

20 May 2022

Pharmaceutical

Non-rated

Looks tepid but strong inside

Trailed our upbeat anticipation

Excluding Vimedimex with a 50.1% yoy revenue drop since VMD specializes in drug distribution, 1Q22 aggregated revenue of 28 listed pharma producers climbed by 11.8% yoy, while aggregated net profit surged by 27.4% yoy. DHG and DVN (UPCoM) reaped 4.7%/5.5% yoy revenue growths and 25.2% yoy/-2.1% yoy net profit growths, reinforcing their top three largest producers. After being granted the license to manufacture drugs Molnupiravir, MKP (UPCoM) was like "reborn". In 1Q22, MKP's revenue pegged at VND428bn (+62.3% yoy and 39.9% qoq).

SG&A ate all the profit

Excluding VMD, sector gross margin hit a new record in 1Q22 to 30.2%, 2.5%p yoy, 2.3%p qoq. However, SG&A/sales surged by 1.2%p yoy, +1%p qoq and hit 19.3%, mainly because marketing and sales staff's salary rose. Higher SG&A expenses ate away the gross profit and as a result, net margin slightly edged up by 1.2%p yoy, +0.3%p qoq to 7.6%. In order to boost sales volume, companies are forced to pay more in selling expenses. However, expenses must be commensurate with the benefits received, otherwise, the company's profit erosion could be material.

Revenue growth momentum could keep up in 2Q22F

Demand for drugs could revive both through ETC (the drug channel for treatment, which patients can only buy at hospitals) and OTC (drugstores) when everything is back to normal. Currently, covid treatment drugs (Molnupiravir) are commonly sold at large drugstores such as Long Chau (FPT Retail) and An Khang (MWG). However, we believe that it may be not the main driver of pharmaceutical sector in 2022F. Instead, the demand for vitamins, antibiotics, and functional foods will expect to increase. The need for specific drugs used in hospitals will soon climb as hospitals start accepting patients again.

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Table 1. 29 drug producers' aggregated earnings

	1Q21	4Q21	1Q22	YoY	QoQ
Revenue	10,809	11,016	9,654	(10.7)	(12.4)
OP	2,301	2,578	2,494	8.4	(3.3)
NP	586	769	735	25.4	(4.4)

Source: Fiinpro

Note: Aggregated revenue of 29 companies made up around 100% of total industry revenue

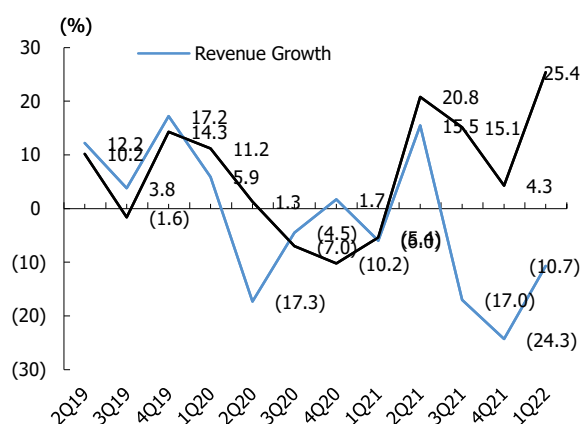
Table 2. 28 drug producers' aggregated earnings

	1Q21	4Q21	1Q22	YoY	QoQ
Revenue	6,944	8,467	7,765	11.8	(8.3)
OP	1,922	2,363	2,348	22.2	(0.6)
NP	577	779	735	27.4	(5.6)

Source: Fiinpro

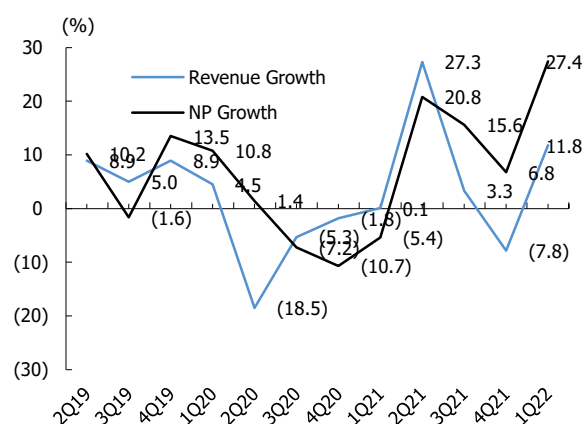
Note: Aggregated revenue of 28 companies (without VMD) made up ~80% of total industry revenue

