

8 March 2024

Consumer Non-cyclical | Pharmaceuticals

**Duopharma Biotech (DBB MK)****Buy** (Maintained)**Envisioning a Better 2024**

- **Maintain BUY and DCF-based TP of MYR1.41, 21% upside with c.2% FY24F yield.** We emerged from Duopharma Biotech's post-results briefing feeling slightly upbeat. It expects to book steady revenue growth in 2024 post finalisation of the approved product purchase list (APPL) tender (likely to be completed by end-March or April), while its consumer healthcare (CHC) segment should see gradually improving numbers. Our medium- to long-term outlook remains upbeat, underpinned by the increase in non-communicable diseases (NCD) and the trends of an ageing society.
- **Key briefing takeaways.** In 2023, DBB's private sector division suffered a minor hiccup when its distribution agreement with an agency line was terminated – this decreased its expected turnover by c.MYR15m. Nonetheless, it recovered some of the losses by the year-end and revenue grew by single digits, thanks to the resilient performance of its ethical specialty product segment. Both its public and private sector divisions delivered commendable growth in 2023 except for CHC. Nevertheless, DBB expects CHC sales to begin picking up gradually, due to the low base of 2023. CHC sales in January and February have been encouraging, according to its survey with local pharmacies. Moving forward, DBB intends to expand its range of CHC products, to decrease its reliance on sales of its vitamin C products.
- **Status of APPL contract renewal.** The tendering process for the new APPL contract is expected to be concluded by late March or April, ie slightly behind the previous guidance of 1Q24, pending the finalisation of the confirmation letter. We are positive on this development, as the drug supply contract has been fulfilled on a rollover basis (based on 2017 terms, when the USD/MYR rate was 4.20) as the contract terms do not reflect the latest FX rates. We remain upbeat on DBB's local sales post finalisation of the APPL contract, as the segment's growth is expected to be underpinned by a higher budget allocation in 2024 (at MYR5.5bn vs 2023's MYR4.9bn).
- **ESG.** DBB is in the midst of identifying its Scope 3 carbon emissions. This study is likely to be completed by the end of 2024, and findings will be incorporated in its 2025 sustainability report. In the meantime, the group has completed installing solar panels at all three of its manufacturing sites to reduce its reliance on purchased electricity.
- **Earnings adjustment and valuation.** We make no changes to our earnings estimates. Our unchanged TP of MYR1.41 has a parity ESG discount or premium applied, and implies 14x FY24 P/E – at 0.7SD below its 5-year historical mean. We still like DBB, due to: i) Its better-than-peers' margin profile; ii) the Government's higher budget allocation for the healthcare sector, and iii) the advent of trends of an ageing society. Key risks: Lower-than-expected volumes sold, and depreciation of the MYR against the USD.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	697	705	806	871	943
Recurring net profit (MYRm)	111	61	84	102	117
Recurring net profit growth (%)	69.1	(45.4)	38.4	21.2	14.6
Recurring P/E (x)	9.97	18.36	13.27	10.95	9.56
P/B (x)	1.7	1.6	1.5	1.3	1.2
P/CF (x)	15.77	24.35	4.53	8.68	7.31
Dividend Yield (%)	2.0	2.0	2.0	2.0	2.0
EV/EBITDA (x)	10.34	11.10	7.41	6.63	5.75
Return on average equity (%)	11.0	7.8	13.0	12.7	13.2
Net debt to equity (%)	41.4	40.2	17.2	12.8	6.9

Source: Company data, RHB

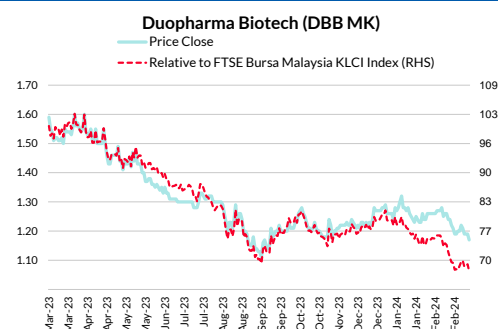
Target Price (Return): MYR1.41 (+21%)  
 Price (Market Cap): MYR1.17 (USD236m)  
 ESG score: 3.0 (out of 4)  
 Avg Daily Turnover (MYR/USD) 0.54m/0.12m

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**Share Performance (%)**

	YTD	1m	3m	6m	12m
Absolute	(7.2)	(7.2)	(4.1)	3.5	(25.0)
Relative	(12.8)	(8.7)	(10.5)	(1.7)	(30.3)
52-wk Price low/high (MYR)				1.11	1.60



Source: Bloomberg

**Overall ESG Score: 3.0 (out of 4)****E: GOOD**

DBB has set a target to achieve carbon neutrality by 2023 and net zero carbon emissions by 2050. It intends to replace single-use plastics with biodegradable ones within its operations by 2026.

