Ahead of the Pack but Fully Valued

Horizon Securities

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Neutral/Medium	**2M**
Initiation of Coverage	
Price (VND)	133,000
Target price (VND)	138,000
Expected share price return	3.8%
Expected dividend yield	1.9%
Expected total return	**5.6%**

Stock Profile/Statistics			**22-Aug-09**
Reuters Ticker			DHG
Sector			Pharmaceutical
VND/USD			17,817
Shares Outstanding			19,992,530
Market Capitalisation (VNDmln)			2,659,007
Foreign room (%)			44%
52 week High/ Low (VND)	153,000	/	94,500
3-mth average daily trading			4,548

Stock Performance (%)	**1M**	**3M**	**6M**
Absolute (%)	20.9	16.7	37.1
Relative (%)	5.9	(9.1)	(37.8)

Owership Structure	**%**
State (SCIC)	43.0%
Foreigners	44.0%
Local	13.0%

Hau Giang Pharmaceutical (DHG) - Established in 1974 as a state-owned company, DHG was equitized in 2004 and listed on HOSE in 2006. The company is mainly engaged in manufacturing pharmaceutical products with four main product lines namely antibiotics, pain relief, otorhinolaryngology (ORL) and vitamins. These four product lines contributed nearly 84% to total revenue in 2008. DHG is ranked 4th in Vietnam's pharmaceutical industry in terms of revenue with a total turnover of VND1,573bln (US$86mln) in 2008, and took 6.6% of total market share. Despite its small market share, it is still the leader in terms of market share among local companies and also the biggest domestic drug manufacturer with a total capacity of 3 billion units per year.

Investment Highlights

- **We are initiating coverage on Vietnam's largest pharmaceutical manufacturer**, Hau Giang Pharmaceutical (DHG.HM), with a **NEUTRAL** rating, as we believe the company will continue to benefit from having one of the strongest domestic distribution network coupled with the largest capacity. Our blended valuation approach gives us a price objective for DHG of VND138,000 (US$7.77) per share which represents a 3.8% premium to the current market price.
- **The Vietnam pharmaceutical industry** grew by 18% CAGR over the past 8 years and still has a lot of room to expand in the future since drug expenditure per capita in Vietnam, which was US$16.45 per capita in 2008, is less than half that of other developing countries such as Thailand, Philippines and China. The industry is expected to grow at 15% from 2009-2012.
- **New formulations, geographical reach and alignment of the product portfolio towards the high-growth chronic segments** should be the key growth drivers for the Vietnamese pharmaceutical sector. We are positive on large Vietnamese domestic players, which have the financial strength to invest in infrastructure to address penetration-driven growth. We expect to see consolidation in the domestic market as smaller players are either bought by larger players or are edged out of the market. We remain cautious about the growth prospects of multi-national companies, since we expect limited pricing power, in rural and suburban regions, at least in the near term.
- **DHG is Vietnam's biggest pharmaceutical company in terms of capacity** with a total capacity of 3bln unit products per year. As a result DHG deals with price fluctuation in raw materials better than its competitors and has reached economies of scale through reducing fixed costs per unit. Consequently, DHG has COGS per product (around VND232 per unit) 25%-38% lower than its peers, according to our calculations.
- **In 3Q2009, DHG will start constructing its new Non-beta-lactam plant** with a total investment of VND250bln (US14.1mln). The project is expected to be completed in 2Q2011 and will double its current capacity to 7bln unit products per year.

1H09 performance

In 1H09, DHG revenue increased by 4% yoy to VND803.77 bln (US$45mln) but net profit increased by 37% yoy to VND93.48 bln (US$5mln) thanks to a change in accounting policies and more efficient cost controls. Starting this year, DHG will deduct discounts to wholesalers and certain commissions directly from revenue. We understand that this accounting policy is a common practice in the pharmaceutical industry and this change will help the market benchmark DHG to its peers more accurately.

From management we learned that they will continue to restructure the product portfolio to concentrate on higher margin products such as cardiovascular and glycorsuria drugs as well as nutraceuticals.

Over the first half of the year, the company made a VND18 billion (US$1mln) provision for its portfolio investment which was calculated on the assumption that stock prices would drop to their par value (VND10,000). Currently, the portfolio investment of DHG is valued at VND51,858 mln (US$3mln).

Valuation and Recommendation

We are initiating coverage on Vietnam's largest pharmaceuticals manufacturer, Hau Giang Pharmaceutical (DHG.HM) with a **NEUTRAL** rating given the strong performance of the stock and limited upside to our price objective. Our blended valuation approach gives us a price objective for DHG of VND138,000 (US$7.77) per share which represents a 3.8% premium to the current market price. It implies a target 10/11 PER of 12.3x and 10.8x respectively in-line with domestic peers but much lower than its regional peers.

Our blended valuation approach gives us a price objective for DHG of VND138,000 (US$7.77) per share.

Our blended valuation approach assigns equal weights to the combination of our intrinsic (Discounted Cash Flow) valuation and our relative (Price-to-Earnings multiple) valuation methods.

Figure 1: Valuation Matrix

Valuation Matrix		FY10E	Equity Value (VND'mln)	Share Price VND	Weight (%)	Weighted Value
Discounted cash flow approach	WACC	13%	2,479,726	124,000	50%	62,000
Comparable P/E ratio approach	PER	13.60 x	3,048,295	152,000	50%	76,000
Weighted average share price					100%	138,000
Current share price					VND	133,000
Premium						*3.8%*

Source: Horizon Securities Corp.

DCF Valuation

We ran our financial model through 2016 to derive our December 2009 DCF-based valuation of VND124,000 (US$6.98). We forecast 14.1% sales CAGR and an 8.9% EPS CAGR for the period under review. We assumed that DHG's APU growth will be capped at 5% per year given that the Drug Administration of Vietnam keeps a close eye on drug price increases and that this price increase would also depend on DHG's ability to introduce higher value products. DHG is benefiting from economies of scale which translate into the highest gross margins amongst its domestic peers. As competition increases, we assumed gross margins will tend towards regional peers. We applied a 13.2% WACC and 5% terminal growth rate, taking into account the current long-term government bond yield of 9.9% pa and an equity risk premium of 7.3%.

Figure 2: Discounted Cash Flow

DCF Valuation	Dec-09E	Dec-10E	Dec-11E	Dec-12E	Dec-13E	Dec-14E	Dec-15E	Dec-16E
EBIT	109,998	252,980	284,394	320,272	357,077	394,909	433,819	473,442
+ Depreciation	15,373	38,490	51,141	67,536	68,041	72,663	82,998	93,333
Increase (decrease) of WC	(11,499)	(52,013)	(69,831)	(82,386)	(89,351)	(97,156)	(105,807)	(114,532)
Operating CF	**113,872**	**239,457**	**265,704**	**305,423**	**335,766**	**370,416**	**411,010**	**452,244**
- Capex	(18,261)	(85,000)	(150,000)	(155,000)	(90,000)	(90,000)	(90,000)	(90,000)
- Tax paid	(21,417)	(24,904)	(28,348)	(31,787)	(35,313)	(38,994)	(106,926)	(116,403)
Free Cash Flow	**74,194**	**129,552**	**87,356**	**118,636**	**210,453**	**241,423**	**214,084**	**245,841**
Terminal value								**3,155,585**

	Aug-09	Dec-09	Dec-10
NPV	**1,885,693**	**2,054,364**	**2,313,854**
+/- Net debt	324,505	429,350	452,009
Less Minority Interest	(3,988)	(3,988)	(3,988)
Equity Value	2,206,210	2,479,726	2,761,875
Outstanding shares	20,000,000	20,000,000	20,000,000
Value per share	**110,000**	**124,000**	**138,000**

Source: Horizon Securities Corp.

The following table provide the DCF sensitive analysis to different WACC and terminal growth rate assumptions.

Figure 3: Sensitivity Analysis WACC/Terminal Growth

		WACC								
	124,000	11.2%	11.7%	12.2%	12.7%	13.2%	13.7%	14.2%	14.7%	15.2%
	3.0%	134,000	127,000	121,000	115,000	110,000	105,000	101,000	97,000	94,000
	3.5%	139,000	132,000	125,000	118,000	113,000	108,000	103,000	99,000	96,000
	4.0%	145,000	137,000	129,000	122,000	116,000	111,000	106,000	102,000	98,000
	4.5%	152,000	142,000	134,000	126,000	120,000	114,000	109,000	104,000	100,000
Terminal	5.0%	160,000	149,000	139,000	131,000	124,000	118,000	112,000	107,000	102,000
growth rate	5.5%	169,000	157,000	146,000	137,000	129,000	122,000	115,000	110,000	105,000
	6.0%	180,000	166,000	153,000	143,000	134,000	126,000	119,000	113,000	108,000
	6.5%	194,000	176,000	162,000	150,000	140,000	131,000	124,000	117,000	111,000
	7.0%	210,000	189,000	173,000	159,000	147,000	137,000	129,000	121,000	115,000

Source: Horizon Securities Corp.

Price Multiple Valuation

For our peer comparision we chose regional companies that have over 80% of their total revenue coming from generics. We then applied a 20% discount to the regional peer average 17x 10E PER to derive a share price of VND152,000 (US$8.56).

