

8 January 2020

Healthcare | Pharmaceutical

Duopharma Biotech (DBB MK)

Buy

Chase Me While You Can; Initiate BUY

Target Price (Return) MYR1.88 (+19%)
 Price: MYR1.58
 Market Cap: USD264m
 Avg Daily Turnover (MYR/USD) 0.81m/0.20m

- **Initiate coverage with BUY, MYR1.88 TP, 19% upside with c.3% FY20F yield.** Our TP implies 20.1x FY20F P/E (+1.25SD above its 2-year average P/E). The +1.25SD premium is justified on Duopharma Biotech's market leadership, solid earnings growth prospects and strong management. We expect a 3-year earnings CAGR of 15%, due to higher demand from pharmaceutical products – in line with rising health awareness, better efficiency from its new HAPI plant, and improved export sales.

- **Largest local pharmaceutical company by market cap and volume.** Its market cap of MYR1.08bn is the highest among the listed pharmaceutical companies in Malaysia. Among the top 10 pharmaceutical companies in Malaysia, it has a market share of 28%. Duopharma is a market leader for vitamin C products via the *Flavettes* and *Champs* brands. Other products distributed/manufactured are for diabetes, hepatitis C, cancer and kidney disease treatments.

- **Solid earnings growth expected for FY19-21.** We expect a 3-year earnings CAGR of 15%. This is due to the higher demand for pharmaceutical products in line with growing health awareness, better efficiency from its new highly active pharmaceutical ingredients (HAPI) plant from 1Q20 onwards, and improved sales from exports. 9HFY19 earnings grew 30% YoY to MYR43.2m on a 15% YoY improvement in revenue and higher 18.5% EBITDA margin (9M18 EBITDA margin: 16.5%).

- **FY20F dividend to recover after a decline in FY19F.** We expect a lower FY19F dividend of 3.7 sen (FY18: 5.3 sen) before recovering to 4.2 sen in FY20F. The lower dividend is due to the need to fund the construction of new plants in Klang (K3 and K5). As the expansion will boost capacity by 50% in 2021, the benefits should outweigh the short-term lower dividend impact.

- **Risks: full-fledged drug price control and FX.** Malaysia is planning to regulate medicine prices. However, we believe that the Government will allow certain market freedom instead of full-fledged drug price control, to ensure innovation and sustainability of the supply of quality medicines. The FX rate is also a risk as around 8% of sales are for export, while about 60% of costs are denominated in USD terms.

- **Strong management team.** CEO Leonard Ariff has more than 30 years of experience. He was also the president of Malaysian Organisation of Pharmaceutical Industries (MOPI) from 2009 to 2014. The company's chairman Tan Sri Datin Paduka Siti Sa'diah Sheikh Bakir has been in the healthcare industry for more than 40 years.

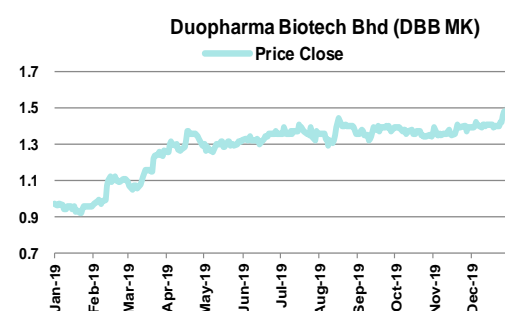
Analyst

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Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|-------------|------|------|------|------|
| Absolute | 11.3 | 13.7 | 12.9 | 15.3 | 54.9 |
| Relative | 9.9 | 11.0 | 9.5 | 19.6 | 59.0 |
| 52-wk Price low/high (MYR) | 0.92 - 1.58 | | | | |



Source: Bloomberg

| Forecasts and Valuation | Dec-17 | Dec-18 | Dec-19F | Dec-20F | Dec-21F |
|-------------------------|--------|--------|---------|---------|---------|
| Total turnover (MYRm) | 468.0 | 498.7 | 573.5 | 642.4 | 700.2 |
| Net profit (MYRm) | 42.5 | 47.6 | 56.5 | 64.2 | 71.4 |
| Net profit growth (%) | 58.3 | 12.2 | 18.7 | 13.5 | 11.2 |
| Recurring EPS (MYR) | 0.062 | 0.070 | 0.083 | 0.094 | 0.104 |
| Recurring P/E (x) | 25.5 | 22.7 | 19.1 | 16.9 | 15.2 |
| P/B (x) | 2.3 | 2.2 | 2.1 | 2.0 | 1.8 |
| P/CF (x) | 14.8 | 12.4 | 11.9 | 9.9 | 8.4 |
| Dividend Yield (%) | 2.2 | 3.4 | 2.4 | 2.7 | 3.0 |
| EV/EBITDA (x) | 14.2 | 13.6 | 10.9 | 9.8 | 8.9 |
| ROE (%) | 8.8 | 9.9 | 11.0 | 11.7 | 12.2 |
| Interest cover (x) | 21.3 | 11.6 | 8.1 | 7.6 | 7.7 |

