

## IMEXPHARM CORPORATION (IMP)

### Operating the first EU-GMP factory among listed pharmaceutical companies

5 May 2017

Dang Minh Hoang

hoang.dangminh@vndirect.com.vn

#### Price performance



Source: VNDIRECT

#### Key statistics

52w high (VND)	66,800
52w low (VND)	38,600
Average daily turnover (3m)	47,201
Market cap (VND) billion	2,344
Outstanding shares (m)	39
Free float (%)	36%
Beta	0.27

#### Ownership structure

VinaPharm	24%
Phano	9%
Dragon Capital	15%
KWE	8%
Templeton	8%
Other	36%

Source: VNDIRECT

We believe that 2017 will be a turning point for IMP with sale growth of 23% yoy, much higher than the average of 5-10% y/y of the past 5 years. Key driven comes from the strategy of focusing in ETC sale channel. Recent upgrading factories will enable: (1) Adapting requirement to participate in Generic bidding package with total value of VND12,000bn; (2) Competitive selling price by 20 -30% thanks to lower COGS; (3) Enjoying new medicine bidding regulations which favor domestic medicine.

**Top 4 leading listed pharmaceutical companies in Vietnam** in term of production sales. IMP's core business is Generic medicine production (accounting for 95-98% of total revenue) which brings a relatively higher Gross margin than peers (DHG 41%, IMP 38%, DBD 37% and DMC 36%).

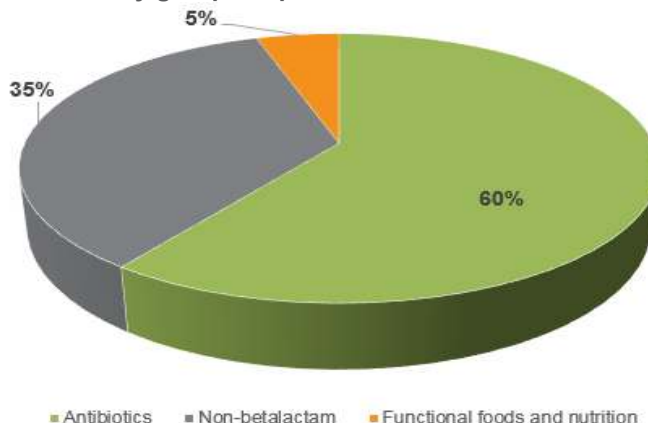
**One of 2 medicine factories is granted EU-GMP.** Locating in Dong Thap province, the first non-betalactam GMP-WHO factory currently always runs at full of capacity. Meanwhile the second betalactam EU-GMP factory has been successfully upgraded 3 production lines of antibiotics last year-end. The Company plans to build another 2 EU-GMP factories in Binh Duong and HCMC, which are expected to come on stream in period of 2018 - 2019.

Name of factory	Location	Designed capacity	Date of operation	Main product
Non-betalactam	Dong Thap Province	1.5 billion unit/year ~100% capacity	1999	Pain-killer, febrifuge, alimentary & metabolism, etc
Betalactam	Binh Duong Province	800 million unit/year ~30-40% capacity	2011-2013	Antibiotics
New non-betalactam project	Binh Duong Province	N/A	2019 ~80% completion	N/A
New betalactam project	Vinh Loc, Ho Chi Minh City	N/A	2018 70% completion	N/A

Source: IMP, VNDIRECT

**Focus in high-end segment.** IMP's product categories include antibiotics and non-betalactam groups (pain-killer, febrifuge, digestive system and heart disease). IMP's strategy is focusing in high-end products which could be considered as less competitive segment. For example, Imexpharm's Penicillin and Cepharsporin antibiotics are produced **in form of powder for injection**, which required more advanced production technology than other competitors' common **pills**.

2016 Revenue by groups of product



Source: IMP, VNDIRECT

**Focus in Mekong Delta market.** 90% of total revenue comes from domestic with a network of 22 branches across country, including: Mekong Delta (8), HCMC (4) and Western Highland (6). In FY16, HCMC and Western Highland also increased their contribution from 32% to 36% of total revenue.

**Brighter outlook for FY17-18.** In recent AGM, the company has set FY17 targets of VND1,260bn in sale (+23% yoy) and VND 160bn in PBT (+14% yoy).

