

12 July 2021

Duopharma Biotech (DBB MK)

Resilient Demand For Consumer Healthcare

- **NEUTRAL, new DCF-derived TP of MYR3.10 from MYR3.17, 7% upside with c.1% FY21F yield.** Demand for immune system-boosting products should continue to benefit Duopharma Biotech, even though its numbers have been dragged by higher raw material costs and a decrease in ethical drug sales. Elsewhere, the lack of visibility on the approval of the Sputnik V vaccine continues to cap its share price performance.
- **Impacted by USD strengthening, not restrictions.** Despite being classified as an essential service provider, Duopharma is still subjected to the 60% operational restriction under Phase 1 of the National Recovery Plan. Nonetheless, it has already begun building stocks (more than two months' worth) since early 2021, ahead of the upgrading exercise of its oral solid dosage plant. However, we believe margins are likely to be crimped by higher raw material costs, premised on the USD strengthening throughout this year.
- **Industry outperformance to continue.** As we believe COVID-19 will likely not be eradicated, the demand for immune system-boosting products should remain robust.
- **Focus still on biologics.** Duopharma's erythropoietin (to treat anaemia) and trastuzumab (to treat breast cancer) biosimilar products have had favourable uptakes from the private sector. The company will still leverage on investments in foreign partnerships (Pangen, SCM Lifesciences, AZT), made to co-develop and market their innovative pipelines. Technology transfer for the production of its second cancer drug, Imatinib (for treating chronic myeloid leukemia), is expected to be completed this year and the commercialisation date is anticipated to be in FY22.
- **Still awaiting Drug Control Authority (DCA) approval.** Uncertainty over the DCA's approval of the Sputnik V vaccine continues to dampen Duopharma's share price, putting our one-off vaccine contribution estimates at risk. Nonetheless, we view the recent finalisation of the supply agreement with the Government as a positive development on this overhang. The delay in approval was attributed to the regulatory regimen being different in Russia, compared to those in the US or Malaysia. Nonetheless, we believe once the World Health Organisation grants emergency use listing approval, the DCA will be more comfortable in giving the green light, too.
- **We trim FY21-23F earnings by 2-3%,** after updating our numbers to reflect the latest annual report figures, and imputing higher raw material costs.
- **Maintain NEUTRAL, with a lower DCF-derived TP of MYR3.10.** Our TP implies FY22F P/E of 30x, at +1.5 SD from the 5-year mean. We believe this is justified, given its superior margins vs that of other listed pharmaceutical players, and its investment into higher-value products.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	576	570	765	704	744
Recurring net profit (MYRm)	55	59	68	69	76
Recurring net profit growth (%)	16.0	6.0	15.8	1.8	10.2
Recurring P/E (x)	34.79	33.72	29.60	29.08	26.38
P/B (x)	3.7	3.1	3.0	2.9	2.8
P/CF (x)	29.09	27.67	23.59	17.21	19.55
Dividend Yield (%)	1.1	0.9	1.3	1.9	2.2
EV/EBITDA (x)	19.54	18.32	16.83	16.17	14.92
Return on average equity (%)	10.9	10.0	10.4	10.2	10.8
Net debt to equity (%)	27.1	22.5	25.4	22.5	22.4

Source: Company data, RHB

Consumer Non-cyclical | Pharmaceuticals

Neutral (Maintained)

Target Price (Return): MYR3.10 (+7%)
 Price: MYR2.90
 Market Cap: USD489m
 Avg Daily Turnover (MYR/USD): 9.94m/2.41m

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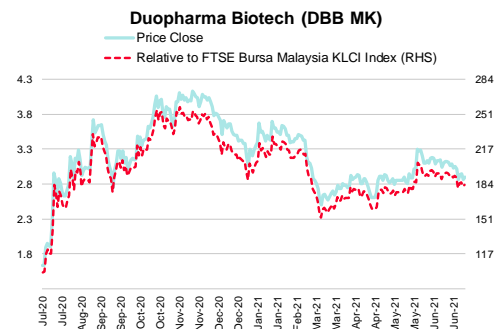


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(14.2)	(6.5)	(0.7)	(9.4)	74.7
Relative	(7.6)	(2.6)	5.0	(2.5)	78.7
52-wk Price low/high (MYR)	1.63 – 4.13				



Source: Bloomberg

Overall ESG Score: 3.11 (out of 4)

E: Good

Duopharma has set a target to cut energy usage by 5% every year. The company is also looking into recycling water. A project has been implemented in Klang, where water from the cooling process is recycled for toilet use.

S: Good

Duopharma is engaged in activities such as the Road Safety and Lavender Ribbon campaigns with the community that its business is operating in. The gender spread of its staff is well diversified, with a female:male ratio of 48:52.

G: Excellent

67% of its board members are independent, and 33% are female, exceeding the Malaysian Code on Corporate Governance requirement of 30%. Additionally, Duopharma 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 capitalization of less than USD1bn.