Results from collected data of our 29 companies implied that revenue growth plunged 10.7% yoy/ 12.4% qoq in 1Q22, net profit of the pharmaceutical sector still upped 25.4% yoy, after reaching the bottom of 4.3% in 4Q21. If excluding VMD's sharp revenue drop of 51.1% yoy and -25.9% qoq to VND1,889bn as VMD specializes in medicines distribution, the signal of resilient growth of medicine producers could be confirmed. When removing VMD from the coverage, the revenue of the pharmaceutical sector was brisk with a 11.8% yoy growth, in line with positive expectations of demand revival and hospital reopening for non-COVID patients. We believe pharma producers are back to the trajectory and this uptrend could continue in the next quarters.

Figure 1. 29 drug producers' aggregated earnings

Source: Fiinpro

Note: Aggregated revenue of 29 companies made up around 100% of total industry revenue

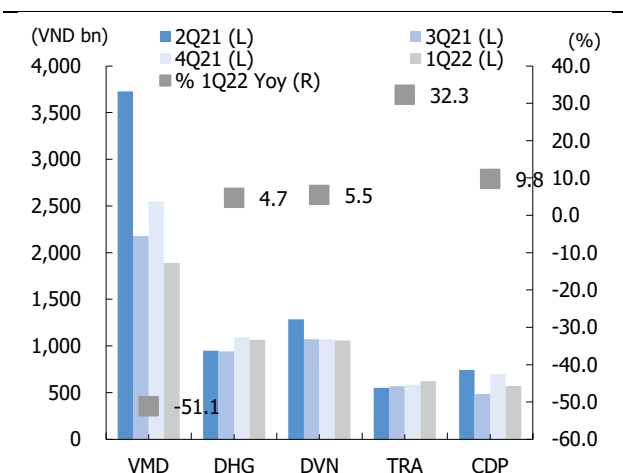
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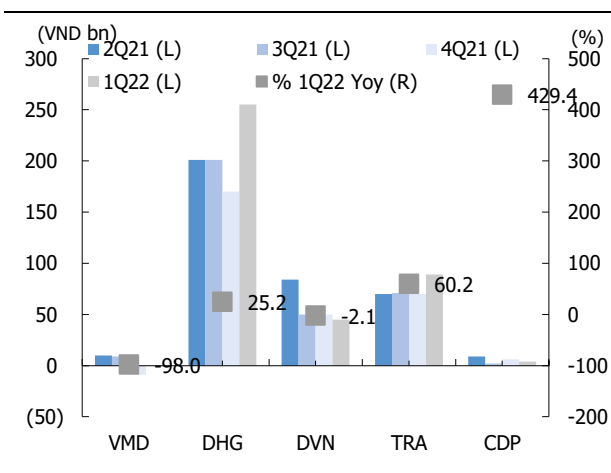
DHG and DVN (UPCoM) reaped 4.7%/5.5% yoy revenue growths and 25.2% yoy/-2.1% yoy net profit growths, reinforcing their top three largest producers. TRA shone as an elite player with its all-time high record of VND624bn revenue (+32.3% yoy) and 60.2% yoy net profit growth. In the context of Covid outbreak, the producers of treatment and supplement medicine for COVID-19 symptoms are the beneficiaries the most. After being granted the license to manufacture drugs Molnupiravir, MKP (UPCoM) was like "reborn". In 1Q22, MKP's revenue pegged at VND428bn (+62.3% yoy and 39.9% qoq). OPC revenue sustainably swelled over the quarters with 36.4% yoy/8% qoq in 1Q22.