Figure 4: Relative Valuation

			52 Weeks						2008					P/E			EV/EBITDA		
Name	Country	US$/share	High	Low	TSO (mm)	Market cap	TEV	Beta	Gross margin	Net Margin	ROA	ROE	EPS	2008	2009E	2010E	2008	2009E	2010E
International peers		US$	US$	US$		US$'mln	US$'mln		%	%	%	%	US$	x	x	x	x	x	x
NICHI-IKO PHARMACEUTICAL CO	JAPAN	$33.60	$35	$20	31.2	$1,048	$1,218	0.37	47%	8%	7%	21%	1.17	28.7x	N/A	21.2x	17.8x	13.3x	11.1x
SAWAI PHARMACEUTICAL CO LTD	JAPAN	$55.85	$58	$34	15.7	$877	$952	0.38	47%	5%	3%	4%	1.17	47.6x	N/A	19.0x	13.6x	9.4x	7.9x
TOWA PHARMACEUTICAL CO LTD	JAPAN	$49.28	$54	$25	17.2	$846	$810	0.57	48%	9%	6%	8%	1.66	29.7x	N/A	15.1x	11.3x	8.0x	7.1x
TTY BIOPHARM CO LTD	TAIWAN	$2.71	$4	$1	128.3	$348	$346	0.78	68%	15%	11%	16%	0.07	38.8x	37.2x	22.9x	30.0x	N/A	N/A
LIJUN INTL PHARMACETL HLDG	HONG KONG	$0.13	$0	$0	2,027.0	$267	$332	0.16	46%	6%	4%	7%	0.01	20.2x	11.4x	9.5x	12.5x	8.2x	7.1x
WHANIN PHARMACEUTICAL CO LTD	SOUTH KOREA	$11.35	$12	$7	9.3	$106	$80	0.31	53%	13%	11%	12%	1.01	11.2x	9.7x	N/A	5.8x	N/A	N/A
KYUNGDONG PHARM CO LTD	SOUTH KOREA	$7.52	$9	$7	13.3	$100	$57	0.35	62%	14%	9%	10%	0.69	11.0x	8.0x	N/A	3.4x	N/A	N/A
DR. REDDY'S LABORATORIES	INDIA	$16.44	$17	$7	168.6	$100	$385	0.39	N/A	9%	6%	10%	0.53	30.8x	N/A	14.6x	16.4x	N/A	N/A
CIPLA LTD	INDIA	$5.35	$6	$3	777.3	$100	$266	0.38	N/A	17%	12%	19%	0.19	28.9x	19.1x	16.9x	24.6x	15.0x	13.8x
Average								0.4	53%	11%	8%	12%	0.7	27.4x	17.1x	17.0x	15.0x	10.8x	9.4x
Median								0.4	48%	9%	7%	10%	0.7	28.9x	11.4x	16.9x	13.6x	9.4x	7.9x
Local peers																			
IMEXPHARM PHARMACEUTICAL JSC	VIETNAM	$3.79	$7	$3	11.6	$44	$37	0.69	43%	10%	10%	11%	0.28	13.4x	14.3x	10.1x	9.2x	N/A	N/A
DOMESCO MEDICAL IMPORT EXPOR	VIETNAM	$4.52	$5	$2	13.5	$61	$61	0.75	28%	7%	10%	13%	0.26	17.3x	17.9x	13.2x	10.3x	N/A	N/A
CUU LONG PHARMACEUTICAL JSC	VIETNAM	$3.65	$4	$1	9.7	$35	$45	N/A	26%	11%	9%	18%	0.30	12.3x	14.3x	13.2x	9.6x	N/A	N/A
Average								0.7	32%	9%	10%	14%	0.3	14.3x	15.5x	12.2x	9.7x	N/A	N/A
Median								0.7	28%	10%	10%	13%	0.3	13.4x	14.3x	13.2x	9.6x	N/A	N/A
DHG PHARMACEUTICAL JSC	VIETNAM	$7.41	$9	$5	20.0	$148	$137	0.68	53%	9%	12%	18%	0.36	20.5x	13.6x	13.8x	13.7x	8.9x	8.0x

Source: HRS , Bloomberg

Catalysts to our valuation

Rapid capacity utilization

As a result of the intense competition for domestic players, we assumed that it would take until 2019 for DHG to reach 80% of its total capacity, essentially growing its output by roughly 8% per year. However, should management secure subcontracting contracts for foreign pharmaceutical companies and fully utilize its excess capacity sooner, there may be an opportunity for valuation re-rating.

Rising GDP per capita is a key growth driver

Given the growing size of the middle class and rising GDP per capita we believe this will translate into a rise of real consumer disposable incomes, a higher degree of consumer sophistication, and an increase in domestic spending on pharmaceuticals in the medium term.

Healthcare reforms and government spending likely to improve

The Vietnamese Ministry of Health has recently announced new policies which will increase the government's health care spending. In May 2009, the government announced the 2009-2015 master plans for the pharmaceutical industry. Concurrently, the government announced it would invest US$113 million from now until 2015 to encourage the domestic manufacturing of active pharmaceutical ingredients (API) for herbal medicine, antibiotics, and vitamin C among others. The government has also committed to help domestic players improve their distribution networks and overall market share.

DHG could benefit from a potential restructuring of the Vietnamese health sector, as it operates in the hospital and generic markets.

Vietnamese generics increasingly viewed as M&A target for big pharma

Vietnamese law currently prohibits foreign companies from distributing imported drugs. Foreign companies are required to set up manufacturing plants to distribute domestically manufactured products at a heavy initial investment and high tax scheme. To bypass these constraints, big pharma has been entering the domestic market through acquisition and strategic partnerships. Three of the four listed pharmaceutical companies have already signed such strategic partnerships with global players. Consequently, we believe that the Vietnamese generic drug industry is increasingly likely to be an M&A target for big pharma. Senior management at large cap pharma have recognized the difficulty of distributing across Vietnam and that domestic pharmaceutical companies may be better positioned for this task. We believe there is value in owning shares of the last listed company which has yet to sign such a strategic partnership.

Key Investment Risks

We rate DHG as **Medium Risk** based on our assessment of industry and company-specific risk factors. Key risks that could prevent the shares from achieving our price objective include raw material risk (the company needs to deliver solid volume growth and continually source raw materials more cheaply to offset ongoing pricing pressure) and pricing/regulatory risk (the lack of control over output price, unexpected negative government actions on drug pricing and timely regulatory changes). The company also faces stiff competition from domestic generic companies and big pharma. The longer-term outlook is unclear which could make it harder for the company to fully utilize its new capacity despite an improving competitive landscape in the short-term, with key players temporarily absent from its main market segments. Finally, earnings can be impaired by further devaluation of the VND which increase costs of raw materials. However, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our price objective.

Fierce competition in generic market

The Vietnam pharmaceutical market is highly competitive since most of its products are generic and relatively simple to produce. There are many different brands competing in each category. None of the Vietnamese drug companies have the human resources or capital to undertake drug discovery R&D; they typically make minor modifications to already existing drugs. A new generic product appears on the market about every 6-12 months competing with the first-to-market product. DHG's strong distribution network and brand recognition may be insufficient for the company to maintain its market share and margins.

Foreign entrants and a shrinking market for locals

Rising GDP per capita and increasing consumer sophistication may hinder DHG's sales, should Vietnamese consumers, who are generally drawn to foreign brands for their assumed higher quality, switch from VN brands to foreign ones.

Volatility in raw materials costs, little control over drug price and FX risk

Vietnam lacks the manufacturing capabilities to produce the active pharmaceutical ingredients (API) and in effect, the whole of the domestic industry is focused on a very small section of the value chain, as Vietnam also lacks the human resources for R&D and drug discovery.

As raw material costs account for approximately 70-80% COGS and 40% of revenue, their volatility significantly affect margins, especially when output prices changes are constrained by the Drug Administration of Vietnam.

Vietnamese drug producers have to import 90% of raw material, mainly from China, India and Singapore and have no bargaining power over their international suppliers. Since drug prices are controlled by the Drug Administration of Vietnam, companies wanting to adjust their drug prices must receive approval from Hanoi. Up to July 2009, the trailing 12 month medical and healthcare products index increased only by 7.92% while trailing inflation reached 9.25%, according to GSO Vietnam.

Figure 5: Earning's Sensitivity to change in API price

Average API price (US$ per kg)	34.8	33.35	31.9	30	29	28	26.1	24.65	23.2
% change	20.0%	15.0%	10.0%	5.0%	0.0%	(5.0%)	(10.0%)	(15.0%)	(20.0%)
Gross profit margin	45.52%	47.27%	49.03%	50.78%	52.54%	54.30%	56.05%	57.81%	59.56%
EPS	4,840	6,039	7,239	8,438	9,638	10,837	12,037	13,236	14,436
% change	(49.8%)	(37.3%)	(24.9%)	(12.4%)	0.0%	12.4%	24.9%	37.3%	49.8%

Source: HRS

Domestic producers typically bear a currency exchange rate risk as they need to import most of their raw materials. In 2008, the price of some essential APIs such as Amoxicillin, Cephalexin, Paracetamol increased by nearly 26%-50% while the VND lost 9.5% against the greenback. In 2008, the raw material costs of DHG increased by 24% on average while losses from foreign exchange rates were VND9,470 mln (US$0.53mln) or 1% of total revenue.

