Yuanta Research

Company Visit

Vietnam: Pharmaceutical

21 May 2021

DBD VN

Not Rated

Close 20 May 2021

Price	VND 46,000
12M Target	N/A

What's new?

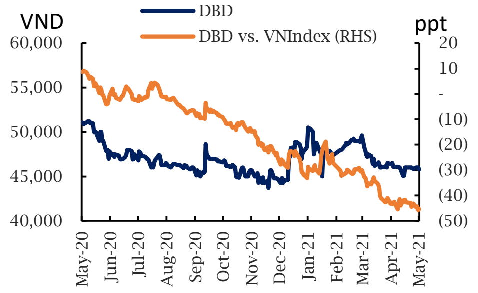
- EU-GMP cancer medication plant to be launched in late 2021 will add capacity of 65 mn capsules/caplets and 3.5mn vials.
- DBD targets expanding its OTC network by five-fold to 28,000 stores nationwide by 2025.
- Management guides for 2021E PBT of VND180bn, down by 6.8% YoY.

Our view

- Short-term catalyst: DBD's new cancer medications should boost profitability, as these drugs generate 60% profit margin.
- Foreign acquisitions of local companies in recent year have increased the competitive pressures for the industry.
- The company is trading at a reasonable TTM PER of 15.0x, below the market's c.17x.

Company profile: Binh Dinh Pharmaceutical & Medical Equipment JSC (Bidiphar) is Vietnam's first domestic cancer medication producer. 65% of DBD's revenues are attributable to ethical channels (ETC), or prescription-based drug distribution, at 99% of provincial hospitals.

Share price performance relative to VNI



Market cap	US$104mn
6M avg. daily turnover	US$90k
Outstanding shares	52mn
Free float	69%
FINI ownership	0.1%
Major shareholders	14.3%
ROE	16.4%
ROA	10.3%
TTM P/E	15.0x
TTM P/B	2.3x
Trading platform	HOSE
FOL Room	49%

Financial outlook (VND bn)

Year to Dec	2018A	2019A	2020A	2021E*
Sales	1,401	1,262	1,257	1,500
Op. profit	187	161	182	
Net profit	163	142	158	147
Basic EPS (VND)	2,801	2,444	2,712	2,808
EPS chg (%)	-0.8	-12.7	11.0	3.5
P/E (x)	16.4	18.8	15.2	16.1

Source: Fiinpro

*2021 figures are base on DBD guidance

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Bidiphar (DBD VN)

Expect new EU-GMP plant to operate this year

Launch of new EU-GMP anticancer capacity: a short-term catalyst. DBD will expanded its cancer treatment production capacity by launching a new EU-GMP plant later this year. The new plant will add capacity of 65 mn capsules/caplets and 3.5mn vials. DBD has set up the plant already, but the EU-GMP inspection has been delayed due to Covid-19 travel restrictions. Management states that EU-GMP approval will allow it to enter the high-margin ETC group 1 market. This should boost profit margin because cancer drugs generate profit margin of 60% vs. c39% for the company's current gross margin.

Expanding its the sales channels. DBD aims to expand its OTC network by five-fold to 28,000 stores nationwide by 2025 from 5,000 stores in 2020, equivalent to 41% CAGR. This should increase OTC revenue from VND300bn in 2020 to VND 1.4 trn in 2025, equivalent to 34.4% CAGR.

Long-term guidance. Going forward, DBD aims to reach VND 3 trillion in sales by 2025, implying 17.6% 2020-2025 CAGR. Specifically, management targets 2025 cancer drug revenue of VND800bn, representing 2020-25 CAGR of 38.7%; and antibiotic revene to reach VND 800bn, equivalent to 2020-25 CAGR of 16.4%.

FY2021 profit guidance looks conservative. 2021E PBT guidance is set at VND180bn, down 6.8% YoY. By contrast, revenue guidance is set at VND1.5trn, up 12.8% YoY. 2021E stock dividend is set at 5:1 or cash dividend at VND 2000 per share, equivalent to a cash yield of 4.4%.

Valuation. DBD is trading at TTM PER 15.0x, slightly below its peers' average of 16.0x. We think this valuation is reasonable given the potential earning growth on new cancer drug capacity.

