# Duopharma Biotech

## A Defensive Play

**OUTPERFORM ↔**

**Price: RM1.25**

**Target Price: RM1.72 ↔**

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**DPHARMA is optimistic that earnings growth in FY26 will stem from pent-up demand in Approved Product Purchase List (APPL). Based on our-back-of envelope calculation, unbilled APPL contracts from the government are estimated at RM220m. The group highlighted that MOH is expected to announce the award of a new 3-year insulin contract somewhere in 2QFY26. We understand the total contract size to supply human insulin is estimated at RM400m. Reiterate OUTPERFORM. Our Top Pick for the healthcare sector has been DPHARMA (OP; TP: RM1.72).**

Key highlights from DPHARMA's 4QFY25 post-results briefing are:

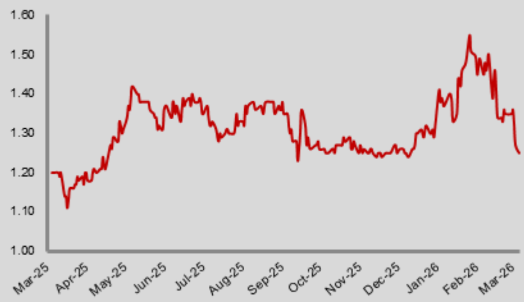
1. We expect higher orders in 1QFY26 from the Ministry of Health (MOH) Approved Products Purchase List (APPL), driven by the annual inventory replenishment cycle by government hospitals following the year-end holiday season. Government hospitals typically increase orders in 1Q to restock medical supplies after the holiday season. We expect public sector sales to account for 56% of top line in FY26 vs. 54% in FY25 as more products will be procured under APPL. We understand that APPL product types is expected to increase from presently 840 to >1000 by end-CY26. Typically, an APPL contract will draw down its value proportionately over the course of the contract period. For illustration purposes, technically, a contract value of RM684m is estimated to have unbilled outstanding order book of RM220m as at end 4QCY25.

2. To recap, DPHARMA delivered an impressive 4QFY25 result. Excluding a one-off accounting loss arising from the impairment of certain capitalised development costs (RM9.4m), 4QFY25 core net profit rose 26% QoQ to RM28.4m supported by demand from the private market, including a seasonally influenced spike in sales of an antiviral flu product, which offset the lower government sales that typically taper off in the final quarter, likely influenced by year-end holidays and better margins from APPL contracts.

3. The group highlighted that MOH is expected to announce the award of the new 3-year insulin contract somewhere in 2QFY26 following the expiry of existing supply contract due in May 2026. We understand the total contract size for the human insulin market in Malaysia estimated at RM400m over three years. Recall, DPHARMA has won a non-APPL contract to supply recombinant human insulin (RHI) worth RM65.1m which expires on 15 May 2026. There have been concerns over the entry of a new competitor participating in the tender, which aligns with MOH's objective to have more than a sole supplier. For illustration purposes, assuming a net margin of 3%, and a contract win of RM200m, this would account for 5% of our FY27 net profit forecast.

4. It is optimistic that public sector sales are expected to be higher in FY26 in which APPL contract expires end-CY26. Generally, APPL is awarded on a 3-year basis and typically the last year of the contract will see a spike in demand or volumes usually peak. It expects the APPL contract renewal bidding cycle will start in 2HCY26. Overall, we are encouraged to see the alignment between the immediate fiscal measures in Budget 2025 and the priorities under the 13th Malaysia Plan (13MP). The 13MP prioritises strengthening medical supply security, encouraging domestic pharmaceutical manufacturing, and increasing the use of generic medicines in both public and private significantly. We are encouraged by the government's allocation of RM46.5b to the MOH, 2.7% higher than the allocation under Budget 2025.