DHG's Critical Success Factors

Strong Sales Network

Vietnam's pharmaceutical companies engage in intense competition with a battery of undifferentiated products. In this environment, building and controlling the widest distribution network as possible becomes an effective strategy and barrier for competitors. Owning a strong distribution channel not only enables a company to sell its own products but also to become a subcontractor or distributor for international pharmaceuticals.

DHG has the strongest pharmaceutical network in the country covering more than 20,000 retailers and 100 hospitals.

Each year DHG typically invests between VND30-50bln to expand its distribution network against VND10-20bln from its local peers. DHG has built a diversified distribution network covering more than 20,000 retailers and 100 hospitals out of a total 39,172 retailers and 976 hospitals across Vietnam. As such DHG owns one of the strongest national wholesaler distribution networks in the pharma space, both in terms of sales-point coverage and control over its channel's end-retailers. Pharmacies selling DHG products can benefit from between 16-20% discounts compared with only 10-15% from other brands. Investing heavily in its distribution network and marketing campaigns to gain market share may have impaired operating and net margins in the short-term but we believe that as the company fully utilizes its distribution network it will have the flexibility to market new products and potentially partner with foreign big pharma to fuel sales.

By and large, DHG's products price is 25%-50% lower than the same kind of imported drugs but still 5%-20% higher than the local competitors thanks to its trusted brand name.

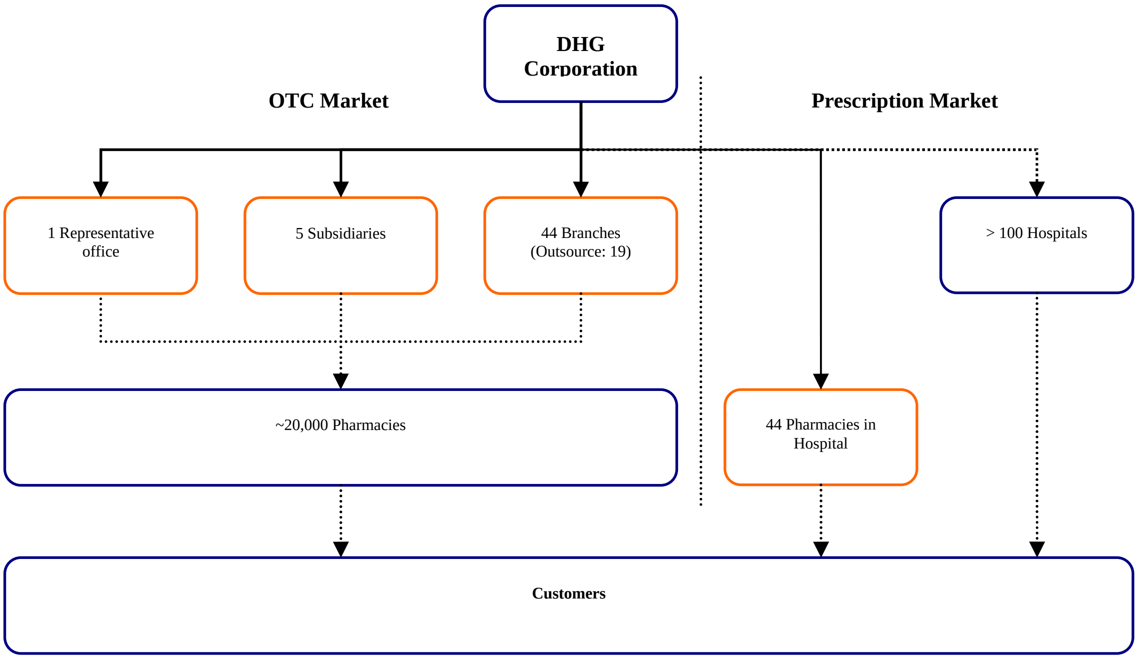
DHG has already secured brand awareness and consumer loyalty. The company is typically viewed by consumers as offering the highest level of quality for its price; it offers higher quality products than its domestic peers at more competitive prices than foreign brands (see Appendix A). By and large, DHG's products price is 25%-50% lower than the same kind of imported drugs but still 5%-20% higher than the local competitors thanks to its trusted brand name.

Figure 6: Distribution network of top Vietnamese pharmaceutical companies in 2008

Distribution network	Representative	Subsidiaries	Branches	Outsourcing	Pharmacies in Hospital	Sales man
DHG	1	5	25	19	44	798
IMP	-	-	14	20	-	400
DMC	-	-	6	3	-	200

Source: Company Report, HRS

Figure 7: DHG's distribution network as of March 31, 2009



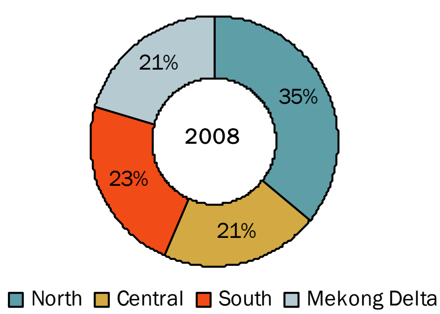
Source: Company Report, HRS

Expanding geographically

Today, the first-tier cities namely Hanoi and HCMC are the most vibrant markets for pharmaceuticals. Although these cities account for only 14% of the total population, they record 20% of total drugs sales. Strong urban population growth (average 2.9% per annum compared with 1% in other areas), the highest per capita income in the country (US$1,000 per capita per annum in HCMC and US$709 in Hanoi compared with US$430 average for Vietnam) and highest per capita healthcare expenditures have created ideal markets for big pharma. Urban consumers are increasingly willing to pay a premium price for foreign drugs as these are perceived to have greater effectiveness and quality.

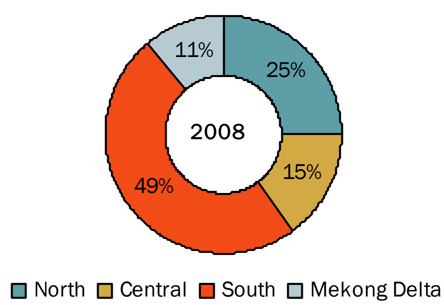
The company is expanding its network into suburban and rural areas.

Figure 8: Population by region



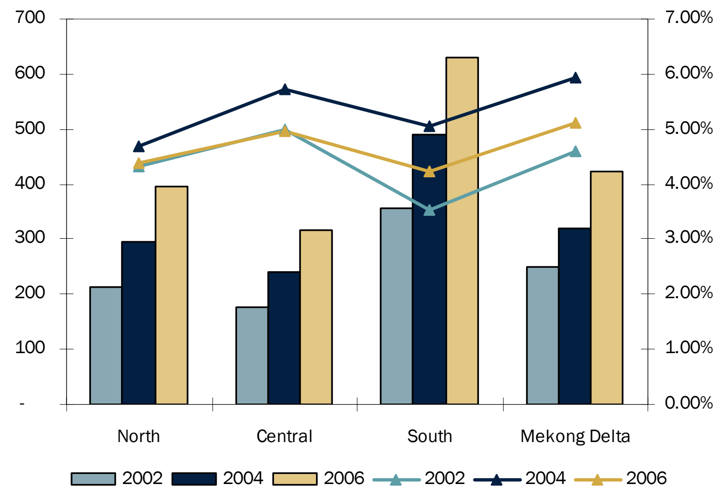
Source: GSO

Figure 9: Drug expenditure by region



Source: Jaccar, HRS estimate

Figure 10: Yearly income per capita and % of yearly consumption expenditure for health care per capita



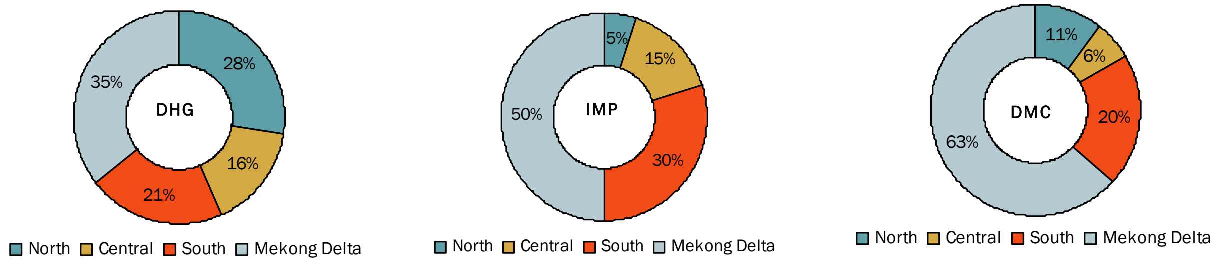
Source: GSO

In Vietnam, big pharma dominates first-tier cities. The three largest multi-national companies alone, Sanofi-Aventis, GSK, and Norvatis, have a combined market share of over 42%. Furthermore, big pharma almost exclusively focuses on Hanoi and HCMC. For example, around 75% of GSK's sales force for its Panadol brand serves only Hanoi and HCMC and these two cities combined generate 50% of the company's total revenue. The situation is similar with Novartis which has more than 70% of its regional sales managers serve only Hanoi and HCMC markets.

