



DHG Update- OUTPERFORM

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Company Update

Recommendation **OUTPERFORM**

HSX: **DHG**

Pharmaceutical

Target price (VND) **127,400**

Current price (VND) **111,200**

Expected share price return 14.7%

Expected dividend yield 3.1%

Expected total return **17.8%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	6.9	2.5	9.5	18.0
Relative	-3.4	-0.6	-0.6	-1.3

Source: Bloomberg



Ownership

Taisho Pharmaceutical Co., Ltd.	51.0%
SCIC	43.3%

Stock Statistics

11-Mar-24

Bloomberg code	DHG VN
52-week range (VND)	91,000-140,000
Shares O/S (m)	131
Mkt cap (VND bn)	14,539
Mkt cap (USD m)	586
Foreign room left (%)	46.1
Est. free float (m)	N/A
3m avg daily vol (shrs)	17,135
VND/USD	24,800
Index: VNIndex / HNX	1245.0/234.0

HAU GIANG PHARMACEUTICAL (DHG VN)

The company maintained the leading position in terms of both top and bottom lines among listed Vietnamese pharmaceutical manufacturers; however, EBT growth returned to normal in 2023 from the high base in 2022 and a slight decline is set for 2024. Revise rating from BUY to **OUTPERFORM** with a revised target price of **VND127,400/share, 11% lower than the previous update.**

DHG announced net revenue of VND5,015bn (+7.3% YoY) and EBT of VND1,159bn (+5.4% YoY) in 2023. In which, finished products, capturing 88% of DHG's net revenue, grew by 5.7% YoY.

The pharmacy channel continued to be DHG's key earner. Antibiotics and analgesic-antipyretic remained the company's largest product categories, followed by cardiovascular category, although the company did not publish a breakdown.

The company's gross margin shrank to 46.7% in 2023 (2022: 48.3%) while the SG&A expenses to net revenue ratio climbed slightly to 25.7% in 2023 (2022: 25.3%). Financial profit surged 253% YoY, thanks to interest income, contributing to the EBT. A high level of cash sustained, with the net debt to equity ratio of -36.1% at YE2023 (i.e net cash).

For 2024, DHG set a conservative plan of VND5,200bn in net revenue (+3.7% YoY) and VND1,080bn in EBT (-6.8% YoY). The decline in EBT is attributed to an expected fall in financial profit.

In sum, our projections for DHG's net revenue and EAT are VND5,205bn (+3.8% YoY) and VND1,089bn (-6.0% YoY) in 2024, 18% lower than our previous earnings forecast due to lower revenue growth projection to reflect the company's conservative view about 2024. Combining DCF and PER methods, **our target price for DHG is VND127,400/share (~ total return of 17.8%), 11% lower than the previous update.**

	2022	2023	2024F	2025F	2026F
Net Sales (VNDbn)	4,676	5,015	5,205	5,537	5,901
Growth	16.8%	7.3%	3.8%	6.4%	6.6%
EBITDA (VNDbn)	1,085	1,095	1,116	1,179	1,248
EBITDA margin	23.2%	21.8%	21.4%	21.3%	21.1%
Net Profit (VNDbn)	989	1,051	987	1,065	1,147
Growth	27.2%	6.3%	-6.1%	7.9%	7.8%
EPS (bonus-adjusted, VND)	7,318	7,780	7,304	7,882	8,497
Growth	28.0%	6.3%	-6.1%	7.9%	7.8%
ROE	24.5%	23.0%	19.3%	18.7%	18.1%
ROA	20.2%	18.6%	16.0%	16.9%	17.8%
ROIC	46.7%	35.7%	28.6%	29.3%	29.6%
Net debt/EBITDA (times)	-2.1	-1.6	-2.0	-2.2	-2.5
EV/EBITDA (times)	11.8	11.7	11.5	10.8	10.2
EV/sales (times)	2.7	2.5	2.5	2.3	2.2
PER (times)	15.2	14.3	15.2	14.1	13.1
PBR (times)	3.4	3.0	2.7	2.4	2.2
Dividend (VND)	3,500	3,500	3,500	3,500	3,500
Dividend yield	3.1%	3.1%	3.1%	3.1%	3.1%

