

4 Nov 2022

Healthcare

Pharmaceutical

Non-rated

“EU-GMP” will be a new battlefield

3Q22: Not too much but happy

The industry posted a VND10,899bn turnover (+12.7% yoy, +2.3% qoq) and VND827bn NPAT (+29.8% qoq, +13.1% qoq). Overall, the top five companies (VMD, DVN, DHG, CDP, and TRA) accounted for around 52% of the industry turnovers. Despite being the “oldest brother”, VMD recorded negative revenue growth of 18.6% yoy in 3Q22 while 4/5 other leaders showed growth rates of around 6.3% - 54.4% yoy. Surrounded the giant rivals, DHG still maintained its leading position with the highest NPAT of VND262bn (+30.1% yoy, +12% qoq). The company posted a positive revenue growth over the last 3 quarters after the trough in 4Q21.

Gross margin improved

Industry gross margin (GM) bolstered to 25.9% in 3Q22 (+3.5%p yoy, +1.0%p yoy), while net margin inched to 7.6% (+1.0%p yoy, +0.7%p qoq), regardless of SG&A/sales rose of 1.1%p yoy to 16.4%. DBD and OPC emerged as brisk players with GM expansion of 16.3%p/8.3%p yoy in 3Q22. The king of oriental medicine, TRA, gave the most excellent GM of 56.5% (+4.4%p yoy, -5.7%p qoq). However, from the data we collected, the GM of the top five producers mentioned above nearly trailed among the four latest quarters.

Foreigners dominate Group 1 biddings in public hospitals

After the Circular 15/2019/TT-BYT of the Ministry of Health took effect in 2019, domestic pharmaceutical companies started racing to build pharmaceutical EU-GMP standard factories. However, according to GMPC Vietnam updated on Sep 13 2022, there were 10 drug producers achieved the EU-GMP standard in Vietnam. In this list, only IMP was a domestic-listed company, while 8/10 were FDI base. After all, we expect 4Q22F's business results of the pharmaceutical industry could be brighter than 3Q22 due to 1) hospitals are back to full capacity, and 2) Vietnam enters the rainy season, causing seasonal diseases such as flu and dengue fever to increase.

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Table 1. 33 aggregated pharmaceutical producers' earnings

(VND)

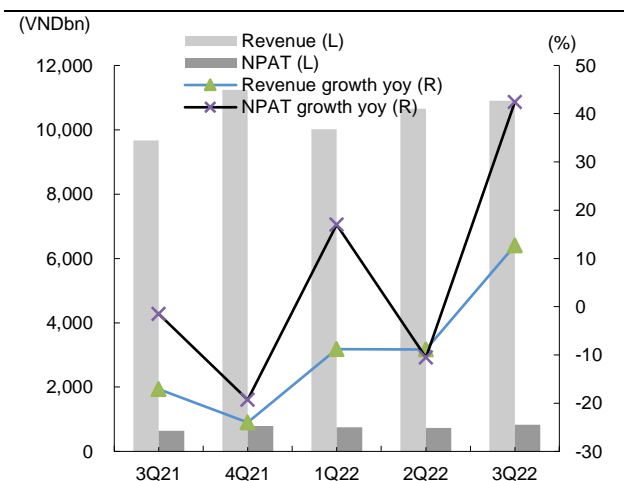
bn, %)	3Q21	2Q22	3Q22	YoY	QoQ
Revenue	9,669	10,654	10,899	12.7	2.3
OP	696	906	1,035	48.7	14.2
NPAT	637	731	827	29.8	13.1

Source: Fiinpro, KIS

Note: Aggregated revenue of 33 companies made up around 100% of total industry revenue