For the past few years, DHG's management adopted a strategy to avoid competing head-on with big pharma; instead the company has focused on penetrating and cementing its market share within rural and suburban markets specifically in the Mekong Delta, the North and in the Central (MNC) regions. Management recognized that competition is markedly higher in first-tier cities for a wide range of drugs, leaving suburban and rural areas open for companies eager to expand their distribution footprint. Moreover, per capita income and health care expenditures in the MNC regions have been higher than in other rural areas. From 2004 to 2006, per capita income in MNC regions grew by 10.33% CAGR compared with 8.76% CAGR in other rural regions while health care expenditures in those regions increased by 7.89% CAGR, three times higher than in other rural areas of the country (2.41% CAGR). The population in MNC regions is more sensitive to the drug price but do factor in the drug quality. We believe DHG's perceived higher quality, affordable prices, and brand loyalty combined with its expanding distribution into the MNC and lower market penetration of big pharma in these regions are fundamental for DHG to benefit from the rising affluence of the rural households.

Management recognized that competition is markedly higher in first-tier cities for a wide range of drugs, leaving suburban and rural areas open for companies eager to expand their distribution footprint.

Figure 11: Revenue by region of top local pharmaceutical companies in 2008



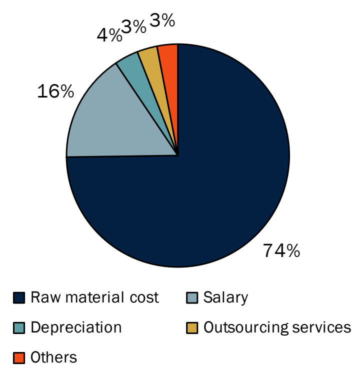
Source: Company Report, HRS

Size does matter

As Vietnamese pharmaceutical companies have to import nearly 90% of their active pharmaceutical ingredients, larger companies can better control their COGS and benefit from economies of scale. Not surprisingly, the three largest domestic pharmaceutical companies plan to double their respective capacity by 2010.

DHG's scale enables the company to benefit from greater discounts when purchasing raw materials than its domestic competitors.

Figure 12: Normal Cost Structure per Unit



Source: HRS

Figure 13: Capacity of top 3 Vietnamese pharma

Capacity		2008	2009F	2010F	2011F	2012F
DHG	mln'units	3,000	3,000	3,000	7,000	7,000
IMP	mln'units	1,100	1,100	2,100	2,100	2,100
DMC	mln'units	1,410	2,100	2,360	2,360	2,360

Source: Company Reports

DHG's scale enables the company to benefit from greater discounts when purchasing raw materials than its domestic competitors. DHG typically enjoys discounts ranging from 5-10% higher than its peers. The company has built and maintained strong relationships with its suppliers who have been known to give the company advance notice of upcoming price increases. As a result, DHG's raw materials only increased by 24% in 2008 while inflation hit many of its competitors.

Moreover, the company has the lowest fixed cost per unit amongst its domestic peers. DHG's fixed costs per unit in 2008 were 25% lower than those of IMP and less than half those of DMC. By 2013, when DHG will have completely depreciated its current manufacturing facility, we expect its fixed costs per unit to drop to less than 50% of what it is today.

Figure 14: Fixed cost per unit

Fixed cost per Unit	2008	2013E	2015E
DHG	8.6	4.0	3.6
IMP	10.8	11.4	6.2
DMC	18.0	9.5	5.7

Figure 15: COGS per unit

COGS per unit	2006	2007	2008
DHG	162	192	232
IMP	380	217	291
DMC	226	255	320

Source: HRS , Unit: VND

New product offerings – building a strong portfolio

As Vietnamese companies do not have sufficient capital or proper human resources to seriously invest in their own R&D innovations, most of their "new" products are either generics or low value-added products. Although many companies continue to improve their product offerings by launching plain-vanilla generics, DHG has been able to generate higher-margin revenue and accelerated growth by introducing branded generics to the market and bringing in first-to-market generic versions of patented products. Additionally, the company gained first mover's advantage by focusing on difficult-to-make products; DHG was the first Vietnamese company to successfully produce third generation antibiotics, namely Haginat and Klamentin in 2005. These days the company is looking at categories such as bone (Davita Bone), cardiovascular (Glumeform) and nutraceuticals (Spivital); product groups that have potential to grow as standards of living continue to rise and that have higher gross margin than the traditional groups (antibiotic and pain relief). These categories also have less competition pressure as most local peers still compete in the traditional groups and foreigners offers these at a much higher price. In our view, these steps reflect good vision of management board and its flexibility to adapt to market changes.

DHG is focusing product groups that have strong growth potential as standards of living continue to rise and that have higher gross margin than its traditional groups (antibiotic and pain relief).

Figure 16: Top 8 brand names of DHG in 2008

Brand name	Application	2008's Revenue (VND'mln)	Public year	Note
Hapacol	Pain relief	197,000	2000	
Klamentin	Antibiotic	134,000	2005	Bioequivalent test in Apr 2009
Haginat	Antibiotic	81,000	2005	Bioequivalent test in 2007
Eugica	Respiratory	72,000	2006	
Davita Bone	Bone	20,000	2008	
Unikids	Nutrition	20,000	2006	
Eyelight	Nutrition	15,000	2007	
Glumeform	Cardiovascular	4,900	2007	Bioequivalent test in 2007
Spivital	Nutrition	586	Sep-08	

Source: DHG

Figure 17: Number of new products of top 3 Vietnamese Pharmaceutical Companies

Number of new products	2005	2006	2007	2008
DHG	25	30	30	42
IMP	26	36	29	26
DMC	24	31	29	20

Source: Companies Report

Investment Pipeline

In 3Q2009, DHG will start building its new non-beta lactam plant which will have a design capacity of 4 billion units per year, more than doubling its current capacity to a total of 7 billion units/year. The total investment of this project is expected to be VND250bln (US$14.1mln) and the plant should be operational by 2Q2011. Currently, the project is in the final phase of legal documentations and is expected to start without delay.

DHG will start building its new non-beta lactam plant which will have a design capacity of 4 billion units per year, more than doubling its current capacity to a total of 7 billion units/year.

The company also plans to invest another VND50bln (US$2.8mln) to strengthen its distribution network in Gia Lai, Ben Tre, Dong Thap, Lam Dong, Tra Vinh, Bac Lieu and Hau Giang provinces. As we have discussed earlier, the distribution network is a precious asset and further investments will ensure continual sales of its new capacity.

In order to finance a total VND300bln (US$16.9mln) investment, the company has borrowed VND100bln (US$5.6mln) through the subsidized interest rate program at an interest rate of 4.8% and will use its own cash for the remaining portion.

The Company

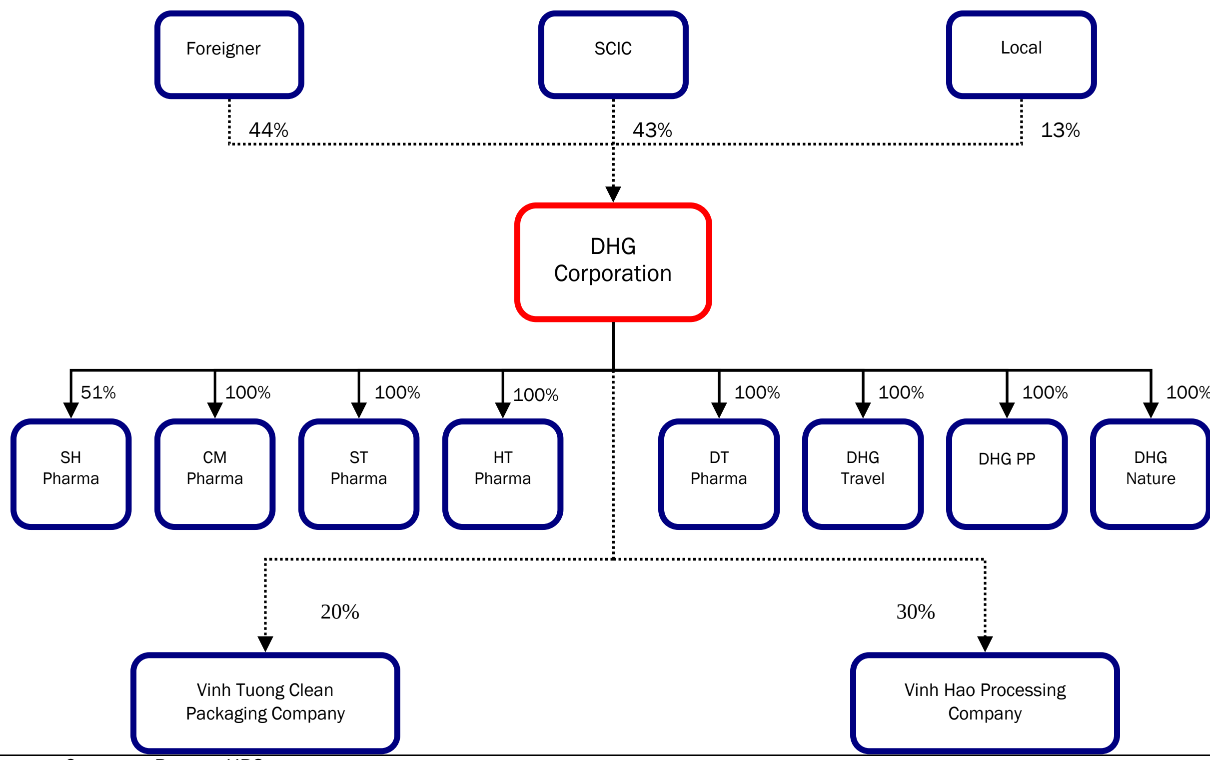
Established in 1974 as a state-owned company, Hau Giang Pharmaceutical (DHG) was equitized in 2004 and listed on HOSE in 2006. The company has four main product lines namely antibiotics, pain relief, otorhinolaryngology (ORL) and vitamins. These four product lines contributed nearly 84% to total revenue in 2008.

