

VietinbankSc Industry Report

# Vietnam Pharmaceutical Industry

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# About the Industry

## Industry Definition

Pharmaceutical industry mainly produces medicines and medicine-related substances. Pharmaceutical industry of Vietnam includes traditional medicines and western medicines.

## Main Activities

The major products in the industry are

- Medicines
- Functional foods
- Antibiotics, vaccines

The primary activities of the industry are

- Medicines preparing
- Common medicines manufacturing
- Special medicines manufacturing

## Similar Industries

- Chemical manufacturing industry
- Medical equipment manufacturing industry
- Comestic manufacturing industry

## Additional Resources

For additional information on this industry:

[www.dav.gov.vn](http://www.dav.gov.vn)

Drug Administration of Vietnam

[www.moh.gov.vn](http://www.moh.gov.vn)

Ministry of Health

[www.vnpca.org.vn](http://www.vnpca.org.vn)

Vietnam Pharmaceutical Companies Association

# Industry at a Glance

## Key Statistics 2013

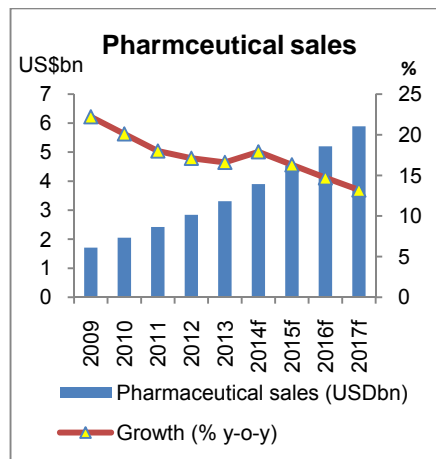
Revenue	Annual Growth 09-13	Annual Growth 14-18
<b>USD3.31bn</b>	<b>18.78%</b>	<b>15.51%</b>
Import	Export	Businesses
<b>USD 2,157.69mn</b>	<b>USD100.04mn</b>	<b>185</b>

### Market share

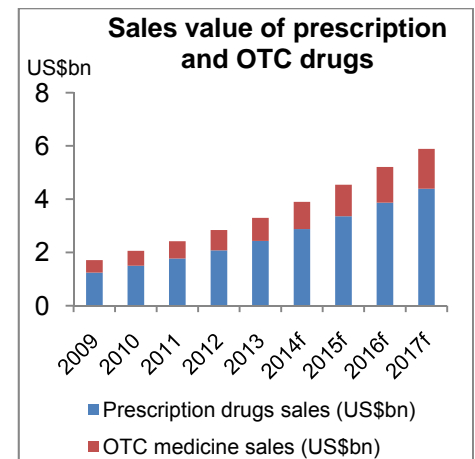
**Sanofi**  
5.8%

**DHG**  
4.95%

**TRA**  
2.37%



Source: BMI



Source: BMI

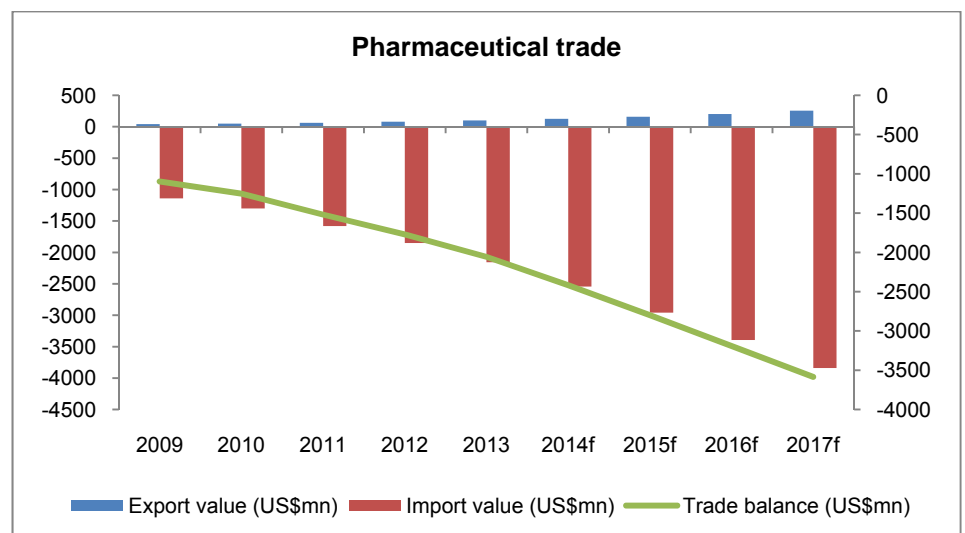
### Key External Drivers

Healthcare education

Vietnamese people's habit on consuming Vietnamese products

Over-reliance on imported pharmaceutical material inputs

Competition against foreign medicines



Source: BMI

### Industry Structure

Life Cycle	Growth	Regulation Level	High
Revenue Volatility	Low	Technology Change	Medium
Capital Intensity	Low	Barriers to Entry	Low
Industry Assistance	Medium	Industry Globalization	Medium
Concentration Level	Medium Low	Competition Level	Medium High

