



GENERIC DRUG INDUSTRY OF BANGLADESH

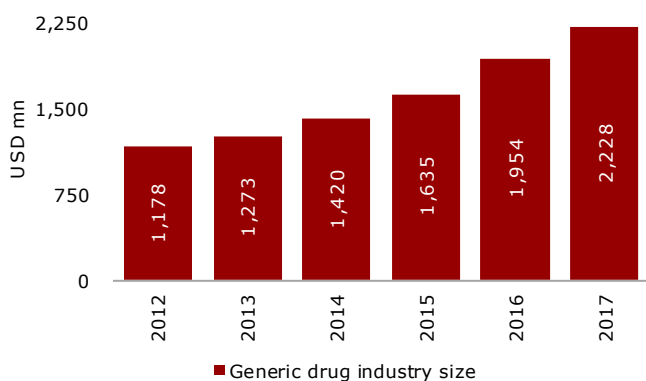
INDUSTRY OVERVIEW - GENERIC DRUG INDUSTRY

Generic drugs industry grew at an annual average rate of 15.4%

Global Pharmaceutical market was valued at USD 1,140bn in 2017 whereas global generic drugs market was valued at USD 350bn. Global generic drugs market is growing at a faster rate than Global pharmaceutical market mainly due to two factors a) increasing government pressure around the world to reduce healthcare cost, b) increasing number of blockbuster drugs are going off patent every year.

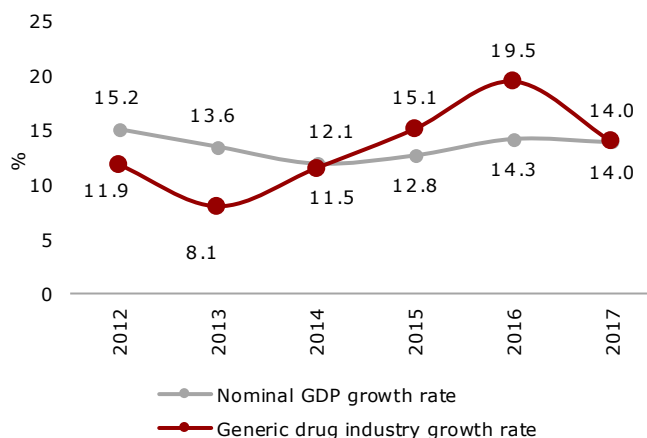
Generic drugs industry of Bangladesh was valued at USD 2,228mn in 2017. Generic drugs manufacturers of Bangladesh satisfy 97.0% of the local demand. Bangladesh imports vaccines, anti-cancer products, hormone and some specialized drugs etc. which cannot be manufactured locally. The country registered '7% plus' real GDP growth rate in each of the last three financial year. Pharmaceutical sector's growth exceeded GDP growth rate in the same period.

Generic drugs industry size of Bangladesh



Source: Bangladesh Association of Pharmaceuticals Industry (BAPI)

Nominal GDP vs. generic drug industry growth rate



Source: Bangladesh Bureau of Statistics (BBS), Annual Report

Generic drugs manufacturers of Bangladesh produce 3,622 generic drugs with different forms of dosages

Generic drugs manufacturers of Bangladesh produce 3,622 generic drugs with different forms of dosages. Generic drugs produced in Bangladesh has the same quality and composition but cheaper due to low labour cost and TRIPS exemption. The industry registered an annual average growth rate of 16.2% during 2007-2017.

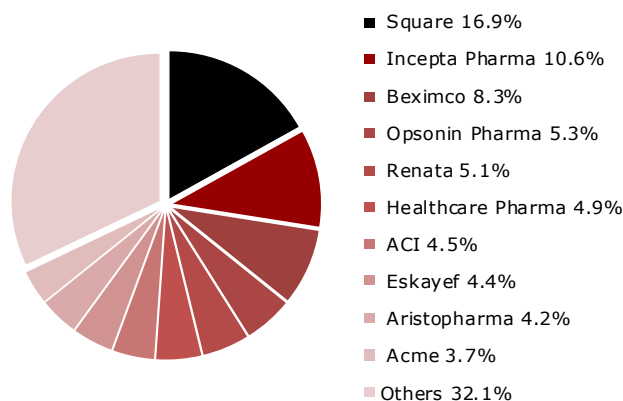
Top ten generic drugs of Bangladesh

Rank	Name	Company	Category
1	SECLO	Square Pharma	GERD*
2	SERGEL	Healthcare Pharma	GERD
3	MAXPRO	Renata	GERD
4	PANTONIX	Incepta Pharma	GERD
5	CEF-3	Square Pharma	Antibiotics
6	MIXTARD	Novo Nordisk	Insulin
7	NAPA EXTRA	Beximco Pharma	Antipyretic
8	LOSECTIL	Eskayef	GERD
9	NAPA	Beximco Pharma	Antipyretic
10	EXIUM	Radiant Pharma	GERD

*GERD - Gastroesophageal reflux disease

Source: IMS

Market share of generic drug manufacturers of Bangladesh



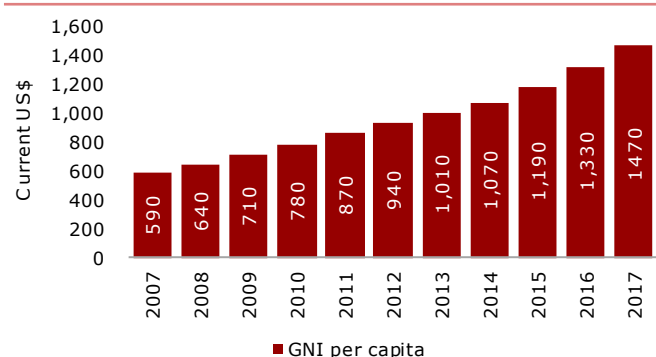
Source: IMS

INDUSTRY OVERVIEW - GENERIC DRUG INDUSTRY

Increasing spending on healthcare by government and public would spur the demand of generic drugs: Generic drug market, contributing 2.0% to GDP, has been one of the success stories of Bangladesh in last three decades. Increasing income level and demographic change are the two main factors behind the rising healthcare expenditure.

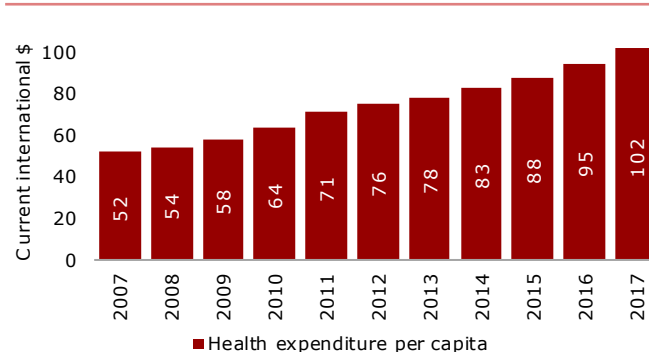
In FY18, government of Bangladesh spent BDT 210bn in health and family welfare sector and the amount is increasing every year. GNI per capita of Bangladesh grew at an annual average rate 9.2% over 2007-2017 while healthcare expenditure per capita grew at an annual average rate of 7.4% during the same period under review. Despite government support, per capita spending on healthcare in Bangladesh is very low compared to other Asian and lower middle income countries. We view that healthcare expenditure per capita would continue to rise, mainly attributable to rising income level, improving educational level and increasing health awareness.

GNI per capita (Atlas Method)



Source: World Bank database

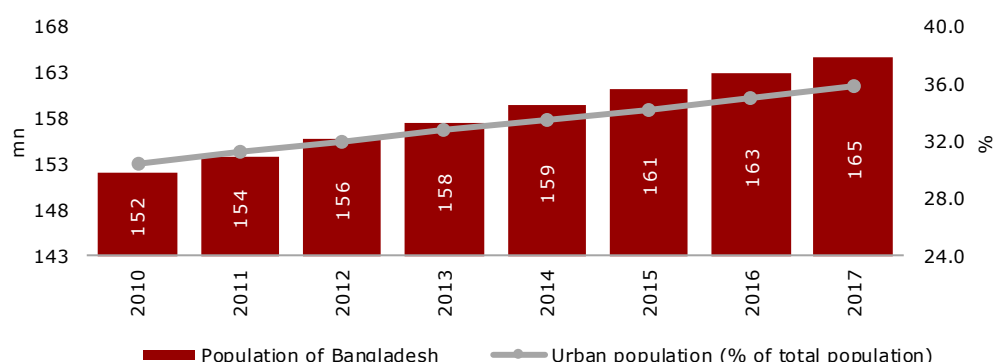
Health expenditure per capita



Source: World Bank database

Urban population of Bangladesh is growing at faster rate than overall population of Bangladesh. Population of Bangladesh grew at an annual average rate of 1.1% during 2011-17 whereas urban population grew at a rate of 3.5% during the same period. Urban population comprised 35.9% of the total population in 2017. People living in the city have higher purchase power and also more health conscious than the rest.