DHG is the leader among domestic players and is the biggest drugs manufacturer in Vietnam.

DHG is ranked 4th in Vietnam's pharmaceutical industry in terms of revenue with total turnover of VND1,573bln (US$86mln) in 2008. Moreover, the company is the leader among domestic players and is the biggest drugs manufacturer in Vietnam with a total capacity of 3 billion units per year.

The State Capital and Investment Corporation (SCIC) is currently the largest share holder with a 43% stake, followed by Citigroup Global Market (5.98%). As of August 20th 2009, foreigners hold 8,412,880 shares or 44 % of the total share while locals hold the remaining 13%.

Figure 18: DHG's Corporate Structure as of March 2009



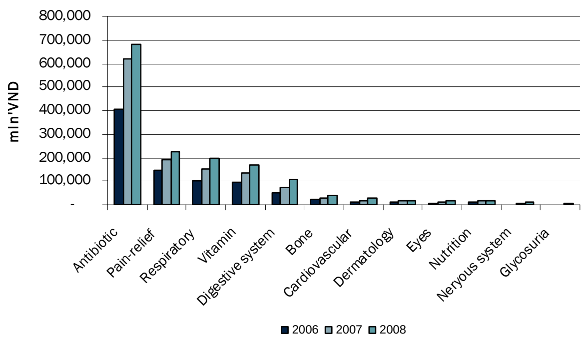
Source: Company Report, HRS

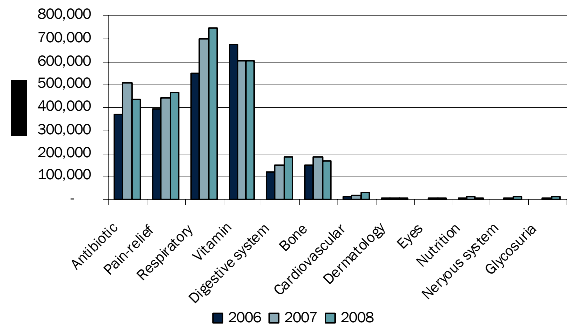
Main product lines

Although the company produces over 300 products within 12 different categories, its portfolio has little differentiation with its peers. Of the 12 product categories antibiotics, pain-relief, respiratory drugs and vitamins account for over 84% of the company's revenue.

Antibiotics, pain-relief, respiratory drugs, vitamins and digestive system drugs account for over 90% of the company's revenue.

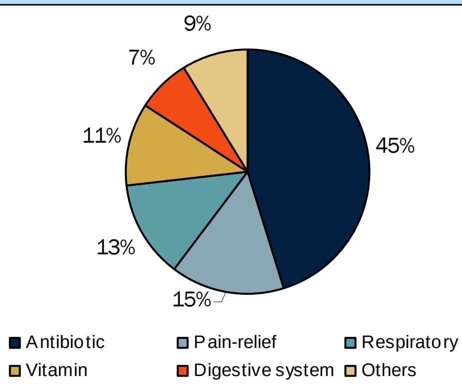
Figure 19: DHG's Revenue Structure by 12 categories | **Figure 20: Volume Structure by 12 categories**

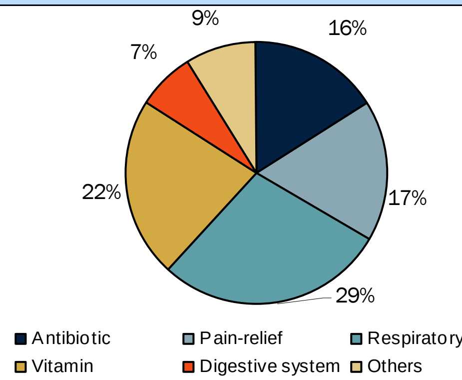




Source: Company Report

Figure 21: DHG's Revenue Structure in 2008 & Volume Structure in 2008





Source: Company Report

While antibiotics account for only 16% in terms of sales volumes they correspond to 45% of DHG's total revenue. This product category has seen the strongest growth over the past three year with 29.5% CAGR thanks to the introduction of two new third-generation antibiotics, Haginat and Klamentin which have become flagship brands of the company. As a result of its first mover's advantage and strong brand equity of these two products DHG is able to claim a 5-44% premium over other local brand names such as Domesco's Ofmantine, Imexpharm's Claminat and Mekopharm's Augbactam.

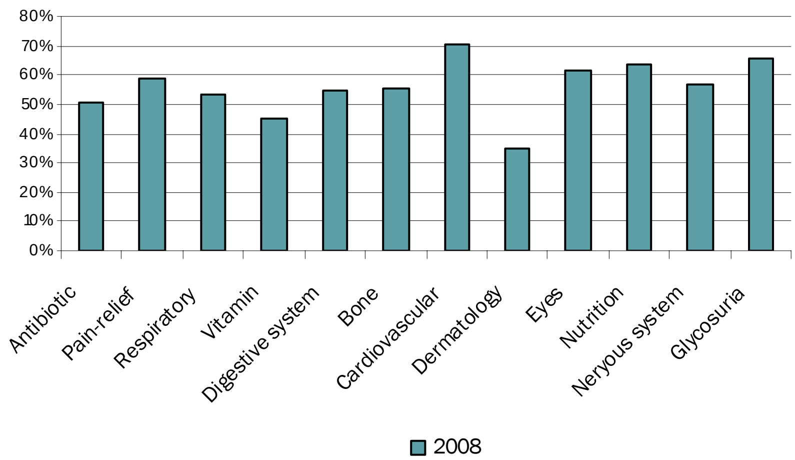
Antibiotics grew by 29.5% CAGR over the past three years thanks to the introduction of two new third-generation antibiotics, Haginat and Klamentin.

However, as raw material costs for amoxicillin and penicillin shot up over 100% in 2008, DHG had to reduce production volume of antibiotics. We believe these two products should continue to have strong growth potential as local producers currently account for 15-20% of the antibiotics market and this segment is expected to continue to grow by 18%-20% per year for the next five years.

Pain relief drugs grew by 24% CAGR over the last three years.

The pain relief category is one of the most competitive drug segments. Hapacol the company's flagship pain-relief drug contributed VND197bln (US$11.12mln) or 13% of total revenue in 2008 and has recorded 24% CAGR over the last three years.

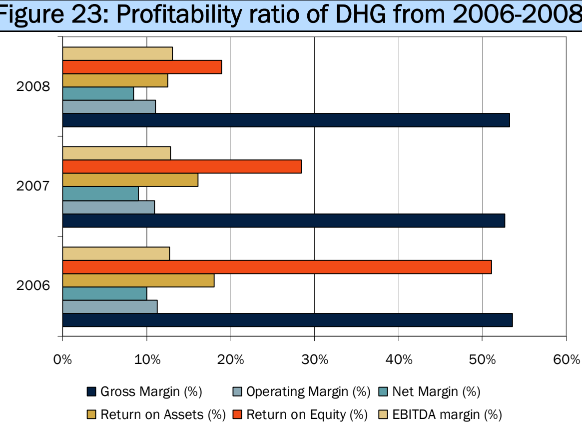
Figure 22: Gross margin per category

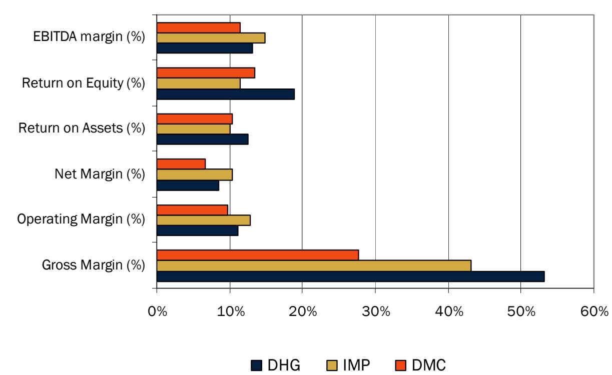


Source: Company Report

Profitability

Figure 23: Profitability ratio of DHG from 2006-2008 & compared with other peers





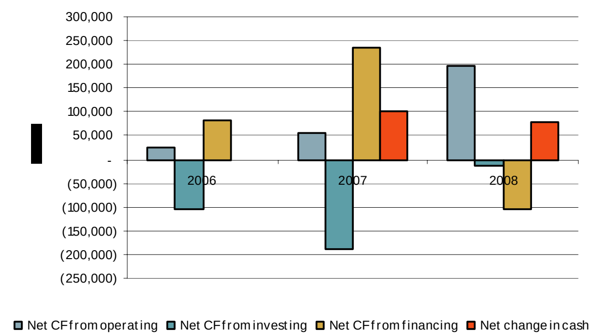
Source: Company Report

Cash flow management

In the last three year the company's market share grew 47% to 5.6% in 2008 and revenues increased 71% to VND1,485bln (US$84mln), outperforming all of its peers. In addition, the working capital turnover fell 71% to 3.8x and the company used cash from operating to finance its investment and pay part of its debt in 2008. Management indicated to us they will continue to follow strict cash management policies in the future.