# Industry Performance

Executive Summary | Key External Drivers | Current Performance | Industry Outlook | Industry Life Cycle

## Executive Summary

While the crisis undermines almost economic sectors, the pharmaceutical industry has recorded an annual growth rate of 18.8% during the period of 09-13. The main factors affecting this trend are due to the fact that pharmaceuticals are irreplaceable products and the conception of Vietnamese on healthcare has also been raised.

However, it is undeniable that Vietnam pharmaceutical import is still considerable, taking up above 60% of total domestic pharmaceutical demand. Meanwhile, although local pharmaceutical companies' capacity meets 50% of total domestic demand, only 76% of that domestic production is consumed. Thus, local enterprises turn the rest to exporting. Nevertheless, exports activity is relatively weak since domestic products are just generic medicines which are oversupplied in the global market. Plus, the fact that pharmaceutical input materials still have to be imported makes Vietnamese products having little competitive advantage. Therefore, according to BMI forecast, although Ministry of Health has encouraged companies to borrow new funds with preferential interest rates for facilities development in the next 5 years, Vietnamese pharmaceutical companies might not achieve any breakthroughs. As a result, pharmaceutical trade deficits may not change a great deal.

Pharmaceutical industry is in the early stage of its growth period. Product categories of the industry are sparse, but tend to increase in the near future. Moreover, most companies in the industry are small and have small capital investment. Therefore, the number of companies that meets GMP WHO standard under the roadmap of Ministry of Health only reaches 80-90%. Counterfeit medicines are still pervasive due to relatively loose control policy. Thus, the pharmaceutical industry desires for a change in strategies as well as in the legal framework in order to create favourable conditions for the development of the industry in the coming years.

BMI forecasts that the pharmaceutical industry continues to grow at an average rate of 15.5% per annum in the next 5 years, and contributes 2.2% to the country's GDP in 2017. Although foreign products still dominate in the near future, domestic companies actively invest in R&D activities, and continue to build infrastructures that meet international standards. Also, companies in the industry strive to achieve the goal which has been set out by Ministry of Health that domestic production meets 70% of domestic demand by 2020.

# Industry Performance

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## Key External Drivers

Healthcare concerns raise medicine costs

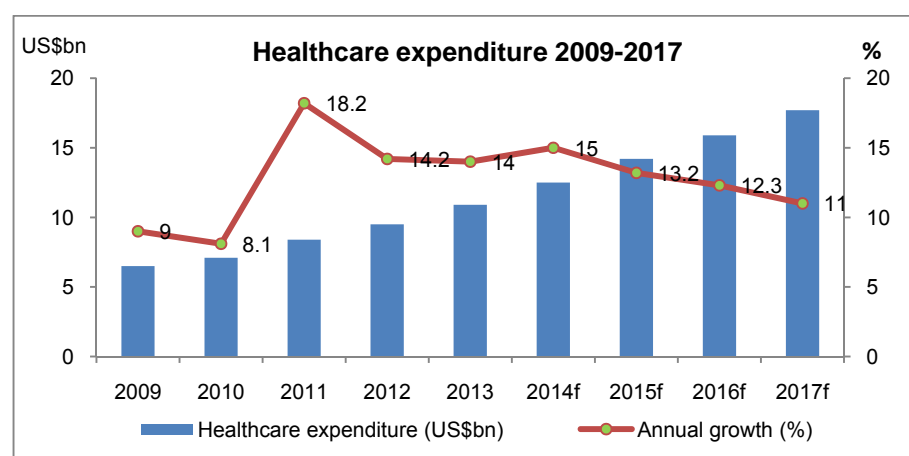
### Enhanced healthcare education

The development of education has led to higher awareness of Vietnamese people on healthcare. Therefore, when the conditions to access to medicine and pharmaceutical market are improved, the increasing demand of people has created favourable conditions for the industry to develop.

According to World Bank, in 2012, expenditure on health care (\$95 per capita) is still lower than that of some countries in the region (Singapore \$2,286 per capita, Malaysia \$346 per capita). Thus, this figure is motivated to increase. BMI stated that expense on health care has increased at the average rate of 12.7% per annum, and is forecasted to continuously rise at the same rate in the future.