Figure 2. Revenue of top five companies



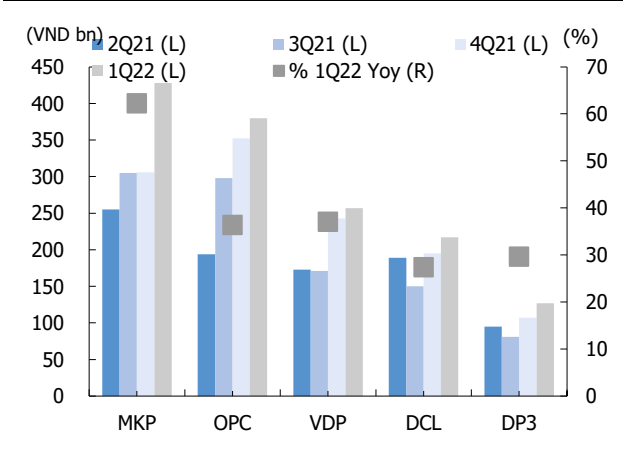
Source: Company data, KIS

Figure 3. Net profit of top five companies



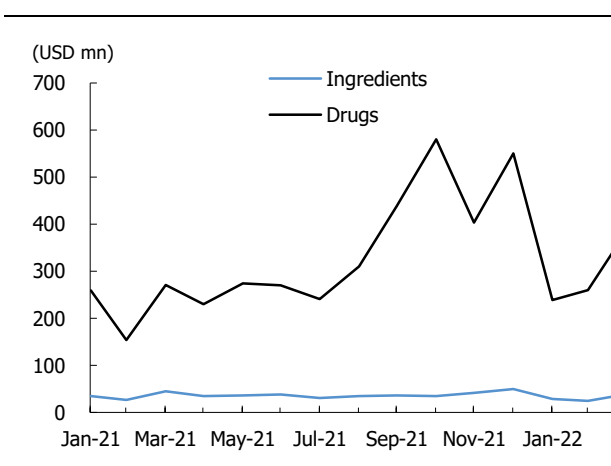
Source: Company data, KIS

Figure 4. Companies with outstanding revenue growth



Source: Company data, KIS

Figure 5. Viet Nam pharmaceutical imports value

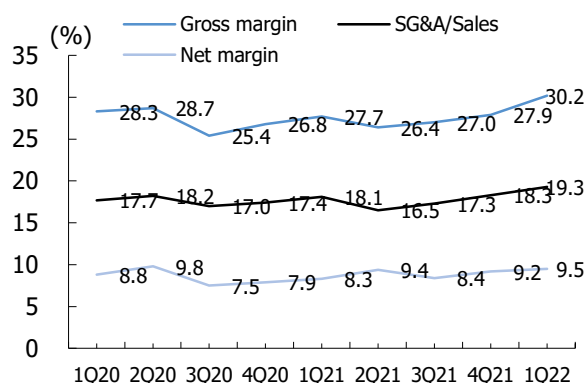


Source: MoIT, KIS

Drug producers' gross margin expansion was offset by SGA/sales rise

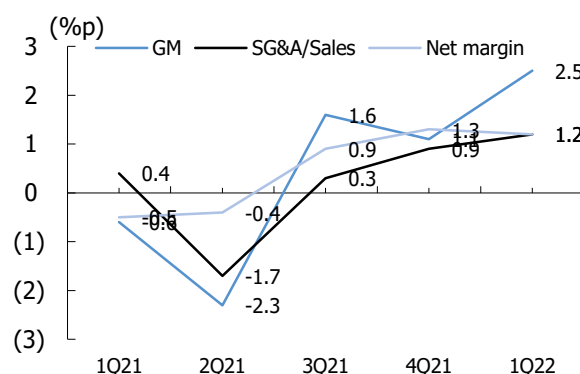
In 1Q22, the blended gross margin of the pharmaceutical sector (excluding VMD) improved 2.5%p yoy, 2.3%p qoq to reach 30.2%. However, SG&A/sales surged by 1.2%p yoy, +1%p qoq and hit 19.3%. Higher SG&A expenses ate away the gross profit and as a result, net margin slightly edged up by 1.2%p yoy, +0.3%p qoq to 7.6%. Based on our data collection, in 1Q22, companies pumped money for marketing and salary for sales staffs. For instance, MKP's marketing expenses rose by 6.1x qoq, DBD's sales staff's salary spiked by 37% qoq. It was reasonable to increase selling expenses to support sales, however, margin erosion could be inevitable if the sales increase is not adequate.

