

19 Oct 2022

HAU GIANG PHARMA (DHG)

Non - rated

Big boy stands still

3Q22: On the runway

- On Oct 18, DHG announced 3Q22 business results with a VND1,162bn revenue (+4% qoq and +23% yoy) and a VND262bn NPAT (+12% qoq and +30% yoy), due to the low base in 3Q21. In detail, both sales from production and trading upped 21%/49% yoy, respectively. In 9M22, DHG posted the revenue of VND3,346bn (+15% yoy) and the NPAT of VND752bn (+24% yoy), fulfilling 74%/83% of their full year guidance.
- The gross margin in 3Q22 was around 50%, nearly staying the same as both 2Q22 and 3Q21 (49%). Overall, DHG has had a stable gross margin over years (around 48%-50%) and this shows the company's efforts in purchasing policy when most of the pharmaceutical materials in Vietnam heavily depend on imports from China and India.
- SG&A to sales was 25.4% in 3Q22, -1.3%p qoq and -0.3%p yoy. Selling costs accounted for 50% of total SG&A expenses. In which, sales staff's salary was about 52% of selling costs. Net margin improved to 22.6%, (1.6%p qoq, 1.3%p yoy) in 3Q22. We believe the net margin could reach 23% in 2022F, higher than 19.5%-20% in 2020-21.

Pharmaceutical sector still has more room to grow in 4Q22F

- The company had a positive revenue growth rate over the last 3 quarters after troughing in 4Q21. Although we have not yet received the data of the whole sector, we believe 3Q22's business results of the pharmaceutical sector could be brighter than 1H22 thanks to 1) hospitals being back to full capacity, 2) the risk of the Omicron variant outbreak causing people to stock up on resistance drugs, and 3) Vietnam enters the rainy season, causing seasonal diseases such as flu and dengue fever to increase. Based on that, the company still has more room to grow in 4Q22F.
- DHG is trading at 12.7x TTM PE and 2.9x PB, far lower than 3-yrs average of 17.7x and 3.7x.

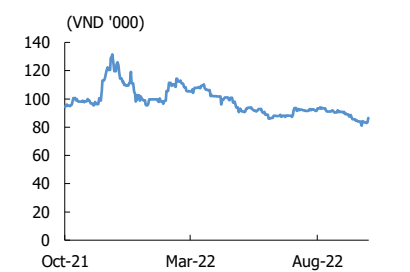
Stock Data

VNIndex (Oct 19, pt)	1,058
Stock price (Oct 19, VND)	86,500
Market cap (USD mn)	461
Shares outstanding (mn)	131
52-Week high/low (VND)	131,526/81,000
6M avg. daily turnover (USD mn)	0.04
Free float / Foreign ownership (%)	5.6/54.2
Major shareholders (%)	
Taisho Pharma	51.01
SCIC	43.31

Performance

	1M	6M	12M
Absolute (%)	(4.1)	(15.2)	(8.3)
Relative to VNIndex (%p)	8.0	8.8	14.8

Stock price trend



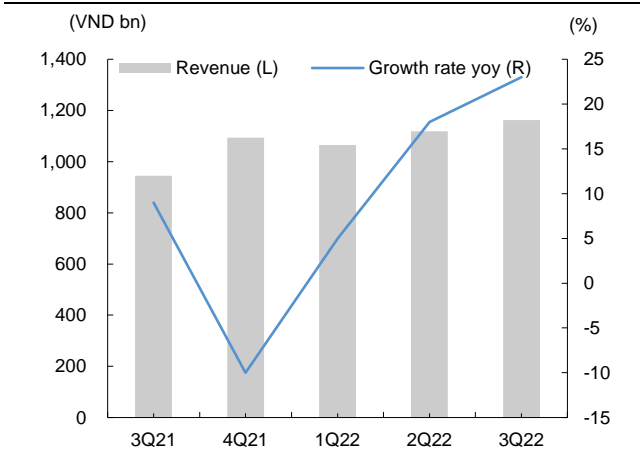
Source: Bloomberg

	2017A	2018A	2019A	2020A	2021A
Sales (VND bn)	4,063	3,882	3,897	3,756	4,003
chg. (% YoY)	7.4	(4.5)	0.4	(3.6)	6.6
Operating profit (VND bn)	732	706	691	809	861
Net profit (VND bn)	642	653	635	740	777
EPS (VND)	4,367	4,445	4,668	5,443	5,720
chg. (% YoY)	660.5	169.3	(24.6)	7.5	5.9
EBITDA (VND bn)	825	795	780	897	945
PE (x)	22.7	15.5	17.5	17.8	19.1
EV/EBITDA (x)	17.0	11.8	13.3	13.0	13.6
PB (x)	4.7	2.9	3.2	3.6	3.8
ROE (%)	20.5	19.8	18.8	20.5	20.3
Dividend yield (%)	4.9	2.2	3.1	4.1	3.7

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

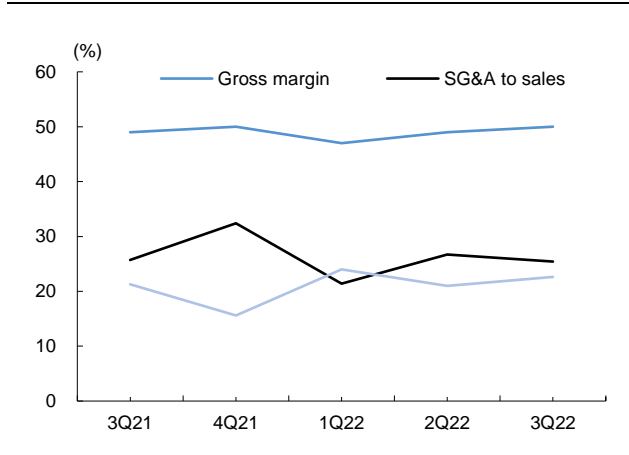
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Figure 1. Revenue and revenue growth rate yoy



Source: Company data, KIS

Figure 2. Gross margin and Net margin by quarters



Source: Company data, KIS

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