Source: Company data, RHB

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Financial Exhibits

| | | | | | | |
|--|--------------------------------|---------------|---------------|----------------|----------------|----------------|
| Asia | Financial summary | Dec-17 | Dec-18 | Dec-19F | Dec-20F | Dec-21F |
| Malaysia | Recurring EPS (MYR) | 0.062 | 0.070 | 0.083 | 0.094 | 0.104 |
| Healthcare – Pharmaceutical | DPS (MYR) | 0.035 | 0.053 | 0.037 | 0.042 | 0.047 |
| Duopharma Biotech | BVPS (MYR) | 0.70 | 0.70 | 0.75 | 0.80 | 0.86 |
| DBB MK | ROE (%) | 8.8 | 9.9 | 11.0 | 11.7 | 12.2 |
| BUY | | | | | | |
| Valuation basis | Valuation metrics | Dec-17 | Dec-18 | Dec-19F | Dec-20F | Dec-21F |
| We use DCF-FCFF to value Duopharma. Key parameters are a WACC of 8.9% and terminal growth rate of 2%. | Recurring P/E (x) | 25.5 | 22.7 | 19.1 | 16.9 | 15.2 |
| | P/B (x) | 2.3 | 2.2 | 2.1 | 2.0 | 1.8 |
| | FCF Yield (%) | 0.3 | (0.2) | 1.9 | 3.1 | 4.9 |
| | Dividend yield (%) | 2.2 | 3.4 | 2.4 | 2.7 | 3.0 |
| Key drivers | EV/EBITDA (x) | 14.2 | 13.6 | 10.9 | 9.8 | 8.9 |
| i. Increase in health awareness leading to higher demand for pharmaceutical products; | EV/EBIT (x) | 20.5 | 18.8 | 15.5 | 13.9 | 12.6 |
| ii. Better efficiency from new plant | | | | | | |
| Key risks | Income statement (MYRm) | Dec-17 | Dec-18 | Dec-19F | Dec-20F | Dec-21F |
| i. Worse-than-expected drug price control by the Government; | Total turnover | 468 | 499 | 574 | 642 | 700 |
| ii. Unfavorable FX movements | Gross profit | 187 | 204 | 232 | 254 | 276 |
| | EBITDA (adj.) | 78 | 90 | 115 | 132 | 146 |
| | Depreciation & amortisation | (24) | (25) | (34) | (39) | (43) |
| | Operating profit | 54 | 65 | 81 | 93 | 103 |
| | Net interest | (3) | (6) | (10) | (12) | (13) |
| | Pre-tax profit | 52 | 60 | 71 | 81 | 90 |
| | Taxation | (9) | (12) | (15) | (17) | (18) |
| | Net profit | 42 | 48 | 57 | 64 | 71 |
| | Recurring net profit | 42 | 48 | 57 | 64 | 71 |
| Company Profile | Cash flow (MYRm) | Dec-17 | Dec-18 | Dec-19F | Dec-20F | Dec-21F |
| Duopharma Biotech is the largest local pharmaceutical company by volume and market cap. It produces vitamin C and solutions for diabetes, hepatitis C, cancer and kidney disease treatments. | Change in working capital | (12) | (18) | (24) | (23) | (18) |
| | Cash flow from operations | 56 | 72 | 64 | 77 | 93 |
| | Capex | (89) | (70) | (75) | (75) | (75) |
| | Cash flow from investing | (72) | (170) | (71) | (76) | (76) |
| | Dividends paid | (18) | (13) | (25) | (29) | (32) |
| | Cash flow from financing | (4) | 100 | 45 | 31 | (22) |
| | Cash at beginning of period | 115 | 96 | 98 | 136 | 168 |
| | Net change in cash | (20) | 2 | 38 | 32 | (5) |
| | Ending balance cash | 96 | 98 | 136 | 168 | 163 |
| | Balance sheet (MYRm) | Dec-17 | Dec-18 | Dec-19F | Dec-20F | Dec-21F |
| | Total cash and equivalents | 96 | 98 | 136 | 168 | 163 |
| | Tangible fixed assets | 321 | 386 | 422 | 458 | 490 |
| | Total investments | 1 | 1 | 1 | 1 | 1 |
| | Total assets | 705 | 836 | 941 | 1,052 | 1,112 |
| | Short-term debt | 36 | 122 | 94 | 112 | 115 |
| | Total long-term debt | 91 | 122 | 219 | 261 | 268 |
| | Total liabilities | 225 | 355 | 429 | 505 | 525 |
| | Total equity | 480 | 481 | 512 | 547 | 587 |
| | Total liabilities & equity | 705 | 836 | 941 | 1,052 | 1,112 |
| | Key metrics | Dec-17 | Dec-18 | Dec-19F | Dec-20F | Dec-21F |
| | Revenue growth (%) | 49.5 | 6.6 | 15.0 | 12.0 | 9.0 |
| | Recurrent EPS growth (%) | 58.3 | 12.2 | 18.7 | 13.5 | 11.2 |
| | Gross margin (%) | 39.9 | 41.0 | 40.5 | 39.6 | 39.4 |
| | Operating EBITDA margin (%) | 16.8 | 18.0 | 20.1 | 20.5 | 20.9 |
| | Net profit margin (%) | 9.1 | 9.6 | 9.9 | 10.0 | 10.2 |
| | Capex/sales (%) | 19.1 | 14.0 | 13.1 | 11.7 | 10.7 |
| | Interest cover (x) | 21.3 | 11.6 | 8.1 | 7.6 | 7.7 |

Source: Company data, RHB

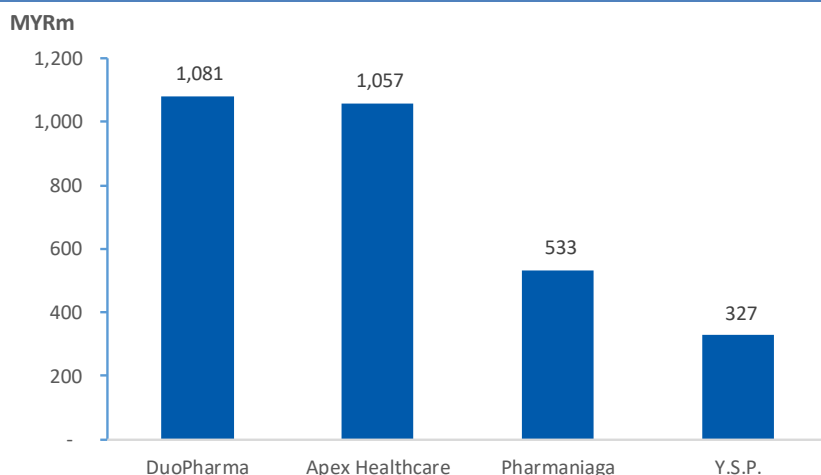
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Investment Thesis

Largest local pharmaceutical company by volume. Duopharma's market cap of MYR1.08bn is the highest among pharmaceutical companies listed in Malaysia. Among the top ten pharmaceutical companies in Malaysia, it has a market share of 28%. Duopharma is a market leader for vitamin C products via the *Flavettes* and *Champs* brands. Other products distributed/manufactured are for diabetes, hepatitis C, cancer and kidney disease treatments.

