

Duopharma Biotech

A Resilient Play

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DPHARMA remains optimistic that its earnings in subsequent quarters of FY26 will be underpinned by pent-up demand within the Approved Product Purchase List (APPL) segment. It expects the current APPL contract slated to expire on 31 Dec CY26 to be extended by an additional six to twelve months due to typical tender timeline lags which is not a surprise based on past precedent. It is awaiting the formalization of a new insulin supply contract from the MOH, with final documentation still pending. Consequently, we reiterate our **OUTPERFORM** rating on DPHARMA (TP: RM1.72), which remains our Top Pick for the healthcare sector.

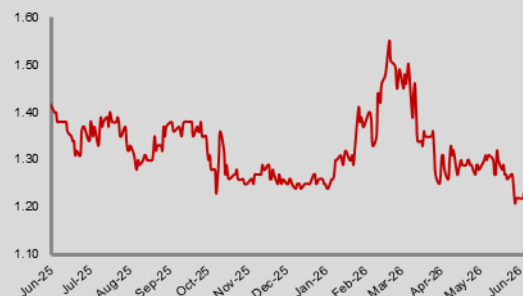
Key highlights from DPHARMA's 1QFY26 post-results briefing are:

1. We expect a stable and robust 2QFY26 earnings performance. Management remains optimistic about sustaining or increasing contributions from the Consumer Health Care (CHC) segment which typically accounts for 12–15% of group revenue following a +20% YoY surge in 1QFY26. This momentum is driven by sustained demand for flu and vitamin products, with both volume growth and inflation-adjusted price increases lifting the CHC topline, anchored by core brands like Uphamol (paracetamol) and Flavettes (Vitamin C). Additionally, 2QFY26 revenue will be significantly boosted by a RM65.1m insulin contract awarded to DPHARMA on February 19, 2026. Because the contract runs for only three months through May 15, 2026, the entire amount is expected to be booked within the quarter. To recap, DPHARMA's 1QFY26 net profit rose 20% YoY to RM31m, driven by broad-based revenue growth across the APPL, private, and export sectors, alongside improved margins from economies of scale and easing raw material costs.
2. The group expects the current Ministry of Health (MOH) APPL contract, a three-year cycle expiring on December 31, 2026 to be extended by another six to twelve months. In our view this is not likely to come in as a surprise based on prior precedent back in year 2023. This is because the APPL tender process typically takes seven to nine months from the initial request for bidding through negotiation and selection; however, the group has yet to receive any notification or request for proposals. For the upcoming APPL contract cycle, the group aims to maintain its existing product portfolio while securing the inclusion of 30 new products.
3. The group is not overly concerned over the availability of input API raw material, which is ample. It is seeking alternative sources of inputs to reduce concentration risks amid ongoing supply chain disruptions linked to the Iran war. However, the regulations under MOH requires all API sources to be approved by the National Pharmaceutical Regulatory Agency (NPRA) to ensure the safety, efficacy and consistent quality of finished medications. The group hinted that prices of certain inputs have risen by between 5% and 15%. However, it does not foresee margins to crimp. While the company has limited ability to pass on higher input costs to its government segment, it has greater flexibility to adjust prices for the private sector. 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 later. For finished goods, it has proactively increased inventory buffer from 2-3 months to 4-6 months. Since prices under the public segment has been fixed on the contract, it is difficult for a cost pass through. For illustration purposes, based on our back of envelope calculation, assuming a no cost-pass through scenario, a 10% increase in input API, is expected to hit FY26F net profit by 3%.

OUTPERFORM ↔

Price: RM1.23
Target Price: RM1.72 ↔

Share Price Performance



KLCI	1,693.43
YTD KLCI chg	0.8%
YTD stock price chg	-1.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DBB MK
Market Cap (RM m)	1,183.2
Shares Outstanding	961.9
52-week range (H)	1.57
52-week range (L)	1.21
3-mth avg. daily vol.	624,597
Free Float	45%
Beta	0.8

Major Shareholders

PNB	43.1%
Employees Provident	8.9%
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)	-	104	110
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)	13.5	10.7	10.1
PBV (x)	1.6	1.4	1.3
Net Gearing (%)	26.7	25.2	15.5
Net Div. Yield (%)	3.7	3.7	3.7