Population of Bangladesh & Urban population % of total population

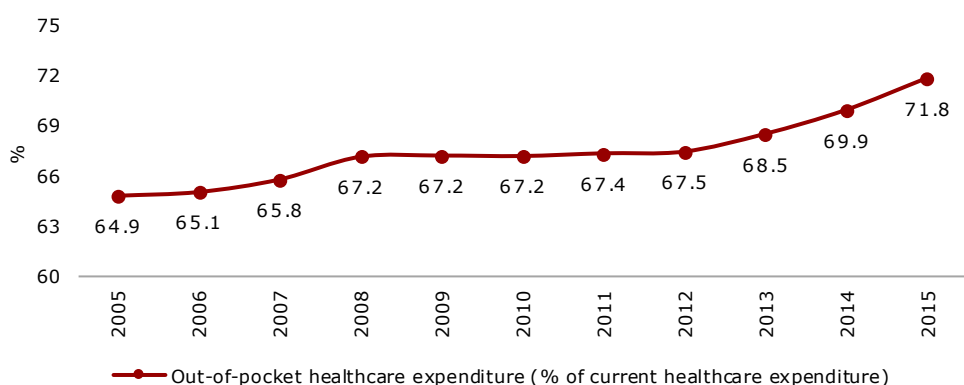


Source: World Bank database

High out-of-pocket expenditure in purchasing drugs is the most distinctive feature in Bangladesh. Out-of-pocket health expenditure was 71.8% of total healthcare expenditure in 2015. So more than two third of the healthcare cost is paid by the people personally whereas the global standard is less than 32.0%. Nearly, 62.0% of the healthcare expenditure is attributable to purchasing drugs and medical consultations.

INDUSTRY OVERVIEW - GENERIC DRUG INDUSTRY

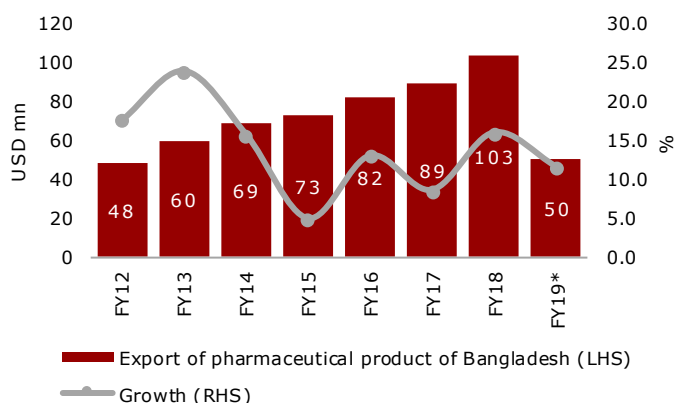
Out-of-pocket healthcare expenditure (% of current healthcare expenditure)



Source: World Bank database

Generic drugs manufacturers has yet to tap full potential of exporting drugs: Currently, Bangladesh exports pharmaceutical products to 199 countries. Over the last two decades ~1,200 pharmaceutical products received registration for export. Export grew at a CAGR of 11.6% during FY13-18. Export growth of Bangladeshi pharmaceutical products can be explained by growing demand of generic drugs in international market, competitive pricing and high product quality.

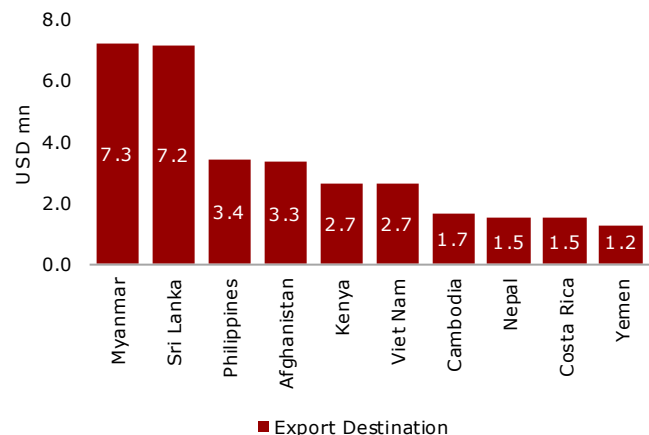
Pharmaceutical product export and growth - Bangladesh



*Export of FY19 represent total pharma export of first six month

Source: Export Promotion Bureau of Bangladesh (EPB)

Export destination of pharmaceutical products - 6MFY19



Source: Export Promotion Bureau of Bangladesh (EPB)

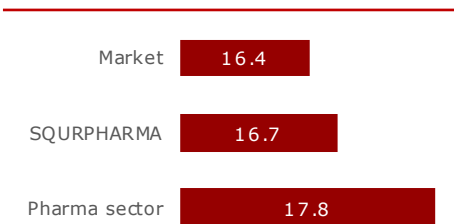
During the first six month of FY19, Bangladesh exported USD 50mn worth of pharmaceutical products. Southeast Asia and Africa are the major export destination of pharmaceutical products. The major export markets for generic drugs manufacturers of Bangladesh are Myanmar, Sri Lanka, Philippines, Afghanistan, Kenya etc. Total export sales of pharmaceutical products is still very low. Export volume is less than 5.0% of total sales and only the large pharmaceutical companies get bulk orders.

Export should have been contributed more in sales considering the competitive edge local manufacturers have in producing generic drugs. Extensive focus on grabbing domestic market and stringent policy imposed by the developed countries in importing drugs are the primary two reasons behind the low export of pharmaceutical products. On the brighter side, leading generic drugs manufacturers of Bangladesh have increased their focus on regulated market i.e. USA and Europe. Top pharmaceutical companies of Bangladesh i.e. SQUARE, Incepta, Beximco Pharma have already received approval from USFDA to export drugs to USA.

QUARTERLY PERFORMANCE OF LISTED PHARMACEUTICALS COMPANIES

Square Pharmaceuticals Limited

P/E (x)

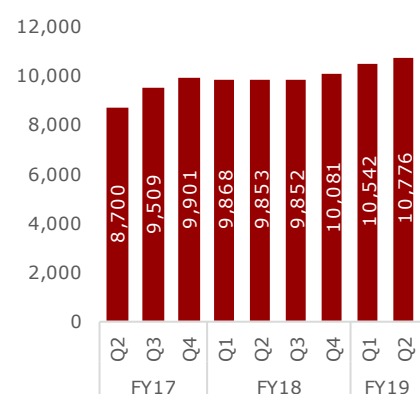


Source: DSE

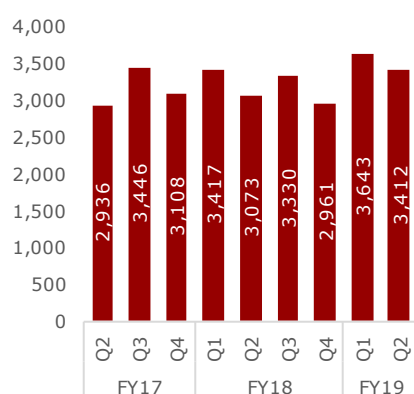
Revenue grew 9.4% YoY and 2.2% QoQ in 2QFY19. This growth was mainly driven by moderate growth in domestic sales (up 8.3%) during the period. Revenue from export decreased by 3.5% during 6MFY19. Selling and administrative expenses increased by 15.5% YoY as Square has been heavily spending on its salesforce to strengthen its position in generic drug market. We expect that investment in salesforce would positively affect the top-line in the upcoming quarters.

Net profit grew 9.5% YoY. However, ROA and ROE decreased by 230 and 280 bps.