**S: GOOD**

DBB has established multiple communication channels (including its quarterly town hall sessions) with employees to make them feel engaged and connected with senior management. The female:male workers ratio stands at 49:51.

**G: EXCELLENT**

60% of its board members are independent directors, and 40% are women, exceeding the Malaysian Code on Corporate Governance's requirement of 30%. Additionally, DBB provides full disclosures on its directors' remunerations, including salaries and bonuses, on a named basis. The group holds investor briefings regularly, embodying good transparency and disclosure practices.

**Note:**

Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Malaysia	Recurring EPS	0.12	0.06	0.09	0.11	0.12
Consumer Non-cyclical	DPS	0.02	0.02	0.02	0.02	0.02
<b>Duopharma Biotech</b>	BVPS	0.69	0.72	0.80	0.88	0.98
DBB MK	Return on average equity (%)	11.0	7.8	13.0	12.7	13.2
Buy						
	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	9.97	18.36	13.27	10.95	9.56
DCF-FCFF	P/B (x)	1.7	1.6	1.5	1.3	1.2
	FCF Yield (%)	0.5	1.4	15.5	4.6	6.3
<b>Key drivers</b>	Dividend Yield (%)	2.0	2.0	2.0	2.0	2.0
i. Increase in health awareness leading to higher demand for pharmaceutical products;	EV/EBITDA (x)	10.34	11.10	7.41	6.63	5.75
ii. Better efficiency from its new plant.	EV/EBIT (x)	14.36	17.18	10.05	8.93	7.67
	<b>Income statement (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Key risks</b>	Total turnover	697	705	806	871	943
Downside risks to our call include lower-than-expected sales volumes and a stronger USD/MYR rate.	Gross profit	280	268	326	355	389
	EBITDA	129	122	163	179	199
	Depreciation and amortisation	(36)	(43)	(43)	(46)	(50)
	Operating profit	93	79	120	133	149
	Net interest	(8)	(15)	(6)	(6)	(4)
	Pre-tax profit	85	63	114	126	145
	Taxation	(15)	(11)	(20)	(24)	(28)
	Reported net profit	70	53	94	102	117
	Recurring net profit	111	61	84	102	117
<b>Company Profile</b>	<b>Cash flow (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Duopharma Biotech is the largest local pharmaceutical company by volume and market cap. It produces vitamin C and solutions for diabetes, hepatitis C and cancer, as well as kidney disease treatments.	Change in working capital	(58)	(49)	109	(20)	(14)
	Cash flow from operations	70	46	246	128	152
	Capex	(65)	(31)	(73)	(77)	(82)
	Cash flow from investing activities	(70)	(40)	(79)	(83)	(88)
	Dividends paid	(8)	(9)	(22)	(22)	(22)
	Cash flow from financing activities	(1)	296	(42)	(42)	(42)
	Cash at beginning of period	138	158	271	396	399
	Net change in cash	(1)	301	125	3	23
	Ending balance cash	137	459	396	399	422
	<b>Balance sheet (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total cash and equivalents	158	271	396	399	422
	Tangible fixed assets	580	580	614	649	685
	Total investments	43	38	38	38	38
	Total assets	1,219	1,345	1,437	1,507	1,593
	Short-term debt	134	66	66	66	66
	Total long-term debt	295	481	461	441	421
	Total liabilities	564	658	678	668	659
	Total equity	655	687	759	839	934
	Total liabilities & equity	1,219	1,345	1,437	1,507	1,593
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	9.0	1.1	14.4	8.0	8.3
	Recurrent EPS growth (%)	66.5	(45.7)	38.4	21.2	14.6
	Gross margin (%)	40.2	38.1	40.4	40.7	41.3
	Operating EBITDA margin (%)	18.5	17.3	20.2	20.5	21.1
	Net profit margin (%)	10.1	7.5	11.7	11.7	12.4
	Dividend payout ratio (%)	31.2	41.6	23.3	21.5	18.8
	Capex/sales (%)	9.4	4.3	9.0	8.9	8.7
	Interest cover (x)	9.70	4.33	10.75	15.17	17.99

