

6 January 2023

Consumer Non-cyclical | Pharmaceuticals

Duopharma Biotech (DBB MK)

Buy (Maintained)

On a Solid Footing; Keep BUY

Target Price (Return): MYR1.88 (15.8%)

Price (Market Cap): MYR1.62 (USD351m)

ESG score: 2.89 (out of 4)

Avg Daily Turnover (MYR/USD) 1.00m/0.22m

• **BUY, new MYR1.88 TP from MYR1.84, 16% upside.** Duopharma Biotech should benefit from a pick-up in orders from the public and private sectors, as drug procurement resumed following the full relaxation of movement restrictions in Apr 2022. A potential wildcard is a sudden spike in orders amid concerns of a raw material shortage from China. Valuation is undemanding at a 0.2SD discount against its historical mean, vs KL Healthcare Index's +0.9SD from the mean. We incorporate a 2% ESG discount to the intrinsic value.

• **4Q22 preview.** DBB stands to benefit from healthy order replenishment from the public and private sectors, as the local hospital bed utilisation rate recovered to above pre-pandemic levels – thanks to the return of patients post full relaxation of movement restrictions. A potential wildcard is a sudden spike in orders amid concerns of a raw material shortage from China. On the flip side, the consumer healthcare segment's growth could taper off in 4Q22 due to a high-base effect before normalising to c.6% in 2023.

• **Eyeing M&As for growth opportunities** in 2023 as the group aims to expand its market share in the generic drug manufacturing industry. DBB has seen positive synergies from its investments: i) It entered into a product distribution agreement to distribute a range of anti-hair loss products (via investment into SCM Lifescience), ii) its AZTherapies (AZT) investment is set to facilitate low-cost entry access to the marketing and manufacturing of a novel product for Alzheimer's, now pending the bridging trial results by 4Q22/1Q23. AZT expects to commence talks with the US Food & Drug Administration to fast-track approvals within the next 12 months, post trial results.

• **Approved product purchase list (APPL) contract.** Following the recent medical supply concession contract extension by the Health Ministry to Pharmaniaga, we believe DBB's APPL contract extension with the ministry could be finalised before 1H23. We think there is a possibility of contract rollover rather than finalisation of a new concession agreement. As such, DBB may eventually have to bear with procurement rates still based on the USD/MYR rate of 4.20, from when the contract was entered back in 2017.

• **Earnings adjustment.** We maintain our 2022 earnings estimates, but raise our 2023 estimate by 3%, taking into account the potential pick-up in order replenishments by customers amid concerns of drug shortages.

• **BUY, higher TP.** We ascribed a 2% ESG discount to our intrinsic value to derive our new TP. Our TP implies 19x FY23 P/E or 17x P/E based on FY6/24 vs Kotra Industries' (KTRI MK, BUY, TP: MYR7.07) FY24F (Jun) 15x P/E, in view of DBB's higher exposure towards the generic drug segment which continues to enjoy robust demand from the public and private sectors, as opposed to the normalised growth outlook for the consumer healthcare segment in 4Q22.

Analyst

Oong Chun Sung

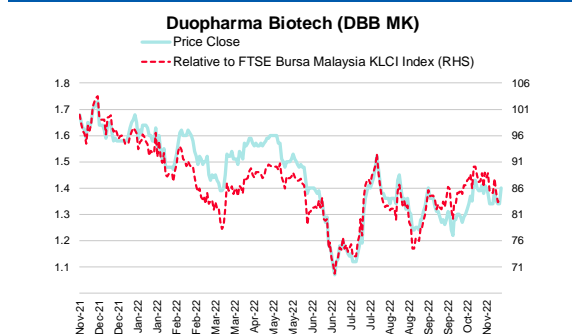
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	0.6	7.3	32.8	38.5	1.9
Relative	2.3	8.1	28.5	36.3	6.6
52-wk Price low/high (MYR)				1.07 – 1.65	



Source: Bloomberg

Overall ESG Score: 2.89 (out of 4)

E: GOOD

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

S: GOOD

It established multiple communication channels (including its quarterly townhall sessions) with its employees to make them feel engaged and connected with the senior management. Female:male workers ratio is 49:51.

G: EXCELLENT

60% of its board members are independent, and 40% are female, exceeding the Malaysian Code on Corporate Governance requirement of 30%. It provides full disclosure on its directors' remuneration, including salaries and bonuses, on a named basis. The company holds investor briefings regularly, embodying good transparency and disclosure practices.