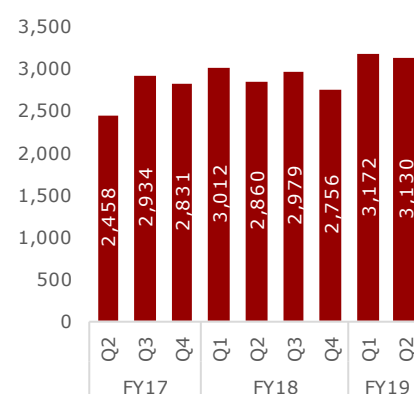
Revenue (BDT mn)



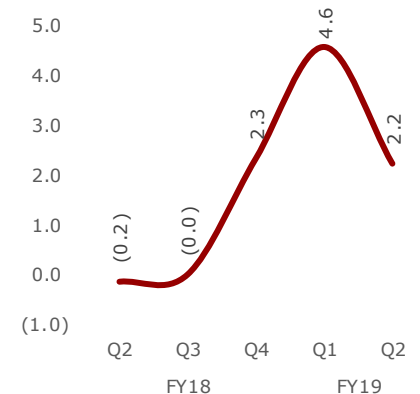
Operating Profit (BDT mn)



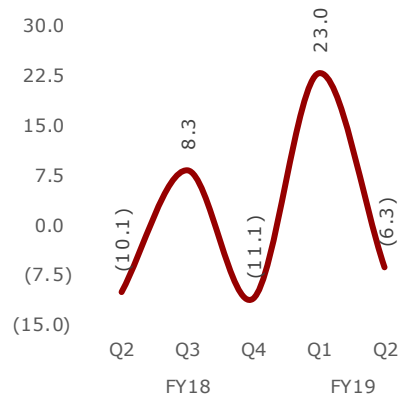
Net Profit (BDT mn)



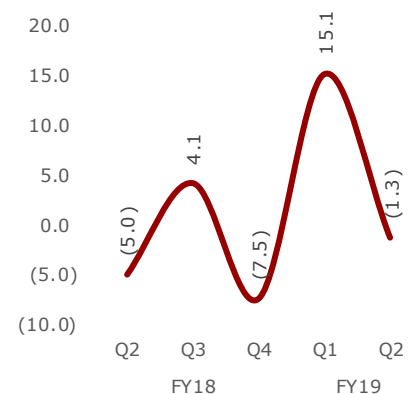
Revenue growth % (QoQ)



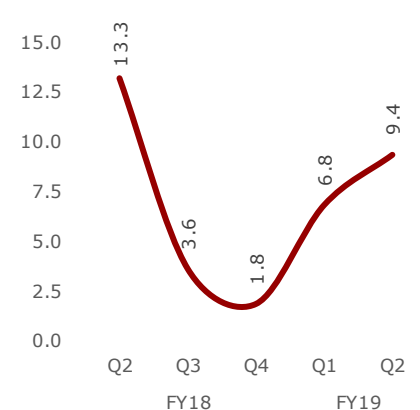
Operating Profit growth % (QoQ)



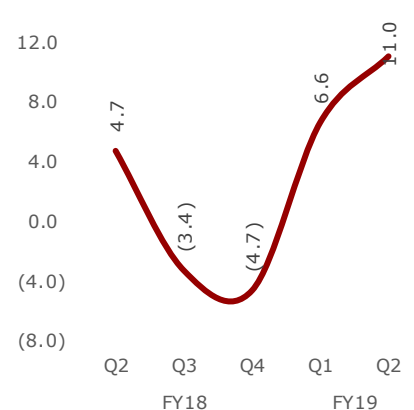
Net Profit growth % (QoQ)



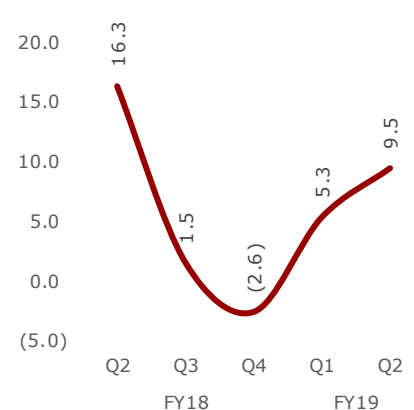
Revenue growth % (YoY)



Operating Profit growth % (YoY)



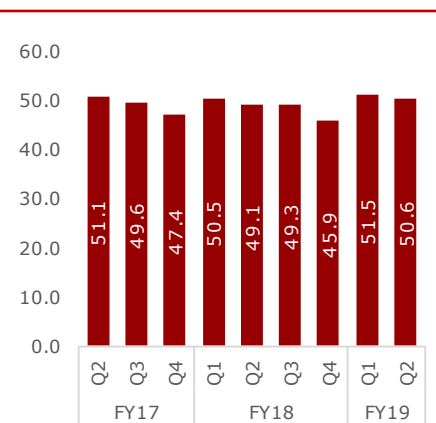
Net Profit growth % (YoY)



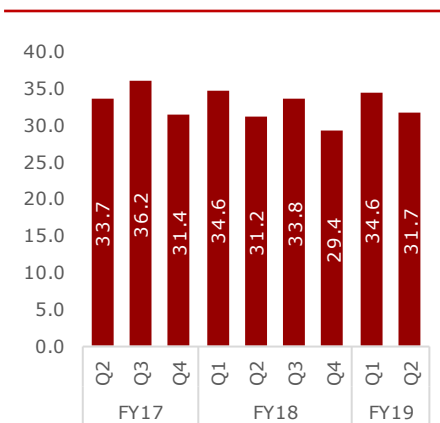
QUARTERLY PERFORMANCE OF LISTED PHARMACEUTICALS COMPANIES

Square Pharmaceuticals Limited

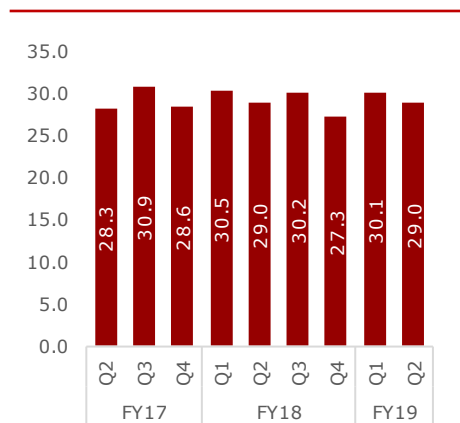
Gross profit margin %



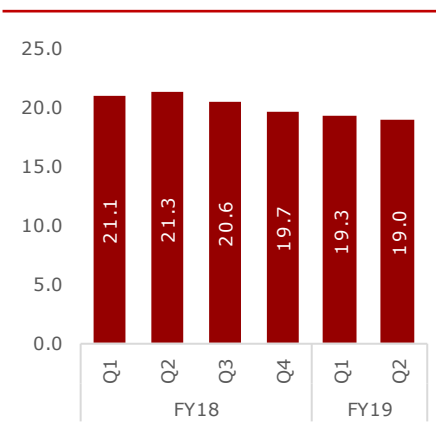
Operating Profit margin %



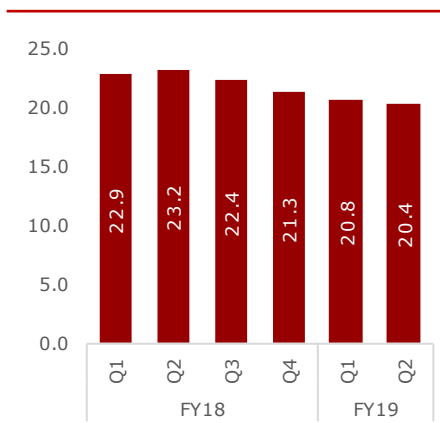
Net Profit margin %



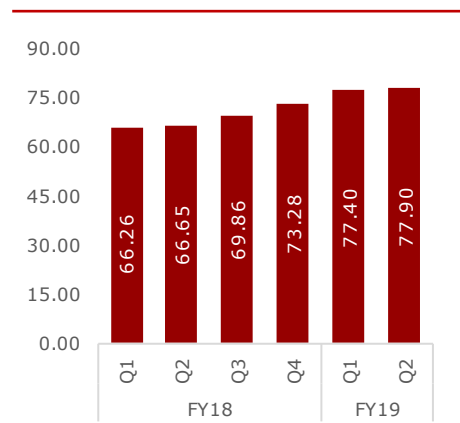
ROA %



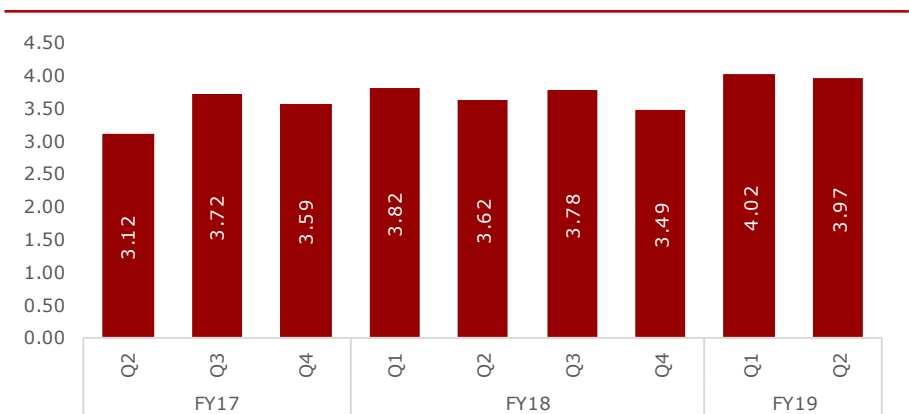
ROE %



Book value per share (BDT)