### Share Price Performance




| | |
|---|---|
| KLCI | 1,687.90 |
| YTD KLCI chg | 0.5% |
| YTD stock price chg | 0.0% |

### Stock Information

| | |
|---|---|
| Shariah Compliant | Yes |
| Bloomberg Ticker | DBB MK |
| Market Cap (RM m) | 1,202.4 |
| Shares Outstanding | 961.9 |
| 52-week range (H) | 1.57 |
| 52-week range (L) | 1.07 |
| 3-mth avg. daily vol. | 920,414 |
| Free Float | 44% |
| Beta | 0.8 |

### Major Shareholders

| | |
|---|---|
| PNB | 44.1% |
| Employees Provident Fund | 9.0% |
| A S Bumiputera | 6.8% |

### Summary Earnings Table

| FY Dec (RM m) | 2025A | 2026F | 2027F |
|---|---|---|---|
| Turnover | 931.7 | 1,152.1 | 1,189.7 |
| EBITDA | 179.5 | 211.2 | 218.1 |
| PBT | 114.9 | 144.4 | 152.3 |
| Net Profit | **87.5** | **110.5** | **116.5** |
| Core Net Profit | **96.9** | **110.5** | **116.5** |
| Consensus (NP) | - | 105 | 108 |
| Earnings Revision | - | - | - |
| EPS (sen) | 9.1 | 11.5 | 12.1 |
| EPS Growth (%) | 39.6 | 26.3 | 5.4 |
| NDPS (sen) | 4.55 | 4.55 | 4.55 |
| PER (x) | 13.7 | 10.9 | 10.3 |
| PBV (x) | 1.6 | 1.5 | 1.3 |
| Net Gearing (%) | 26.7 | 25.2 | 15.5 |
| Net Div. Yield (%) | 3.6 | 3.6 | 3.6 |

5. The group is not overly concerned over the availability of input API raw material, which is ample. However, amidst geopolitics tension in the Middle East, input raw material prices has edged slightly higher. Presently, it has 4-6 months of raw material inventory. Typically, raw material accounts for 50%−60% of total cost. Generally, due to the lag impact, the effect of a higher raw material cost can only be felt between six and nine months. Since prices under the public segment has been fixed on the contract, it is difficult for a cost pass through. However, we understand that in an event of a runaway increase in raw material prices, DPHARMA will seek to negotiate with MOH to mitigate the increase in cost. For illustration purposes, based on our back of envelope calculation, a 10% increase in input API, is expected to hit FY26F net profit by 3%.

**Valuation and forecasts.** We maintain our forecasts, TP of RM1.72 based on unchanged 15x FY26F EPS, at 15% premium to its peers' average due to its dominant market position. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us. We like DPHARMA for: (i) its business model encompassing the entire spectrum of the pharmaceutical value chain from R&D, product conceptualisation to manufacturing and sales, and (ii) being the dominant local manufacturer of generic drugs in terms of sales volume and value.

**Key risks to our recommendation include:** (i) product approval from the relevant regulatory authorities and (ii) lower-than-expected orders in the public segment.

**Income Statement**

| FY Dec (RM m) | 2023A | 2024A | 2025A | 2026F | 2027F |
|---|---|---|---|---|---|
| Revenue | 704.7 | 813.7 | 931.7 | 1152.1 | 1189.7 |
| EBITDA | 121.4 | 146.1 | 179.5 | 211.2 | 218.1 |
| Dep & Amort | (38.7) | (40.5) | (40.7) | (42.9) | (41.9) |
| PBT | 63.3 | 80.0 | 114.9 | 144.4 | 152.3 |
| Taxation | -10.6 | -17.4 | -27.4 | -33.9 | -35.8 |
| Net profit | 52.6 | 62.6 | 96.9 | 110.5 | 116.5 |