Note:

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

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	570	639	746	803	870
Recurring net profit (MYRm)	59	66	93	108	127
Recurring net profit growth (%)	6.0	12.1	41.5	16.3	17.4
Recurring P/E (x)	25.11	23.00	16.41	14.12	12.02
P/B (x)	2.3	2.4	2.4	2.2	2.0
P/CF (x)	20.61	34.97	9.20	13.95	11.35
Dividend Yield (%)	3.1	1.4	2.7	2.8	3.2
EV/EBITDA (x)	13.72	14.05	13.54	10.21	8.93
Return on average equity (%)	10.0	10.4	10.0	14.2	14.8
Net debt to equity (%)	22.5	42.1	31.6	29.6	25.5

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

6 January 2023

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.06	0.07	0.10	0.11	0.13
Consumer Non-cyclical	DPS	0.05	0.02	0.04	0.05	0.05
Duopharma Biotech	BVPS	0.70	0.66	0.69	0.74	0.80
DBB MK	Return on average equity (%)	10.0	10.4	10.0	14.2	14.8
Buy						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Valuation basis	Recurring P/E (x)	25.11	23.00	16.41	14.12	12.02
We use DCF-FCFF to value Duopharma.	P/B (x)	2.3	2.4	2.4	2.2	2.0
	FCF Yield (%)	1.0	(4.7)	7.0	3.0	4.4
Key drivers	Dividend Yield (%)	3.1	1.4	2.7	2.8	3.2
i. Increase in health awareness leading to higher demand for pharmaceutical products;	EV/EBITDA (x)	13.72	14.05	13.54	10.21	8.93
ii. Better efficiency from its new plant	EV/EBIT (x)	18.36	19.12	19.23	13.44	11.59
	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Key risks	Total turnover	570	639	746	803	870
Upside/downside risks to our call include:	Gross profit	233	254	265	327	363
i. Better/lower-than-expected volume sales;	EBITDA	110	121	122	162	184
ii. Weaker/stronger USDMYR.	Depreciation and amortisation	(28)	(32)	(36)	(39)	(42)
	Operating profit	82	89	86	123	142
Company Profile	Net interest	(6)	(6)	(6)	(6)	(6)
Duopharma 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.	Pre-tax profit	76	83	80	118	136
	Taxation	(18)	(17)	(17)	(22)	(28)
	Reported net profit	59	66	63	96	108
	Recurring net profit	59	66	93	108	127
	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	(31)	(62)	66	(25)	(16)
	Cash flow from operations	71	43	166	109	134
	Capex	(56)	(114)	(60)	(63)	(67)
	Cash flow from investing activities	(62)	(116)	(65)	(69)	(72)
	Dividends paid	(7)	(45)	(42)	(43)	(49)
	Cash flow from financing activities	240	36	(42)	(43)	(49)
	Cash at beginning of period	121	158	138	197	194
	Net change in cash	249	(36)	59	(2)	13
	Ending balance cash	370	122	197	194	208
	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	158	138	197	194	208
	Tangible fixed assets	442	543	569	596	624
	Total investments	113	75	75	75	75
	Total assets	1,059	1,164	1,203	1,254	1,323
	Short-term debt	53	103	103	103	103
	Total long-term debt	250	298	298	298	298
	Total liabilities	415	540	558	556	566
	Total equity	644	624	645	698	757
	Total liabilities & equity	1,059	1,164	1,203	1,254	1,323
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(1.1)	12.2	16.7	7.7	8.3
	Recurrent EPS growth (%)	3.2	9.2	40.2	16.3	17.4
	Gross margin (%)	40.9	39.7	35.5	40.7	41.7
	Operating EBITDA margin (%)	19.2	18.9	16.4	20.2	21.1
	Net profit margin (%)	10.3	10.3	8.5	11.9	12.4
	Dividend payout ratio (%)	78.3	33.0	66.2	45.0	45.0
	Capex/sales (%)	9.9	17.8	8.0	7.8	7.7
	Interest cover (x)	11.4	12.7	10.8	15.5	17.9

Source: Company data, RHB

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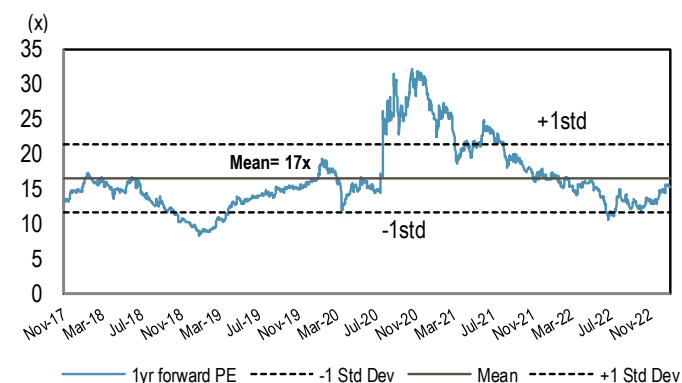
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Figure 1: SOP valuation