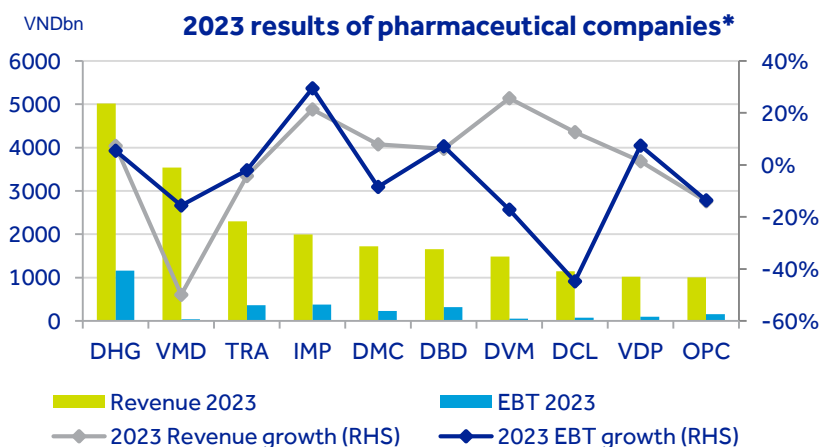
EBT growth returned to normal in 2023

DHG announced net revenue of VND5,015bn (+7.3% YoY) and EBT of VND1,159bn (+5.4% YoY) in 2023. Finished products, which was responsible for 88% of DHG's net revenue, grew by 5.7% YoY compared to the high base in 2022, when the company had experienced high demand given that COVID-19 cases and post COVID-19 treatment had been still popular, sales channels had recovered after lockdown and many competitors had faced supply chain disruption.

DHG's business results	2023	YoY growth
Net revenue	5,015	7.3%
<i>Finished goods</i>	4,412	5.7%
<i>Trading and others</i>	610	21.4%
EBT	1,159	5.4%

Source: DHG

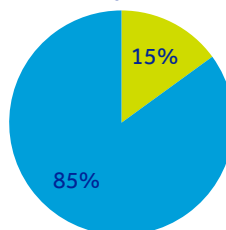
Despite mediocre growth, DHG remains the leading company in terms of both top and bottom lines among listed Vietnamese pharmaceutical manufacturers.



Source: FiinPro, ACBS. (*): companies were listed on HSX and HNX

The pharmacy channel continued to contribute the majority of DHG's revenue, while the hospital channel accounts for c.15%. The company targets to spur growth for both channels although a structural change may hardly be seen. In addition, the modern trade channel (e.g large drug retailers, supermarkets, etc.) has also been fostered for recent years though its contribution was still small.

Revenue by channels



■ Hospital channel ■ Pharmacy and modern trade channels

Source: DHG; ACBS

The company's gross margin shrank to 46.7% in 2023 (2022: 48.3%), primarily due to rising foreign exchange rates (since the majority of raw materials are imported) and higher contribution of trading products. We project that the margin may be narrower in

2024 owing to higher depreciation due to the new Betalactam factory going to operation and material prices trending up. Additional pressure may be realized if foreign exchange rates keep increasing.

As a strategic partner and the parent company who holds 51% stake in DHG, Taisho Pharmaceutical Co., Ltd. supported DHG in improving management process, production technology standards and efficiency, etc. Upgrading to higher manufacturing practice standards (i.e Japan- GMP or EU-GMP in the future) for some production lines may help DHG strengthen their competitiveness in bidding to the hospital channel and expand exports (from the current contribution of 2-3%) by taking advantage of Taisho's worldwide network. DHG recorded Counterpain (used for the relief of muscle pain and pains from rheumatism, sprains) as the first product that was transferred for production from Taisho.

