

Pharmaceutical

OTC is still a fertile channel

4Q22: Not bad but needs more

The industry posted a VND12,048bn revenue (+7.1% yoy, +5.7% qoq) and a VND842bn NPAT (+6.0% yoy, +13.5% qoq) in 4Q22. DVN achieved an impressive revenue growth of 52% yoy. DHG kept its high position with a 22% yoy increase in sales, while IMP/DBD recorded a turnover growth of 40%/15% yoy. The 4Q22 aggregated blended gross margin (GM) was 25% (+2.1%p yoy, +0.1%p qoq), while the net margin (NM) nearly stayed the same as 4Q21 with 7.2% (+0.2%p yoy, -0.2%p qoq).

DHG still led in term of net profit.

Despite being the leaders in terms of sales, DVN/VMD's NPAT were only VND39bn/VND19bn in 4Q22 (-22% yoy, +311% yoy), quite modest in absolute number compared to DHG's NPAT of VND236bn (+39% yoy, -10% qoq). After steady growth, TRA's NPAT hit its lowest level since 2Q20, with VND42bn (-40% yoy, -46% qoq). In the contrast, the situation was more brightly for "bidding" drug producers such as DBD. DBD announced a NPAT growth rate of 61% yoy in 4Q22.

...and plans to expand in 2023F

Besides the "EU-GMP" wave that we mentioned in our 3Q22 sector earning note, OTC is still an attractive channel. Both DBD and TRA are planning to increase the market share of OTC channel in 2023F by their own way. It is very difficult for us to base on any specific indicator to forecast the results of the pharmaceutical industry over the quarters. However, by observing historical data, we found that the results in the first 6M often were not so bright. The reason may be because of the pleasant weather in this period, there were fewer diseases than in the rainy season (often happening in 2H of the year). Thereby, and also with the decline in the IIP figure in Jan 2023, we think the 1Q23F results may not so bright as 4Q22.

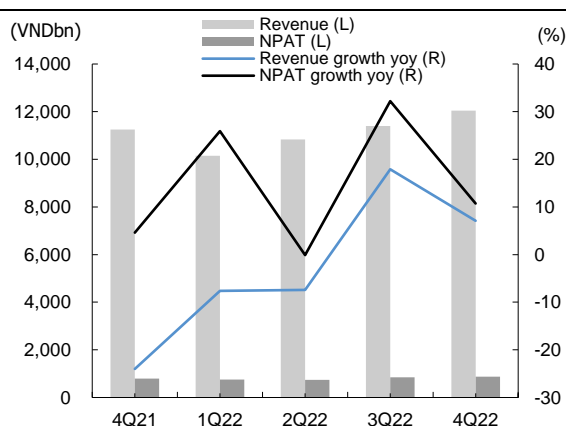
Table 1. 34 aggregated pharmaceutical producers' earnings (VNDbn, %)

	4Q21	3Q22	4Q22	YoY	QoQ
Revenue	11,245	11,402	12,048	7.1	5.7
OP	877	915	1,063	21.2	16.2
NP	788	742	842	6.9	13.5

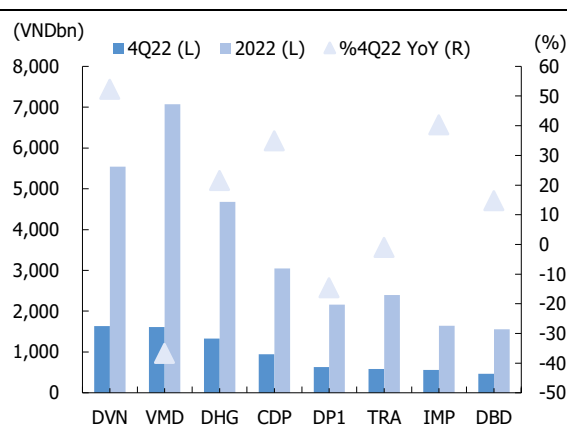
Source: Fiinpro, KIS

Note: Aggregated revenue of 34 companies made up around 100% of total industry revenue

After a good growth momentum in 3Q22, the business results in 4Q22 of the pharmaceutical industry slowed down with 7.1%/6.9% yoy growth in revenue and NPAT, respectively. In detail, the industry posted a VND12,048bn revenue (+5.7% qoq) and a VND842bn NPAT (+13.5% qoq). Overall, the top five companies (DVN, VMD, DHG, CDP, and DP1) accounted for around 51% of the industry turnovers.

Figure 1. Drug producers' aggregated earnings

Source: Fiinpro, KIS

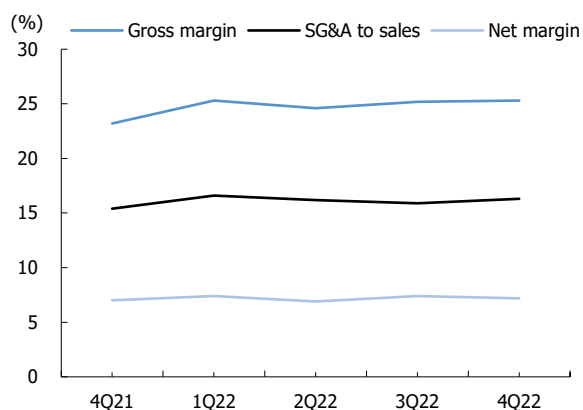
Figure 2. Revenue of leaders: gradual rise

Source: Fiinpro, KIS

In 4Q22, DVN announced an impressive revenue growth rate of 52% yoy to reach VND1,636bn (+14% qoq). DHG kept its high position with a 22% yoy increase in revenue to hit VND1,330bn (+15% qoq). The company explained in the Disclosure that net sales increased in 4Q22 mainly because demand in antibiotics and products to prevent disease, strengthen the immune system rose significantly. IMP/DBD recorded a turnover growth rate of 40%/15% yoy. DBD achieved impressive growth in both ETC and OTC channel with 64%/27% yoy increase in sales. However, TRA's business results in 4Q22 showed a floating sadness with -1% yoy/-4% qoq in revenue. In 2022, VMD took the lead with a revenue of VND7,073bn (-43% yoy), followed by DVN with VND5,541bn (+25% yoy).