Figure 1: Market cap for listed pharmaceutical companies in Malaysia

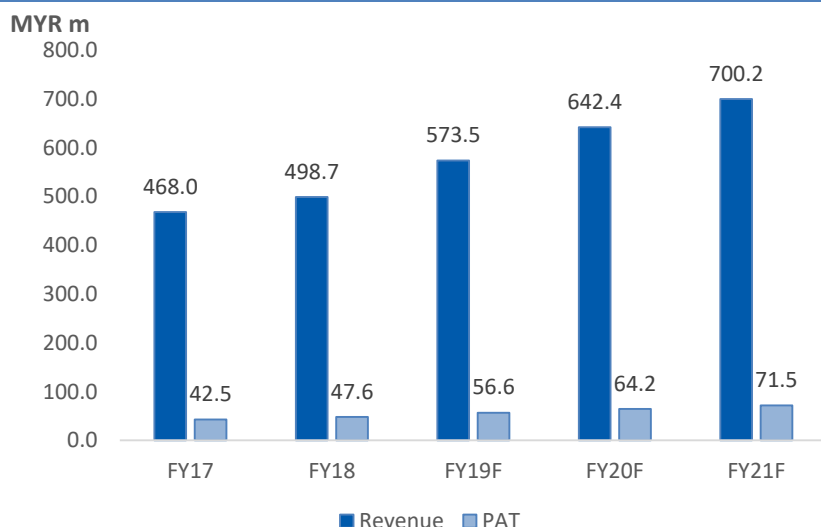


Source: Company data, RHB

Market leader for vitamin C products. Other products are for diabetes, Hepatitis C, cancer and kidney disease treatment. As the pharmaceutical markets have many types of products, each market player's focus and strength are different for each product. For Duopharma, it is the market leader in the vitamin C for adults market via *Flavettes*. For vitamin C for children, the company is also the market leader via *Champs*. Besides vitamin C, Duopharma also manufactures/trades products used to treat diabetes, hepatitis C, cancer and kidney disease.

Expect double-digit earnings growth in FY19-21. We expect FY19 earnings to improve 19% YoY to MYR56.6m, due to higher demand for pharmaceutical products from both the Government and private hospitals, and contributions from the new HAPI plant from 1Q20 onwards, and improved sales from the export segment.

Figure 2: Robust 3-year earnings CAGR of 15%



Source: Company data, RHB

Continuous collaboration and partnering with key pharmaceutical players to sustain long-term earnings growth. To achieve more sustainable earnings growth, Duopharma has engaged with key pharmaceutical players to find a niche in specific products. As competition is high in basic generic drugs with thin margins, we believe its strategy to compete in niche markets for specific products will be positive for long-term earnings growth.

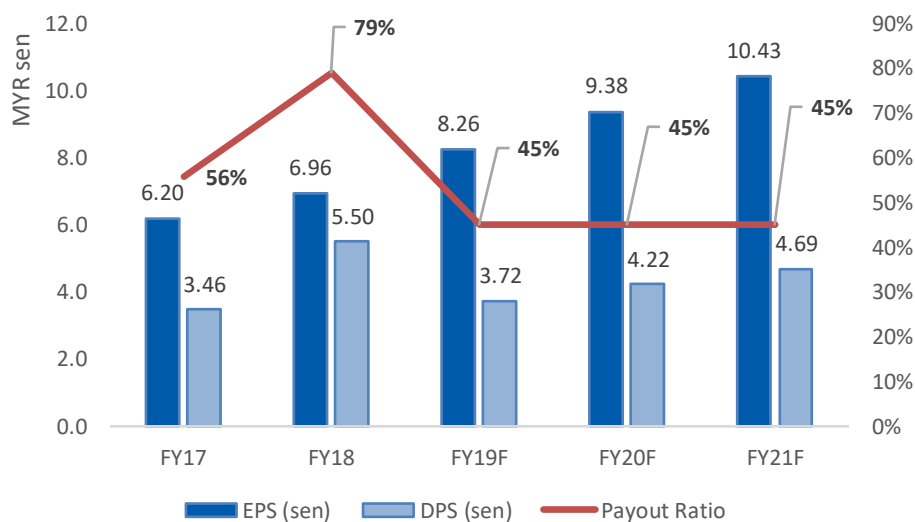
Currently, Duopharma's key partners include Biocon, Pangen Biotech and Natco Pharma Lt (Natco). Through its partnership with Biocon, Duopharma has exclusive distribution rights to market, sell and distribute Biocon insulin products. We gather that insulin products are a key revenue contributor, accounting for 15-20% of total revenue.

On PanGen Biotech, a listed Korean biopharmaceutical company, we understand that the strategic acquisition of a 8.39% stake allows Duopharma to gain rights to market PanGen Biotech products in Malaysia, Brunei and Singapore. Duopharma also has the first right of refusal to extend it to other ASEAN countries. The collaboration with PanGen Biotech has resulted in the development of an erythropoietin (EPO) biosimilar product, called *Erysaa*. We gather that management is targeting to market *Erysaa* in the ASEAN market. We are positive on this, as EPO production requires high technology knowledge – as such, the product should fetch good sales and sustainable margins.

On the partnership with Natco (a fast-growing pharmaceutical company in India), we understand that it allows Duopharma to offer generic drugs for different treatments in Malaysia. These include drugs for breast cancer, lung cancer, cervical cancer, blood cancer, colon cancer and hepatitis C.