EPS (BDT)

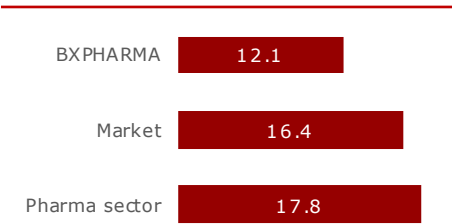


Source: Quarterly & Annual Report

QUARTERLY PERFORMANCE OF LISTED PHARMACEUTICALS COMPANIES

Beximco Pharmaceuticals Limited

P/E (x)



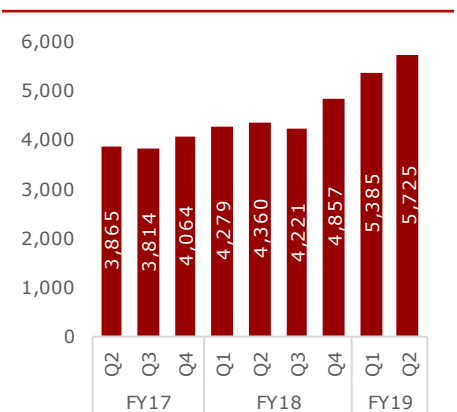
Source: DSE

BXPHARMA posted a solid performance in 2QFY19 with a revenue of BDT 5,725mn, an increase of 31.3% compared to the same period of the previous year.

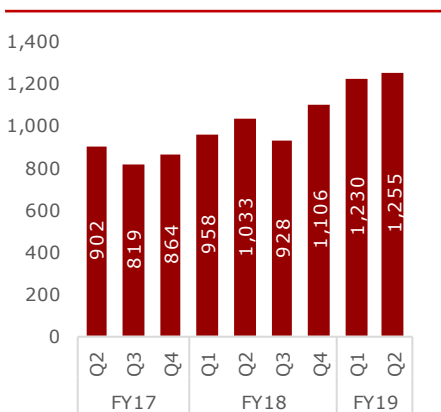
Gross profit, operating profit and net profit after tax grew by 31.1%, 21.4% and 9.0% respectively. Net profit margin has decreased by 260 basis point to 12.8%. Net profit margin has declined as interest expenses increased during this period (BDT 253mn vs BDT 100mn).

BXPHARMA currently has some ongoing projects at hand. Unit III (oral solids, semi-solids and liquids) is expected to be fully operational by the end of 2019.

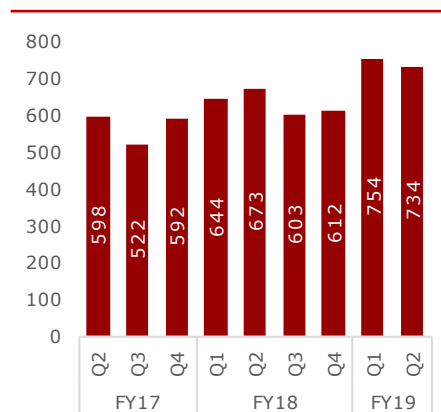
Revenue (BDT mn)



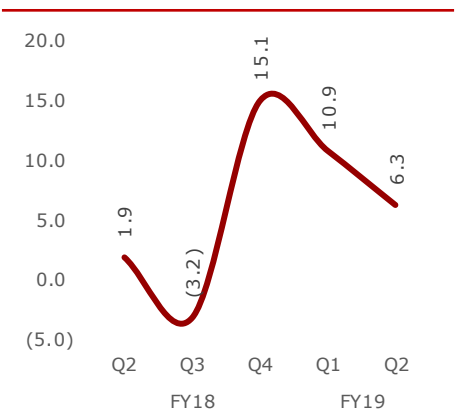
Operating Profit (BDT mn)



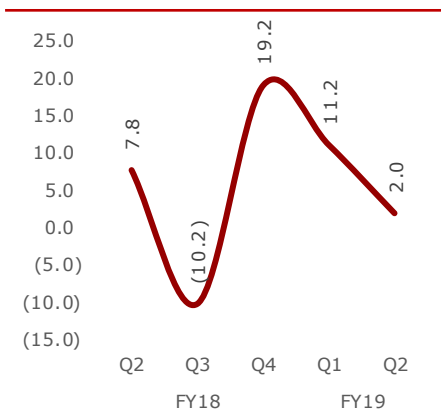
Net Profit (BDT mn)



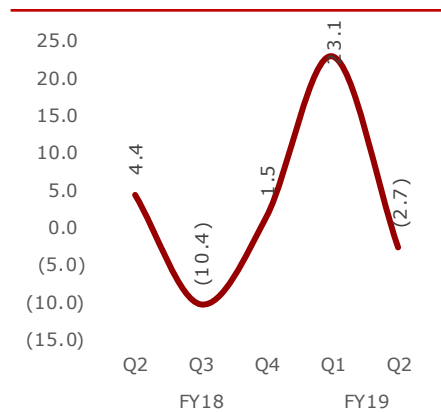
Revenue growth % (QoQ)



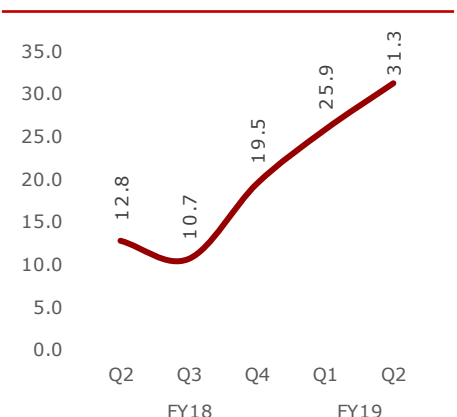
Operating Profit growth % (QoQ)



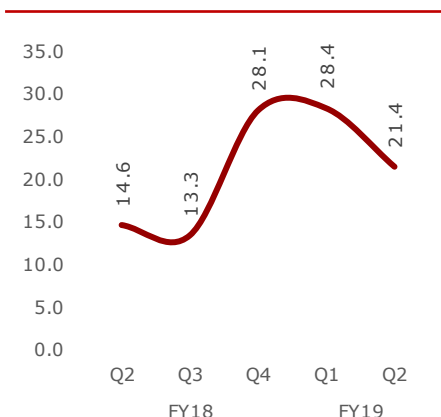
Net Profit growth % (QoQ)



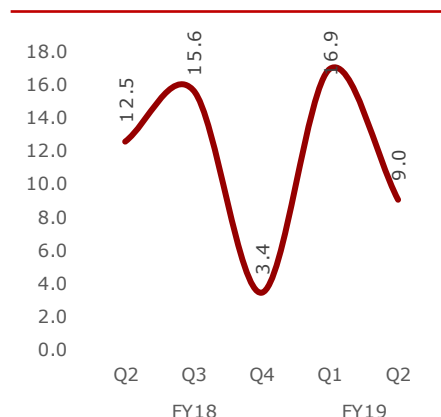
Revenue growth % (YoY)



Operating Profit growth % (YoY)



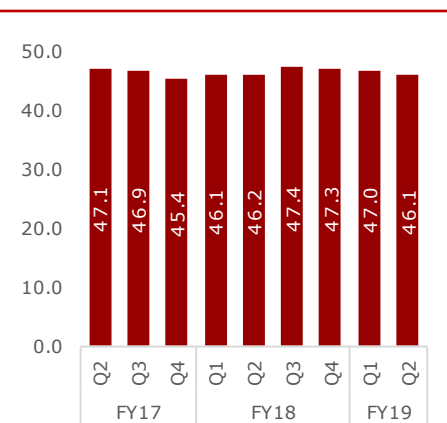
Net Profit growth % (YoY)



