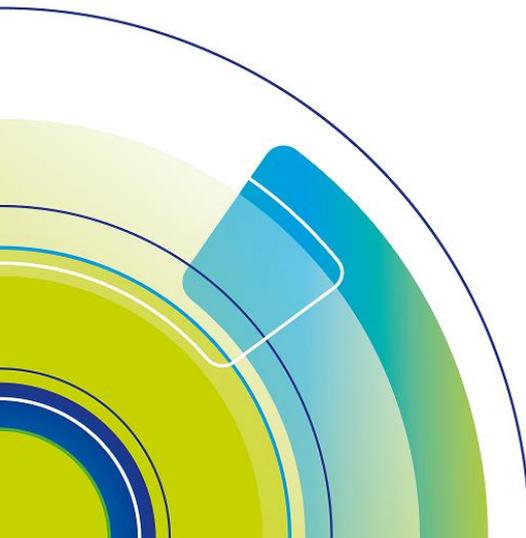




DHG Update- BUY

May 31, 2023



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Company Update

Recommendation

BUY

HSX: DHG

Pharmaceuticals

Target price (VND) **136,569**

Current price (VND) **110,000**

Expected share price return 24.1%

Expected dividend yield 3.2%

Expected total return **27.3%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	33.8	9.5	20.3	23.9
Relative	26.4	6.6	14.7	39.1

Source: Bloomberg



Ownership

Taisho	51.0%
SCIC	43.3%

Stock Statistics

31-May-23

Bloomberg code

DHG VN

52-week range (VND) 78,000-118,200

Shares O/S (m) 131

Mkt cap (VND bn) 14,395

Mkt cap (USD m) 608

Foreign room left (%) 46.0

Est. free float (m) 5.6

3m avg daily vol (shrs) 27,108

VND/USD 23,665

Index: VNIIndex / HNX 1075.1/222.8

DHG PHARMACEUTICAL JSC (DHG VN)

We give a **BUY** recommendation on the stock given that DHG remains one of the leading domestic producers in the industry with a well-known brand name, pervasive distribution network and healthy financials.

DHG generated VND1,229bn of net revenue, jumping by 15.4% YoY, in 1Q23. Finished products, capturing 90% of DHG's overall net revenue, reported vibrant growth of 21.1% YoY in 1Q23, largely thanks to continued demand for the company's main categories. This trend has been seen since 2022, when antibiotics, analgesic-antipyretic, respiratory categories experienced high demand for post Covid-19 treatment, while supply chain disruption also caused considerable impacts. DHG witnessed broadened market share thanks to having stocked raw materials with good prices while many other companies found difficulties in ensuring inputs for production. Nevertheless, we project the demand for these products may lessen in the following quarters as the pandemic peak might be over.

The pharmacy channel remains and is going to be DHG's key revenue earner, although the hospital channel accounts for c.13% (2022) and is targeted to expand further. DHG has obtained Japan-GMP certification for tablets, film-coated tablets, effervescent tablets, and effervescent granule production lines. A new beta-lactam factory meeting Japan/EU-GMP standards (investment of VND627bn; designed capacity of 470m units per year) started construction in 2022, tentatively going into operation in 2024.

Thanks to a widened gross margin (50% in 1Q23 vs 47.4% in 1Q22) and a lower SG&A to net revenue ratio (20.9% in 1Q23 vs 21.3% in 1Q22), the company's EBT jumped by 36.7% YoY to VND391bn in 1Q23. Low-priced raw materials inventories, enhanced labor productivity, cost management, etc. might have supported the company's margins. We project the company may achieve its 2023 revenue target (VND5,000bn) while EBT is forecast at VND1,227bn, up by 11.6% YoY and c.9% higher than the company's full-year plan. Combining the DCF and PER methods, our target price for this stock is **VND136,569/share, representing a 27.3% expected total return at the end of the year.**

	2021	2022	2023F	2024F	2025F
Net Sales (VNDbn)	4,003	4,676	5,040	5,444	5,947
Growth	6.6%	16.8%	7.8%	8.0%	9.2%
EBITDA (VNDbn)	865	1,085	1,208	1,318	1,457
EBITDA margin	21.6%	23.2%	24.0%	24.2%	24.5%
Net Profit (VNDbn)	777	989	1,105	1,203	1,341
Growth	5.0%	27.2%	11.8%	8.9%	11.5%
EPS (bonus-adjusted, VND)	5,720	7,318	8,182	8,908	9,934
Growth	5.1%	28.0%	11.8%	8.9%	11.5%
ROE	21.1%	24.5%	23.9%	22.6%	21.9%
ROA	17.2%	20.2%	20.3%	20.8%	23.0%
ROIC	40.0%	46.7%	43.8%	41.6%	44.7%
Net debt/EBITDA (times)	-2.2	-2.1	-1.9	-2.3	-2.6
EV/EBITDA (times)	14.0	11.2	10.0	9.2	8.3
EV/sales (times)	3.0	2.6	2.4	2.2	2.0
PER (times)	19.2	15.0	13.4	12.3	11.1
PBR (times)	3.8	3.4	2.9	2.5	2.2
DPS (VND)	3,500	3,500	3,500	3,500	3,500
Dividend yield	3.2%	3.2%	3.2%	3.2%	3.2%