Figure 6. Net margin expanded in 1Q22



Source: Company data, KIS
 Aggregated revenue of 28 companies (without VMD) made up ~80% of total industry revenue

Figure 7. %p yoy increase in the net margin by quarters

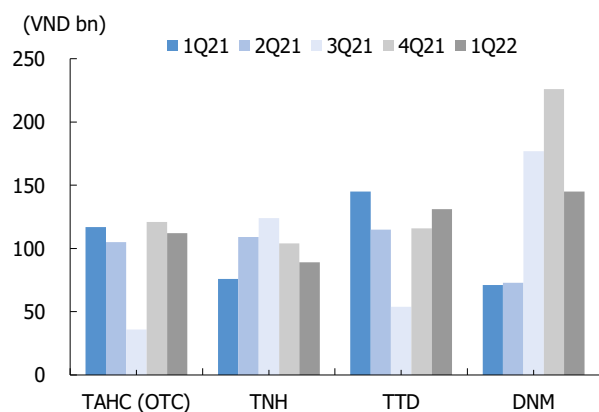


Source: Company data, KIS
 Aggregated revenue of 28 companies (without VMD) made up ~80% of total industry revenue

Medical services and equipment lagged behind

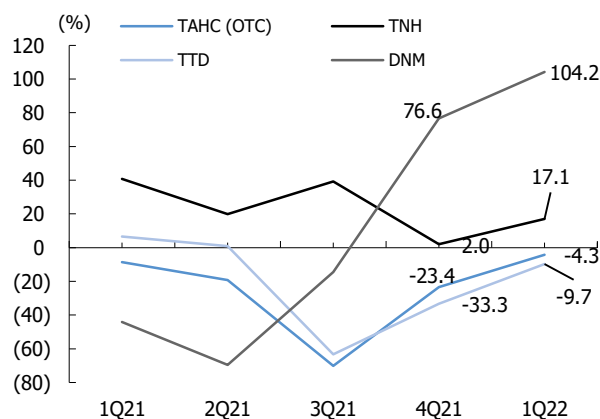
Currently, the number of listed companies in the field of medical services and equipment in Viet Nam is not much. We picked up 4 outstanding companies for reference data. In 1Q22, DNM (a company provides medical equipment), despite recording absolute revenue lower than the previous quarter, posted a high revenue growth rate of 104.2% yoy, and an excellent net profit growth upped to 200% yoy. A hospital that got a lot of attention when it was first listed, TNH, posted a humble revenue growth of 17.1% yoy and net profit only inched up by 6.7% yoy.