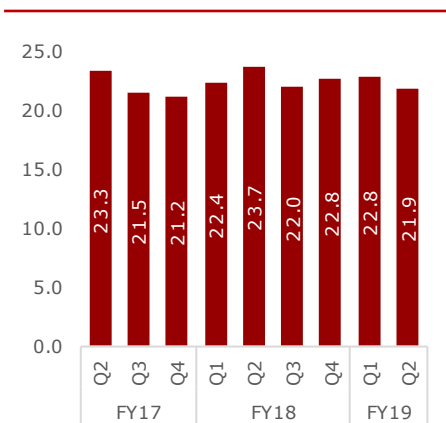
QUARTERLY PERFORMANCE OF LISTED PHARMACEUTICALS COMPANIES

Beximco Pharmaceuticals Limited

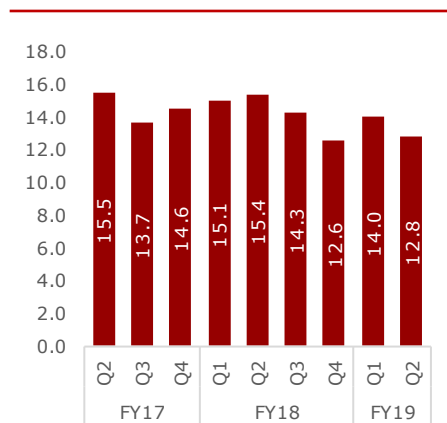
Gross profit margin %



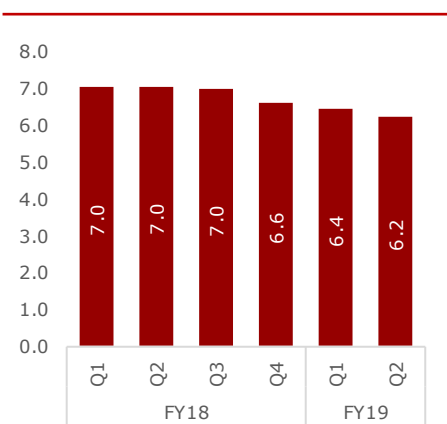
Operating Profit margin %



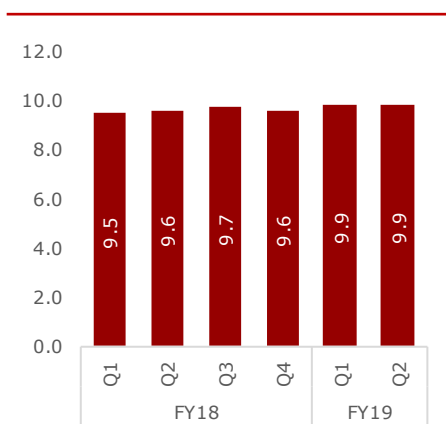
Net Profit margin %



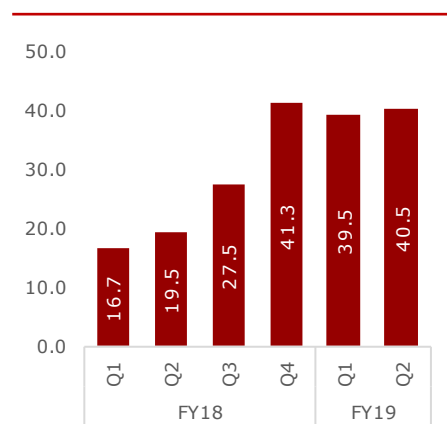
ROA %



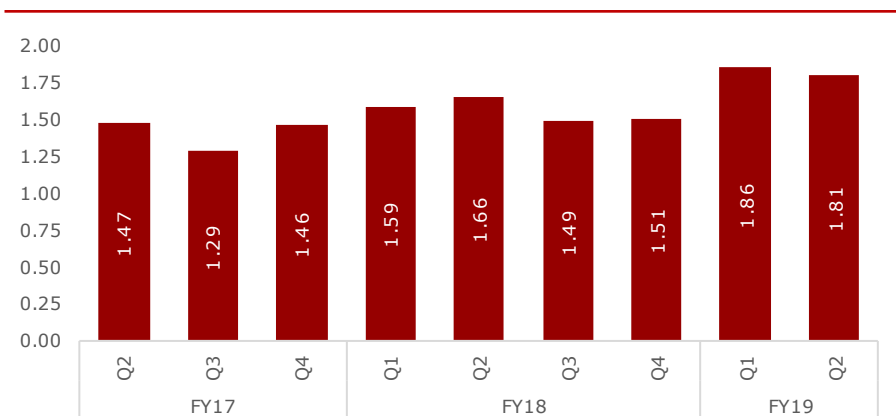
ROE %



Debt-to-equity ratio %



EPS (BDT)

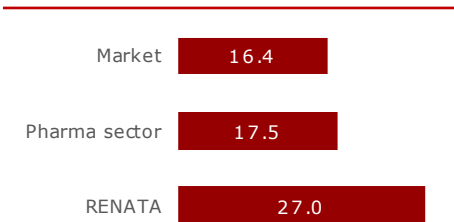


Source: Quarterly & Annual Report

QUARTERLY PERFORMANCE OF LISTED PHARMACEUTICALS COMPANIES

Renata Limited

P/E (x)

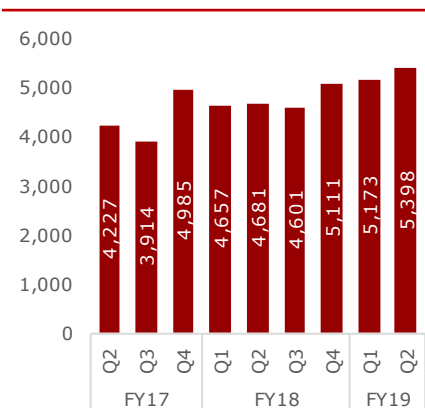


Source: DSE

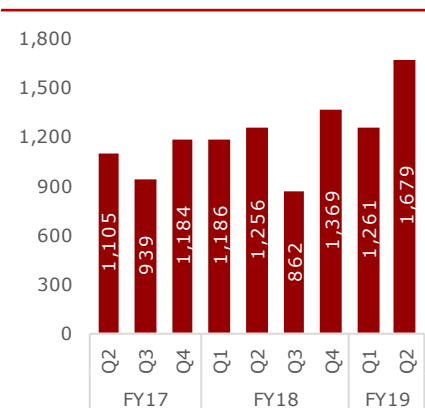
Revenue grew 15.3% YoY during 2QFY19, mainly attributable to 17.0% YoY growth in pharmaceutical segment. Pharmaceutical segment contributed 87.3% in total revenue in 2QFY19. The other two revenue generating segments, animal health and contract manufacturing & exports, experienced subdued performance during the period under review.

Operating profit margin increased by 430 basis point to 31.1%. Interest expenses decreased by more than half YoY to BDT 54mn in 1HFY19. Net profit after tax grew 22.3% YoY during 2QFY19 – EPS stood at BDT 10.62 during 2QFY19 against BDT 8.68 during 2QFY18.

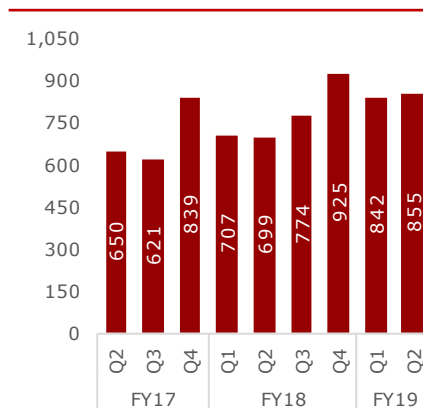
Revenue (BDT mn)



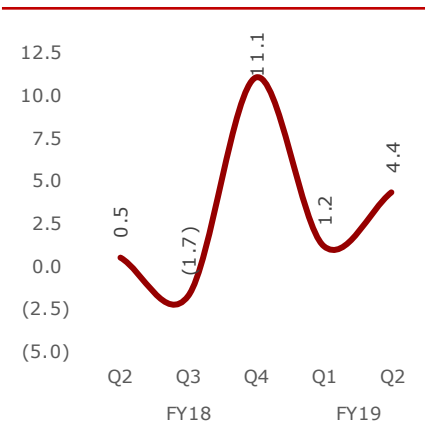
Operating Profit (BDT mn)



