

26 Jul 2022

OPC Pharmaceutical (OPC)

Non-rated

Sadder but wiser

2Q22: Unimpressive business results

OPC posted 2Q22 business results with a revenue of VND214bn (+10% yoy but -44% qoq) and a NPAT of VND29bn (+72% yoy and -28% qoq). Contrary to our expectation for a strong return of the pharmaceutical industry in 2Q22, OPC's business results was a little bit shy. OPC has a strong position in the field of herbal medicine, hence the reducing in sales could be a warning sign of the shift in product consumption for OPC's loyal customers.

Gross margin stayed at high level

In 2Q22, OPC gross margin achieved 41%, +3%p qoq and +2%p yoy. It seems that OPC has demonstrated their effort in controlling material costs regardless a fall in revenue. Unlike other pharmaceutical manufacturers that heavily depend on imported raw material (about 70% of material costs are imported ingredients), OPC has an advantage of being independent in input supply. OPC has planned herbal area according to strict standards of the Ministry of Health.

SG&A to sales flattened in 2Q22 compared to previous quarter but downed 4%p yoy to hit 24%. Selling costs accounted for 70% of total SG&A expenses, in which sales staff's salary was about 68% of selling costs. Thus, this is one of the main reasons that making OPC's net profit may be no longer attractive. OPC's net margin was 14% (+3%p qoq and +5%p yoy) in 2Q22. On average, net margin in 2021 was 11%, and we believe that OPC may not break this point in 2022F, if they can not find way to improve sales.

Valuation

OPC is trading at 13.4x TTM PE and 2.6x PB, higher than 2-yrs average of 14.1x and 2.4x. Although it seems that OPC is trading at lower PE than peers with the TTM PE from 13.9x to 21.1x, we think this valuation is not cheap based on the lag in 2Q22 business results.

Yr to	Sales	OP	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE	DY
Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(YoY)	(VND bn)	(x)	(x)	(x)	(%)	(%)
2017A	962	117	87	3,092	11.4	37	6.1	5.5	1.2	27.9	10.0
2018A	1,003	123	101	3,412	10.3	46	5.0	3.5	1.1	20.4	10.0
2019A	989	130	101	3,401	(0.3)	55	4.6	3.0	1.0	18.3	10.0
2020A	966	136	103	3,969	16.7	52	5.2	3.4	0.9	18.7	10.0
2021A	1,124	167	123	4,742	19.5	33	6.3	3.6	0.9	20.1	10.0

Note: Net profit, EPS and ROE are based on figures attributed to controlling interest

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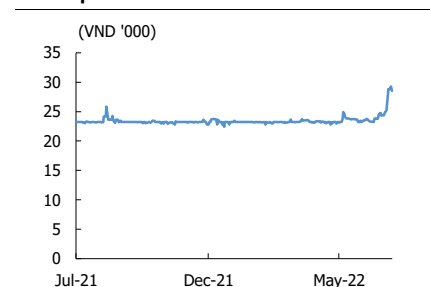
Stock Data

VNIndex (Jul 26, pt)	1,185
Stock price (Jul 26, VND)	28,500
Market cap (USD mn)	78
Shares outstanding (mn)	64
52-Week high/low (VND)	29,300/22,449
6M avg. daily turnover (USD mn)	0.06
Free float / Foreign ownership (%)	54.4/0.0
Major shareholders (%)	
PVI	24.83
Vietnam Pharmaceutical Corporation	13.40

Performance

	1M	6M	12M
Absolute (%)	20.9	22.7	22.6
Relative to VNIndex (%p)	20.6	42.0	28.1

Stock price trend



Source: Bloomberg

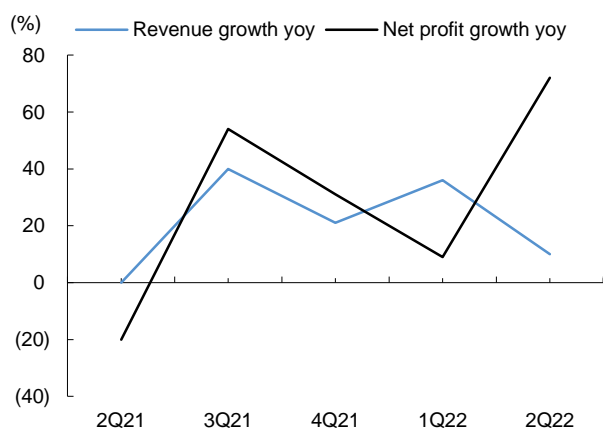
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This is the good time to rethink the strategy