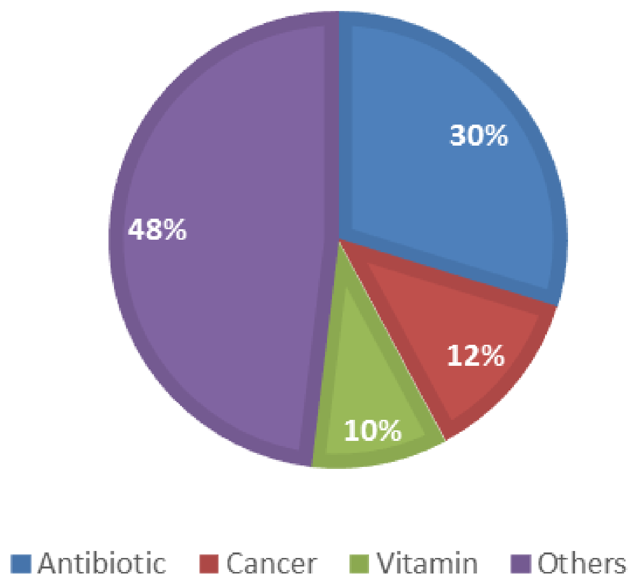
ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

DBD: Local market leader in cancer medications

DBD boasts the largest market share of cancer medications among local producers. DBD was the first domestic company to produce cancer drugs under the WHO-GMP standards, starting in 2016.

DBD possesses one plant with 12 WHO-GMP compliant production lines that is capable of manufacturing 400 products. Its annual production capacity is 1.5 billion capsules/caplets and 95 million liquid form doses. In term of the product mix, DBD is the number one domestic maker of liquid form drugs, especially antibiotics and cancer drugs. Antibiotics account for the largest chunk of revenue at 30%, followed by cancer drugs at 12% of revenue.

Fig. 1: Revenue mix



Source: DBD

In terms of distribution channels, DBD emphasizes the ETC channel, through which its products are distributed to almost all provincial hospitals. Currently, DBD accounts for about 17% market share in group 3 of the ETC channel (Groups 1 and 2 comrpsie higher-standard producers). The ETC channel accounts for 65% of DBD's revenue.

OTC channel is small but has ample room for growth. The OTC channel only accounts for c35% of total industry revenue, as it only comprises 5,000 drugstores or 9% of the 55.000 drug stores nationwide. This leaves considerable room for growth as industry standards improve in the years ahead.

Expanding the business

By 2025, DBD targets revenue of VND 3 trillion, equivalent to five-year CAGR of 17.7%. This target is based on the expansion of its OTC distribution channel, the soon-to-be-launched ETC cancer drugs, and anitibiotics that are in the pipeline.

The market should grow at 7.1% annually to reach US$9.1bn in 2023, according to IQVIA. In terms of the mix of distribution channels, IQMIA expects ETC to reach US$7.0bn in 2023, implying 7.7% CAGR in 2020-2023, with OTC to reach US$2.2bn, equivalent to 6.9% CAGR in the same period.

DBD aims to expand its OTC network by five-fold from the current 5,000 stores to 28,000 stores nationwide by 2025, equivalent to 41% five-year CAGR. As such, management aims to increase its OTC revenue from VND300bn in 2020 to VND 1.4 trn in 2025, equivalent to 34.4% CAGR over the same period.

Cancer drug production capacity expansion. By 2025, DBD expects cancer drug revenue to reach VND800bn (26% of revenue), representing CAGR of 38.7% in 2020-2025. This target is supported by its planned production capacity expansion in late 2021. DBD will expand its cancer treatment production capacity after launching a new EU-GMP plant this year. Specifically, the new plant will add production capacity of 65mn capsules/caplets and 3.5mn vials. Currently, DBD has finished setting up the plant, but the EU-GMP documentation has been delayed due to travel restrictions related to the pandemic. EU-BMP approval should result in expanded profit margin because these products generate profit margin of 60%, which is the highest among all of DBD's products.

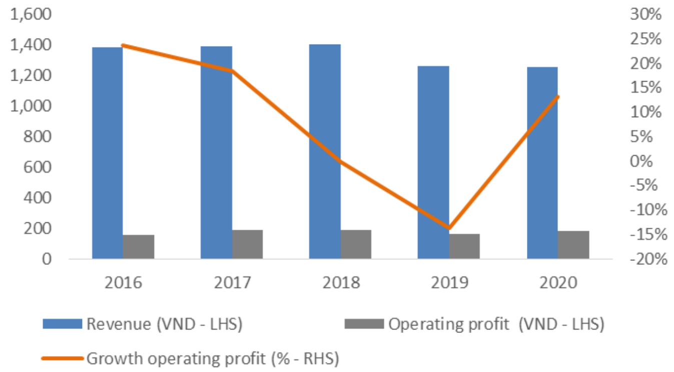
Expanding antibiotic manufacturing capacity too. DBD targets revene from antibiotics of VND 800bn by 2025, equivalent to CAGR of 16.4% in 2020-2025. To achieve this result, DBD plans to raise its qualification to the EU-GMP standards from the current WHO-GMP cmopalince and then expand its production. DBD plans to invest in a Nonbetalactam antibiotic in late 2021 and liquid antibiotic drug manufacturing capacity in 2022, but management has not disclosed details. DBD's total capex budget for 2021 is VND 195bn.

