

28 Feb 2022

Pharmaceutical

Demand bounce back in 1Q22F

Earnings growth retreated in 4Q21

Based on our estimate, 4Q21 aggregated revenue of 22 listed pharmaceutical companies fell by 25.2% yoy, while 4Q21 aggregated NPATMI slightly inched up by 6.7% yoy. Drugs consumption was hit since hospitals suffered from slow treatment visits as they had to do a screening process to detect COVID-19 or be occupied as a COVID-19 treatment center. Moreover, strictly social distancing measures interrupted the medicine supply chain. Those combinations led to negative sector revenue growth in 4Q21.

Gross margin expanded despite a tepid topline

The picture of revenue growth was mixed, of which herbal producing companies could reap the reward from the Health Ministry's recommendation list of COVID-19 treatment medicines. Despite negative results in 4Q21 for the whole sector, some exceptional companies were still achieved positive revenue growth in 2021 thanks to their flexible production strategy in focusing on high-margin drugs. Hence, the gross margin expansion attributed to the improvement of net margin, which jumped to 2.0%p yoy in 4Q21.

Positive outlook in 1Q22F

We believe there will be plenty of room for growth for the pharmaceutical sector in 1Q22F mainly due to (1) revenue through ETC (the drug channel for treatment, which patients can only buy at hospitals) increases when the filed hospitals take back their capacity; (2) demand is rising as people tend to store medicine in order to prevent Omicron variant and deal with "post" COVID diseases; (3) opportunity is coming from franchising the COVID-19 treatment drugs production progress.

Non-rated

Ngan Le

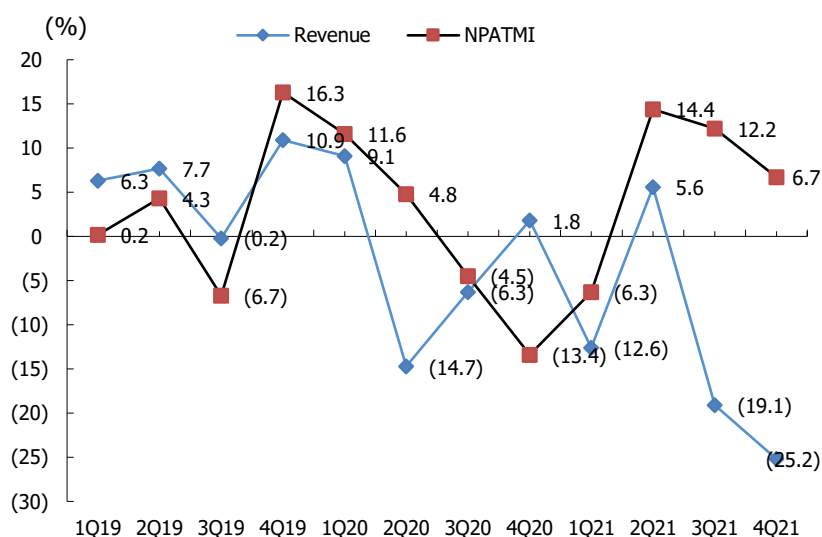
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Table 1. Aggregated earnings of 22 pharmaceutical listed companies (VND bn, %)

	4Q20	3Q21	4Q21	YoY	QoQ
Revenue	13,382	8,531	10,014	(25.2)	17
OP	869	599	854	(2.1)	43
NP	827	670	770	(6.7)	15

Source: Company data, Fiiipro

Based on our collection, the 4Q21 aggregate earnings momentum of 22 listed pharmaceutical companies (aggregated revenue makes up around 91% of total) decelerated. The net profit rose 14.4% yoy in 2Q21 but dropped to a bottom at 6.7% in 4Q21. The revenue growth fell 25.2% yoy in 4Q21 to hit the lowest level in 3 years, mainly due to the shrinking consumption. However, some companies' flexible strategy to the shift into higher margin products added to gross margin expansion which in turn led to net profit increase.

