



DHG Update- BUY

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Company Update

Recommendation

BUY
HSX: DHG
Pharmaceuticals
Target price (VND) 111,512

Current price (VND) 88,000

Expected share price return 26.7%

Expected dividend yield 3.4%

Expected total return 30.1%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	-19.4	-6.2	-18.9	-4.7
Relative	-0.7	-1.2	-0.6	7.9

Source: Bloomberg



Ownership

Taisho	51.0%
SCIC	43.3%

Stock Statistics

29-Jun-22

Bloomberg code

DHG VN

52-week range (VND) 85,100-142,500

Shares O/S (m) 131

Mkt cap (VND bn) 11,532

Mkt cap (USD m) 501

Foreign room left (%) 45.8

Est. free float (m) 5.6

3m avg daily vol (shrs) 18,600

VND/USD 23,415

Index: VNIIndex / HNX 1211.01/279.2

DHG PHARMACEUTICAL JSC (DHG VN)

DHG remains one of the leading domestic producers in the industry with a well-known brand name, pervasive distribution network and healthy company financials. We give a **BUY** recommendation on the stock with a target price of VND111,512/share, representing a 30.1% expected total return.

DHG generated VND1,065bn of net revenue, climbing by 4.7% YoY, in 1Q2022. Finished products, capturing 85% of DHG's overall net revenue, experienced decent growth of 13.6% YoY, explained by higher demand for healthcare products and drugs that support COVID-19 treatment in light of the outbreak in early months of this year. Nevertheless, we do not assume this growth may extend in the following quarters considering a relatively high base in 2Q and 3Q2021, unless the virus variants trigger additional waves of infection.

The pharmacy channel remains DHG's key revenue earner while the hospital channel accounts for c.10%. DHG currently has two Japan-GMP standardized production lines, enabling the company to enter top-ranking bids in hospital channel for generic drugs. More production lines could be upgraded to higher standards if needed. A new beta-lactam factory meeting Japan/EU-GMP standards (investment of VND627bn) may start construction this year, tentatively going into operation in 2024 and doubling the current capacity.

Thanks to a widened gross margin (47.4% in 1Q2022 vs 44.3% in 1Q2021) and a lower SG&A to net revenue ratio (21.3% in 1Q2022 vs 22.2% in 1Q2021), the company's EBT jumped by 24.5% YoY to VND286bn in 1Q2022. However, the company projects 2022 gross margin may be maintained around 2021's level, driven by increased raw material prices owing to higher logistic and transportation costs. The current SG&A to net revenue ratio is not expected to sustain for the whole year as the company plans to implement more activities, recognizing more expenses in the following quarters.

We project the company's top line growth at 5.4% YoY in 2022; in which finished products revenue may increase by 7.8% YoY. EBT is forecasted at VND903bn (+4.5% YoY), compared with the company's target of VND853bn (-1% YoY). **Combining the DCF and PER methods, our target price for this stock is VND111k/share.**

	2020	2021	2022F	2023F	2024F
Net Sales (VNDbn)	3,756	4,003	4,218	4,548	4,924
Growth	-3.6%	6.6%	5.4%	7.8%	8.3%
EBITDA (VNDbn)	799	866	905	977	1,061
EBITDA margin	21.3%	21.6%	21.4%	21.5%	21.5%
Net Profit (VNDbn)	740	777	810	869	937
Growth	16.4%	5.0%	4.3%	7.2%	7.8%
EPS (bonus-adjusted, VND)	5,443	5,720	5,997	6,432	6,934
Growth	16.6%	5.1%	4.9%	7.2%	7.8%
ROE	21.3%	21.1%	20.3%	19.5%	18.9%
ROA	17.2%	17.1%	15.9%	15.5%	16.4%
ROIC	37.6%	40.0%	31.4%	28.0%	28.8%
Net debt/EBITDA (times)	-2.4	-2.2	-1.5	-1.9	-2.1
EV/EBITDA (times)	12.0	11.0	10.6	9.8	9.0
EV/sales (times)	2.5	2.4	2.3	2.1	1.9
PER (times)	16.2	15.4	14.7	13.7	12.7
PBR (times)	3.2	3.0	2.7	2.5	2.2
DPS (VND)	4,000	3,500	3,000	3,000	3,000
Dividend yield	4.5%	4.0%	3.4%	3.4%	3.4%