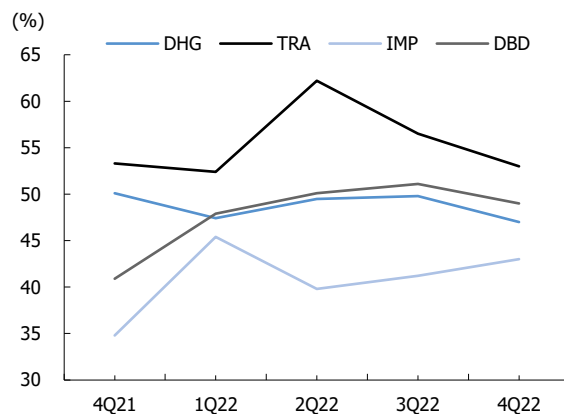
There were not many strong fluctuations in the 4Q22 blended gross margin (GM) with 25% (+2.1%p yoy, +0.1%p qoq), while the net margin (NM) nearly stayed the same as 4Q21 with 7.2% (+0.2%p yoy, -0.2%p qoq). The SG&A/sales inched up by 0.9%p yoy to 16.3% in 4Q22. TRA usually posts the highest GM among those competitors, with 53% in 4Q22 (-0.3%p yoy, -3.5%p qoq), followed by DBD with 49% (+7.6%p yoy, -2.6%p qoq). DHG and IMP posted GM of 47% (-3.4%p yoy) and 43% (+8.6%p yoy) in 4Q22.

Figure 3. Industry gross margin



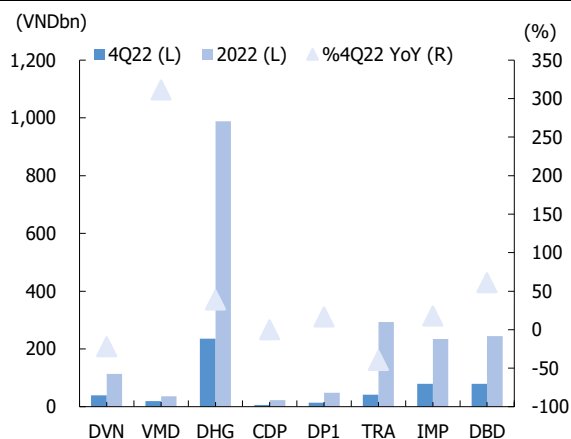
Source: Company data, KIS

Figure 4. Gross margin of top drug producers



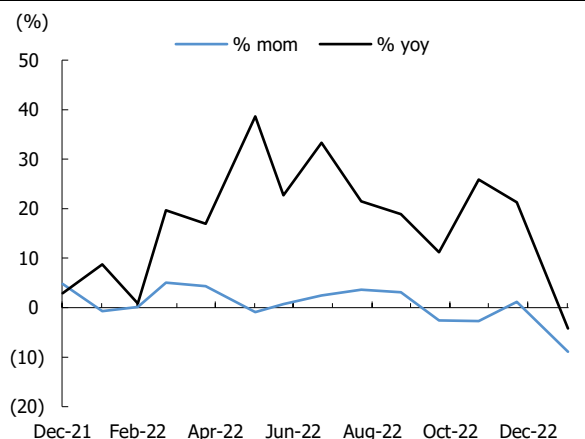
Source: Company data, KIS

Figure 5. Net profit of top pharmaceutical companies



Source: Fiinpro, KIS

Figure 6. Vietnam's pharmaceutical industry IIP



Source: MoIT, KIS

Despite being the leaders in terms of sales, DVN/VMD's NPAT were only VND39bn/VND19bn in 4Q22 (-22% yoy, +311% yoy), quite modest in absolute number compared to DHG's NPAT of VND236bn (+39% yoy, -10% qoq). After steady growth, TRA's NPAT hit its lowest level since 2Q20, with VND42bn (-40% yoy, -46% qoq). In the contrast, the situation was more brightly for "bidding" drug producers such as DBD. DBD announced a NPAT growth rate of 61% yoy in 4Q22.

Besides the "EU-GMP" wave that we mentioned in our 3Q22 sector earning note, OTC is still an attractive channel. Drug bidding depends on many policies of the Ministry of Health and the company also has pressure to give the lowest bid, while to successfully sell drugs through OTC channel, the company must have a "close relationship" with each drug store. At the latest AM, DBD announced a plan to distribute cancer drugs in hospital pharmacies and also expand market share in OTC channel. The company is building customer data and closely discussing with potential customers about the distribution.

TRA also has a plan to vigorously expand to "non-herbal" drugs in 2023F. Thereby, it will be fierce competition not only in ETC but also in the OTC channel. It is very difficult for us to base on any specific indicator to forecast the results of the pharmaceutical industry over the quarters. However, by observing

historical data, we found that the results in the first 6M often were not so bright. The reason may be because of the pleasant weather in this period, there were fewer diseases than in the rainy season (often happening in 2H of the year). Thereby, and also with the decline in the IIP figure in Jan 2023, we think the 1Q23F results may not so bright as 4Q22.

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