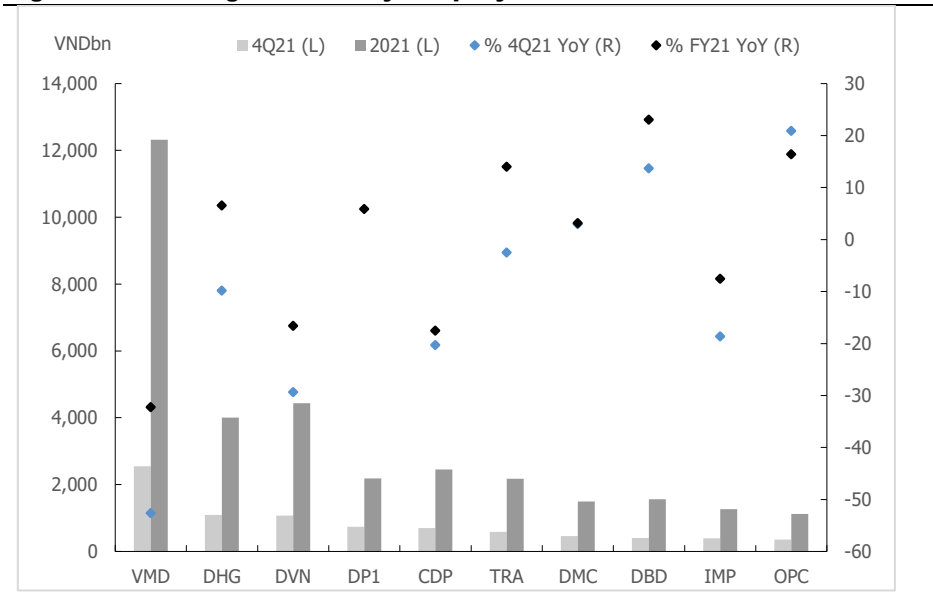
Figure 1. Listed pharmaceutical firms showed net profit retreated in 4Q21

Source: Company data, Fiiipro

Revenue growth diverged in 4Q21

Breaking down aggregate revenue growth by a specific company, VMD maintained its top position with a revenue of VND2,549bn in 4Q21 and VND12,319bn in 2021. However, it seems like VMD's revenue was affected by the COVID-19 pandemic the most with -53% yoy growth in 4Q21 and -32% yoy growth in 2021. Besides that, herbal medicine producers delivered impressive revenue growth including VHE and OPC with an increase of 273%/21% yoy respectively in 4Q21. In Aug 2021, the Ministry of Health announced a list of 12 traditional medicines and herbal products to support the treatment of Covid-19. This contributed to the increase in sales of herbal medicine producers. Currently, AMV appeared as an outstanding performer due to its excellent business results with revenue growth of 158% yoy in 4Q21 and 102% yoy in 3Q21.

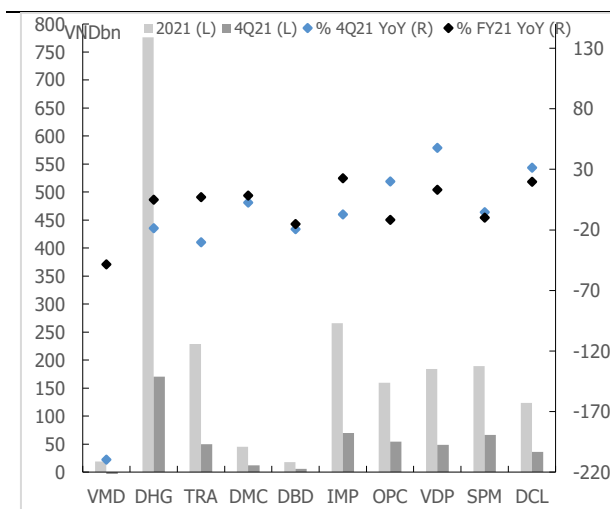
Figure 2. Revenue growth rate by company