**Balance Sheet**

| FY Dec (RM m) | 2023A | 2024A | 2025A | 2026F | 2027F |
|---|---|---|---|---|---|
| Fixed Assets | 582.4 | 566.3 | 554.1 | 541.2 | 529.3 |
| Int. Assets | 38.8 | 45.0 | 36.9 | 36.9 | 36.9 |
| Other FA | 46.9 | 38.7 | 37.9 | 37.9 | 37.9 |
| Inventories | 243.1 | 248.5 | 293.2 | 362.5 | 374.4 |
| Receivables | 147.2 | 195.8 | 223.8 | 276.7 | 285.8 |
| Other CA | 16.3 | 18.2 | 11.6 | 11.6 | 11.6 |
| Cash | 270.5 | 264.5 | 290.9 | 285.0 | 353.7 |
| Total Assets | 1,345.1 | 1,377.0 | 1,448.3 | 1,551.8 | 1,629.5 |
| Payables | 100.8 | 128.7 | 162.2 | 200.6 | 207.2 |
| ST Borrowings | 65.5 | 48.0 | 147.4 | 147.4 | 147.4 |
| Ot. ST Liability | 0.4 | 0.7 | 4.3 | 4.3 | 4.3 |
| LT Borrowings | 480.9 | 464.5 | 345.5 | 343.8 | 342.2 |
| Ot. LT Liability | 10.4 | 25.9 | 31.2 | 31.2 | 31.2 |
| Net Assets | 687.1 | 709.2 | 757.6 | 824.4 | 897.2 |
| | | | | | |
| Share Capital | 432.5 | 432.5 | 432.5 | 432.5 | 432.5 |
| Treasury shares | 319.1 | 354.8 | 408.6 | 475.3 | 548.1 |
| Reserves | (64.4) | (78.1) | (83.4) | (83.4) | (83.4) |
| Equity | 687.1 | 709.2 | 757.6 | 824.4 | 897.2 |

**Cashflow Statement**

| FY Dec (RM m) | 2023A | 2024A | 2025A | 2026F | 2027F |
|---|---|---|---|---|---|
| Operating CF | 48.8 | 82.2 | 106.8 | 93.3 | 168.0 |
| Investing CF | (43.2) | (26.3) | (27.1) | (55.5) | (55.5) |
| Financing CF | 107.5 | (62.4) | (54.3) | (43.7) | (43.7) |
| Change In Cash | 113.1 | (6.5) | 25.5 | (5.9) | 68.7 |

**Financial Data & Ratios**

| FY Dec | 2023A | 2024A | 2025A | 2026F | 2027F |
|---|---|---|---|---|---|
| **Growth (%)** | | | | | |
| Turnover | 1.1 | 15.5 | 14.5 | 23.7 | 3.3 |
| EBITDA | (5.9) | 20.3 | 22.8 | 17.7 | 3.3 |
| Operating Profit | (15.5) | 28.4 | 32.9 | 22.1 | 4.8 |
| PBT | (25.4) | 26.5 | 43.6 | 25.7 | 5.4 |
| Net Profit /(loss) | (24.9) | 19.0 | 39.6 | 26.3 | 5.4 |
| | | | | | |
| **Profitability** | | | | | |
| EBITDA Margin | 17.2% | 18.0% | 18.3% | 18.3% | 18.3% |
| Operating Margin | 9.5% | 11% | 12% | 14% | 47% |
| PBT Margin | 9% | 10% | 12% | 13% | 13% |
| Core Net Margin | 7% | 8% | 9% | 10% | 10% |
| Eff. Tax Rate | 17% | 22% | 24% | 24% | 24% |
| ROA | 7.9 | 9.6 | 13.9 | 17.9 | 19.3 |
| ROE | 8% | 9% | 12% | 13% | 13% |
| | | | | | |
| **DuPont Analysis** | | | | | |
| Net Margin (%) | 7% | 8% | 9% | 10% | 10% |
| Assets T/O (x) | 1.9 | 1.7 | 1.6 | 1.3 | 1.4 |
| Lev. Factor (x) | 2.0 | 1.9 | 1.9 | 1.9 | 1.8 |
| ROE (%) | 8% | 9% | 12% | 13% | 13% |
| | | | | | |
| **Valuations** | | | | | |
| EPS (sen) | 5.5 | 6.5 | 9.1 | 11.5 | 12.1 |
| NDPS (sen) | 2.3 | 3.0 | 4.6 | 4.6 | 4.6 |
| BVPS (RM) | 0.7 | 0.7 | 0.8 | 0.9 | 0.9 |
| PER (x) | 22.8 | 19.2 | 13.7 | 10.9 | 10.3 |
| Net Div. Yield(%) | 1.8% | 2.4% | 3.6% | 3.6% | 3.6% |
| P/BV (x) | 1.7 | 1.7 | 1.6 | 1.5 | 1.3 |