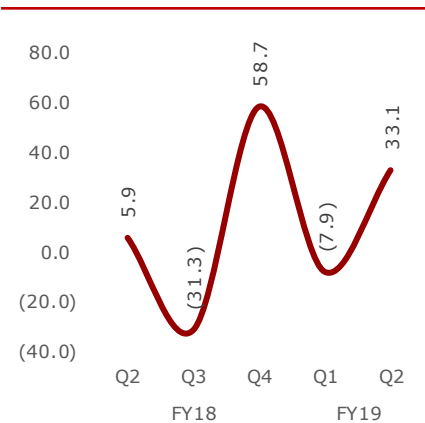
Net Profit (BDT mn)



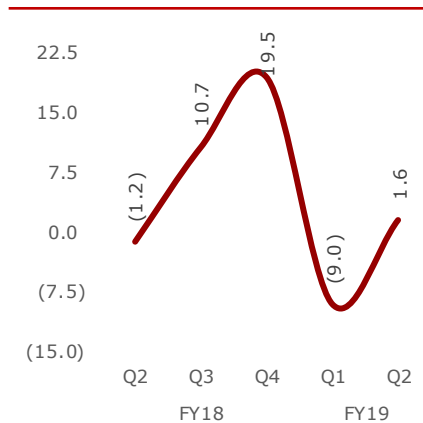
Revenue growth % (QoQ)



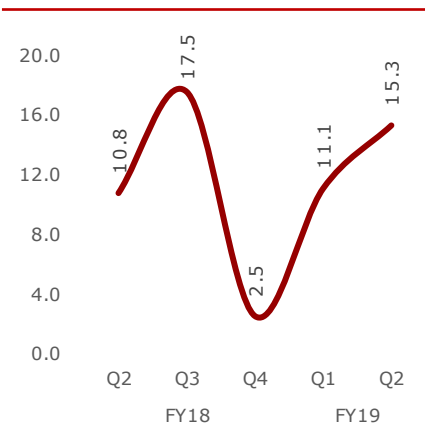
Operating Profit growth % (QoQ)



Net Profit growth % (QoQ)



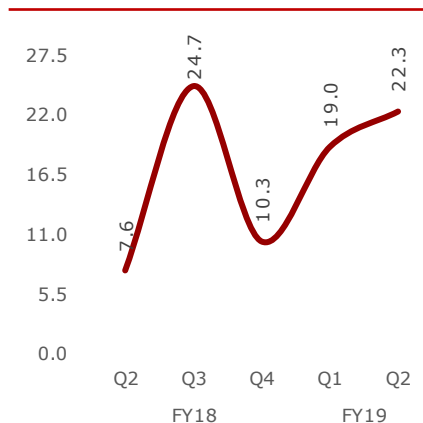
Revenue growth % (YoY)



Operating Profit growth % (YoY)



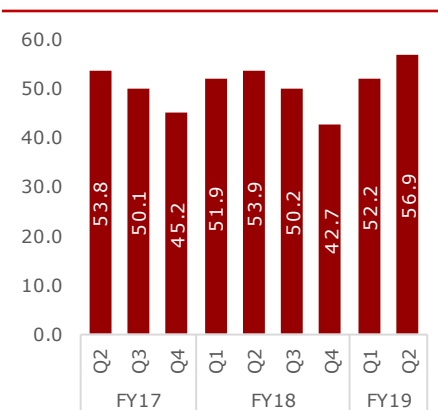
Net Profit growth % (YoY)



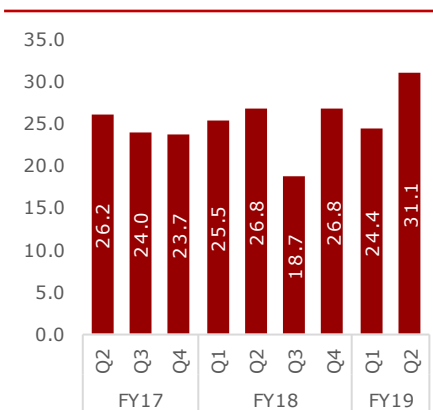
QUARTERLY PERFORMANCE OF LISTED PHARMACEUTICALS COMPANIES

RENATA LIMITED (RENATA)

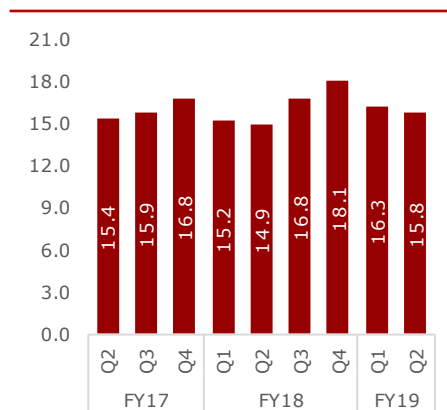
Gross profit margin %



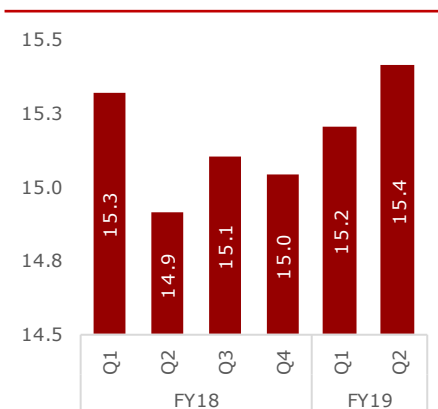
Operating Profit margin %



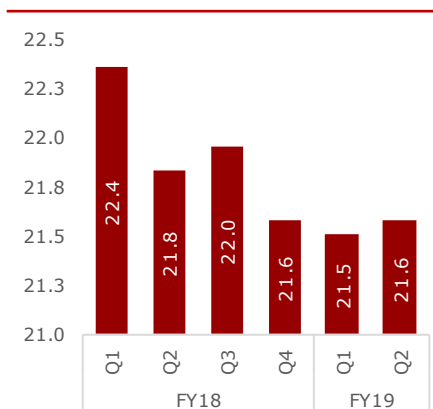
Net Profit margin %



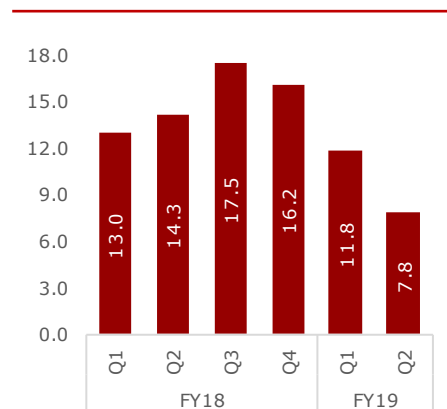
ROA %



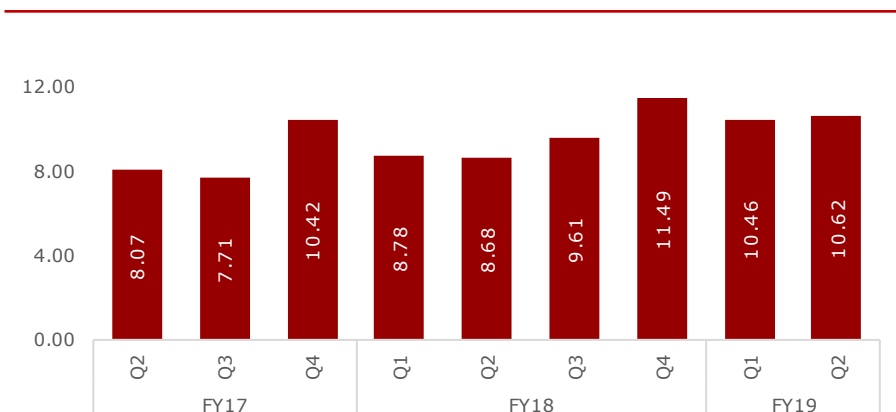
ROE %



Debt-to-equity %



EPS (BDT)

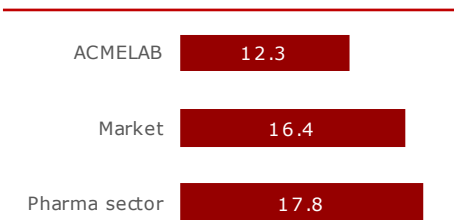


Source: Quarterly & Annual Report

QUARTERLY PERFORMANCE OF LISTED PHARMACEUTICALS COMPANIES

The ACME Laboratories Limited

P/E (x)

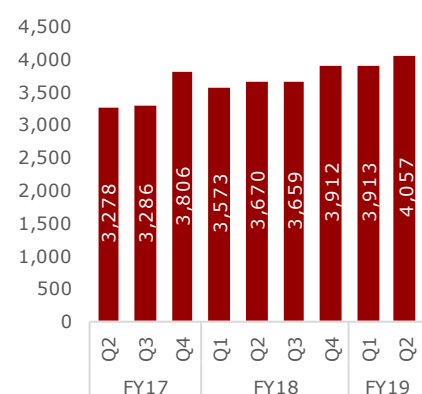


Source: DSE

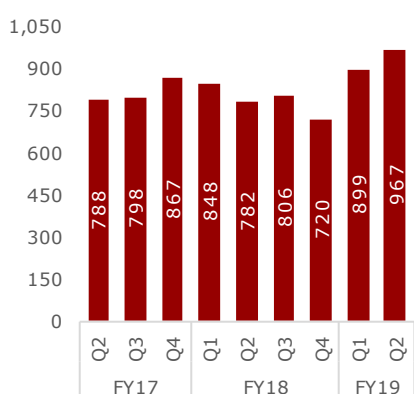
Revenue stood at BDT 3,913mn during 2QFY19, a 10.5% YoY increase compared to the prior-year result. Despite improvement in gross profit margin and net profit margin, net income grew by only 1.7% YoY as interest expenses increased by 44.3%.

