

3 Aug 2022

Pharmaceutical

Non-rated

Slow but steady wins the race

2Q22: Dissapointed results

Although the absolute result of the pharmaceutical industry showed a positive signal about the recovery of the pharmaceutical industry, it was not very impressive as the revenue growth only inched 4.6% qoq in 2Q22 and the NPAT posted a fall of 4.7% qoq. Moreover, 2Q22 aggregated revenue of pharma producers dropped by 12.5% yoy, while aggregated net profit declined by 5.9% yoy. In which, DVN and DHG still maintain their leading position with an 8.2%/11.1% yoy increase in revenue. Meanwhile, after benefiting from the production of Molnupiravir in 1Q22, MKP (UPCoM)'s revenue dropped sharply by 56% qoq and 26% yoy.

The net margin was not very attractive

The gross margin and net margin were 25.4%/6.7%, nearly the same as 1Q22 but +4.9%p/+0.4%p yoy. SG&A to sales was 17% and it stayed at the same level as the first quarter but was higher than the 2021's average of around 15. TRA had an excellent performance when achieving the highest gross margin of 63.2%, +10.8% qoq, while those of DHG was 49.5%, +2.1% qoq. Although DHG's net margin in 2Q22 was more attractive than TRA's (21.0% vs 14.4%), the net margin of TRA seems more stable than DHG at about 13%/year.

Growth momentum sustains in 2H22F

The IIP index showed an increase since Jun which proved the rising in volume production. Although we do not have specific volume figures yet, we remain our view that there will be plenty of room for growth in the pharmaceutical sector in the next quarters. Drug demand for fever treatment is currently increasing when dengue fever become serious in the rainy season (from Apr to Oct). The demand for antibiotics, functional foods and specific drugs used in hospitals (such as cancer treatment drugs, and dialysis solutions) could become the key growth driver for the pharmaceuticals sector in 2H22F.

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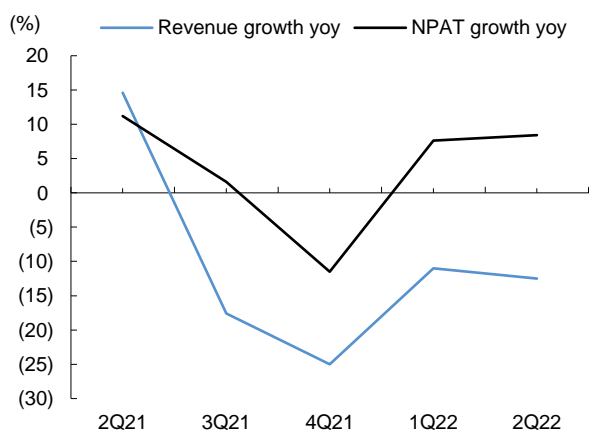
Table 1. 29 aggregated pharmaceutical producers' earnings (VND bn, %)

| | 4Q21 | 1Q22 | 2Q22 | YoY | QoQ |
|---------|--------|-------|--------|--------|-------|
| Revenue | 10,998 | 9,685 | 10,130 | (12.5) | 4.6 |
| OP | 810 | 830 | 842 | 4.1 | 1.4 |
| NP | 727 | 717 | 683 | (5.9) | (4.7) |

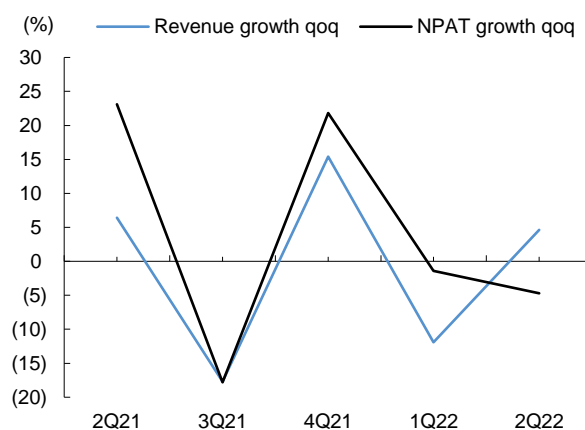
Source: Fiinpro, KIS

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

Results from collected data of our 29 companies implied that revenue growth declined 12.5% yoy, while NPAT dropped 5.9% yoy. Although the absolute result showed a positive signal about the recovery of the pharmaceutical industry, it was not very impressive as the revenue growth only inched 4.6% qoq in 2Q22 and the NPAT posted a fall of 4.7% qoq. One-point worth noting was that although revenue increased qoq, it seems that the rise in costs of goods sold and other operating expenses led to a decrease in net profit.

