

**Pharmaceutical**

Company visit note

Apr, 2015

Recommendation	-
Target price (VND)	-
Market price (08/4/2015)	23,900
Expected profit	-

**SHARES INFORMATION**

Trading exchange	HSX
52-week price range	19,100-30,100
Market cap	329 bil VND
Outstanding shares	13,770,000 Shares
10-day average volume	3,012 Shares
% foreign owned	6.9%
Foreign room	49%
Dividend per share	-
Dividend yield	-
Beta	0.47

**PRICE MOVEMENTS**


	YTD	1M	3M	6M
SPM	9.6%	-10.5%	-14.3%	-5.9%
VN-Index	-7.6%	-6.9%	-0.8%	-10.8%

Analyst

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# S.P.M Corporation

Ticker: SPM

Reuters: SPM.HM

Bloomberg: SPM VN

## Product restructuring expected to generate net profit growth rate of 30%, at vnd52b in 2015

### 2014 Operating results – net revenue growth of 26.43%

**Net revenue reached VND557 billion in 2014, up 26.43% yoy.** Vitamin and minerals-rich product line branded VyVita generated the biggest revenue for SPM. However, the proportion of this product in revenue decreased from 41.7% in 2012 to 28.26% in 2013.

**Revenue came from two main segments: production (52%) and distribution (47%).** The profit margin of the distribution segment was only 10%, but it helped expand market for SPM's products later.

**Working capital was limited due to customer focus and repayment period of up to 6 months.** 70% of SPM products was bought by its major shareholder Do Thanh Co., Ltd. with time of payment up to 6 months. SPM explained that as Do Thanh Co. supplies products mainly to hospitals (ETC) with longer time of payment than through pharmaceutical stores (OTC).

**Net profit was VND132.5 billion, up 103% yoy.** The profit surge is understandable as SPM incurred a loss of VND12.25 billion from the divestment of capital in Huu Nghi Technical JSC in 2013.

### 2015 Prospects – Profit growth will be driven by product catalog restructuring

**SPM has many plans to restructure its current product catalog in 2015.** SPM said that it would reduce the number of distributed products and increase new products related to cancer prevention, beauty products (collagen) and digestion and diabetes products.

**Cancer-prevention product named Oncostat is expected to generate high revenue in 2015.** This product is sold at about VND2 million for one 60-tablet box, distributed primarily through hospitals (ETC), expected to bring a gross profit margin of 30% for SPM. In 2014, this product was launched in the market, with sales in the first 9 months of 2014 reaching VND20 billion.

**The dependence on borrowed capital to supplement working capital affects the growth of SPM.** SPM was greatly influenced by non-core investments in the past and so far unable to shed an investment of VND35 billion in two quarries in Ha Tinh and Yen Bai provinces or a real estate project in Long Truong. With frozen capital in non-core projects, SPM has insufficient capital for its core-business projects, thereby affecting its growth plans. According to the company, the two quarry projects have been invested by a foreign partner for mining and are expected to

generate revenue for SPM in 2016. However, SPM is consistent with its goal to shed investment in non-core business fields to focus on its core business lines.

**With its product catalog restructuring and expectedly improved profit margin, SPM is forecast to record profit of VND52 billion in 2015, up 30% yoy, equivalent to an EPS of VND3,790 and a forward P/E at 6.3x, much lower than the industry average of 10.9x.**

- **Investment recommendation.** Given its restructuring plans, reduction of product distribution as well as positive information about non-core divestments while SPM is trading at less than half of its book value and at an attractive forward P/E of 6.3x, we see good opportunities for investment in SPM.

However, investors should note the following issues:

- ✓ Concerns about the allocation of profits as its largest shareholder Thanh Co., Ltd. Co. is now the largest customer (70% of SPM's self-produced products).
- ✓ Cash flows for operating activities depend mainly on short-term loans.
- ✓ Troubles related to the agreement between SPM and Song Da Urban & Industrial Zone Investment & Development JSC (SJS) in developing Long Truong – SUDICO urban area project.
- ✓ Low liquidity of shares.

**Company visit note**
**OWNERSHIP INFORMATION**

State owned	0%
Foreign owned	6.9%
Others	93.1%

**MAJOR SHAREHOLDERS**

Dao Huu Hoang	38.97%
Dang Ngoc Ho	9.4%

**FINANCIAL RATIOS**
**Profit and loss statement**

Unit (VND billion)	2010	2011	2012	2013	2014
Revenues	350	322	430	441	558
Cost of goods sold	231	224	335	357	424
Gross profit	119	98	95	84	134
Financial income	69	29	42	15	6
Financial expenses	14	24	23	30	25
Net income	131	60	65	18	36

**Balance sheet**

Unit (VND billion)	2010	2011	2012	2013	2014
Cash and cash equivalents	7	9	11	6	1
Accounts receivable – short-term	297	235	418	519	569
Inventories	26	44	42	38	53
Tangible fixed assets	424	412	399	384	380
Long-term investments	105	182	118	71	71
<b>Total assets</b>	<b>985</b>	<b>1,043</b>	<b>1,116</b>	<b>1,118</b>	<b>1,159</b>
Short-term loans	90	148	150	157	173
Long-term debt	-	-	-	-	-
Owners' equity	602	590	655	659	694
<b>Total resources</b>	<b>985</b>	<b>1,043</b>	<b>1,116</b>	<b>1,118</b>	<b>1,159</b>