The company is currently financing three projects with the IPO proceeds – steroid & hormone projects, Penicillin projects and API projects. Steroid & hormone and Penicillin project are expected to come into commercial operation by June 2019. We expect a spike in top-line once these projects start operation.

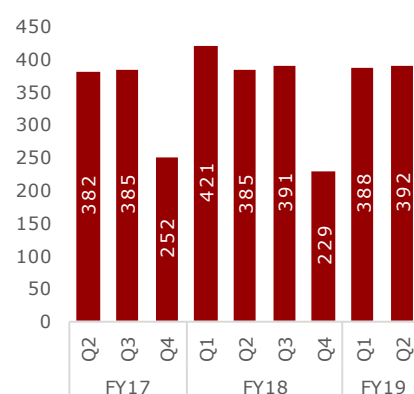
Revenue (BDT mn)



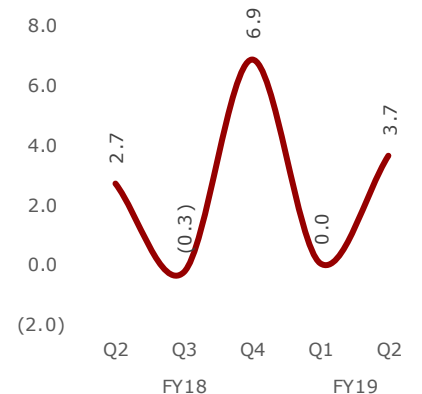
Operating Profit (BDT mn)



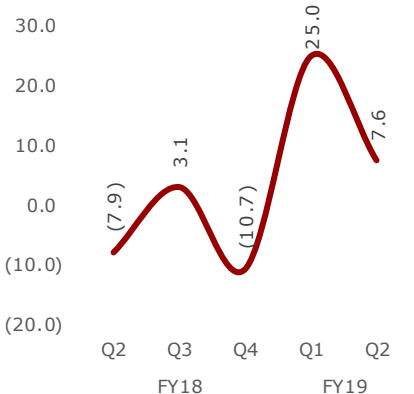
Net Profit (BDT mn)



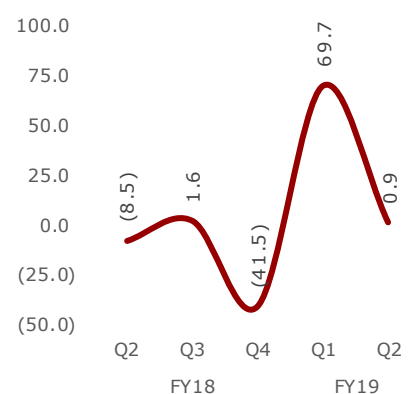
Revenue growth % (QoQ)



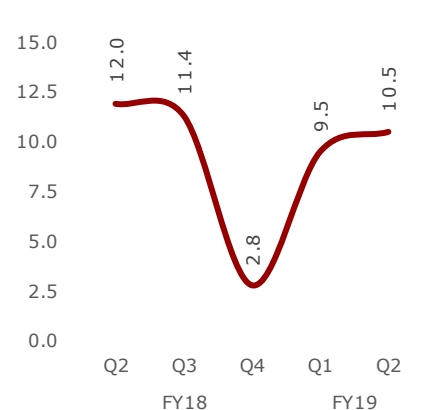
Operating Profit growth % (QoQ)



Net Profit growth % (QoQ)



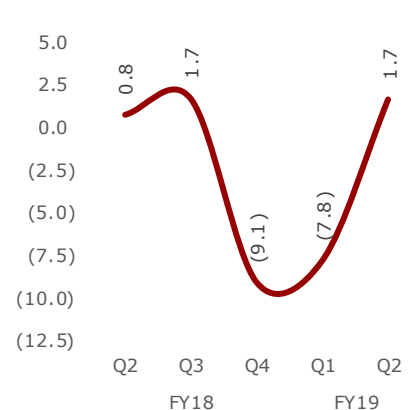
Revenue growth % (YoY)



Operating Profit growth % (YoY)



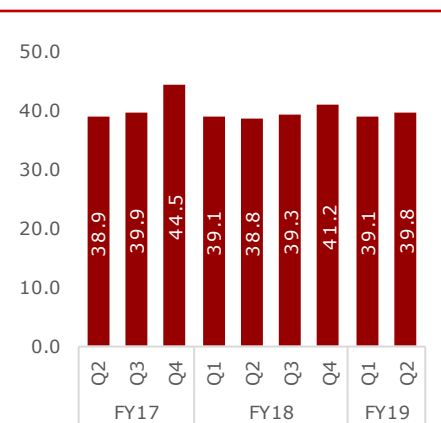
Net Profit growth % (YoY)