DHG FINANCIALS MODEL	Price (VND):	88,000	Target (VND):	111,512	Mkt cap (VND bn):	11,532
(VND bn except where stated)	2020	2021	2022F	2023F	2024F	
Total Net Sales	3,756	4,003	4,218	4,548	4,924	
<i>Sales growth (%)</i>	-3.6%	6.6%	5.4%	7.8%	8.3%	
CoGS ex-dep'n	1,856	1,998	2,111	2,281	2,473	
Selling expenses	699	803	812	876	948	
G&A expenses	303	257	306	329	357	
Financial revenues	7	9	3	3	3	
Financial expenses	105	87	88	88	88	
EBITDA	799	866	905	977	1,061	
<i>EBITDA margin (%)</i>	21.3%	21.6%	21.4%	21.5%	21.5%	
Depreciation	88	84	75	78	102	
Operating profit	711	782	829	899	958	
<i>Operating profit margin (%)</i>	18.9%	19.5%	19.7%	19.8%	19.5%	
Other profits/losses	(9)	(21)	(21)	(21)	(21)	
Profits/Losses from associates	(1)	-	-	-	-	
Net interest expense	(119)	(102)	(94)	(90)	(106)	
<i>as % of avg net debt</i>	6.8%	5.3%	5.7%	5.6%	5.3%	
<i>Interest cover (x)</i>	-6.0	-7.6	-8.8	-10.0	-9.0	
Tax	82	88	93	100	108	
<i>Effective tax rate (%)</i>	9.9%	9.9%	10.1%	10.1%	10.1%	
Minority interest	(1)	(1)	(1)	(1)	(1)	
Attributable net profit	740	777	810	869	937	
Cash earnings	828	861	886	947	1,039	
Total number of shares	130,746,071	130,746,071	130,746,071	130,746,071	130,746,071	
EPS (VND) (after treasury shares)	5,443	5,720	5,997	6,432	6,934	
Bonus factor (x)	1.00	1.00	1.00	1.00	1.00	
Adjusted EPS (VND)	5,443	5,720	5,997	6,432	6,934	
<i>EPS growth (%)</i>	16.6%	5.1%	4.9%	7.2%	7.8%	

KEY CASHFLOW AND BS ITEMS	2020	2021	2022F	2023F	2024F
Increase in working capital	-128	292	54	88	241
Capex	84	20	1,000	20	20
Change in investment in affiliates	(3)	-	-	-	-
Other cashflow items	9	-15	-11	-6	-11
Free cash flow	884	534	-179	833	768
Share issues	-	-	-	-	-
Dividends paid	523	523	392	392	392
Increase in net debt	-361	-11	571	-441	-375
Net debt, end of year	-1,935	-1,946	-1,375	-1,816	-2,192
Shareholders' equity	3,564	3,790	4,208	4,685	5,229
BVPS (VND)	27,259	28,987	32,186	35,833	39,997
Net debt / equity (%)	-54.3%	-51.3%	-32.7%	-38.8%	-41.9%
Net debt / EBITDA (x)	-2.4	-2.2	-1.5	-1.9	-2.1
Total assets	4,448	4,618	5,607	5,643	5,811

KEY RETURN AND VALUATION RATIOS	2020	2021	2022F	2023F	2024F
ROE	21.3%	21.1%	20.3%	19.5%	18.9%
ROA	17.2%	17.1%	15.9%	15.5%	16.4%
ROIC	37.6%	40.0%	31.4%	28.0%	28.8%
WACC	8.9%	8.9%	8.9%	8.9%	8.9%
EVA	28.7%	31.1%	22.5%	19.1%	19.9%
PER (x)	16.2	15.4	14.7	13.7	12.7
EV/EBITDA (x)	12.0	11.0	10.6	9.8	9.0
EV/FCF (x)	10.8	17.9	-53.5	11.5	12.5
PBR (x)	3.2	3.0	2.7	2.5	2.2
PSR (x)	3.1	2.9	2.7	2.5	2.3
EV/sales (x)	2.5	2.4	2.3	2.1	1.9
PEG (x, 3 yr prospective)	1.8	2.7	2.2	1.8	2.4
Dividend yield	4.5%	4.0%	3.4%	3.4%	3.4%

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DISCLAIMER

Our Recommendation System

BUY: where we believe prospective 12 month VND total return (including dividends) will be 15% or more.

HOLD: where we believe it will be -15% to 15%.

SELL: where we believe it will be lower than -15%.

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