**Financial ratios**

Items	2010	2011	2012	2013	2014
<b>Growth</b>					
Revenue growth (%)	37.3%	-7.9%	33.5%	2.6%	26.4%
Net profit growth (%)	110.3%	-54.6%	8.6%	-73.0%	104.0%
<b>Yield</b>					
Gross profit margin (%)	33.9%	30.4%	22.0%	19.1%	24.0%
Net profit margin (%)	37.5%	18.5%	15.1%	4.0%	6.4%
ROA (%)	17.9%	5.9%	6.0%	1.6%	3.1%
ROE (%)	31.1%	10.0%	10.4%	2.7%	5.3%
<b>Capital structure</b>					
Total liabilities to total asset (%)	0.39	0.43	0.41	0.41	0.40
Total liabilities to owners' equity (%)	0.63	0.77	0.70	0.70	0.67
<b>Per shares</b>					
EPS (VND/share)	9,371	4,258	4,624	1,250	2,550
Book value (VND/share)	43,016	42,175	46,799	47,050	49,576

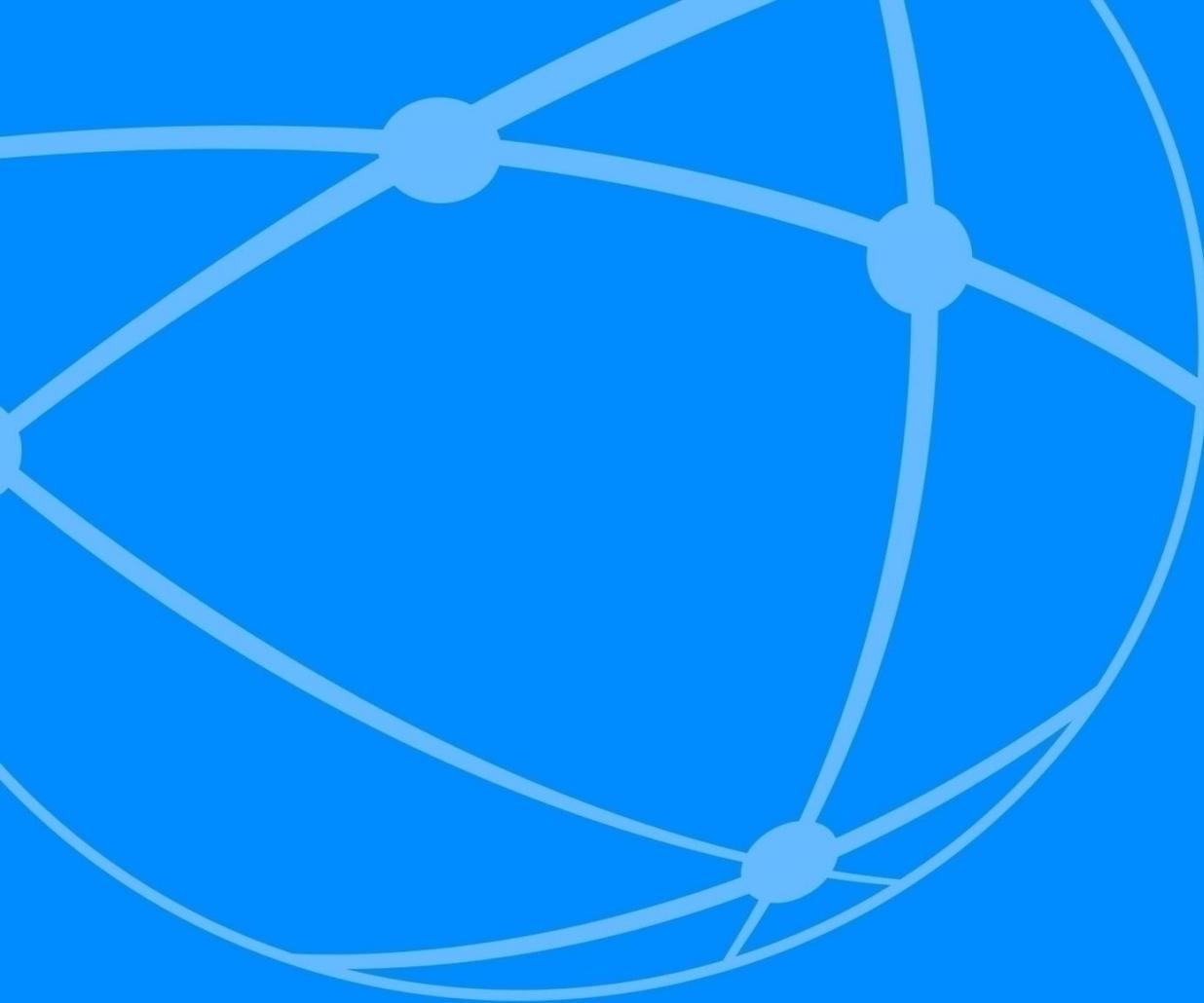
## REPORT COMMENTARY

**Target price** is the analyst's valuation based on analysis of the company's business performance, potentials, development prospects and potential risks to determine the share price. Valuation methods commonly used include discounted cash flow (FCFE, FCF, DDM); NAV-based valuation; comparative indicators (P/E, P/B, EV/EBIT, EV/EBITDA...). Selecting any method will depend on each industry, company and share features. Market sentiment also can affect the valuation of the target price.

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BVSC's recommendation system is based on the increase/decrease of the share price to the target price. There are three levels of recommendation with the corresponding difference in magnitude from low to high. Investors should be noticed that investment recommendations can be changed at the end of each quarter after BVSC's corporate reappraisal.

Recommendation levels	
Recommendation	Explanation
OUTPERFORM	Target price above 15% higher than market price
NEUTRAL	Target price between 0% and 15% higher than market price
UNDERPERFORM	Target price lower than market price



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