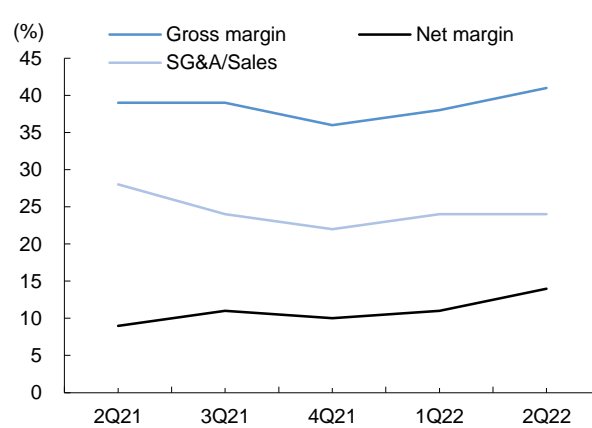
We maintain the same view as our previous pharmaceutical sector earning note reports, that the demand for antibiotics, functional foods and specific drugs used in hospital (such as cancer treatment drugs and dialysis solution) will become the key growth driver for pharmaceuticals sector. However, OPC's business results in 2Q22 showed that consumers may prefer to buy general drugs rather than herbal medicine to treat or prevent post-COVID diseases. This forces OPC to think about enhancing APIs in their products or using marketing costs wisely. Despite short-term decline in revenue, we believe that OPC still has long-term growth potential, due to the tendency of consumers to gradually switch to herbal products.

Figure 1. Revenue and Net profit growth rate yoy



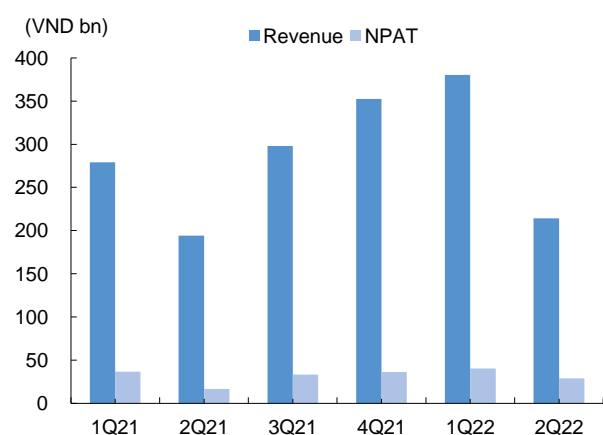
Source: Company data, KIS

Figure 2. Gross margin and Net margin qoq



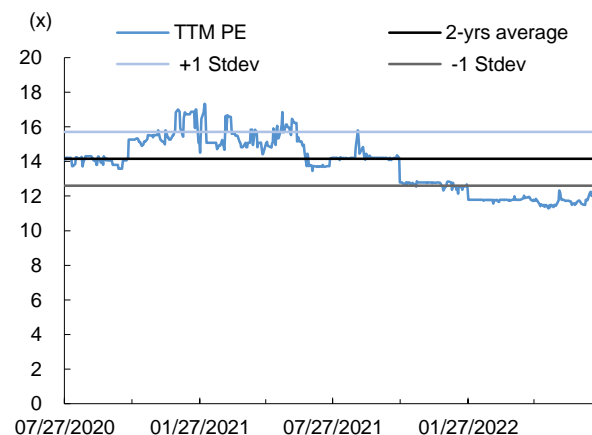
Source: Company data, KIS

Figure 3. Revenue and NPAT by quarters



Source: Company data, KIS

Figure 4. OPC PE



Source: Finpro, KIS

■ Company overview

OPC Pharmaceutical (OPC: HSX) was established in 1977. OPC specializes in manufacturing and trading pharmaceuticals, especially traditional medicines, farming and processing, manufacturing medical equipment, chemicals and cosmetics. OPC is the second largest pharmaceutical enterprise in Vietnam today (after Traphaco). OPC owner House Pharmaceuticals OPC Binh Duong with an area of 5.2ha, which has been granted GMP standard certificate by the Drug Administration - Ministry of Health of Vietnam). On Oct 30, 2008, OPC officially traded on Ho Chi Minh City Stock Exchange (HOSE).