Healthcare expenditure per capita 2012 (USD)	
Vietnam	95
China	278
United Kingdom	3,609
Australia	5,939
India	59
Singapore	2,286
Malaysia	346
Myanmar	23
Cambodia	51
Laos	37
Indonesia	95

Source: Worldbank



Source: BMI

Doctors prescribe only 18%-20% domestic medicines in a prescription for patients

### Vietnamese people's habit on domestic versus foreign products consumption

Vietnamese people including doctors and pharmacists still prefer foreign medicines to domestic ones. Official statistics have shown that Vietnamese doctors prescribe only 18%-20% domestic medicines in a prescription for patients. In the perception of Vietnamese, expensive medicines normally have high quality. It is obvious that imported medicines are more likely to be expensive than domestic ones, thus domestic medicines are overshadowed in the domestic market due to this misconception.

However, according to 2013 report of Market Department of Ministry of Industry and Trade, this habit is gradually changing. Generally, the rate of Vietnamese people consuming domestic goods increased to 70% whereas this rate previously was just 30%. Therefore, pharmaceutical product in particular also expects a similar change.

### Vietnam's accession to WTO causes domestic products to cope with strong competition from foreign ones.

When Vietnam became an official member of WTO, foreign companies easily enter Vietnamese market in various forms such as direct investment in plant construction, joint venture, or product distribution to consumers through intermediates in the countries at low import tax rates. Vietnam has committed to cut tariff on 47 main tariff lines including antibiotics, vitamin, to the average rate of 2.5% in 2012, while the previous rate was 10%-15% on average. This is a big challenge for domestic companies.

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Domestic companies have not had ability to produce complex medicines such as antidote and anti-cancer.

## Investment on several specific patented medicines is weak

Most domestic pharmaceutical companies, at this time, only produce generic medicines. Vietnamese pharmaceutical companies have not had ability to produce medicines such as anesthetics, specific antidote, anti-cancer and Parkinson, etc.

The researches on producing patented medicines are expensive in terms of time and manpower. Meanwhile, BMI stated that medical qualifications of Vietnam still remain highly undeveloped. Capital investment in the country as well as from foreign countries is still unconsiderable. Researches of foreign pharmaceutical companies show that Vietnam has not been a potential market due to the lack of infrastructure development as well as pharmaceutical material sources for production. However, according to Ministry of Health, from now on to 2020 and the vision toward 2030, there will be plenty of investment projects in pharmaceutical industry including specific patented medicine sub-sector as these companies can borrow from Vietnam Development Bank at a preferential interest rate of 3% per annum within 12 years.

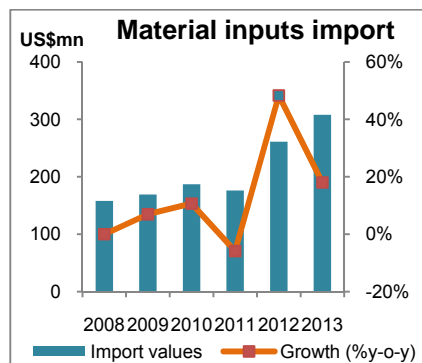
## Over-Reliance on imported pharmaceutical material sources

### Western medicines

90% of raw material inputs are imported from foreign countries. The heavy reliance on foreign material source leads the industry to face exchange rate risk and credit risks as well as the raw materials volume risk. According to General Statistics Office, the price for materials in the pharmaceutical industry has increased over the years (from 6.51% in 2010 to 8.57% in 2012); however, this figure is still lower than other industries in the economy. The increase in material price is mainly due to the devaluation of VND against USD.

Most material source is primarily imported from China and India. Pharmaceutical material imported from China through non-commercial path account a large proportion, said the Deputy Manager of Administration of Traditional Medicines.

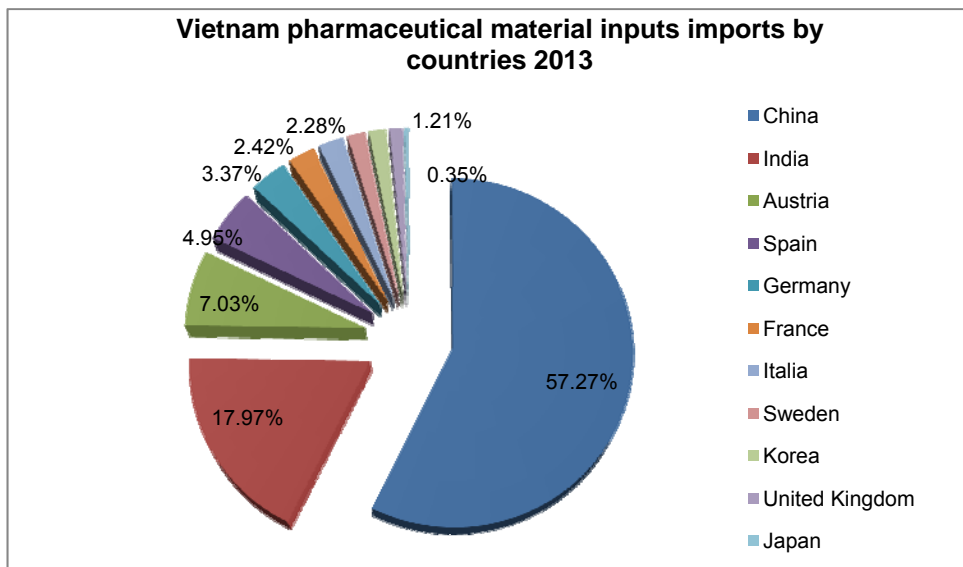
90% pharmaceutical materials used to produce western medicines needs to be imported.