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- It is awaiting the formalisation of a new insulin supply contract from the MOH, with final documentation still pending. The tender outcome has already been determined with only the letter of acceptance yet to be issued. To recap, in order to prevent a single point of failure, following production issues at Biocon in 2024 that coincided with Danish pharmaceutical giant Novo Nordisk's retreat from the human insulin market that resulted in an acute human insulin shortage nationwide, the MOH has adopted a dual-supplier model. Note that PHARMA (MP; TP: RM0.23) had been awarded a RM282m insulin contract win recently. For illustration purposes, assuming a net margin of 5%, and a contract win of RM120m-RM180m, this would account for 2%-8% of our FY27 net profit forecast (we have factored this into our earnings model).
- It is expected to remain resilient despite geopolitical uncertainties, supported by limited exposure to Middle East markets, a stronger Asean export outlook and its proactive inventory strategy. In 1QFY26, exports revenue grew 25% YoY to RM20m (accounts for 6% of group topline in 1QFY26). Overall export growth is projected to be driven by the Philippines and Singapore which typically combined for >70% of total exports in aggregate. Note that Middle East accounted for about 16% in 1QFY26 or RM3.2m.

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						Financial Data & Ratios					
FY Dec (RM m)	2023A	2024A	2025A	2026F	2027F	FY Dec	2023A	2024A	2025A	2026F	2027F
Revenue	704.7	813.7	931.7	1152.1	1189.7	Growth (%)					
EBITDA	121.4	146.1	179.5	211.2	218.1	Turnover	1.1	15.5	14.5	23.7	3.3
Dep & Amort	(38.7)	(40.5)	(40.7)	(42.9)	(41.9)	EBITDA	(5.9)	20.3	22.8	17.7	3.3
PBT	63.3	80.0	114.9	144.4	152.3	Operating Profit	(15.5)	28.4	32.9	22.1	4.8
Taxation	-10.6	-17.4	-27.4	-33.9	-35.8	PBT	(25.4)	26.5	43.6	25.7	5.4
Net profit	52.6	62.6	96.9	110.5	116.5	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)	22.5	18.9	13.5	10.7	10.1
						Net Div. Yield(%)	1.8%	2.4%	3.7%	3.7%	3.7%
						P/BV (x)	1.7	1.7	1.6	1.4	1.3
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						

Source: Kenanga Research, Bursa Malaysia

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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 BIOTECH BERHAD	OP	1.23	1.72	39.8%	1,183	Y	12/2026	11.5	12.1	14.0%	5.4%	10.7	10.1	1.4	14.0%	4.6	3.7%
IHH HEALTHCARE BHD	MP	8.85	8.50	-4.0%	78,200	Y	12/2026	23.8	25.9	15.1%	8.5%	37.1	34.2	2.5	6.8%	10.0	1.1%
KOTRA INDUSTRIES BHD	MP	3.77	3.88	2.9%	559	Y	06/2026	28.7	25.8	-4.7%	-10.1%	13.1	14.6	2.0	15.3%	24.5	6.5%
KPJ HEALTHCARE BHD	MP	3.23	3.05	-5.6%	14,297	Y	12/2026	8.0	8.7	13.8%	8.1%	40.4	37.3	5.2	13.8%	4.2	1.3%
NOVA WELLNESS GROUP BHD	MP	0.335	0.380	13.4%	107	Y	06/2026	2.9	3.0	19.5%	4.3%	11.6	11.1	0.9	8.2%	1.6	4.8%
PHARMANIAGA BHD	MP	0.275	0.230	-16.4%	1,803	Y	12/2026	1.0	1.2	37.7%	21.4%	27.0	22.2	3.8	14.6%	0.4	1.3%
SCOMNET BHD	OP	0.525	0.850	61.9%	445	Y	12/2026	3.7	4.3	21.2%	17.8%	14.3	12.2	1.0	7.3%	2.3	4.4%
SUNWAY HEALTHCARE HOLDINGS BHD	MP	1.74	1.75	0.6%	20,010	Y	12/2026	2.5	3.5	11.7%	43.3%	71.0	49.6	6.1	9.7%	0.6	0.3%

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

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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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