Lower dividend due to expansion needs; K3 and K5 to boost capacity by 50% once completed in 2021F. Duopharma announced a DPS of 1 sen (paid on 14 Nov 2019), which was lower than the 1.5 sen DPS announced in 3Q18. We gather that the objective is to allocate more cash to fund its existing business expansion, as well working capital. We believe that this is justified, as the expansion plans in K3 and K5 are ongoing, with substructure works being 65% completed. Upon completion by 2021, we expect Duopharma's capacity to be increased by 50%.

Figure 3: Dividend trend



Source: Company data, RHB

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Financial Highlights

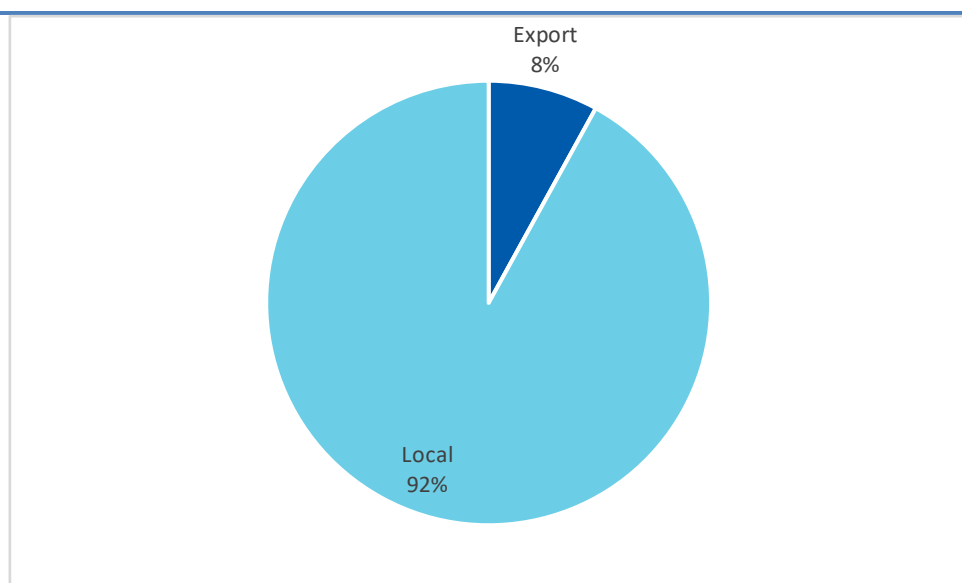
Duopharma's 9M19 revenue grew 15% YoY to MYR438.7m, as its pharmaceutical products received higher demand from both the private and public health sectors. By operating markets, the local market enjoyed a higher growth of 15.7% YoY to MYR404.6m. This was followed by export revenue, which increased by 2.4% to MYR34.1m. We believe that the local growth is stronger due to more stable economic growth vs the global economy. RHB projects Malaysia's GDP to grow 4.5% in 2019. This is higher than global GDP growth, which is estimated at 3.4% by the International Monetary Fund. In line with strong revenue growth and good cost control, 9MFY19 earnings grew 30% YoY to MYR43.2m.

Figure 4: Duopharma's 3QFY19 (Dec) results snapshot

| FYE Dec (MYR m) | 3QFY18 | 2QFY19 | 3QFY19 | QoQ (%) | YoY (%) | 9M18 | 9M19 | YoY (%) |
|-------------------------------|--------------|--------------|--------------|--------------|-------------|--------------|--------------|-------------|
| Revenue | 125.8 | 145.5 | 142.9 | (1.8) | 13.5 | 383.1 | 438.7 | 14.5 |
| EBITDA | 23.1 | 27.8 | 26.5 | (4.5) | 15.0 | 63.1 | 81.2 | 28.6 |
| <i>EBITDA Margin (%)</i> | <i>18.3</i> | <i>19.1</i> | <i>18.6</i> | | | <i>16.5</i> | <i>18.5</i> | |
| Depreciation | (5.6) | (6.1) | (6.0) | (1.5) | 8.2 | (17.1) | (17.7) | 3.7 |
| EBIT | 17.5 | 21.7 | 20.5 | (5.4) | 17.1 | 46.1 | 63.5 | 37.9 |
| <i>EBIT Margin (%)</i> | <i>13.9</i> | <i>14.9</i> | <i>14.4</i> | | | <i>12.0</i> | <i>14.5</i> | |
| Interest expense | (2.0) | (3.5) | (1.1) | (68.5) | (44.4) | (5.1) | (7.4) | 44.8 |
| Interest income | 0.3 | 0.2 | 0.4 | 107.2 | 12.0 | 1.0 | 0.7 | (31.1) |
| Pretax profit | 15.8 | 18.3 | 19.8 | 7.9 | 24.8 | 42.0 | 56.9 | 35.4 |
| <i>Pretax Margin (%)</i> | <i>12.6</i> | <i>12.6</i> | <i>13.8</i> | | | <i>11.0</i> | <i>13.0</i> | |
| Tax | (3.6) | (4.4) | (4.9) | 11.6 | 38.2 | (8.7) | (13.6) | 56.0 |
| <i>Effective tax rate (%)</i> | <i>22.4</i> | <i>24.0</i> | <i>24.8</i> | | | <i>20.8</i> | <i>24.0</i> | |
| Minority Interest | 0.0 | 0.0 | 0.0 | nm | nm | 0.0 | 0.0 | nm |
| Net Profit | 12.3 | 13.9 | 14.9 | 6.8 | 20.9 | 33.3 | 43.2 | 30.0 |
| <i>Net Margin (%)</i> | <i>9.8</i> | <i>9.6</i> | <i>10.4</i> | | | <i>8.7</i> | <i>9.9</i> | |
| Core NP | 12.3 | 13.9 | 14.9 | 6.8 | 20.9 | 33.3 | 43.2 | 30.0 |
| <i>Core NP Margin (%)</i> | <i>9.8</i> | <i>9.6</i> | <i>10.4</i> | | | <i>8.7</i> | <i>9.9</i> | |

Source: Company data, RHB

Figure 5: Revenue breakdown



Source: Company data, RHB

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Valuation

TP of MYR1.88. We use DCF-FCFF to value Duopharma. Key parameters are a WACC of 8.9% and terminal growth rate of 2%. Our TP of MYR1.88 implies FY20F P/E of 20.1x, +1.25SD above its average P/E. We believe that the premium is justified on Duopharma's market leadership, solid earnings growth prospects and strong management.