*Source: Kenanga Research, Bursa Malaysia*

## Peer Table Comparison

| Name | Rating | Last Price (RM) | Target Price (RM) | Upside | Market Cap (RM m) | Shariah Compliant | Current FYE | Core EPS (sen) | | Core EPS Growth | | PER (x) - Core Earnings | | PBV (x) | ROE | Net. Div. (sen) | Net Div Yld |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. |
| **Stocks Under Coverage** | | | | | | | | | | | | | | | | | |
| DUOPHARMA | OP | 1.25 | 1.72 | 37.6% | 1,202 | Y | 12/2026 | 11.5 | 12.1 | 14.0% | 5.4% | 10.9 | 10.3 | 1.5 | 14.0% | 4.6 | 3.7% |
| IHH HEALTHCARE BHD | MP | 8.90 | 8.50 | -4.5% | 78,642 | Y | 12/2026 | 23.8 | 25.9 | 15.1% | 8.5% | 37.3 | 34.4 | 2.5 | 6.8% | 10.0 | 1.1% |
| KOTRA INDUSTRIES BHD | OP | 4.14 | 4.90 | 18.4% | 614 | Y | 06/2026 | 28.7 | 32.5 | -4.7% | 13.2% | 14.4 | 12.7 | 2.2 | 15.3% | 25.5 | 6.2% |
| NOVA WELLNESS GROUP BHD | OP | 0.345 | 0.470 | 36.2% | 110 | Y | 06/2026 | 3.6 | 3.8 | 49.4% | 4.3% | 9.5 | 9.1 | 0.9 | 10.1% | 1.6 | 4.6% |
| PHARMANIAGA BHD | UP | 0.245 | 0.200 | -18.4% | 1,606 | Y | 12/2026 | 1.0 | 1.1 | 34.0% | 8.0% | 24.7 | 22.9 | 3.2 | 13.9% | 0.0 | 0.0% |
| SCOMNET | OP | 0.535 | 1.00 | 86.9% | 455 | Y | 12/2026 | 4.2 | 4.9 | 38.5% | 18.1% | 12.8 | 10.8 | 1.0 | 8.3% | 2.3 | 4.3% |

*Source: Company, Bloomberg, Kenanga Research*

## Stock ESG Ratings:

| | Criterion | Rating |
|---|---|---|
| GENERAL | Earnings Sustainability & Quality | ★ ★ ★ ☆ |
| | Community Investment | ★ ★ ★ |
| | Workers Safety & Wellbeing | ★ ★ ★ |
| | Corporate Governance | ★ ★ ★ |
| | Anti-Corruption Policy | ★ ★ ★ |
| | Emissions Management | ★ ★ ☆ |
| SPECIFIC | Product Quality & Safety | ★ ★ ★ |
| | Effluent/Waste Management | ★ ★ ☆ |
| | Automation & Innovation | ★ ★ ★ |
| | Energy Efficiency | ★ ★ ★ ☆ |
| | Supply Chain Management | ★ ★ ★ ☆ |
| | Legal & Regulatory Compliance | ★ ★ ★ |
| | **OVERALL** | ★ ★ ★ |

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

## Stock Ratings are defined as follows:

**Stock Recommendations**

| | |
|---|---|
| OUTPERFORM | : A particular stock's Expected Total Return is MORE than 10%. |
| MARKET PERFORM | : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%. |
| UNDERPERFORM | : A particular stock's Expected Total Return is LESS than -5% |

**Sector Recommendations*****

| | |
|---|---|
| OVERWEIGHT | : A particular sector's Expected Total Return is MORE than 10%. |
| NEUTRAL | : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%. |
| UNDERWEIGHT | : A particular sector's Expected Total Return is LESS than -5%. |

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***



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