Figure 1. 29 drug producers' aggregated earnings

Source: Fiinpro, KIS

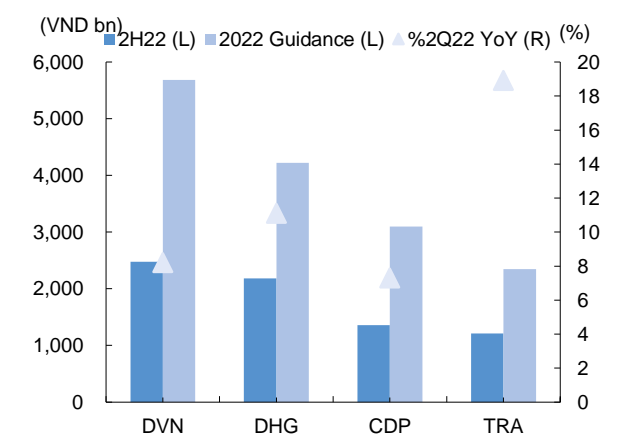
Figure 2. Revenue growth by quarters

Source: Fiinpro, KIS

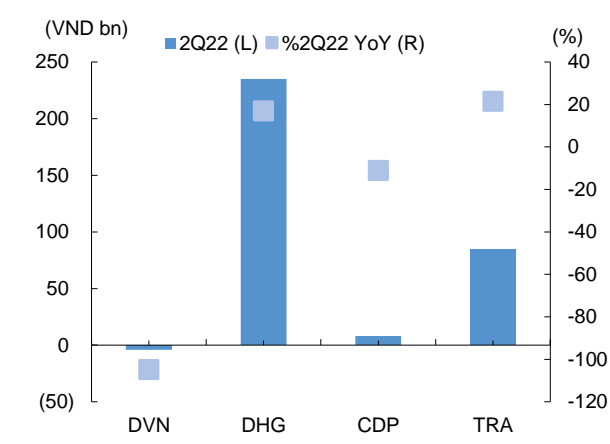
Big guys stand still

Contrary to the general trend of the industry, the top four drug producers showed growth in revenue. In detail, DVN (UPCoM) and CDP (UPCoM) reaped 8.2%/7.3% yoy and 34%/37% qoq revenue growth. DHG and TRA recorded revenue growth of 11.1%/18.9% yoy and 5%/-5% qoq. Currently, DVN and DHG still maintain their leading position. The revenue of these two companies grew steadily over the quarters since 3Q21. In general, 1H22's revenue fulfilled around 44-52% of their 2022F revenue guidance. Based on the results in 2Q22, we think that pharmaceutical producers will have to make a lot of effort to complete the whole year's guidance.

In contrast, both DVN and CDP showed a decline of 104.8%/11.1% yoy in net profit, while DHG and TRA recorded a rise of 16.9%/21.4% yoy. Moreover, in 2Q22, DMC emerged as a new player with a net profit increase of 55% qoq and 15% yoy. Another notable name is DBT with a 592% qoq/684% yoy increase in net profit in 2Q22. In 2Q22 DBT recorded VND25bn NPAT, an all-time high level. We believe with this growth momentum these two companies could take great strides in the next quarters.