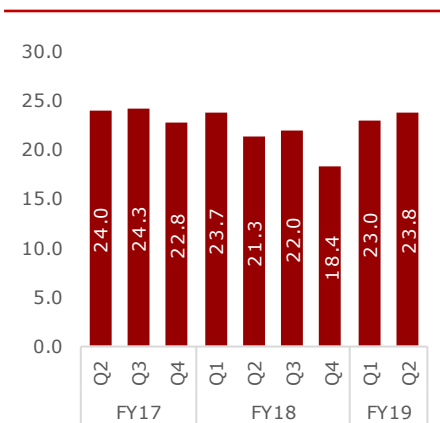
QUARTERLY PERFORMANCE OF LISTED PHARMACEUTICALS COMPANIES

The ACME Laboratories Limited

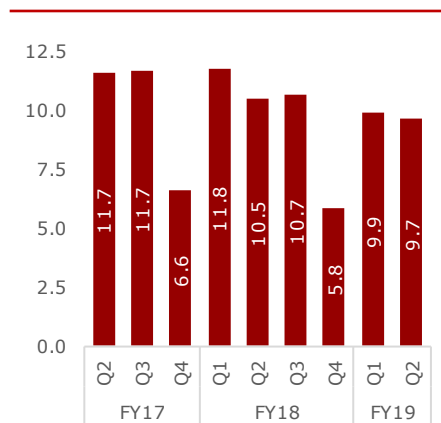
Gross profit margin %



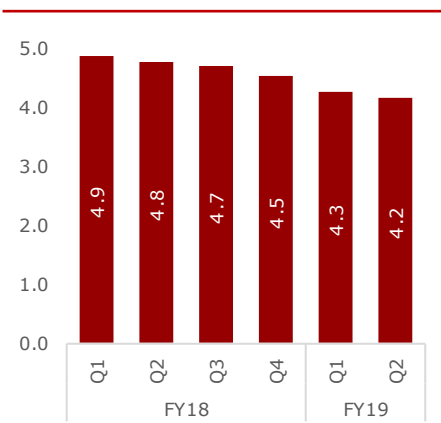
Operating Profit margin %



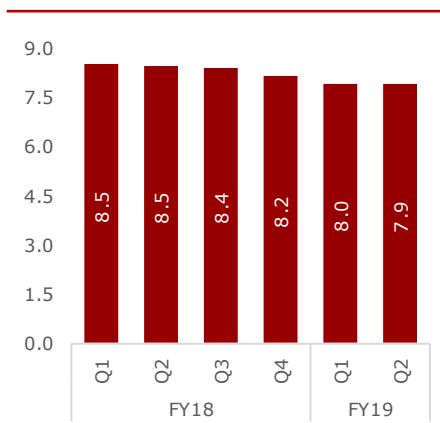
Net Profit margin %



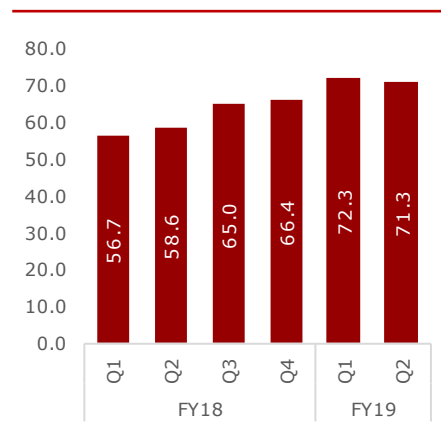
ROA %



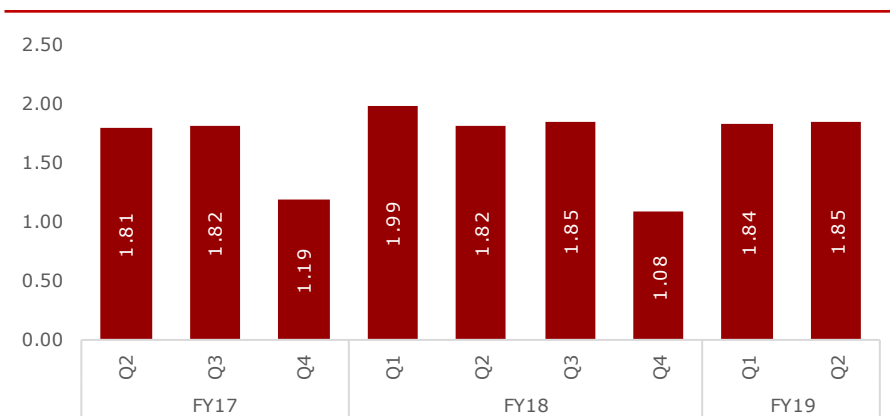
ROE %



Debt-to-equity ratio %



EPS (BDT)



Source: Quarterly & Annual Report

Disclaimer

GENERAL DISCLOSURE

This research report has been prepared by UCB Capital Management Limited (UCB Capital), a company authorized to engage in broker-dealer activities in Bangladesh. UCB Capital is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

NOTICE TO RECIPIENTS: This email (including all attachments) is intended only for the named recipient. If you have received this email in error, please delete the email plus any copies of it and immediately notify the sender by return email.

The information contained herein has been prepared and issued by UCB Capital to its clients, and all intellectual property relating to the Research vests with UCB Capital unless otherwise noted. The Research is provided on an as is basis, without warranty (express or implied).

The Research is based on public data obtained in good faith from sources believed by UCB Capital be reliable, but no representations, guarantees or warranties are made by UCB Capital with regard to accuracy, completeness or suitability of the data and under no circumstances will any of UCB Capital, its officers, representatives, associates or agents be liable for any loss or damage, whether direct, incidental or consequential, caused by reliance on or use of the content. UCB Capital has not performed any independent review or due diligence of publicly available information. The opinions and estimates contained herein reflect the current judgment of the analyst(s) on the date of this Research and are subject to change without notice. The opinions do not necessarily correspond to the opinions of UCB Capital. UCB Capital does not have an obligation to update, modify or/(and) amend this Research or otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or/(and) estimate set forth herein, changes or subsequently becomes inaccurate.

This Research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is intended to be distributed in its entirety. It does not constitute a personal recommendation or takes into account the particular investment objectives, financial situations, or needs of individual investors. Investors should consider whether any advice or recommendation in this Research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice and ensure they obtain, read and understand any applicable offer document. The price and value of investments referred to herein and the income from them may fluctuate. Past performance is not an indicator or guarantee of future returns, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and principal trading desks that reflect opinions that are contrary to the opinions expressed in this Research. Our asset management area, principal trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this Research. Neither UCB Capital nor its representatives, will receive (directly or indirectly) any commission, fee, benefit or advantage, pecuniary or otherwise, nor be influenced, either directly or indirectly, in connection with the making of any recommendation or preparation of any Research.

The analysts named in this report may have from time to time discussed with our clients, including UCB Capital salespersons and traders, or may discuss in this report, trading strategies that reference catalysts or events that may have a near-term impact on the market price of the equity securities discussed in this report, which impact may be directionally counter to the analysts' published price target expectations for such stocks. Any such trading strategies are distinct from and do not affect the analysts' fundamental equity rating for such stocks, which rating reflects a stock's return potential relative to its coverage group as described herein.

Any prices provided herein (other than those that are identified as being historical) are indicative only, and do not represent firm quotes as to either size or price. The past performance of financial instruments is not indicative of future results. No assurance can be given that any financial instrument or issuer described herein would yield favourable investment results. Any forecasts or price targets shown for companies and/or securities discussed in this Research may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information and/or the subsequent transpiration that underlying assumptions made by UCB Capital or by other sources relied upon in the Research were inapposite.

UCB Capital may provide hyperlinks to websites of entities mentioned in this Research, however the inclusion of a link does not imply that UCB Capital endorses, recommends or approves any material on the linked page or accessible from it. UCB Capital does not accept responsibility whatsoever for any such material, nor for any consequences of its use.

This document is for the use of the addressees only and may not be reproduced, redistributed or passed on to any other person or published, in whole or in part, for any purpose, without the prior, written consent of UCB Capital. The manner of distributing this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves about and to observe such restrictions. By accepting this document, a recipient hereof agrees to be bound by the foregoing limitations.

IMPORTANT DISCLOSURES FOR U.S. PERSONS ONLY

This research report is a product of UCB Capital Management Ltd. which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by UCB Capital Management Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, UCB Capital Management Ltd. has entered into an agreement with a U.S. registered broker-dealer, Cabrera Capital Markets. ("Cabrera"). Transactions in securities discussed in this research report should be effected through Cabrera or another U.S. registered broker dealer.

EQUITY RECOMMENDATION STRUCTURE (ABSOLUTE RATINGS)

We calculate our target price by weighting DCF, DDM, SOTP, asset-based and other relative valuation methods, and applying appropriate premiums/ discounts and/or other relevant adjustments.

Expected absolute returns are calculated as the percentage of difference between our target price and latest close price. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Please note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

Recommendation Type	Holding period (if not otherwise mentioned)	Absolute Return Potential
Buy	12 Months	More than +15%
Neutral/ Hold	12 Months	Between +15 % and -5 %
Underweight	12 Months	Less than -5 %

ANALYST CERTIFICATION

Respective analyst(s) identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report. The research analyst(s) named on this report are not registered / qualified as research analysts with FINRA.

It has not been determined in advance whether and in what intervals this document will be updated. Unless otherwise stated current prices refer to the most recent trading day's closing price.

Contact Us

Research Team

Rajib Kumar Das	Head of Research	rajib.das@ucb.com.bd	+880 1730 797 728
Anika Mafiz	Research Associate	anika.mafiz@ucb.com.bd	+880 1701 205 006
Zarif Ibne Arif	Research Associate	zarif.arif@ucb.com.bd	+880 1701 205 072
Md. Nazmus Sakib	Research Associate	nazmus.sakib@ucb.com.bd	+880 1701 205 073
Anik Mahmood Ibne Anwar	Research Associate	anik.mahmood@ucb.com.bd	+880 1701 205 074
Joy Bhattacharjee	Research Associate	joy.bhattacharjee.com.bd	+880 1701 205 071

Institutional & Foreign Trade

Sonchoy Saha, CFA	Head of Institutional Sales	sonchoy.kumer@ucb.com.bd	+880 1755 615 313
Tahmidur Rahman	Senior Executive Officer	tahmid@blomberg.net rahman.tahmidur@ucb.com.bd	+880 1726 995 520

Office Premises

Head Office 6, Dilkusha C/A 1st Floor Dhaka- 1000 Bangladesh	Corporate Office Bulus Center (Level-2) Plot-CWS(A)-1, Road No-34 Gulshan Avenue Dhaka-1212 Bangladesh	DSE Extension Office Room # 633, 9/E DSE Annex Building (5 th Floor) Motijheel C/A, Dhaka 1000 Bangladesh	Chattogram Office Ayub Trade Center 1269/B SK Mujib Road (4th Floor) Agrabad C/A, Chattogram Bangladesh
---	--	--	--

Find our research on Bloomberg <BRC> Go