Figure 6: DCF valuation

| FYE Dec (MYR m) | FY20F | FY21F | FY22F | FY23F | FY24F | FY25F | FY26F | FY27F | FY28F | FY29F | Terminal |
|--------------------------------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| CFO | 108.9 | 128.2 | 143.0 | 147.8 | 149.1 | 153.0 | 155.2 | 163.3 | 171.2 | 179.6 | |
| + Interest (1 - Tax Rate) | 11.7 | 12.9 | 12.8 | 11.7 | 10.1 | 8.6 | 7.7 | 7.6 | 7.4 | 7.3 | |
| - capital expenditure | (76.0) | (76.0) | (76.0) | (51.0) | (51.0) | (51.0) | (51.0) | (51.0) | (51.0) | (51.0) | |
| Free cash flow to firm (FCFF) | 44.7 | 65.1 | 79.8 | 108.4 | 108.2 | 110.6 | 112.0 | 119.8 | 127.6 | 135.9 | 2000.5 |
| Discount factor | 0.92 | 0.84 | 0.77 | 0.71 | 0.65 | 0.60 | 0.55 | 0.50 | 0.46 | 0.43 | 0.43 |
| PV of FCFF | 41.0 | 54.9 | 61.7 | 77.0 | 70.6 | 66.2 | 61.5 | 60.5 | 59.1 | 57.8 | 850.5 |

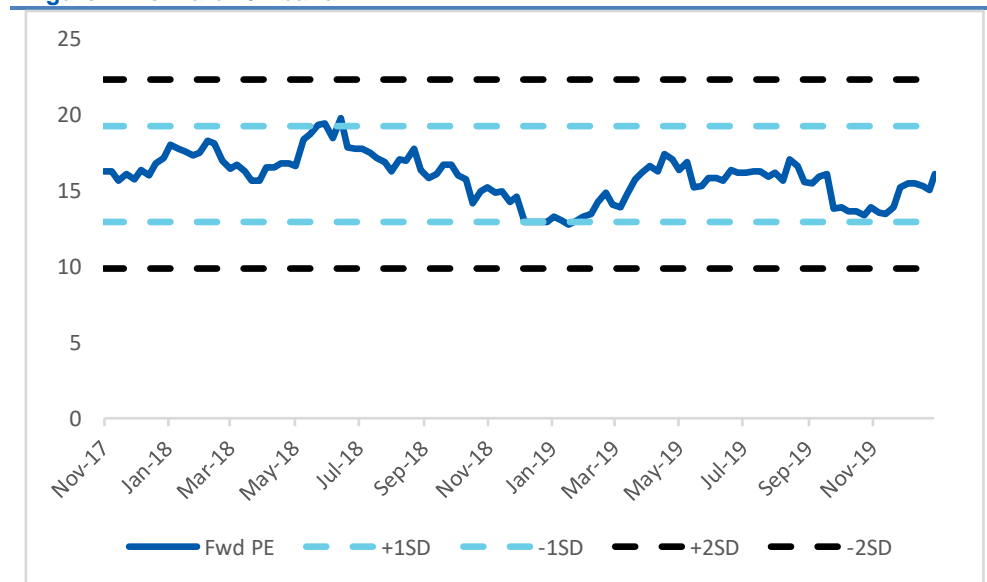
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|-----------------|-------|
| Risk-free | 4.0% |
| Beta | 1.02 |
| Cost of Equity | 10.1% |
| WACC | 8.9% |
| Terminal growth | 2.0% |

| | |
|---------------------------|-------------|
| Enterprise Value (MYR m) | 1460.8 |
| Cash | 92.1 |
| - Debt | -264.3 |
| Equity Value (MYR m) | 1288.6 |
| No of shares (m) | 684.4 |
| Target Price (MYR) | 1.88 |

Source: RHB

Attractive valuation at +0.24SD currently. Duopharma's current share price translates into a forward P/E of 16.9x or +0.24SD from its mean. We believe that this is unjustified, as its earnings are seeing double-digit growth, on top of its decent dividend yield.

Figure 7: Forward P/E band



Source: Bloomberg

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Figure 8: Peer comparison

| Company | Price | Mkt Cap (USDm) | P/E (x) | | | Div. Yld (%) | ROE (%) | P/BV (x) |
|-----------------------|------------------|----------------|-------------|-------------|-------------|--------------|--------------|------------|
| | (Local Currency) | | Actual | 1-Year fwd | 2-Year fwd | 1-Year fwd | Actual | Actual |
| Pharmaniaga | 2.07 | 132 | 15.7 | 13.2 | 11.8 | 5.6% | 8.3% | 1.0 |
| Y.S.P. Southeast Asia | 2.34 | 80 | 12.5 | 12.3 | 10.2 | 3.7% | 9.6% | 1.0 |
| Apex Healthcare | 2.26 | 261 | 19.0 | 19.1 | 15.7 | 2.2% | 15.2% | 2.7 |
| Average | | | 15.7 | 14.9 | 12.6 | 3.8% | 11.0% | 1.6 |
| Duopharma | 1.58 | 264 | 22.7 | 19.1 | 16.9 | 2.7% | 9.9% | 2.2 |

Source: Bloomberg, RHB

Risks

More stringent than expected level of drug price controls. On 2 May, Health Minister Datuk Seri Dr Haji Dzulkefly Ahmad announced that the ministry was working with the Ministry of Domestic Trade and Consumer Affairs (KPDNHEP) to regulate medicine prices. The relevant Act is the Price Control and Anti-Profiteering Act 2011. We gather that the Health Ministry will use external reference pricing methods to benchmark medicine prices in Malaysia against cheaper drug prices in certain countries. However, the list of countries that will be benchmarked against have yet to be decided. There will be consultations with the pharmaceutical industry to discuss the price control mechanism, before regulations are gazetted.