Source: Company data, RHB

Figure 1: DCF valuation

FYE Dec (MYR m)	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	Terminal
NOPAT	99	107	120	116	129	129	138	152	157	162	
+ D&A	43	46	50	54	58	62	66	70	75	80	
- Change in NWC	109	(20)	(14)	(17)	(14)	(15)	(15)	(16)	(17)	(19)	
- CAPEX	(79)	(83)	(88)	(92)	(92)	(97)	(102)	(108)	(114)	(120)	
Free cash flow to firm (FCFF)	172	50	68	61	80	79	87	98	101	103	1920
Discount factor	0.94	0.88	0.82	0.76	0.71	0.66	0.61	0.57	0.53	0.49	0.49
PV of FCFF	162	44	55	46	57	52	53	56	53	51	946
Risk-free	4%										
WACC	8%										
Terminal growth	2%										
Enterprise Value (MYR m)	1575.3										
+ Cash	270.5										
- Debt	(546.4)										
Equity Value (MYR m)	1299.3										
No of shares (m)	941.8										
Intrinsic Value (MYR)	1.41										
ESG discount/premium	0.00										
Target Price	1.41										

Source: RHB

## Emissions And ESG

### Trend analysis

DBB's 2022 emissions increased, mainly due to its Malaysia operations.

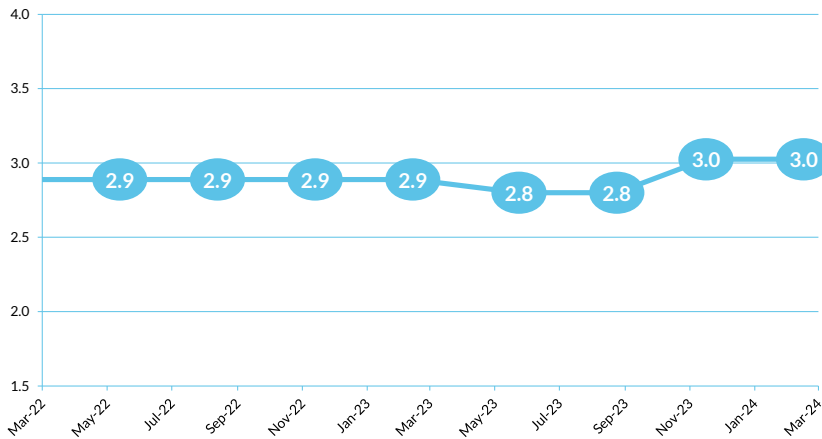
Emissions (tCO <sub>2</sub> e)	Dec-21	Dec-22	Dec-23
Scope 1	1,060	1,288	na
Scope 2	24,302	29,377	na
Scope 3	-	-	na
Total emissions	25,363	30,665	na

Source: Company data, RHB

## Latest ESG-Related Developments

- DBB has pledged to achieve carbon neutrality by 2030, net zero carbon emissions by 2050, and to replace 50% of its single-use plastics with biodegradable alternatives within its operations by 2026.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-23	Buy	1.41	1.19
2023-11-22	Buy	1.41	1.23
2023-11-09	Buy	1.35	1.18
2023-09-14	Buy	1.38	1.14
2023-05-30	Buy	1.59	1.40
2023-03-13	Buy	1.80	1.51
2023-01-06	Buy	1.88	1.63
2022-11-16	Buy	1.84	1.40
2022-09-06	Buy	1.64	1.28
2022-02-15	Buy	1.92	1.60
2022-01-14	Buy	1.92	1.60
2021-11-24	Buy	1.92	1.65
2021-11-19	Buy	2.25	1.59
2021-08-17	Buy	3.10	1.87
2021-07-11	Neutral	3.10	2.18

Source: RHB, Bloomberg

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