Upgrading its current plants to EU-GMP. WHO-GMP compliance may no longer be a competitive advantage in Vietnam now that other local pharmaceutical companies are increasingly upgrading their manufacturing standards with the backing of strong strategic shareholders (e.g., DMC is backed by Abott and DHG by Taisho). As such, DBD management aims to upgrade from its current status in ETC group 3 to ETC group 1, which would allow it to manufacture higher quality drugs. By penetrating into group 1, management expect to move up the value chain and improve its profit margin.

Financial snapshot

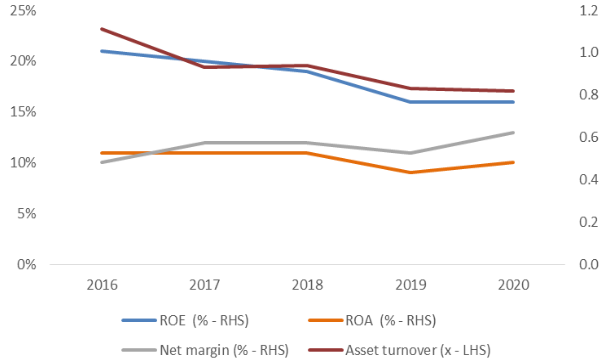
Profitability shows signs of deceleration. FY2020 operating profit recovered after a 15% drop in 2019. The decline in 2019 was probably due to intensive competition.

Figure 2: Profit (VND bn) recovered in 2020



Source: DBD, YSVN

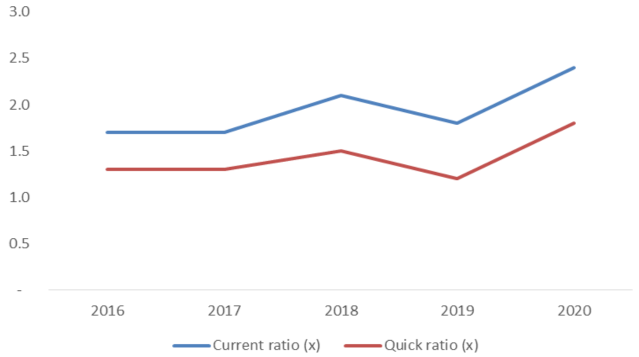
Figure 3: Profitability trend has been mixed



Source: DBD, YSVN

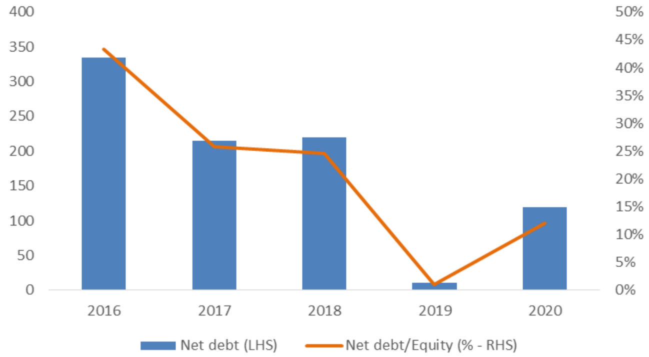
ROE recovered slightly in 2020 after a four-year downtrend. The good news is that net margin has improved over the last five years. In addition, the balance sheet appears to be healthier as net debt to equity has declined, indicating lower leverage and improved in liquidity. The reduced leverage can also be seen in a greater marginal increase in 2020 ROA relative to that of ROE (Fig 3).