We believe that the Government will allow certain market freedoms instead of full-fledged drug price control to ensure innovation and the sustainability of supply of quality medicines. However, we are unable to completely rule out the possibility of a more stringent drug price control regime, which will affect the margins of pharmaceutical players in Malaysia, including Duopharma.

FX risk. With around 8% of sales originating from exports and 60% of costs being denominated in USD, a stronger-than-expected USD/MYR will be negative for Duopharma. However, we believe that the cost increase can be passed on to consumers in the long run as other pharmaceutical players in Malaysia are facing the same cost increase pressures.

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Company Background

Largest generic drug manufacturer in Malaysia by sales volume. Duopharma is mainly involved in manufacturing, distribution and sales of pharmaceutical products. It manufactures more than 70 consumer healthcare supplements, analgesics and other health supplements. The Company also produce 367 generic drugs. Lastly, Duopharma supplies biologics and other specialty products such as insulin for diabetes treatment and a range of oncology and renal products. Duopharma is the largest manufacturer of generic pharmaceuticals in the country, and the only local pharmaceutical company to produce cancer drugs.

Generally, Duopharma's businesses are classified into ethical products consisting of both ethical classic and ethical specialty, and over-the-counter (OTC) consumer healthcare products.

Figure 9: Duopharma's portfolio of products



Source: Company
*List is not exhaustive

Ethical classic comprises common drugs prescribed by a doctor. This ranges widely from herbal cough mixtures, to pregabalin which is used to treat neuropathic pain, to treatments for hepatitis C. We concur that the segment will continue to derive revenue from government tenders such as the Approved Product Purchase List under the Ministry of Health.

Ethical specialty products focus on niche areas such as oncology (the study of tumours, cancer), diabetes, renal (kidney), and cardiovascular. We understand that management sees abundant opportunities in this business segment, with plans to commercialise several high-value niche therapeutic products in the pipeline. Duopharma remains active in collaborating and partnering with key pharmaceutical players, ie Biocon (India), PanGen Biotech (Korea), Natco (India) and Becton Dickinson (the US). It also imports manufactured generic drugs from strategic partners.






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Consumer healthcare is represented by various OTC products under brands that include household names like *Flavettes*, *Proviton*, and *Champs*. Medicine under this category usually falls under the umbrella of day-to-day-usage drugs, such as vitamins & supplements, eye care, joint pain, skincare and antacid. Recently, *Flavettes* regained leadership as the no.1 supplement in the adult vitamin C market in Malaysia, with the “effervescent” range overtaking all other brands in terms of market share.

Duopharma is strategically based in the densest state in the region, with three main manufacturing and warehousing facilities located in Bangi, Klang, and Glenmarie. These manufacturing facilities are *halal*-certified by Jabatan Kemajuan Islam Malaysia (JAKIM), making it the one and only such pharmaceutical player. The group currently has approximately 1,600 staff.

Figure 10: Snapshot of Duopharma's facilities

| Facilities Snapshot | | |  |
|---|---|---|---|
| Bangi Plant  | Established Workforce Types of Products | <ul style="list-style-type: none"> 1976 821 people (including Sales & Marketing team) Ethical and CHC Products – mainly in oral solid dosages, soft gels, effervescent products, liquids and cream forms | |
| Klang Plant   | Established Workforce Types of Products | <ul style="list-style-type: none"> 1979 518 people Oral solid dosages, Eye Drops, Haemodialysis & SVI Products, LVI – Irrigation solution products, dental cartridge and sterile cephalosporin | |
| Glenmarie Plant  | Established Workforce Types of Products | <ul style="list-style-type: none"> 2008 61 people HAPI plant for Oncology Duopharma Innovation Sdn Bhd : the Group's R&D Centre, is located in this plant | |
| Kenanga International Office (HQ) | Established Workforce | <ul style="list-style-type: none"> 2018 31 people | |
| <i>Smarter Solutions. Healthier Life.</i> | | | 20 |