2024 forecast and valuation

For 2024, DHG set a plan of VND5,200bn in net revenue, up by 3.7% YoY, and VND1,080bn in EBT, contracting by 6.8% YoY.

While the decline in EBT is attributed to an expected fall in financial profit, probably given lower interest rates, the moderate growth in revenue is explained by a caution amid the still weak economy. Although drugs and related products are among necessities, we think this explanation may be reasonable to some extent considering its impacts on consumption of supplement products, expansion of high-value products, and room for increasing selling prices.

In addition, despite appealing potential as Vietnam is ranked as an emerging pharmaceutical (pharmerging) market, high competition with not only international players but also domestic peers for similar product portfolios, limited R&D capacity/investments, etc. may continue to challenge growth of the domestic pharmaceutical manufacturers.

In sum, our projections for DHG's net revenue and EBT are VND5,205bn (+3.8% YoY) and VND1,089bn (-6.0% YoY) in 2024, 18% lower than our previous earnings forecast. Combining DCF and PER methods, **our target price for DHG at VND127,400/share (~ total return of 17.8%)**, 11% lower than the previous update.

DHG FINANCIALS MODEL	Price (VND):	111,200	Target (VND):	127,400	Mkt cap (VND bn):	14,539
(VND bn except where stated)	2022	2023	2024F	2025F	2026F	
Total Net Sales	4,676	5,015	5,205	5,537	5,901	
<i>Sales growth (%)</i>	<i>16.8%</i>	<i>7.3%</i>	<i>3.8%</i>	<i>6.4%</i>	<i>6.6%</i>	
CoGS ex-dep'n	2,338	2,583	2,705	2,889	3,091	
Selling expenses	913	978	1,014	1,079	1,150	
G&A expenses	268	313	324	345	368	
Financial revenues	17	16	16	17	18	
Financial expenses	89	61	62	63	64	
EBITDA	1,085	1,095	1,116	1,179	1,248	
<i>EBITDA margin (%)</i>	<i>23.2%</i>	<i>21.8%</i>	<i>21.4%</i>	<i>21.3%</i>	<i>21.1%</i>	
Depreciation	81	89	112	114	119	
Operating profit	1,004	1,007	1,004	1,065	1,129	
<i>Operating profit margin (%)</i>	<i>21.5%</i>	<i>20.1%</i>	<i>19.3%</i>	<i>19.2%</i>	<i>19.1%</i>	
Other profits/losses	(12)	(20)	(20)	(20)	(20)	
Profits/Losses from associates	-	-	-	-	-	
Net interest expense	(108)	(173)	(106)	(131)	(158)	
<i>as % of avg net debt</i>	<i>5.1%</i>	<i>8.6%</i>	<i>5.4%</i>	<i>5.4%</i>	<i>5.5%</i>	
<i>Interest cover (x)</i>	<i>-9.3</i>	<i>-5.8</i>	<i>-9.5</i>	<i>-8.1</i>	<i>-7.1</i>	
Tax	111	108	103	111	120	
<i>Effective tax rate (%)</i>	<i>10.0%</i>	<i>9.2%</i>	<i>9.3%</i>	<i>9.3%</i>	<i>9.3%</i>	
Minority interest	-	-	-	-	-	
Attributable net profit	989	1,051	987	1,065	1,147	
Cash earnings	1,070	1,139	1,099	1,179	1,266	
Total number of shares	130,746,071	130,746,071	130,746,071	130,746,071	130,746,071	
EPS (VND) (after treasury shares)	7,318	7,780	7,304	7,882	8,497	
Bonus factor (x)	1.00	1.00	1.00	1.00	1.00	
Adjusted EPS (VND)	7,318	7,780	7,304	7,882	8,497	
<i>EPS growth (%)</i>	<i>28.0%</i>	<i>6.3%</i>	<i>-6.1%</i>	<i>7.9%</i>	<i>7.8%</i>	