Balance sheet

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020A	2021A
Current assets	603	853	825	790	886
Cash & cash equivalents	126	96	97	90	218
Accounts & other receivables	156	153	168	149	133
Inventory	314	597	551	539	523
Non-current assets	459	336	356	362	352
Fixed assets	211	253	243	248	253
Investment assets	245	55	50	54	38
Others	11	33	68	70	70
Total assets	1,063	1,189	1,180	1,153	1,238
Advances from customers	53	210	210	210	213
Unearned revenue	6	3	1	2	0
Trade payables	55	87	33	44	71
Others	138	157	123	109	140
ST debt & due bonds	240	106	125	77	71
LT debt & bonds	0	0	0	0	0
Total liabilities	492	563	492	442	495
Controlling interest	504	558	620	646	681
Capital stock	253	266	266	266	266
Capital surplus	10	17	17	17	17
Other reserves	180	194	212	213	229
Retained earnings	60	81	125	150	169
Minority interest	67	68	68	65	62
Shareholders' equity	571	626	688	711	743

Income statement

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020A	2021A
Sales	962	1,003	989	966	1,124
COGS	556	571	573	590	684
Gross profit	406	431	417	376	440
SG&A expenses	289	308	287	239	273
Operating profit	117	123	130	136	167
Financial income	6	4	5	5	4
Interest income	5	3	4	5	3
Financial expenses	11	13	14	10	12
Interest expenses	4	6	8	6	5
Other non-operating profit	0	15	11	0	0
Gains (Losses) in associates, subsidiaries and JV	1	1	0	2	0
Earnings before tax	113	130	131	133	159
Income taxes	26	30	30	30	36
Net profit	87	101	101	103	123
Net profit of controlling interest	87	98	101	106	126
EBITDA	37	46	55	52	33

Cash flow

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020A	2021A
C/F from operations	104	2	56	124	191
Net profit	87	101	101	103	123
Dep'n & Amort'n	29	23	26	22	23
Net incr. in W/C	(12)	(122)	(71)	(1)	45
C/F from investing	(212)	(23)	(51)	1	8
Capex	(239)	(42)	(27)	(31)	(9)
Incr. in investment	27	19	(24)	32	17
C/F from financing	137	(11)	(36)	(128)	(59)
Incr. in equity	0	0	0	0	0
Incr. in debt	188	24	19	(48)	(5)
Dividends	(52)	(54)	(55)	(80)	(53)
C/F from others	0	0	0	0	0
Increase in cash	28	(33)	(30)	(3)	140

Key financial data

FY-ending Dec.	2017A	2018A	2019A	2020A	2021A
Per-share data (VND, adj.)					
EPS	2,921	3,158	3,139	3,977	4,748
BPS	22,569	23,534	25,853	26,711	27,932
DPS	2,040	2,019	2,056	2,993	2,008
Growth (%)					
Sales growth	21.7	4.2	(1.3)	(2.4)	16.4
OP growth	12.2	5.0	5.8	5.1	22.1
NP growth	11.1	13.0	2.9	4.9	19.4
EPS growth	(5.4)	8.1	(0.6)	26.7	19.4
EBITDA growth	12.4	5.0	5.8	5.1	38.6
Profitability (%)					
OP margin	12.2	12.2	13.1	14.1	14.8
NP margin	9.1	10.0	10.2	10.7	11.0
EBITDA margin	12.2	12.2	13.1	14.1	16.8
ROA	9.5	8.9	8.5	8.8	10.3
ROE	15.7	16.8	15.4	14.7	17.0
Dividend yield	7.6	7.6	7.5	5.1	7.7
Dividend payout ratio	66.1	69.1	65.1	95.3	50.5
Stability					
Net debt (VND bn)	114	10	27	(13)	(147)
Net debt/equity (%)	20.0	0.0	0.0	0.0	(20.0)
Valuation (x)					
PE	6.1	5.0	4.6	5.2	6.3
PB	1.2	1.1	1.0	0.9	0.9
EV/EBITDA	5.5	3.5	3.0	3.4	3.6

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