Figure 3. Revenue of top drug producers

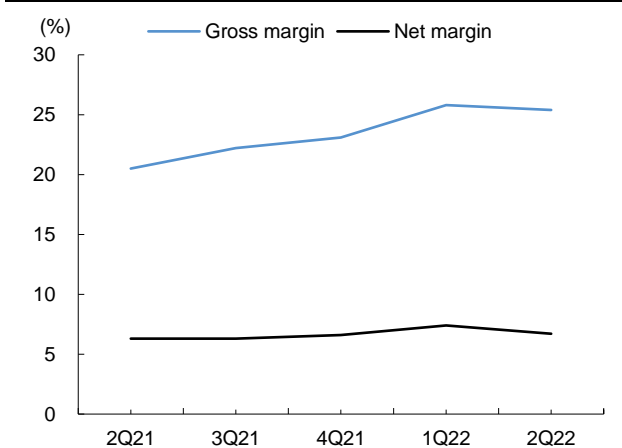
Source: Company data, KIS

Figure 4. Net profit of top drug producers

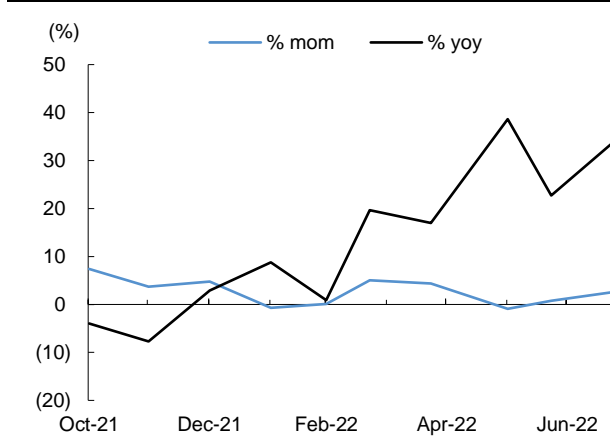
Source: Company data, KIS

Gross margin tends to move sideways

In 2Q22, the gross margin of the pharmaceutical sector was 25.4%, nearly the same as 1Q22 but upped 4.9%p yoy. SG&A to sales was 17% and it stayed at the same level as the first quarter but rose 3.0%p yoy. Moreover, SG&A to sales in 2Q22 was higher than the 2021's average of around 15%. Net margin was 6.7%, -0.7%p qoq, and +0.4%p yoy. It seems that the pharmaceutical industry spends more money on SG&A expenses than other manufacturing industries, so then the net margin of this may not be very attractive.

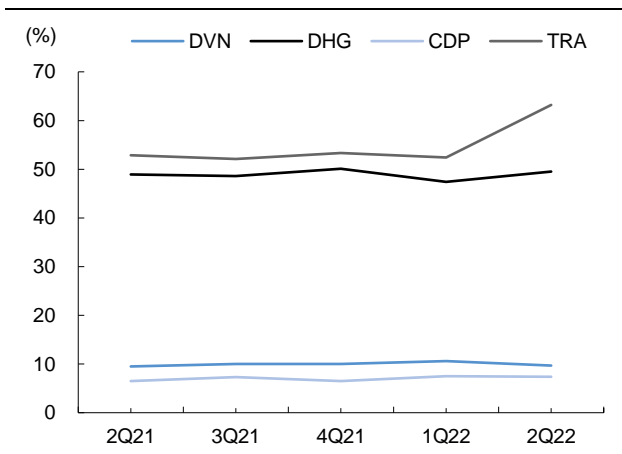
Figure 5. Gross margin tends to move sideways

Source: Fiinpro, KIS

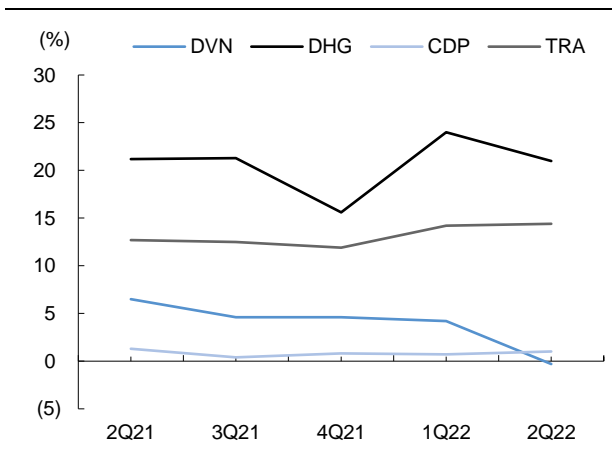
Figure 6. Vietnam's pharmaceutical industry IIP

Source: MoIT, KIS

Breaking into detail, in 2Q22, the king of oriental medicine, TRA, gave an excellent performance when achieving the highest gross margin of 63.2%, +10.8% qoq. Unlike other pharmaceutical manufacturers that heavily depend on imported raw material (about 70% of material costs are imported ingredients), TRA has the advantage of being independent in input supply and so they can completely improve their gross margin. Unsurprisingly, the second position was DHG with a gross margin of 49.5%, +2.1% qoq. At the same time, DHG's net margin was more attractive than TRA's (21.0% vs 14.4%). However, the net margin of TRA seems more stable than DHG at about 13%/year.

Figure 7. Gross margin of top producers

Source: Fiinpro, KIS

Figure 8. Net margin of top producers

Source: Fiinpro, KIS

2H22F catalyst

One of the positive signals that could prove the recovery of the pharmaceutical sector is the IIP index. The IIP index showed an increase since Jun which proved the rising in volume production. Although we do not have specific volume figures yet, we remain our view that there will be plenty of room for growth in the pharmaceutical sector in the next quarters. The demand for antibiotics, functional foods and specific drugs used in hospitals (such as cancer treatment drugs, and dialysis solutions) could become the key growth driver for the pharmaceuticals sector. Moreover, with a humid climate, dengue fever becomes an endemic disease in Vietnam, especially in the rainy season (from Apr to Oct). Thus, drug demand for fever treatment is currently increasing.

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