FYE Dec (MYR m)	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	Terminal
NOPAT	68	100	112	134	134	139	153	154	165	179	
+ D&A	36	39	42	45	49	52	56	60	64	68	
- Change in NWC	66	(25)	(16)	(16)	(19)	(17)	(16)	(16)	(16)	(17)	
- CAPEX	(65)	(69)	(72)	(77)	(81)	(84)	(88)	(91)	(94)	(97)	
Free cash flow to firm (FCFF)	105	45	66	87	83	90	105	107	118	133	2544
Discount factor	0.98	0.92	0.85	0.79	0.74	0.69	0.64	0.60	0.56	0.52	0.52
PV of FCFF	104	41	57	69	62	62	67	64	66	69	1323
Risk- free	4.5%										
WACC	7.3%										
Terminal growth	2.0%										
Enterprise Value (MYR m)	1983.4										
+ Cash	196.6										
- Debt	(400.7)										
Equity Value (MYR m)	1779.2										
No of shares (m)	941.8										
Intrinsic Value (MYR)	1.92										
ESG discount/premium	(0.04)										
Target Price	1.88										

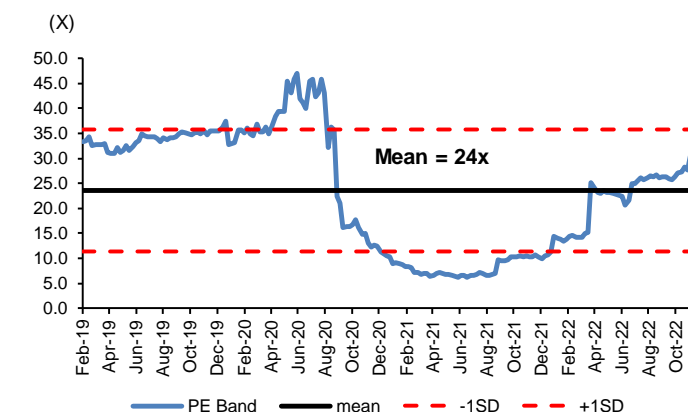
Source: RHB

Figure 2: DBB's 12-month forward P/E band



Source: Bloomberg, RHB

Figure 3: KL Healthcare Index's 12-month forward P/E band



Source: Bloomberg, RHB

Recommendation Chart

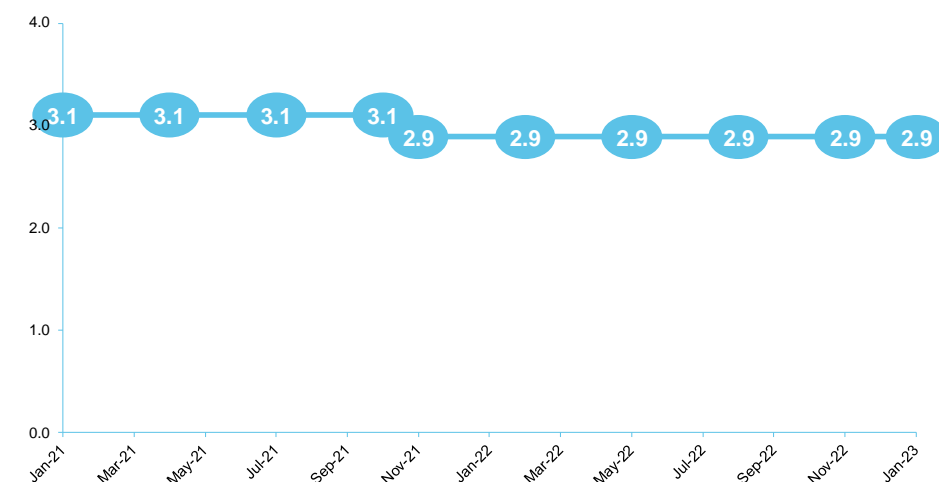


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-05-04	Neutral	3.17	2.19
2021-04-11	Neutral	3.05	2.19
2021-02-23	Buy	4.85	2.57
2021-01-27	Buy	4.85	2.70
2021-01-13	Buy	4.00	2.54
2020-11-13	Sell	3.30	2.98
2020-07-29	Sell	1.95	2.02

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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