Source: Company data, Fiipro

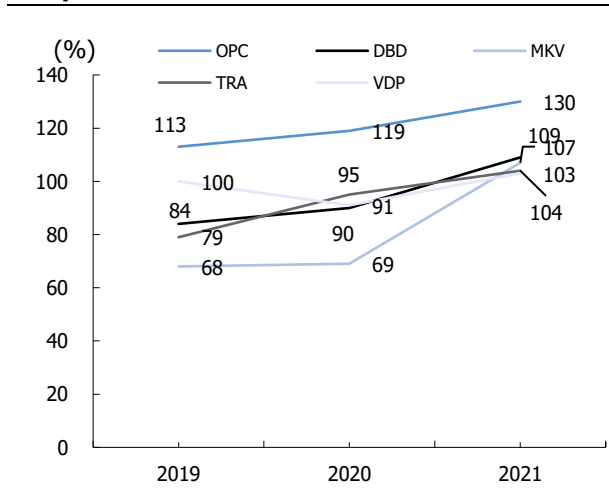
The unimpressive revenue growth in 4Q21 led to incompleteness of most listed companies' AGM guidance for 2021. They fulfilled around 55-130% of their FY21 revenue targets. In which, herbal medicine producers including OPC, DBD, TRA fulfilled 130%/109%/104% of their 2021's revenue guidance. As we estimated, among the top ten producers, there were six companies that recorded positive revenue growth in 2021, including DBD, OPC, TRA, DHG, DP1, SMC, which achieved 23.1%/16.4%/14.0%/6.6%/5.9%/3.2% yoy respectively.

Figure 3. Industry net profit growth



Source: Company data, Fiipro

Figure 4. Leaders reaped higher % revenue completion



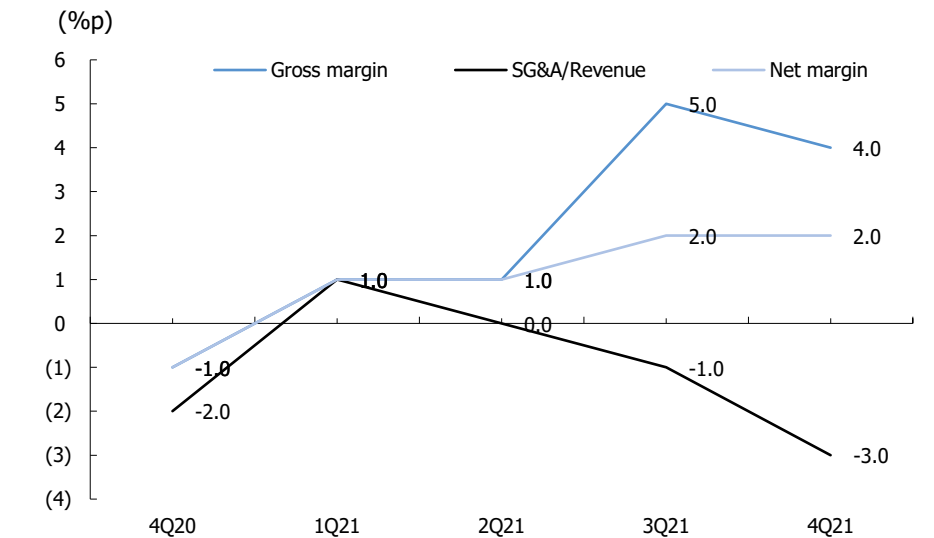
Source: Company data, Fiipro

The net margin among pharmaceutical firms in 4Q21

Falling demand during the pandemic made sector business results decelerate significantly. Although net margin in 4Q21 increased 6.7% yoy, this level was still far lower than 2Q21 and 3Q21 at 14.4%/12.2% yoy respectively. Among pharmaceutical retailers, AMV was the most outstanding player with 128% yoy and 39% qoq net profit growth in 4Q21 thanks to the delivery of high-margin products from the distribution of COVID-19 test kits, testing and vaccination

services. The top three VMD, DHG and DVN dominate the market posted an absolute 4Q21 net profit of VND211bn, accounting for 29% of total market net profit. VMD recorded a significant net profit fall of 211% yoy and a massive reduction of 200% qoq in 4Q21. Breaking down into details, net margin expansion was contributed by a combination of a 4%p yoy gross margin increase and a 3%p yoy SG&A/sales decrease.