KEY CASHFLOW AND BS ITEMS	2022	2023	2024F	2025F	2026F
Increase in working capital	94	534	81	114	126
Capex	231	485	84	84	84
Change in investment in affiliates	-	-	-	-	-
Other cashflow items	48	-186	-52	-63	-100
Free cash flow	792	-65	882	918	956
Share issues	-	-	-	-	-
Dividends paid	458	458	458	458	458
Increase in net debt	-335	522	-424	-460	-498
Net debt, end of year	-2,274	-1,752	-2,176	-2,636	-3,135
Shareholders' equity	4,291	4,853	5,382	5,989	6,679
BVPS (VND)	32,823	37,117	41,163	45,805	51,081
<i>Net debt / equity (%)</i>	<i>-53.0%</i>	<i>-36.1%</i>	<i>-40.4%</i>	<i>-44.0%</i>	<i>-46.9%</i>
<i>Net debt / EBITDA (x)</i>	<i>-2.1</i>	<i>-1.6</i>	<i>-2.0</i>	<i>-2.2</i>	<i>-2.5</i>
Total assets	5,168	6,110	6,215	6,362	6,554

KEY RETURN AND VALUATION RATIOS	2022	2023	2024F	2025F	2026F
<i>ROE</i>	<i>24.5%</i>	<i>23.0%</i>	<i>19.3%</i>	<i>18.7%</i>	<i>18.1%</i>
<i>ROA</i>	<i>20.2%</i>	<i>18.6%</i>	<i>16.0%</i>	<i>16.9%</i>	<i>17.8%</i>
<i>ROIC</i>	<i>46.7%</i>	<i>35.7%</i>	<i>28.6%</i>	<i>29.3%</i>	<i>29.6%</i>
<i>WACC</i>	<i>11.8%</i>	<i>11.8%</i>	<i>11.8%</i>	<i>11.8%</i>	<i>11.8%</i>
<i>EVA</i>	<i>34.9%</i>	<i>23.9%</i>	<i>16.8%</i>	<i>17.5%</i>	<i>17.8%</i>
<i>PER (x)</i>	<i>15.2</i>	<i>14.3</i>	<i>15.2</i>	<i>14.1</i>	<i>13.1</i>
<i>EV/EBITDA (x)</i>	<i>11.8</i>	<i>11.7</i>	<i>11.5</i>	<i>10.8</i>	<i>10.2</i>
<i>EV/FCF (x)</i>	<i>16.1</i>	<i>-197.6</i>	<i>14.5</i>	<i>13.9</i>	<i>13.4</i>
<i>PBR (x)</i>	<i>3.4</i>	<i>3.0</i>	<i>2.7</i>	<i>2.4</i>	<i>2.2</i>
<i>PSR (x)</i>	<i>3.1</i>	<i>2.9</i>	<i>2.8</i>	<i>2.6</i>	<i>2.5</i>
<i>EV/sales (x)</i>	<i>2.7</i>	<i>2.5</i>	<i>2.5</i>	<i>2.3</i>	<i>2.2</i>
<i>PEG (x, 3 yr prospective)</i>	<i>1.6</i>	<i>6.0</i>	<i>5.8</i>	<i>2.0</i>	<i>1.9</i>
<i>Dividend yield</i>	<i>3.1%</i>	<i>3.1%</i>	<i>3.1%</i>	<i>3.1%</i>	<i>3.1%</i>

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DISCLAIMER

Our Recommendation System

BUY: prospective 12 month VND total return (including dividends) will be more than 20%.

OUTPERFORM: prospective 12 month VND total return (including dividends) will be 10% to 20%.

NEUTRAL: prospective 12 month VND total return (including dividends) will be -10% to 10%.

UNDERPERFORM: prospective 12 month VND total return (including dividends) will be will be -20% to -10%.

SELL: prospective 12 month VND total return (including dividends) will be lower than -20%.

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