DHG FINANCIALS MODEL	Price (VND):	110,000	Target (VND):	136,569	Mkt cap (VND bn):	14,395
(VND bn except where stated)	2021	2022	2023F	2024F	2025F	
Total Net Sales	4,003	4,676	5,040	5,444	5,947	
<i>Sales growth (%)</i>	<i>6.6%</i>	<i>16.8%</i>	<i>7.8%</i>	<i>8.0%</i>	<i>9.2%</i>	
CoGS ex-dep'n	1,998	2,338	2,489	2,681	2,918	
Selling expenses	803	913	969	1,047	1,144	
G&A expenses	257	268	289	312	341	
Financial revenues	9	17	4	4	4	
Financial expenses	88	89	89	90	91	
EBITDA	865	1,085	1,208	1,318	1,457	
<i>EBITDA margin (%)</i>	<i>21.6%</i>	<i>23.2%</i>	<i>24.0%</i>	<i>24.2%</i>	<i>24.5%</i>	
Depreciation	84	81	87	108	130	
Operating profit	781	1,004	1,120	1,210	1,327	
<i>Operating profit margin (%)</i>	<i>19.5%</i>	<i>21.5%</i>	<i>22.2%</i>	<i>22.2%</i>	<i>22.3%</i>	
Other profits/losses	(19)	(12)	(12)	(12)	(12)	
Profits/Losses from associates	-	-	-	-	-	
Net interest expense	(102)	(108)	(119)	(138)	(175)	
<i>as % of avg net debt</i>	<i>5.3%</i>	<i>5.1%</i>	<i>5.2%</i>	<i>5.1%</i>	<i>5.1%</i>	
<i>Interest cover (x)</i>	<i>-7.6</i>	<i>-9.3</i>	<i>-9.4</i>	<i>-8.8</i>	<i>-7.6</i>	
Tax	88	111	122	133	148	
<i>Effective tax rate (%)</i>	<i>9.9%</i>	<i>10.0%</i>	<i>9.9%</i>	<i>9.9%</i>	<i>9.9%</i>	
Minority interest	-	-	-	-	-	
Attributable net profit	777	989	1,105	1,203	1,341	
Cash earnings	861	1,070	1,192	1,310	1,471	
Total number of shares	130,746,071	130,746,071	130,746,071	130,746,071	130,746,071	
EPS (VND) (after treasury shares)	5,720	7,318	8,182	8,908	9,934	
Bonus factor (x)	1.00	1.00	1.00	1.00	1.00	
Adjusted EPS (VND)	5,720	7,318	8,182	8,908	9,934	
<i>EPS growth (%)</i>	<i>5.1%</i>	<i>28.0%</i>	<i>11.8%</i>	<i>8.9%</i>	<i>11.5%</i>	

KEY CASHFLOW AND BS ITEMS	2021	2022	2023F	2024F	2025F
Increase in working capital	292	94	76	98	120
Capex	22	231	600	84	100
Change in investment in affiliates	-	-	-	-	-
Other cashflow items	-19	48	13	14	25
Free cash flow	528	792	529	1,143	1,276
Share issues	-	-	-	-	-
Dividends paid	523	458	458	458	458
Increase in net debt	-5	-335	-72	-685	-818
Net debt, end of year	-1,940	-2,274	-2,346	-3,031	-3,849
Shareholders' equity	3,790	4,291	4,939	5,684	6,567
BVPS (VND)	28,987	32,823	37,774	43,473	50,230
<i>Net debt / equity (%)</i>	<i>-51.2%</i>	<i>-53.0%</i>	<i>-47.5%</i>	<i>-53.3%</i>	<i>-58.6%</i>
<i>Net debt / EBITDA (x)</i>	<i>-2.2</i>	<i>-2.1</i>	<i>-1.9</i>	<i>-2.3</i>	<i>-2.6</i>
Total assets	4,615	5,168	5,744	5,804	5,869

KEY RETURN AND VALUATION RATIOS	2021	2022	2023F	2024F	2025F
<i>ROE</i>	<i>21.1%</i>	<i>24.5%</i>	<i>23.9%</i>	<i>22.6%</i>	<i>21.9%</i>
<i>ROA</i>	<i>17.2%</i>	<i>20.2%</i>	<i>20.3%</i>	<i>20.8%</i>	<i>23.0%</i>
<i>ROIC</i>	<i>40.0%</i>	<i>46.7%</i>	<i>43.8%</i>	<i>41.6%</i>	<i>44.7%</i>
<i>WACC</i>	<i>12.1%</i>	<i>12.1%</i>	<i>12.1%</i>	<i>12.1%</i>	<i>12.1%</i>
<i>EVA</i>	<i>27.8%</i>	<i>34.5%</i>	<i>31.7%</i>	<i>29.5%</i>	<i>32.6%</i>
<i>PER (x)</i>	<i>19.2</i>	<i>15.0</i>	<i>13.4</i>	<i>12.3</i>	<i>11.1</i>
<i>EV/EBITDA (x)</i>	<i>14.0</i>	<i>11.2</i>	<i>10.0</i>	<i>9.2</i>	<i>8.3</i>
<i>EV/FCF (x)</i>	<i>22.9</i>	<i>15.3</i>	<i>22.9</i>	<i>10.6</i>	<i>9.5</i>
<i>PBR (x)</i>	<i>3.8</i>	<i>3.4</i>	<i>2.9</i>	<i>2.5</i>	<i>2.2</i>
<i>PSR (x)</i>	<i>3.6</i>	<i>3.1</i>	<i>2.9</i>	<i>2.6</i>	<i>2.4</i>
<i>EV/sales (x)</i>	<i>3.0</i>	<i>2.6</i>	<i>2.4</i>	<i>2.2</i>	<i>2.0</i>
<i>PEG (x, 3 yr prospective)</i>	<i>1.3</i>	<i>0.9</i>	<i>1.3</i>	<i>1.3</i>	<i>1.1</i>
<i>Dividend yield</i>	<i>3.2%</i>	<i>3.2%</i>	<i>3.2%</i>	<i>3.2%</i>	<i>3.2%</i>

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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.

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

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

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