Figure 5. %p yoy increase in the net margin by quarter



Despite being negatively affected by social distancing policies, most of the pharmaceutical companies started focusing on producing high-margin medicine, which helped them improve gross margin. Sector gross margin had gone up from 3Q21 and hit a peak in 4Q21 to reach 23.4%.

Figure 6. Industry gross margin (%)

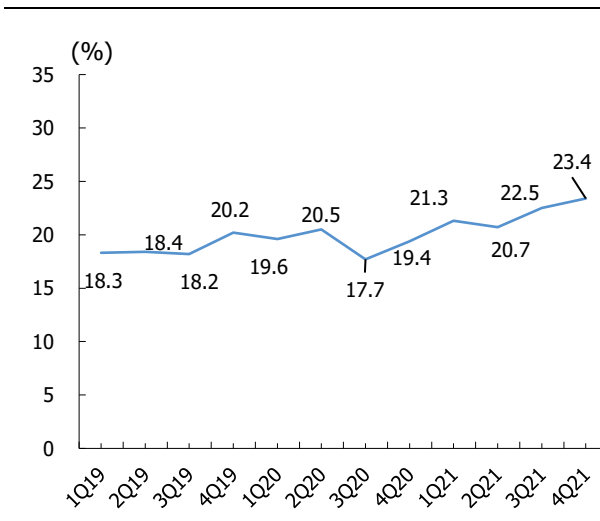
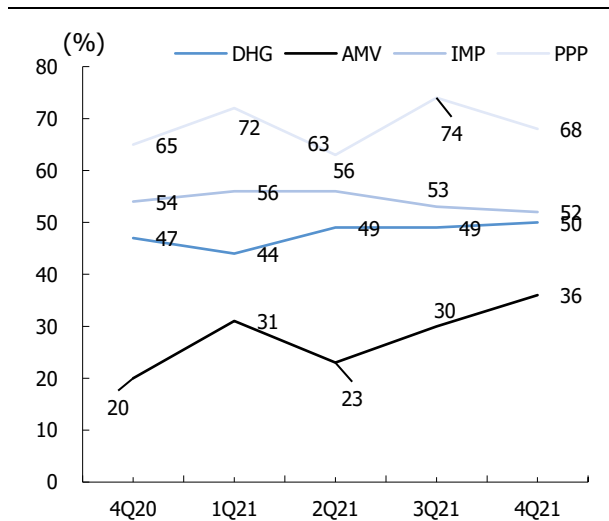


Figure 7. Companies with high gross margin (%)



PPP had the highest margin among pharmaceutical producers, at 68% on average. PPP gross margin in 4Q21 was 68%, a little bit lower than 3Q21, but still higher than 4Q20. Ranking the second was IMP with an average gross margin of 54% in 2021, and the third is DHG with an average gross margin of 48%. DHG's gross margin has gone up from 2Q21 and reached highest level in 4Q21 at 50%.

1Q22F back to the race

The demand for vitamins and antibiotics could increase in 1Q22F as people tend to store drugs in case the epidemic explores again, and to treat “post-COVID-19” symptoms. Currently, Ho Chi Minh’s Health Department has developed a decommissioning schedule for the city’s field hospitals that have been used for COVID-19 treatment. All of the field hospitals are going to close at the end of Dec 2021. It is expected that the hospitals will accept patients again and medical examination will increase in 1Q22 when hospitals are “open up” again, so medicine consumption through ETC channel could be boosted. According to the Ministry of Health, five domestic pharmaceutical companies have submitted documents for a license to produce drugs to treat Covid-19. However, up to now, the Ministry of Health has only announced the license for one company, MKP, and has not yet released a list of the remaining four companies. At the end of Nov, the Drug Administration of Viet Nam announced that two drug enterprises Pfizer and MSD had agreed to transfer technology in producing COVID-19 treatment medicine. The Drug Administration also asked pharmaceutical companies to apply to become partners for these two enterprises. We expect domestic pharmaceutical can reap the benefit from that and improve their business results both in 1Q22F and the whole year.

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