Figure 24: Ratio Analysis & DHG's cash flow analysis

Ratio Analysis	DHG 2006	DHG 2007	DHG 2008	IMP 2006	IMP 2007	IMP 2008	DMC 2006	DMC 2007	DMC 2008
Activity Ratio									
Accts Receivable days	51.1	60.9	63.0	31.9	40.4	44.1	41.4	45.2	49.5
Accts Payables days	15.8	22.5	32.4	37.7	48.8	47.9	90.0	49.9	41.1
Inventory Turnover days	106.3	106.8	141.5	135.9	188.9	163.2	96.4	107.1	98.4
Total assets turnover	1.8	1.8	1.5	1.7	1.0	1.0	1.7	1.7	1.5
Fixed assets turnover	5.7	6.1	5.3	11.9	6.3	3.8	6.1	6.3	4.5
Working Capital turnover	12.8	6.1	3.8	2.8	1.5	1.6	5.7	3.8	3.6
Liquidity Ratio									
Current Ratio	1.1	2.2	2.1	3.7	6.7	5.1	1.7	3.3	2.5
Cash to Debt (%)	12%	62%	58%	94%	291%	174%	10%	75%	27%
Cash conversion cycle	142	145	172	130	180	159	48	102	107
Solvency Ratios									
Debt to Equity (%)	183%	48%	55%	30%	14%	16%	72%	30%	29%



Source: Company, HRS

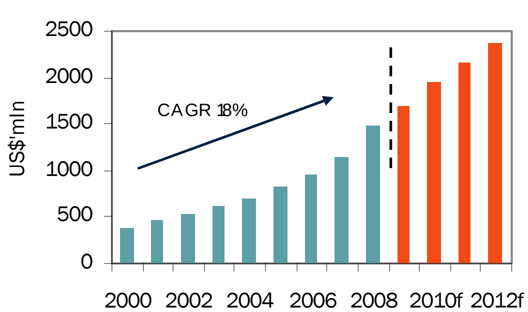
Industry

Vietnam is one of the fastest growing pharmaceuticals markets in the world (18% CAGR from 2000-2008), benefiting from increasing government and consumer spend. In 2008 alone, Vietnam's pharma industry grew by 25%, generating US$1.425 billion and contributing 1.77% to the country's total GDP. Drug expenditures per capita in Vietnam stood at US$16.45 in 2008, still much lower than most Asian countries. Given consumers' greater health awareness, low per-capita drug spending, economic growth, and better rural access of medication, we estimate that Vietnam's pharma industry will continue to grow at 15% from 2009-2012.

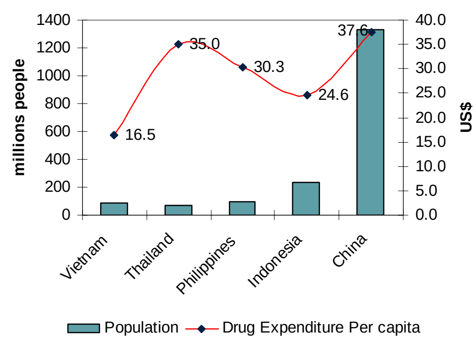
Vietnam is one of the fastest growing pharmaceuticals markets in the world (18% CAGR from 2000-2008), benefiting from increasing government and consumer spend. In 2008 alone, Vietnam's pharma industry grew by 25%, generating US$1.425 billion.

As drug-related costs are primarily borne by patients, in the event of an economic slowdown and lower income growth, industry growth may be adversely affected. However, we do not think these adverse effects will be debilitating, to the industry. On the contrary, the domestic pharmaceutical industry may benefit from a greater push towards low-cost generics rather than international branded drugs.

Figure 25 : Vietnam Pharmaceutical Market & Drug consumption per capita in 2008



Source: BMI, Drug Administration in Vietnam, IMS



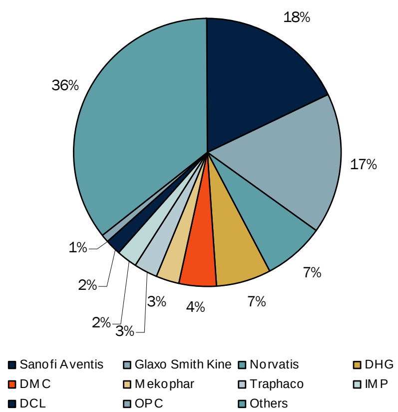
Source: BMI, HRS

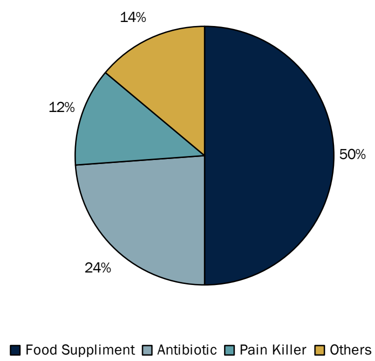
The Vietnamese pharmaceutical industry is both fragmented, in terms of the number of players, and concentrated geographically. There are 180 pharmaceutical manufacturers competing in this market. Due to the lack of innovation and the focus on generic drugs, local companies produce more than 70% of the volume of total drug consumption but account for only 52% of total market sales. For any given generic drug, consumers can easily find more than a dozen products from different companies. The other drugs are imported; the three largest multi-national companies alone, Sanofi Aventis, GSK, and Norvatis, have a combined market share of over

Due to the lack of innovation and the focus on generic drugs, local companies produce more than 70% of the volume of total drug consumption but account for only 52% of total market sales.

42%. Geographically, southern and northern provinces make up 74% of total sales; southern provinces alone represent approximately 49% of the market of which HCMC contributes 11%. Up to now, multi-nationals have focused almost exclusively on first tier cities such as Hanoi and HCMC, and we believe this will continue in the future leaving rural and suburban markets open to domestic players.

Figure 26: Market share of top 10 in 2007 | **Top 50 local products in revenue (2007)**



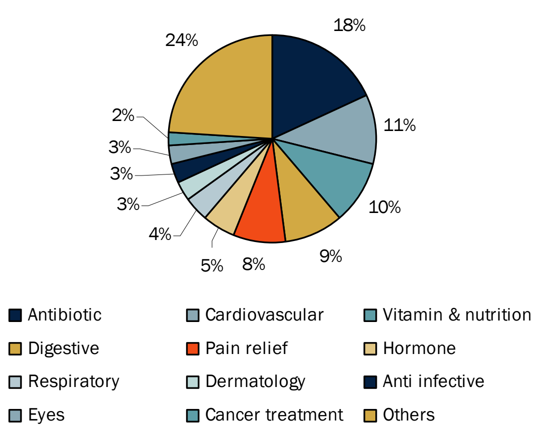


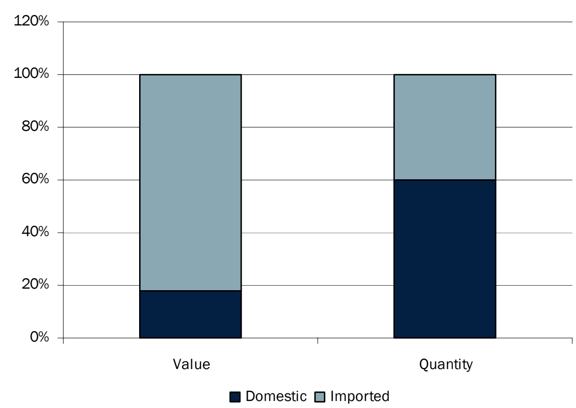
Source: IMS, HRS estimate | *Source: Jaccar*

New formulations, geographical reach and alignment of the product portfolio towards niche segments should be the key growth drivers for the local pharmaceutical sector. We are positive on large Vietnamese domestic players, which have the financial strength to invest in infrastructure to address penetration-driven growth. We expect to see consolidation in the domestic market as smaller players either are purchased by larger players or are edged out of the market. We remain cautious about the growth prospects of multi-national companies, since we expect limited pricing power for these companies, at least in the near term.

We are positive on large Vietnamese domestic players, which have the financial strength to invest in infrastructure to address penetration-driven growth.