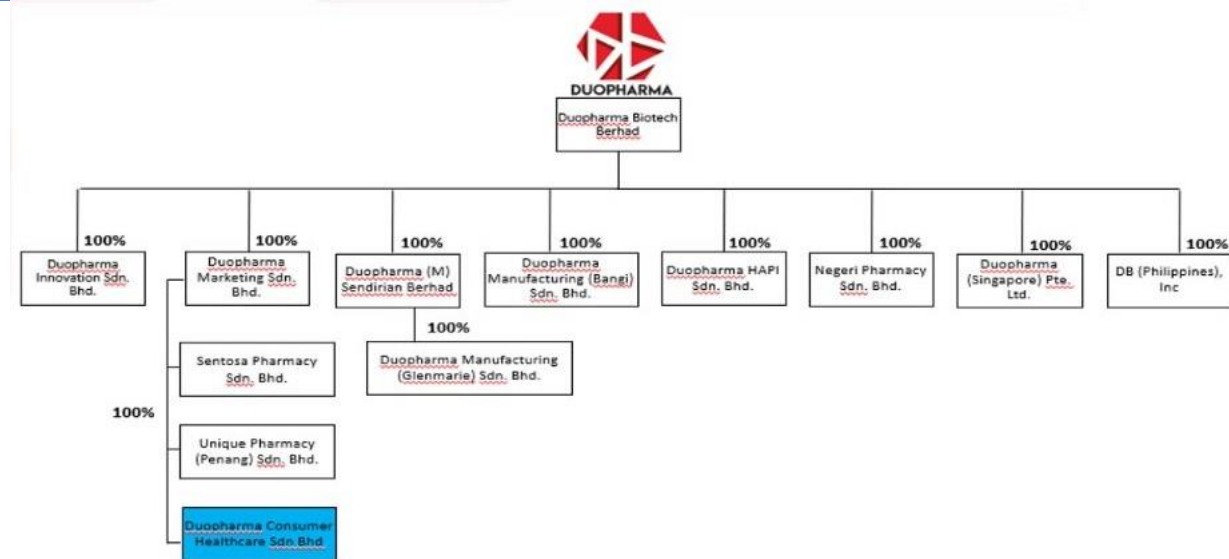
Source: Company

Experienced management. Managing director Leonard Ariff has over 30 years of experience under his belt in the legal, chemical and pharmaceutical fields. He has a Bachelor's degree in economics, and a law degree from Monash University, Australia. After a short stint in a legal firm in Kuala Lumpur and with Petronas, Leonard made his move into Chemical Company of Malaysia (CCM) in 1990 as a business development executive, and subsequently assumed the position of managing director in Usaha Pharma, the retail arm of CCM's pharmaceutical business in 2000. In 2003, he joined ICI Paints Malaysia as general manager and left as a managing director in 2008, returning to CCM Duopharma Biotech. Fast forward to 2015, he was appointed Group Managing Director of CCM and served in that position until 28 Dec 2017, when he was appointed to the board and re-designated as the group managing director of Duopharma.

40 years of industry experience. Established in 1979, Duopharma started off as a trading company before venturing into manufacturing oral solids in 1986. The stock was listed on the Main Board of Bursa Malaysia in 2002, and commissioned the first sterile manufacturing factory in Malaysia, producing a wide range of small volume parenterals the following year. In 2005, Duopharma was acquired by CCM, a listed company focused on consumer healthcare brands and oral dosage prescription products.

Moving forward 10 years later, CCM underwent a corporate restructuring which saw all its pharmaceutical subsidiaries placed under Duopharma. Subsequently in 2017, Duopharma Biotech officially de-merged from CCMB, and Permodalan Nasional Berhad (PNB) became its largest shareholder.

Figure 11: Corporate structure



Source: Company

Strategic partnerships

In 2017, Duopharma entered into a strategic partnership with Natco Pharma to offer affordable cancer treatment drugs – mainly, Trastuzumab (to treat breast cancer) and to treat hepatitis C (the major cause of liver cancer), in Malaysia. Natco Pharma is amongst the fastest-growing pharmaceutical companies in India, with seven manufacturing facilities. The partnership entails a 15-year partnership to build Malaysia's first HAPI drug manufacturing facility that will produce generic oncology medicines. The partnership also allows Duopharma to market and sell products developed by Gilead Sciences, a US-based biotechnology company.

Separately, India's largest biopharmaceutical company, Biocon, has authorised it to be the reseller of human insulin in Malaysia. This came after the Malaysian Government accepted the tender offer from Biocon to manufacture and supply the insulin for a 3-year period until 1 Dec 2019, with a total contract value of MYR300.04m. The arrangement spelt in the letter of award assigns Duopharma to provide the front-end sales, marketing, distribution and support services for the supply of Biocon's human insulin formulation to all government hospitals and Klinik Kesihatan.

Becton Dickinson is an US-based medical technology company that manufactures and sells medical devices, instrument systems and re-agents. Becton Dickinson also provides consulting and analytical services in certain geographies.

Duopharma acquired a 8.39% stake in PanGen Biotech, gaining rights to market biosimilar products developed by PanGen Malaysia, Brunei and Singapore, with the first right of refusal to extend it to other ASEAN countries. The South Korea-based biotechnology company was granted sales approval for Erysaa, an epoetin alfa biosimilar co-developed with Duopharma by the National Pharmaceutical Regulatory Agency (NPRA) earlier in February.

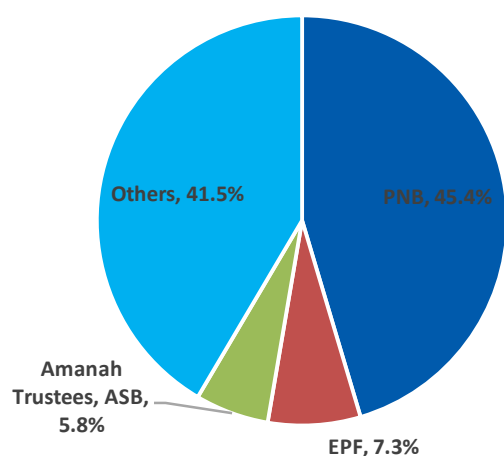
On 25 Oct 2018, Duopharma bought a 5.8% stake in South Korea's SCM Lifescience Co Ltd, which specialises in stem cell therapeutics. We believe the rationale behind the MYR20.2m acquisition is to venture into regenerative medicine, specifically in allogeneic stem cells, in line with the company's strategy to further expand its high-value niche therapeutics portfolio offerings. On 3 Sep 2019, Duopharma converted all its redeemable convertible preference shares (RCPS) into SCM Lifescience shares.