12 July 2021

Consumer Non-cyclical | Pharmaceuticals

Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.08	0.09	0.10	0.10	0.11
Consumer Non-cyclical	DPS	0.03	0.03	0.04	0.05	0.07
Duopharma Biotech	BVPS	0.79	0.93	0.96	1.00	1.04
DBB MK	Return on average equity (%)	10.9	10.0	10.4	10.2	10.8
Neutral						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	34.79	33.72	29.60	29.08	26.38
	P/B (x)	3.7	3.1	3.0	2.9	2.8
	FCF Yield (%)	0.7	0.8	1.2	3.2	2.4
	Dividend Yield (%)	1.1	0.9	1.3	1.9	2.2
	EV/EBITDA (x)	19.54	18.32	16.83	16.17	14.92
	EV/EBIT (x)	25.92	24.52	22.32	21.82	20.06
	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total turnover	576	570	765	704	744
	Gross profit	232	233	292	281	299
	EBITDA	103	110	123	127	138
	Depreciation and amortisation	(25)	(28)	(30)	(33)	(35)
	Operating profit	78	82	93	94	103
	Net interest	(7)	(6)	(7)	(7)	(7)
	Pre-tax profit	71	76	85	87	96
	Taxation	(16)	(18)	(18)	(18)	(20)
	Reported net profit	55	59	68	69	76
	Recurring net profit	55	59	68	69	76
	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	(17)	(31)	(13)	15	(9)
	Cash flow from operations	66	71	85	117	103
	Capex	(53)	(56)	(61)	(53)	(54)
	Cash flow from investing activities	(59)	(62)	(66)	(58)	(59)
	Dividends paid	(6)	(7)	(44)	(45)	(49)
	Cash flow from financing activities	50	212	(54)	(55)	(59)
	Cash at beginning of period	98	121	158	123	127
	Net change in cash	56	222	(35)	4	(15)
	Ending balance cash	155	342	123	127	112
	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	121	158	123	127	112
	Tangible fixed assets	412	442	475	497	517
	Total investments	53	113	113	113	113
	Total assets	920	1,059	1,121	1,120	1,144
	Short-term debt	125	53	53	53	53
	Total long-term debt	140	250	240	230	220
	Total liabilities	390	415	454	429	426
	Total equity	530	644	668	692	718
	Total liabilities & equity	920	1,059	1,121	1,120	1,144
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	15.6	(1.1)	34.2	(8.0)	5.8
	Recurrent EPS growth (%)	19.8	3.2	13.9	1.8	10.2
	Gross margin (%)	40.3	40.9	38.2	40.0	40.1
	Operating EBITDA margin (%)	17.9	19.2	16.0	18.0	18.5
	Net profit margin (%)	9.6	10.3	8.9	9.8	10.2
	Dividend payout ratio (%)	40.4	30.9	39.3	54.6	59.1
	Capex/sales (%)	9.3	9.9	8.0	7.5	7.2
	Interest cover (x)	9.36	11.35	10.43	10.97	12.40

Source: Company data, RHB

12 July 2021

Consumer Non-cyclical | Pharmaceuticals

Figure 1: DCF valuation

FYE Dec (MYRm)	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	Terminal
CFO	141.7	129.2	131.8	142.7	157.0	167.0	177.2	188.5	192.3	196.1	
+ Interest (1 - Tax Rate)	6.5	6.3	6.1	5.8	5.6	5.4	5.1	4.9	5.0	5.1	
- capital expenditure	(57.8)	(58.6)	(61.7)	(65.1)	(68.8)	(72.7)	(76.9)	(81.4)	(81.4)	(81.4)	
Free cash flow to firm (FCFF)	90.4	76.8	76.1	83.4	93.8	99.7	105.5	112.1	115.9	119.9	3240.0
Discount factor	0.94	0.88	0.82	0.77	0.72	0.67	0.63	0.59	0.55	0.52	0.52
PV of FCFF	84.7	67.4	62.5	64.1	67.5	67.2	66.5	66.2	64.1	62.0	1676.4

Risk-free	3.5%
Beta	0.66
Cost of Equity	7.5%
WACC	6.8%
Terminal growth	3.0%

Enterprise Value (MYR m)	2348.4
Cash	149.3
- Debt	-320.5
Equity Value (MYR m)	2177.2
No of shares (m)	706.0
Target Price (MYR)	3.10

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-05-04	Neutral	3.17	2.92
2021-04-11	Neutral	3.05	2.92
2021-01-27	Buy	4.85	3.60
2021-01-13	Buy	4.00	3.39
2020-11-13	Sell	3.30	3.97
2020-07-29	Sell	1.95	2.69
2020-05-19	Buy	1.95	1.65
2020-05-12	Buy	1.83	1.59
2020-03-16	Buy	1.65	1.16
2020-02-14	Buy	1.88	1.64
2020-01-08	Buy	na	1.54

Source: RHB, Bloomberg

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