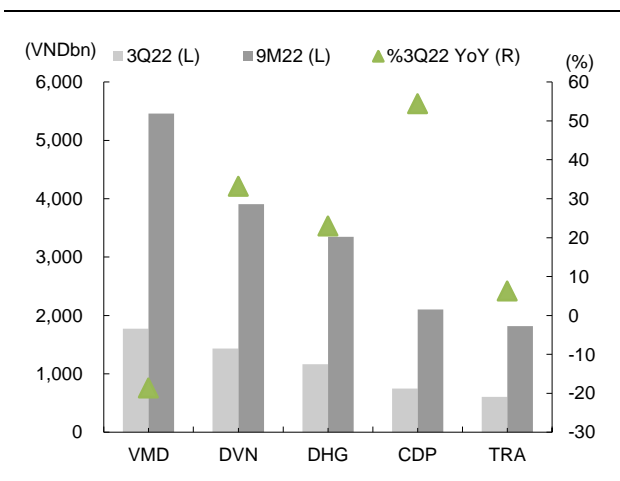
The upturn momentum of the pharmaceutical industry was insisted in 3Q22 with 12.7%/29.8% yoy growth in revenue and NPAT, respectively. In detail, the industry posted a VND10,899bn turnover and VND827bn NPAT. Furthermore, revenue/NPAT of the industry spread by 2.3%/13.1% qoq in 3Q22. Overall, the top five companies (VMD, DVN, DHG, CDP, and TRA) accounted for around 52% of the industry turnovers. Despite being the “oldest brother”, VMD recorded a negative revenue growth of 18.6% yoy in 3Q22, while 4/5 other leaders showed a growth rate of around 6.3% - 54.4% yoy. On the other hand, while VMD/CDP announced a 1.5%/4.1% yoy fell in revenue in 3Q22, the others in the top five above (DVN, DHG, and TRA) posted 1.2%/3.8%/2.4% yoy upped in turnover, respectively.