Figure 12: Strategic partnerships



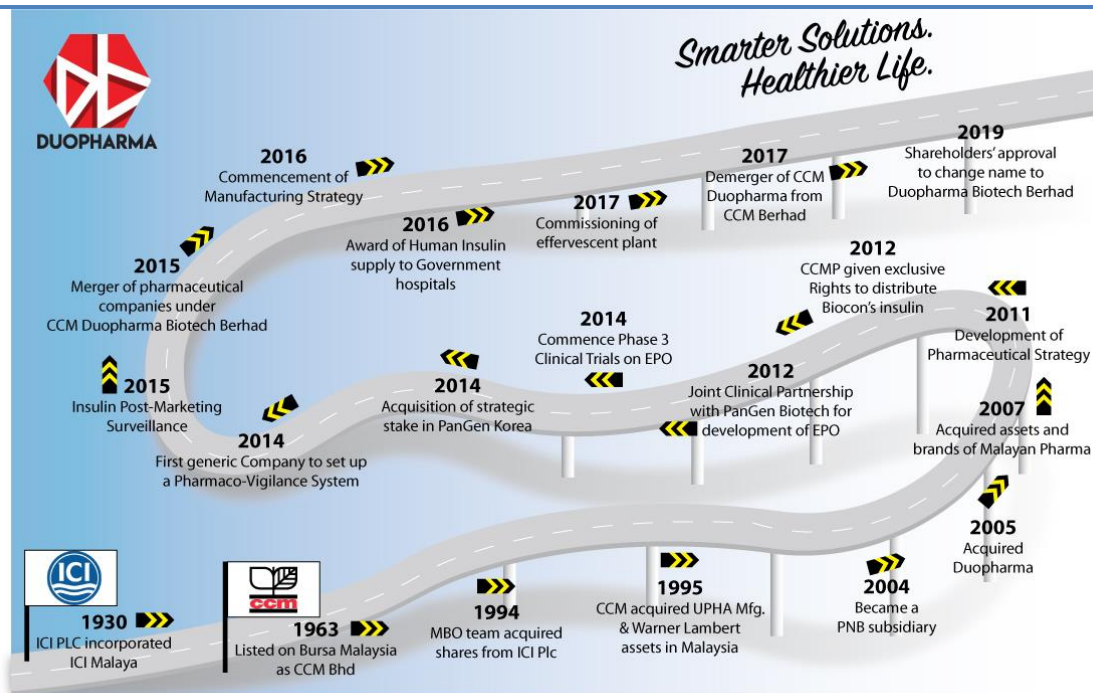
Note: *List is not exhaustive
Source: Company data

Figure 13: Major shareholders of Duopharma



Source: Bloomberg

Figure 14: Key milestones



Source: Company data

Board of Directors profile summary

Duopharma has a strong management team. CEO Leonard Ariff has more than 30 years of experience in various industries. He was also the President of Malaysian Organisation of Pharmaceutical Industries from 2009 to 2014. The company's chairman Tan Sri Datin Paduka Siti Sa'diah Sheikh Bakir has been in the healthcare industry for more than 40 years.

Details of Board of Directors

Tan Sri Datin Paduka Siti Sa'diah Sheikh Bakir, non-independent non-executive chairman. She was appointed to the position on Dec 2017, after the demerger of the company from CCM in end-2017. She began her career at Johor Corp in 1974 and joined its healthcare division in 1978. She served as the president of the Malaysian Society for Quality in Health (MSQH) from 1997 until her retirement in Dec 2018. In 2009, she was also named CEO of The Year by the New Straits Times Press and American Express.

Leonard Ariff, group managing director. He has over 30 years of experience in the legal, chemical and pharmaceutical industries. He joined CCMB Group for the first time in 1990 where his main responsibilities were running the business development and business management at CCM Chemical Sdn Bhd until year 2003 before he left. In 2008, he returned back to CCMB Group as CEO of CCM Duopharma Biotech. He was appointed to the board and redesignated as group managing director of Duopharma Biotech on Dec 2017. Mr. Leonard chairs the School of Business Industry Advisory Board at Monash University Malaysia. He was also the President of MOPI in 2009-2014.

Dato' Mohamad Kamarudin Hassan, senior independent non-executive director. He has 40 years of experience in economic and financial advisory roles in the public sector. He sat on the board as an independent non-executive director before being re-designated to senior independent director on Dec 2017. He has served in the Prime Minister's department, the Ministry of Trade and Industry (MITI) and Malaysia External Trade Development Corp (MATRADE).

Razalee Amin, independent non-executive director. He has over 42 years of experience in accounting, finance, investment and management. He founded his own chartered accountancy firm in 1996, and is currently a managing partner.

Senior management profile

Wan Amir-Jeffery Wan Abdul Majid, chief operating officer. He began his career in 1997 in marine and environmental consulting. He has extensive knowledge and expertise in biomedical investment projects, especially in the biopharma and pharmaceutical industries. He was previously the CEO of Johor Biotechnology & Biodiversity Corporation and J-Biotech Holdings SB, developing and implementing key bioeconomy and biotech initiatives in Johor. Wan Amir-Jeffery joined Duopharma Biotech as its chief strategy officer in Sep 2016, taking on responsibilities in business development, *halal* initiatives and government business sales. He was appointed as COO on Sep 2018. He is also the CEO of Duopharma (M) SB, a wholly-owned subsidiary of Duopharma Biotech, and was appointed to the role on 5 Sep 2016.

Chek Wu Kong, chief financial officer. He started his career in an international firm of public accountants in 1990. In 1994, he joined Komarkcorp as an accountant overseeing corporate restructuring, group accounting and finance. Subsequently, he was promoted to group finance manager in 1995, before becoming its group financial controller in 1996. He joined Duopharma Biotech in Aug 2000 as a financial controller. In 2012, he was promoted to the current position, and is in charge of the group's finance and IT portfolios.

Ng Su Yee, chief technical officer. She began her career at CE Harrod Chemist, an independent retail pharmacy in London. After joining CCM, she has led various disciplines related to plant operations. She was appointed as Duopharma's chief manufacturing & technical officer on 2012, before the position was rebadged as chief technical officer.

Krisnakumara-Reddi, chief manufacturing officer. After he graduated from Universiti Sains Malaysia and completing his housemanship in 1994, he joined Bristol Myers Squibb as a hospital sales representative. After that, he joined Sterling Health Manufacturing as a production pharmacist. He joined Duopharma Biotech in 1998, and was then appointed as its chief manufacturing officer on 2016, overseeing manufacturing operations and production.

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| | |
|---------------------|--|
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