Figure 4: Liquidity ratios look solid (x)



Source: DBD, YSVN

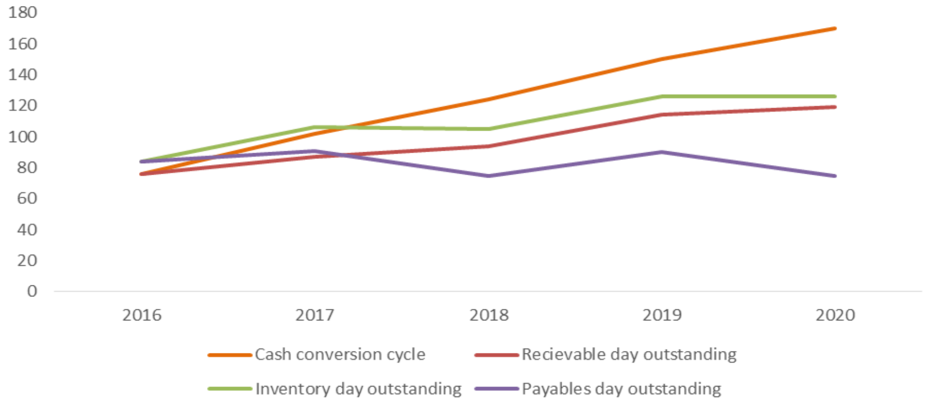
Figure 5: Balance sheet appears healthier



Source: DBD, YSVN

Working capital management may need some improvement. DBD's cash conversion cycle increased over the last five years, mainly due to an increase in days of receivables and a decrease in days of outstanding payables.

Fig. 6: Working capital mananagement needs improvement (days)

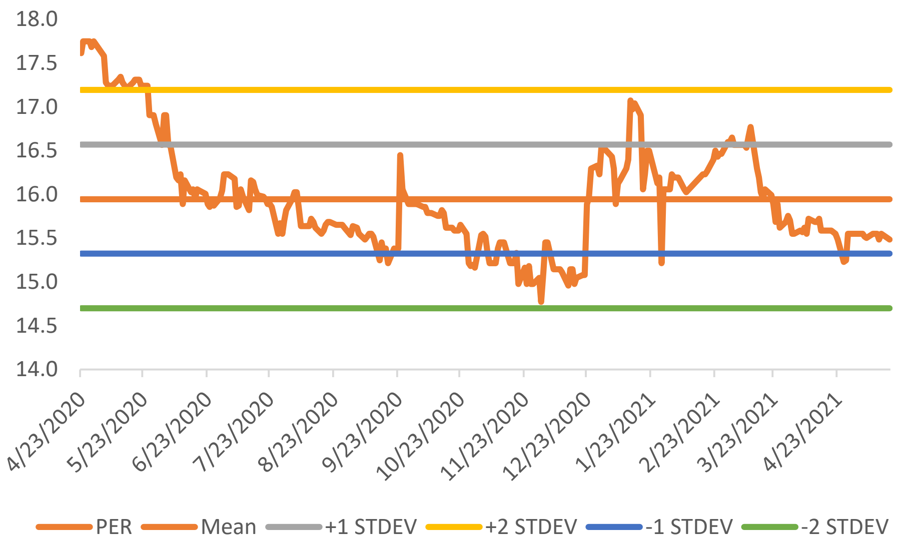


Source: Fiinpro

Valuation and risk

DBD is trading at what appears to be a reasonable valuation with a TTM PER of 15.2x, slightly below the sector's average of 16.0x and one standard deviation below its historical mean. DBD's share price performance has been weak, possibly due to travel restriction-related delays in approval of the new cancer medication plant.

Fig. 7: Historical PER and standard deviation (x)



Source: Bloomberg

Most of Vietnam's listed pharmaceutical companies have been partially acquired by foreign pharma companies. We see this as an inevitable trend as foreign players with advanced R&D capabilities and large scale production retain outstanding competitive advantages. Foreign brands hold the majority of the ETC market in the high margin ETC group 1 bidding due to their high-quality products. This raises obvious questions about DBD's strategic plans and the potential for M&A. Management states that they are open to taking on a strategic partner who can add value to DBD's operations over the long run.

Risks

Further delays in obtaining EU-GMP approval to launch the new cancer drug plant are highly possible given ongoing uncertainties over Covid-19 and the related travel restrictions. The surge in Covid-19 cases since April 27 means that travel restrictions will remain in place for longer than we all would have hoped (but for good reasons).

WHO-GMP compliance may no longer be a competitive advantage now that most of DBD's peers have achieved the same standards. Thus, WHO-GMP approval alone may not be useful in helping the company to retain market share in the near future. This raises the pressure to speed up the EU-GMP transformation in all of the company's plants.

Input supply issues. India, the world's largest API supplier, is struggling with an extremely serious Covid-19 outbreak. First and foremost, we are mindful of the human impact in India. But for the purposes of considering the risks to DBD, the problems in India may push API prices higher, which in turn would hit local drug manufacturers. Given the intense competition in the industry, it may not be easy to increase ASPs to offset the potential cost increases.