Figure 27: Type of drugs imported in 2008 | **Volume & value of imported in hospital distribution**





Source: Drug Administration of Vietnam, BVSC | *Source: Drug Administration of Vietnam*

Financial Highlights

Income statement (VNDmln)

FY ended, 31 December	2006A	2007A	2008A	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Net Sales	866,192	1,269,280	1,485,464	1,518,000	1,716,000	1,982,000	2,295,000	2,633,000	2,999,000	3,396,000	3,824,000
COGS	(402,747)	(600,778)	(694,445)	(720,443)	(818,772)	(950,726)	(1,106,695)	(1,276,373)	(1,461,413)	(1,663,497)	(1,882,861)
Gross Profit	463,445	668,502	791,019	797,557	897,228	1,031,274	1,188,305	1,356,627	1,537,587	1,732,503	1,941,139
Selling, G&A expense	(367,834)	(529,142)	(625,423)	(567,792)	(644,248)	(746,881)	(868,033)	(999,550)	(1,142,679)	(1,298,684)	(1,467,697)
EBIT	95,611	139,360	165,596	229,765	252,980	284,394	320,272	357,077	394,909	433,819	473,442
Financial Income	514	5,789	22,329	16,939	4,816	4,676	5,093	5,761	7,287	9,066	10,677
Financial Expense	(11,214)	(17,291)	(38,495)	(32,340)	(8,753)	(5,590)	(7,492)	(9,705)	(12,258)	(15,181)	(18,508)
Interest Expense	(10,705)	(15,394)	(5,216)	(4,440)	(8,753)	(5,590)	(7,492)	(9,705)	(12,258)	(15,181)	(18,508)
Income from JV&A	--	--	142	--	--	--	--	--	--	--	--
Other profits	149	454	(4,547)	(192)	--	--	--	--	--	--	--
EBITDA	108,781	163,414	194,116	259,755	291,470	335,535	387,809	425,118	467,572	516,817	566,775
Depreciation Expense	(13,170)	(24,054)	(28,520)	(29,990)	(38,490)	(51,141)	(67,536)	(68,041)	(72,663)	(82,998)	(93,333)
EBT	85,060	128,312	145,026	214,172	249,044	283,479	317,873	353,133	389,938	427,705	465,611
Enterprise Income Tax	--	(13,166)	(18,673)	(21,417)	(24,904)	(28,348)	(31,787)	(35,313)	(38,994)	(106,926)	(116,403)
Deferred Income Tax	--	--	--	--	--	--	--	--	--	--	--
Net Income	85,060	115,146	126,353	192,755	224,139	255,131	286,086	317,820	350,944	320,779	349,208
Adjusted Net Income	84,545	109,357	104,023	175,816	219,323	250,456	280,993	312,059	343,657	311,712	338,532
EPS	10,632	5,757	6,318	9,638	11,207	12,757	14,304	15,891	17,547	16,039	17,460

Balance sheet (VNDmln)

FY ended, 31 December	2006A	2007A	2008A	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Current Assets	329,550	678,787	783,527	1,062,311	1,123,685	1,266,618	1,452,904	1,734,975	2,053,669	2,367,947	2,722,124
Cash and cash equivaler	35,002	134,951	211,742	481,633	467,589	509,263	576,112	728,693	906,637	1,067,682	1,256,048
Account receivables	166,440	257,382	255,126	262,736	297,006	343,045	397,219	455,720	519,068	587,780	661,859
Inventories	121,353	230,279	308,236	294,743	334,971	388,955	452,764	522,182	597,884	680,560	770,305
Other Current assets	6,755	4,220	6,159	7,052	7,972	9,208	10,662	12,232	13,932	15,777	17,765
Non current Assets	153,297	265,871	298,255	284,660	331,170	430,029	517,493	539,452	556,789	563,791	560,458
Long- term receivables	200	114	72	--	--	--	--	--	--	--	--
Fixed assets	148,142	228,781	225,956	245,966	292,476	391,335	478,799	500,758	518,095	525,097	521,764
Long-term investments	1,609	35,675	66,839	30,256	30,256	30,256	30,256	30,256	30,256	30,256	30,256
Other long-term assets	3,346	1,301	5,388	8,437	8,437	8,437	8,437	8,437	8,437	8,437	8,437
TOTAL ASSETS	482,847	944,659	1,081,782	1,346,971	1,454,855	1,696,646	1,970,397	2,274,427	2,610,458	2,931,737	3,282,581
Current liabilities	291,128	302,984	367,464	489,112	428,891	479,333	538,519	604,184	677,007	757,702	846,640
Shorterm debt	167,870	43,430	8,455	122,864	39,239	58,253	80,387	105,914	135,143	168,413	206,070
Account payable	18,478	55,642	67,746	72,771	82,703	96,031	111,785	128,924	147,615	168,027	190,185
Accrued liabilities	73,965	164,854	190,187	190,187	190,187	190,187	190,187	190,187	190,187	190,187	190,187
Other shorterm liabilities	30,814	39,058	101,076	103,290	116,762	134,862	156,160	179,158	204,062	231,075	260,198
Non current liabilites	21,278	814	15,194	15,176	15,176	15,176	15,176	15,176	15,176	15,176	15,176
Long-term loan & debt	21,278	814	15,148	15,148	15,148	15,148	15,148	15,148	15,148	15,148	15,148
Other long-term liabilitie	--	--	46	28	28	28	28	28	28	28	28
Total debts	293,927	248,155	314,912	431,517	361,364	398,478	441,910	490,436	544,568	604,851	671,631
Total liabilities	312,405	303,797	382,658	504,288	444,067	494,509	553,695	619,360	692,183	772,878	861,816
Owner's Equity	170,441	638,411	695,940	838,695	1,006,800	1,198,148	1,412,713	1,651,078	1,914,286	2,154,870	2,416,776
Minority Interest	--	2,450	3,185	3,988	3,988	3,988	3,988	3,988	3,988	3,988	3,988
TOTAL LIABILITIES & EQUITY	482,847	944,659	1,081,782	1,346,971	1,454,855	1,696,646	1,970,397	2,274,427	2,610,458	2,931,737	3,282,581

Cash flow (VNDmln)

FY ended, 31 December	2006A	2007A	2008A	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Net profit (loss) before tax	87,060	128,312	145,025	214,172	249,044	283,479	317,873	353,133	389,938	427,705	465,611
Adjustments:											
Depreciation and amortisation	13,170	24,054	28,520	29,990	38,490	51,141	67,536	68,041	72,663	82,998	93,333
Financial expense	10,705	15,394	5,216	32,340	8,753	5,590	7,492	9,705	12,258	15,181	18,508
Financial income	1,130	(2,632)	24,696	(16,939)	(4,816)	(4,676)	(5,093)	(5,761)	(7,287)	(9,066)	(10,677)
Operating income (loss) before changes in WC	112,065	165,128	203,457	259,562	291,470	335,535	387,809	425,118	467,572	516,817	566,775
(Increase) decrease in ST investment	--	--	--	(13,884)	--	--	--	--	--	--	--
(Increase) decrease in receivables	(92,563)	(90,459)	(18,626)	(7,610)	(34,270)	(46,039)	(54,174)	(58,501)	(63,347)	(68,713)	(74,078)
(Increase) decrease in inventories	(8,531)	(108,426)	(77,957)	13,493	(40,228)	(53,984)	(63,809)	(69,418)	(75,702)	(82,675)	(89,745)
(Increase) decrease in other Current Assets	1,035	5,300	(53)	(893)	(920)	(1,236)	(1,454)	(1,570)	(1,700)	(1,844)	(1,988)
(Decrease) increase in payables	34,160	109,742	138,189	5,025	9,932	13,328	15,754	17,139	18,691	20,412	22,158
(Decrease) increase in accrued liabilities	--	--	--	--	--	--	--	--	--	--	--
(Decrease) increase in other current liabilities	967	1,406	3,464	2,214	13,473	18,100	21,298	22,999	24,904	27,013	29,123
(Decrease) increase in other LT liabitilites	(11,831)	(12,947)	(24,308)	814	--	--	--	--	--	--	--
(Decrease) increase in deferred tax	--	--	--	(29)	--	--	--	--	--	--	--
Tax paid	--	--	(24,404)	(21,417)	(24,904)	(28,348)	(31,787)	(35,313)	(38,994)	(106,926)	(116,403)
Financial expense	(10,297)	(15,977)	(4,654)	(32,340)	(8,753)	(5,590)	(7,492)	(9,705)	(12,258)	(15,181)	(18,508)
Net cash flows from operating activities	25,005	53,767	195,108	204,936	205,800	231,766	266,144	290,748	319,165	288,903	317,333
Capex	(104,450)	(104,510)	(25,812)	(50,000)	(85,000)	(150,000)	(155,000)	(90,000)	(90,000)	(90,000)	(90,000)
Financial income	(1,487)	(84,573)	12,724	16,939	4,816	4,676	5,093	5,761	7,287	9,066	10,677
(Increase) decrease in LT receivables	--	--	--	72	--	--	--	--	--	--	--
(Increase) decrease in property investment	--	--	--	--	--	--	--	--	--	--	--
(Increase) decrease in LT investment	--	--	--	36,582	--	--	--	--	--	--	--
(Increase) decrease in other LT assets	--	--	--	(3,049)	--	--	--	--	--	--	--
Net cash flows from investing activities	(105,937)	(189,083)	(13,088)	544	(80,184)	(145,324)	(149,907)	(84,239)	(82,713)	(80,934)	(79,323)
Share issues	--	398,761	--	--	--	--	--	--	--	--	--
Buy-back	--	--	(293)	--	--	--	--	--	--	--	--
Borrowings received	434,043	674,327	177,134	244,089	163,754	190,145	221,339	255,275	292,283	332,699	376,572
Borrowings repaid	(339,535)	(798,767)	(212,108)	(129,680)	(247,379)	(171,131)	(199,205)	(229,747)	(263,054)	(299,429)	(338,915)
Short term debt	--	--	--	(129,680)	(147,379)	(171,131)	(199,205)	(229,747)	(263,054)	(299,429)	(338,915)
Long term debt	--	--	--	--	--	--	--	--	--	--	--
Others	--	--	--	--	(100,000)	--	--	--	--	--	--
Dividend paid	(14,040)	(39,056)	(69,962)	(50,000)	(56,035)	(63,783)	(71,521)	(79,455)	(87,736)	(80,195)	(87,302)
Net cash flows from financing activities	80,468	235,265	(105,230)	64,409	(139,659)	(44,768)	(49,388)	(53,928)	(58,508)	(46,925)	(49,645)
Net increase (decrease) in cash	(464)	99,949	76,791	269,890	(14,043)	41,673	66,849	152,582	177,944	161,045	188,365
Cash at beginning	35,466	35,002	134,951	211,742	481,632	467,588	509,262	576,111	728,692	906,636	1,067,681
Impact of exchange rate	--	--	--	--	--	--	--	--	--	--	--
Cash at the end of year	35,002	134,951	211,742	481,632	467,588	509,262	576,111	728,692	906,636	1,067,681	1,256,047