Figure 1. Drug producers' aggregated earnings



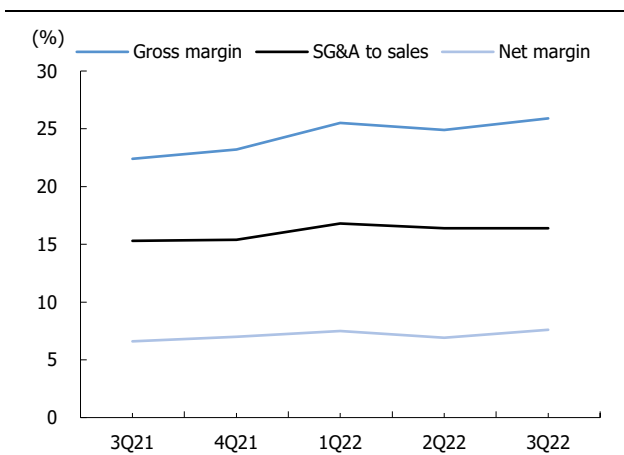
Source: Fiinpro, KIS

Figure 2. Revenue of the top five companies



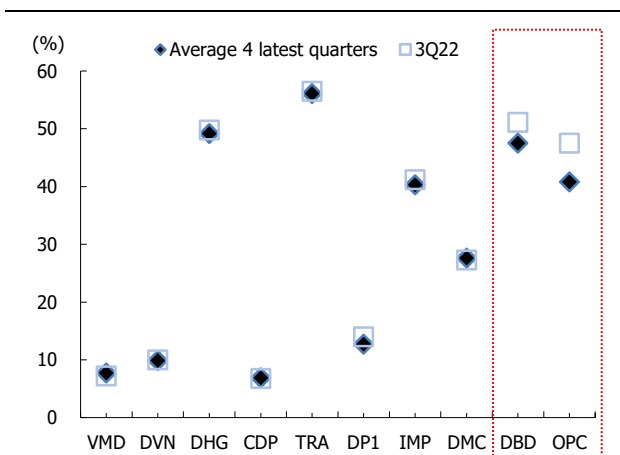
Source: Fiinpro, KIS

Figure 3. Industry gross margin



Source: Company data, KIS

Figure 4. Gross margin of top drug producers

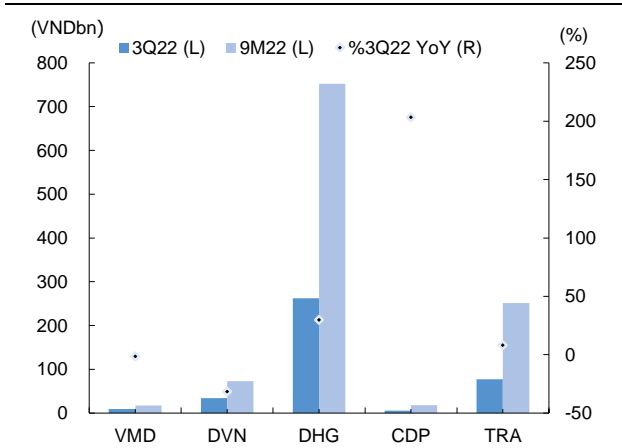


Source: Company data, KIS

Industry GM bolstered to 25.9% in 3Q22 (+3.5%p yoy, +1.0%p qoq), while NM inched to 7.6% (+1.0%p yoy, +0.7%p qoq), regardless of SG&A/sales rose by 1.1%p yoy to 16.4%. Surprisingly, none of the top five above got a significant improvement in blended GM. From the data we collected, the GM of these producers nearly trailed among the four latest quarters. Nonetheless, surrounded by the top ten pharmaceutical producers, DBD and OPC emerged as good players with 16.3%/8.3%p yoy expanding in 3Q22's GM.

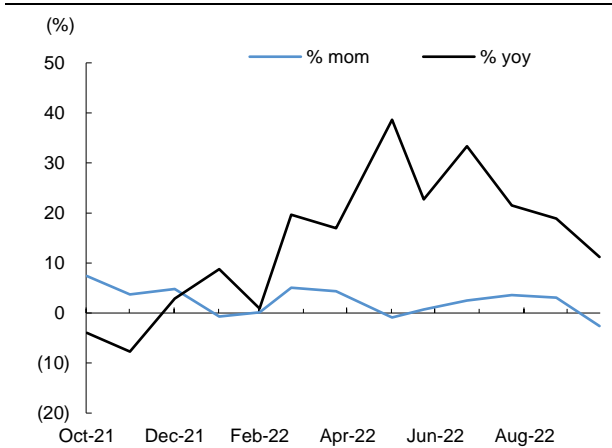
Breaking into detail, the king of oriental medicine, TRA, gave an excellent performance against the industry as it got the highest gross margin of 56.5% (+4.4%p yoy, -5.7%p qoq). Unlike other pharmaceutical manufacturers that heavily depend on imported raw materials (about 70% of material costs are imported ingredients), TRA has the advantage of an internal source. The second position was DBD with a gross margin of 51.1% (+16.3%p yoy, +1.0%p qoq). DBD's cancer drug treatment plant in Nhon Hoi is in progress and the company expects it could complete the EU-GMP approval standard in Jun 2023F, which will help the company join the high-quality cancer drug bid in the public hospitals. Surrounded by largest companies, DHG still maintained its leading position with the highest NPAT of VND262bn (+30.1% yoy, +12% qoq). The company posted positive revenue growth over the last 3 quarters after the trough in 4Q21.

Figure 5. Net profit of top pharmaceutical companies



Source: Fiinpro, KIS

Figure 6. Vietnam's pharmaceutical industry IIP



Source: MoIT, KIS

After the Circular 15/2019/TT-BYT of the Ministry of Health took effect in 2019, domestic pharmaceutical companies started racing to build a pharmaceutical EU-GMP standard factory. The Circular required that in Group 1, imported drugs may not be allowed to bid if domestically-produced drugs could meet EU-GMP standards (or equivalent standards such as Japan-GMP, PIC/s-GMP, and US-GMP) for the same main active ingredients. However, according to GMPC Vietnam updated on Sep 13 2022, there were 10 drug producers achieved the EU-GMP standard in Vietnam. In this list, only IMP was a domestic-listed company, while 8/10 were FDI base.

We think the "EU-GMP" battle of domestic producers will be very fierce in the medium term. However, this will be a difficult problem in terms of capital and product quality. After all, although the IIP showed a decrease in pharmaceutical volume production in Oct vs Sep, we still expect 4Q22F's business results of

the pharmaceutical industry could be brighter than 3Q22 thanks to 1) hospitals are back to full capacity, and 2) Vietnam enters the rainy season, causing seasonal diseases such as flu and dengue fever to increase.

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