We keep a positive view about the company's 2017 business outlook, taking into account these following factors:

- **Robust growth in ETC revenue of ~60% yoy** (contributing 20% to total revenue) thanks to the recent upgrade EU-GMP production lines. This will allow IMP to adapt the requirements of 2 bidding packages from (Generics Group 1 and Group 2) Government medicine bidding program with total estimated value of VND 12,000 bn. So far, only a few of domestic producers have granted EU-GMP which contributed about 10% of the Government medicine bidding program.
- **New regulations supporting for domestic producers.** In 2016, Vietnam Ministry of Health (MOF) issued several new regulations about public medicine procurement. Accordingly, MOF will regularly announce the list of domestic products, which are fully met treatment requirements. And all public hospitals are required to select domestic instead of imported products.
- **OTC market is expected to grow steadily at 10-15% yoy** We expect that OTC market (accounting for 80% of total revenue) will continue to grow steadily at ~10% yoy after fast-growing in the past 5 years with CAGR FY2012-2016 of 27%.

**Strategic partnership with Phano has not yet reached our expectation.** We highly appreciate the co-operation between Imexpharm and Phano, a private distributor with 49 drug stores across country. However, we think that there 2 main reasons to explain why this partnership has not successful yet: (1) The same

IMP product was sold at different prices in IMP and Phano's stores.; and (2) Phano's main market (with more than 60% of total drug stores) is located in Ho Chi Minh City where IMP is also expanding its presence.

**Two new EU-GMP factories are expected to come on stream in period of 2018-2019.** We strongly believe that two new EU-GMP factories with total investment of ~VND 500bn would be the long term growth engine. According to Management, these 2 new factories will (1) provide new generation antibiotics to export market; and (2) resolve the over-capacity status of Non-betalactam factory in Dong Thap.

**Positive Q1/2017 performance.** IMP's Q1FY17 revenue and NI surged by +17% y/y and +24% y/y, respectively and completed 20% of its FY2017's targets. ETC sale significantly increased by +17% yoy while OTC slightly decreased at +3% yoy.

**Update about FOL raising and seeking strategic investors.** According to our understanding, a foreign pharmaceutical company visited Imexpharm in order to seeking a strategic partnership. However, they couldn't reach agreement.

*We expect that 2017 revenue and net income will grow ~23% y/y and by 13% y/y, respectively. FY17 EPS is estimated at VND3,692. According to closing price in 5 May 2017, IMP was traded at 2017 P/E ~16.2x, relatively higher than the average P/E ratio of industry at ~17-18x.*

**DISCLAIMER**

This report has been written and distributed by Research Department, VNDIRECT Securities Corporation. The information contained in this report is prepared from data believed to be correct and reliable at the time of issuance of this report. Unless otherwise stated, this report is based upon sources that VNDIRECT considers to be reliable. These sources may include but are not limited to data from the stock exchange or market where the subject security is listed, or, where appropriate, any other market. Information on the company(ies) are based on published statements, information disclosure and announcements of the company(ies), and information resulting from our research. VNDIRECT has no responsibility for the accuracy, adequacy or completeness of such information.

All estimates, projections, forecasts and expression of opinions contained in this report reflect the personal views and opinions of the analyst(s) responsible for the production of this report. These opinions may not represent the views and position of VNDIRECT and may change without notice.

This report has been prepared for information purposes only. The information and opinions in this report should not be considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments. VNDIRECT takes no responsibility for any consequences arising from using the content of this report in any form.

This report and all of its content belongs to VNDIRECT. No part of this report may be copied or reproduced in any form or redistributed in whole or in part, for any purpose without the prior written consent of VNDIRECT.

-----  
**Phuong Nguyen Mai – Research Director**

Email: [phuong.nguyenmai@vndirect.com.vn](mailto:phuong.nguyenmai@vndirect.com.vn)

**Dang Minh Hoang – Analyst**

Email: [hoang.dangminh@vndirect.com.vn](mailto:hoang.dangminh@vndirect.com.vn)

**VNDIRECT Securities Corporation**

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 439724568

Email: [research@vndirect.com.vn](mailto:research@vndirect.com.vn)

Website: <https://vndirect.com.vn>