Ratio analysis

FY ended, 31 December	2006A	2007A	2008A	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Revenue Growth (%)	N/A	46.54%	17.03%	2.19%	13.04%	15.50%	15.79%	14.73%	13.90%	13.24%	12.60%
Gross Margin (%)	53.50%	52.67%	53.25%	52.54%	52.29%	52.03%	51.78%	51.52%	51.27%	51.02%	50.76%
SG&A Margin (%)	(42.47%)	(41.69%)	(42.10%)	(37.40%)	(37.54%)	(37.68%)	(37.82%)	(37.96%)	(38.10%)	(38.24%)	(38.38%)
Operating Margin (%)	11.04%	10.98%	11.15%	15.14%	14.74%	14.35%	13.96%	13.56%	13.17%	12.77%	12.38%
EBITDA Margin (%)	12.56%	12.87%	13.07%	17.11%	16.99%	16.93%	16.90%	16.15%	15.59%	15.22%	14.82%
Interest Margin (%)	9.82%	10.11%	9.76%	14.11%	14.51%	14.30%	13.85%	13.41%	13.00%	12.59%	12.18%
Net Margin (%)	9.82%	9.07%	8.51%	12.70%	13.06%	12.87%	12.47%	12.07%	11.70%	9.45%	9.13%
Adjusted Net Margin (%)	9.76%	8.62%	7.00%	11.58%	12.78%	12.64%	12.24%	11.85%	11.46%	9.18%	8.85%
Adjusted Net Income Growth (%)	N/A	29.35%	(4.88%)	69.02%	24.75%	14.19%	12.19%	11.06%	10.13%	(9.30%)	8.60%
Accts Receivable (days)	51.1	60.9	63.0	62.3	59.5	58.9	58.9	59.1	59.3	59.5	59.6
Accts Payables (days)	15.8	22.5	32.4	35.6	34.7	34.3	34.3	34.4	34.5	34.6	34.7
Inventory Turnover days	106.3	106.8	141.5	152.7	140.4	139.0	138.8	139.4	139.9	140.3	140.6
Current Ratio (x)	0.02x	0.01x	0.02x	0.01x	0.02x	0.02x	0.02x	0.02x	0.02x	0.02x	0.02x
Debt to Capitalization (%)	63.30%	27.99%	31.15%	33.97%	26.41%	24.96%	23.83%	22.90%	22.15%	21.92%	21.75%
Debt to Equity (%)	172.45%	38.87%	45.25%	51.45%	35.89%	33.26%	31.28%	29.70%	28.45%	28.07%	27.79%
Assets Turnover Ratio (x)	1.79x	1.34x	1.37x	1.13x	1.18x	1.17x	1.16x	1.16x	1.15x	1.16x	1.16x
Return on Assets (%)	17.62%	16.13%	12.47%	15.87%	16.00%	16.19%	15.60%	14.97%	14.37%	11.58%	11.24%
Return on Equity (%)	49.91%	28.47%	18.94%	25.12%	24.29%	23.14%	21.92%	20.75%	19.69%	15.77%	15.28%

Appendix 1: Market Survey Research

DHG brandname	Main Ingredients	Price per unit	Competed Brands	Producers		Price per unit
Klamentin 625mg	Amoxcilin	6,500	Ofmantine	Domesco	L	6,200
(film coated tab)	Acid Clavulanic		Augbactam	Mekopharm	L	4,500
			Claminat 625 mg	Imexpharm	L	5,276
			Augmentin 626mg	GSK	F	15,000
			Enhancin	Ranbaxy	F	10,000
			Curam 626mg	Norvatis	F	11,500
Haginat 500mg	Cefuroxime	12,000	Zinmax	Domesco	L	12,000
(film coated tab)			Zanimex	Imexpharm	L	11,813
			Quincef	Mekopharm	L	5,900
			Euzimnat	Mebipharm	L	7,020
			Alurix	Glenmark	F	15,000
			Zinnat 500mg	GSK	F	25,000
Haginat 250mg	Cefuroxime	10,000	Zinnat 280mg	GSK	F	12,000
(film coated tab)			Alurix 280mg	Glenmark	F	13,000
			Xorimax 250mg	Sandoz	F	11,000
Hapacol 500	Paracetamol	300	Acetaphen 500	OPV	L	350
(film coated tab)			Dopamol 500	Domesco	L	320
			Glotadol	Glomed	L	300
			Biogesic	United Pharma	F	450
			Panadol 500	GSK	F	540
			Temol	Sandoz-Imexpharm	F	450
Eugica	Eucalyptol	400	Acetylcystein	Duoc Cuu Long	L	300
(softgel)	Menthol		Acetylcystein	Imexpharm	L	300
			Tragutan	F.T. pharma (3/2)	L	400
			Acodine	Sanofi Aventis	F	550
Bromhexin 8mg	Bromhexin hydroclo	100	Bromhexin	Domesco	L	90
(tablet)			Bromhexin 3/2	F.T. pharma (3/2)	L	80
			Bromhexin	Pharimexco	L	110
			Bromhexin	TW1	L	90
			Bromhexin	Meyer-BPC	F	120
			Bisolvon	Boehringer Ingelheim	F	315
Davita Bone	Canxi	2,000	Cal-D-Vita	Bayer Consumer Care	F	3,850
(efferverscent tab)	Vitamin D3		Calcium Hasan	Hasan - Dermapharm	F	4,000
			Calcium Sandoz 500	Novartis	F	3,000
			Calcium Corbiere	Sanofi	F	2,333
Unikids	Ca, panthenol	500	Kiddi pharmaton	Boehringer Ingelheim	F	915
(syrup)	Phospho, B2, B6, E,	per ml				per ml
Eyelight eye	Tetrahydrozoline HC	20,000	Viotto	Ca Mau	L	8,000
(drop)		per bottle	V.Rohto	Rohto-Mentholatum	F	30,000
Glumeform 850mg	Metformin	2,000	Glucofast 850mg	Mebiphar	L	950
(film coated tab)			Glucoform 850mg	OPV	L	1,500
			Dianetmin 850mg	malaysia	F	2,100
			Megluton 850mg	Hexal	F	2,000
			Glucophage 850 mg	Merck Sante	F	3,200
Glumeform 500mg	Metformin	1,000	Glucofast 500mg	Mebiphar	L	600
(film coated tab)			Glucofine 500mg	Domesco	L	500
			Glucoform 500mg	OPV	L	1,000

Horizon Securities' Rating System

Under our rating system, each stock is given a two-part rating, which indicates the following:

Investment Ratings

- Buy (1)
- Neutral (2)
- Underperform (3)

Risk Ratings

- Low (L)
- Medium (M)
- High (H)
- Speculative (S)

Our Analyst's Methodology

Price objective and expected total return
Initially, an analyst derives an expected 12-month price objective using multiple valuation methodologies (as specified in the Valuation section of the research). The current market price is then compared with the price objective to calculate an expected gain or loss. The one-year projected dividend yield, if any, is then added to the expected gain or loss to calculate an expected total return.
Risk rating
The analyst then assesses the risk of a stock based on various quantitative and fundamental factors that relate to the stock's local market/country (as specified in the Risk section of the research). We categorize risk as Low, Medium, High or Speculative.
Ratings-Risk-Return Matrix
Finally, based on both the expected total return and risk rating, an investment rating is established using our ratings-risk-return matrix (below). We categorize investment ratings as Buy, Neutral or Underperform. All published research contains a Valuation and Risk section where analysts must discuss how they derived their price objectives and risk ratings. Investors are encouraged to read this section for a detailed description.
Expected Total Returns Ratings-Risk-Return Matrix

	LOW Risk	MEDIUM Risk	HIGH Risk	SPECULATIVE
BUY (1)	R ≥10	R ≥15	R ≥20	R ≥35
NEUTRAL (2)	0 < R < 10	5 < R < 15	10 < R < 20	15 < R < 35
UNDERPERFORM (3)	R ≤0	R≤5	R ≤10	R ≤15

R = Expected Total Return (12 months) = [(Price Objective - Current Price)/Current Price] + Forecast 12-month Dividend Yield.
These benchmarks are subject to change.

Important Disclosures

Guide to Investment Ratings:
Horizon Securities' stock recommendations include a risk rating and an investment rating.
Risk ratings, which take into account both price volatility and fundamental criteria, are: Low [L], Medium [M], High [H] and Speculative [S].
Investment ratings are a function of Horizon Securities' expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Investment ratings are:
Buy [1] (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); **Neutral [2]** (0% - 10% for Low-Risk stocks, 5% - 15% for Medium-Risk stocks, 10% - 20% for High-Risk stocks, and 15% - 35% for Speculative stocks); and **Underperform [3]** (negative total return for Low-Risk stocks, 5% or less for Medium-Risk stocks, 10% or less for High-Risk stocks and 15% or less for Speculative stocks).

Disclaimer

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