Figure 8. Revenue by quarters



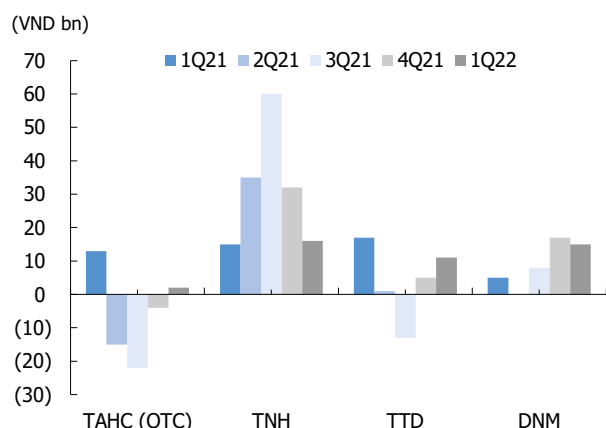
Source: Company data, KIS

Figure 9. Revenue growth by quarters



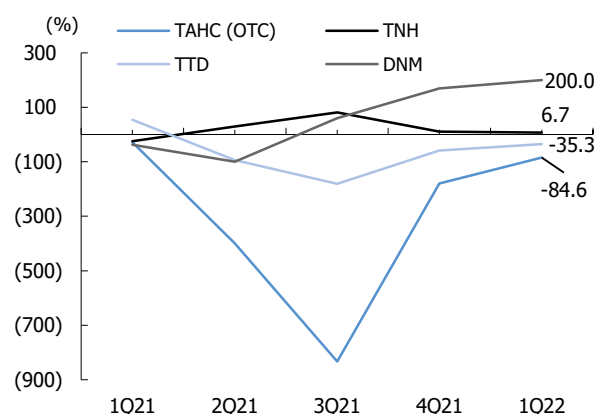
Source: Company data, KIS

Figure 10. Net profit by quarters



Source: Company data, KIS

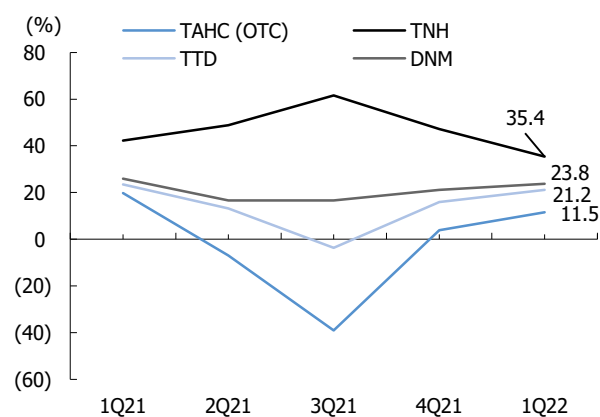
Figure 11. Net profit growth by quarters



Source: Company data, KIS

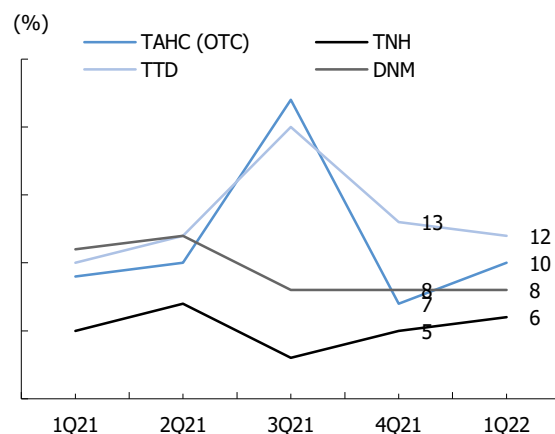
Although TNH's gross margin was falling since 3Q21, its GM still remained at high level compared to peers. DNM's GM was about 20.1% in 2021 on average and slightly jumped to 23.8% in 1Q22. The other two companies, TAHC (OTC) and TTD (UPCoM), both had the improvement in GM compared to 4Q21. When it came to SG&A/Sales ratio, TNH had the lowest level with only 6% in 1Q22. In general, it could be said that companies in the field of medical services spent for marketing expense less than those in pharmaceutical sector. On average, pharmaceutical producers spent up to 15% of sales for SG&A expenses in 2021, while companies in medical services sector spent only 10%.

Figure 12. Gross margin among companies



Source: Company data, KIS

Figure 13. SG&A/Sales



Source: Company data, KIS

Drug producers' earnings momentum is assured

Although COVID-19 has not been included in the list of common endemic diseases by the Ministry of Health, most of the people accept to live with it and come back to work. Demand for post-COVID medical treatment is increasing. Most major hospitals in HCMC added lists of post-COVID medical examinations and treatments. Therefore, we believe there will be plenty of room for growth for the pharmaceutical sector in the next quarters. Currently, covid treatment drugs (Molnupiravir) are commonly sold at large drugstores such as Long Chau (FPT Retail) and An Khang (MWG). However, we believe that it may be not the main driver of pharmaceutical sector in 2022F. Instead, the demand for vitamins, antibiotics and functional foods will expect to increase. The need for specific drugs used in hospital will soon up as hospitals started accepting patients again

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