PROFIT AND LOSS (VND bn)				
FY Dec 31 (VND'bn)	2017A	2018A	2019A	2020A
Revenue	**1,388**	**1,401**	**1,262**	**1,257**
ETC			554	635
OTC			352	408
Export			9	11
Others			347	203
Cost of goods sold	(898)	(973)	(847)	(766)
Gross profits	**491**	**428**	**415**	**491**
Operating expenses	(304)	(242)	(254)	(309)
Operating profits	**187**	**187**	**161**	**182**
Net interest expenses	8	4	(1)	(7)
Net investments Income	8	11	14	15
Net other incomes	1	0	0	3
Pretax profits	**204**	**201**	**174**	**193**
Income taxes	(39)	(38)	(32)	(35)
Minority interests	-	-	-	-
Net profits	**164**	**163**	**142**	**158**
Core earnings	*164*	*163*	*142*	*158*
EBITDA	224	223	189	214
EPS (VND)	2,825	2,801	2,444	2,712

KEY RATIOS				
	2017A	2018A	2019A	2020A
Growth (%YoY)				
Sales		1%	-10%	0%
ETC				14.6
OTC				15.9
Export				22.2
Others				-41.5
Operating profit		0%	-14%	13%
EBITDA		0%	-15%	13%
Net profit		-1%	-13%	11%
EPS (VND)		-1%	-13%	11%
Profitability ratio (%)				
Gross margin	35.4%	30.6%	32.9%	39.1%
Operating margin	14.6%	14.4%	13.8%	15.2%
EBITDA margin	16.1%	15.9%	15.0%	17.0%
Net margin	11.8%	11.6%	11.3%	12.6%
ROA	11.0%	11.0%	9.3%	10.3%
ROE	20.5%	18.9%	15.6%	16.4%
Stability				
Net debt/equity (x)				
Int. coverage (x)				
Int.&ST debt coverage(x)				
Cash conversion days				
Current ratio (X)	1.7	2.1	1.8	2.4
Quick ratio (X)	0.8	1.1	1.0	1.5
Net cash (VND bn)				
Efficiency				
Days receivable outstanding	87	94	114	119
Days inventory outstanding	106	105	126	126
Days payable outstanding	91	75	90	75

Source: Company data, YSVN

BALANCE SHEET (VND bn)				
FY Dec 31 (VND'bn)	2017A	2018A	2019A	2020A
Total assets	**1,544**	**1,434**	**1,621**	**1,437**
Cash & cash equivalents	96	93	138	109
ST Investment	314	223	114	93
Accounts receivable	406	429	445	413
Inventories	290	270	313	215
Other current assets	9	7	19	6
Net fixed assets	247	219	237	249
Others	182	194	355	353
Total liabilities	**711**	**544**	**688**	**449**
Current liabilities	656	497	580	348
Accounts payable	196	764	410	178
ST debts	196	96	176	20
Long-term liabilities	55	46	108	101
Long-term debts	-	-	65	63
Others	55	46	42	38
Shareholder's equity	**833**	**891**	**933**	**989**
Share capital	524	524	524	524
Treasury stocks	-	(0)	(0)	(2)
Others	309	367	409	467
Retained earnings	204	249	282	326
Minority interest	**-**	**-**	**-**	**-**

CASH FLOW (VND bn)	0	0	0	0
FY Dec 31 (VND'bn)	2017A	2018A	2019A	2020A
Operating cash flow	**114**	**18**	**108**	**-1**
Net income	204	201	174	193
Dep, & amortization	-42	-156	-27	-122
Change in working capital	-216	-113	-199	-9
Others	60	-50	56	61
Investment cash flow				
Net capex	-41	-115	-50	-44
Change in LT investment	-8	-3	-6	8
Change in other assets	-217	47	125	17
Cash flow after invt.	-266	-71	69	-19
Financing cash flow				
Change in share capital	0	0	0	0
Net change in debt	121	-100	146	-159
Change in other LT liab.	-44	115	-327	225
Net change in cash flow	**77**	**15**	**-181**	**66**
Beginning cash flow	211	136	96	93
Ending Cash Balance	**136**	**96**	**93**	**138**

KEY METRICS				
	2017A	2018A	2019A	2020A
PE (x)	16.1	16.4	18.7	15.2
Diluted PE (x)	14.6	14.7	16.9	15.2
PB (x)	3.0	2.8	2.6	2.5
EBITDA/share	4,272	4,259	3,602	4,078
DPS (VND)	2,000	1,500	1,500	1,500
Dividend yield (%)	3.3	3.3	3.3	3.3
EV/EBITDA (x)	11.2	10.8	13.3	11.1
EV/EBIT (x)	13.4	12.9	15.6	13.1

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