarter:	No. 66, 30th National Road, My Phu, Cao Lanh, Dong Thap
Telephone:	067.852278
Fax:	067.851270
Web site:	www.domesco.com
Chartered capital as of 31/12/2007	VND137,700,000,000

Ownership structure

Chart 3 - Ownership structure as of 2nd Dec 2008

Ownership structure	Number of shares	Percentage (%)
1. State	5,275,287	38.61%
2. Foreign shareholders	5,969,295	43.35%
3. Others	2,525,418	18.34%

Source - HOSE



Source - HOSE

Management

	Position	Qualifications
Board of Directors	Huynh Trung Chanh- Chairman of the BOD	University of Pharmacy
	Nguyen Thi Tien- Vice president of the BOD	Engineer of Chemistry
	Duong Van Khuyen- Board Member	University of Economics
	Nguyen Van Hoa- Board Member	Bachelor of Economics
	Trinh Hoai Giang- Board Member	MBA
Board of Management	Huynh Trung Chanh- CEO	Engineer of Marine Transportation Economics
	Nguyen Thi Tien- Deputy CEO	Engineer of Shipbuilding
Supervisory Board	Nguyen Huu Hong- Head of the Supervisory Board	University of Economics
	Ha Thi Thanh Mai- Member of the Supervisory Board	Bachelor of Economics
	Nguyen Minh Nhat- Member of the Supervisory Board	Bachelor of Economics in Finance and Credit.

Source - Company

• Historical Financial Information

Chart 4 - Balance sheet

Unit: VND million	31/12/06	31/12/07	30/06/08	30/09/08
Current Assets	271,627	452,045	394,063	349,605
Cash and cash equivalents	16,146	92,000	53,773	28,890
Short term investments	-	11,018	2,230	-
Receivables	89,944	119,159	154,100	139,583
Inventories	161,814	212,758	177,461	176,128
Other current assets	3,723	17,109	6,499	5,004
Long-term Assets	108,592	150,821	250,101	264,659
Long-term receivables	-	-	-	-
Fixed assets	105,240	130,629	157,636	171,936
Investment Properties	-	-	-	-
Long-term investments	959	19,348	89,539	89,539
Other long-term assets	2,392	843	2,926	3,184
Total Assets	380,219	602,866	644,164	614,264
Liabilities	159,389	140,857	177,908	128,446
Current Liabilities	155,493	137,388	174,737	126,039
Long-term Liabilites	3,896	3,469	3,170	2,407
Owners' Equity	220,830	462,007	466,256	485,819
Owners' Equity	220,342	461,317	465,808	485,073
Other capital and funds	488	691	449	746
Total Resources	380,219	602,865	644,164	614,264

Chart 5 - Cashflow Statement

Unit: VND million	2006	2007	Q2 2008	Q3 2008
Net cash flow from operating activities	(25,433)	8,909	12,887	22,607
Net cash flow from investment activities	(20,845)	(62,963)	(68,506)	(16,451)
Net cash flow from financing activities	46,886	129,908	43,121	(31,038)
Net cash flow of the year	607	75,854	(12,498)	(24,883)
Cash and cash equivalents at the beginning of year	15,538	16,146	66,270	53,773
Effect of foreign exchange differences				
Cash and cash equivalents at the end of year	16,146	92,000	53,773	28,890

Chart 6 - Growth rate (%)

	2006	2007
Sales growth	16.0%	23.0%
Pre-tax profit growth	19.5%	18.9%
Net profit growth	34.3%	32.1%

Chart 7 - FY 2008 plan

	FY2008
Sales (VND million)	929,896
Growth y/y (%)	*14.35%*
Profit before tax (VND million)	73,905
Growth y/y (%)	15.00%

Chart 8 - Valuation

	2006	2007
Outstanding shares	10,700,000	13,769,999
Average outstanding shares	9,900,000	12,416,733
Market price *(VND)*	51,000	51,000
Market capitalization	545,700	702,270
EPS *(VND)*	4,909	5,169
P/E	10.4	9.9
EV/ EBITDA	10.5	9.7
BVPS	20,593	33,502
P/B	2.5	1.5
Sales per share *(VND)*	61,613	58,905
P/Sales	0.8	0.9
DPS (VND)	1,080	1,800
Dividend yield	2.1%	3.5%
Payout ratio	23.8%	38.6%

Chart 9 - Operating Eficiency

	2006	2007
Receivable Turnover	8.8	7.8
Inventory Turnover	3.8	3.4
Payables Turnover	7.1	6.3
Total Asset Turnover	2.0	1.7

Chart 10 - Liquidity

	2006	2007
Current ratio	1.7	3.3
Quick ratio	0.7	1.7
Cash ratio	0.1	0.7

Chart 11 - Profitability (%)

	2006	2007
Gross profit margin	20.2%	21.3%
PBT margin	8.2%	7.9%
Net profit margin	7.4%	7.9%
ROA	15.0%	13.1%
ROE	25.8%	18.8%

Chart 12 - Dupont Analysis

	2006	2007
Net profit margin	7.4%	7.9%
Asset turnover	2.0	1.7
Equity multiplier	1.7	1.4
ROE	25.8%	18.8%

Chart 13 - Capital structure

	2006	2007
Debt to Equity	0.7	0.3
Total Debt	0.4	0.2

Global Disclaimer

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