Source: GSO

	Price index of material used for industry production (compared with the previous year (%))		
	2010	2011	2012
Agriculture, Forestry and Fisheries	11.51	30.65	8.34
Food, beverage and tobacco	10.38	22.75	8.47
Textile	5.8	13.82	14.31
Processed wood and footwear	15.55	25.58	9.89
Chemicals	4.29	18.33	9.86
<b>Medicines and pharmaceuticals</b>	<b>6.51</b>	<b>9.94</b>	<b>8.57</b>
Rubber products, non-metallic minerals	6.61	16.36	13.8
Electrical equipments	4.32	11.11	5.31
Transport equipments	3.74	6.77	1.38
<b>Industries average</b>	<b>9.59</b>	<b>21.27</b>	<b>9.88</b>

Source: General Statistics Office



Source: Vietnam Customs

# Industry Performance

Executive Summary | Key External Drivers | Current Performance | Industry Outlook | Industry Life Cycle

## *Traditional pharmaceuticals*

Material source for traditional pharmaceutical industry is produced inhouse rather than imported as western pharmaceuticals. With over 4,000 species of herbs, Vietnam ranks the third worldwide in term of biological diversity. Furthermore, the usage rate of traditional pharmaceuticals is increasing, and according to Ministry of Health's forecast, this rate will increase to 30% in the next 5 years. Therefore, traditional pharmaceutical is a highly potential sub-sector which reduces the reliance on import of pharmaceutical industry in general.

## **Loose price management and intellectual property protection**

Price management and intellectual property protection of the government have not been implemented closely, thus the price of this product still increases over the years on average, and the status of counterfeit medicines still remains.

# Industry Performance

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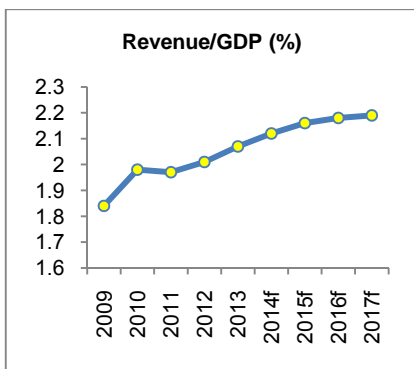
## Current performance

Revenue growth is 18.8% per annum in 09-13

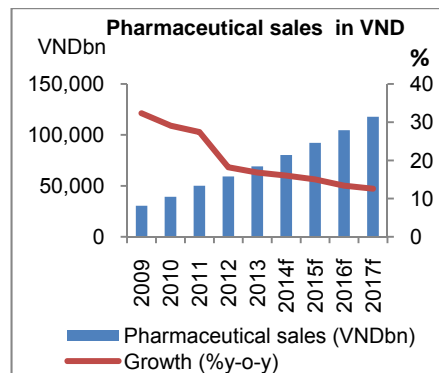
## Revenue growth increases steadily over the years

With the growing conception on health care and medical need of Vietnamese people, the revenue of the medicine industry keeps increasing. The average revenue growth during the period of 2009-2013 reached 18.8% per annual. This growth is opposed to other economic sectors during the current economic crisis period of 2008-2013. This is mainly because pharmaceutical products are essential and irreplaceable items.

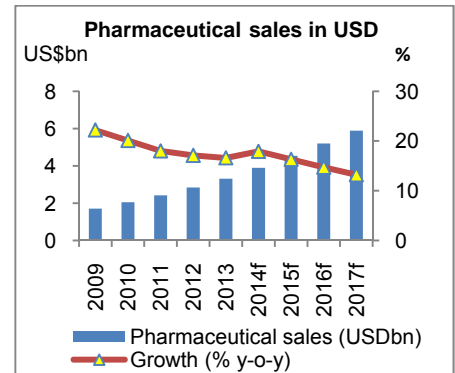
BMI forecasts that medicine consumption will rise to VND117, 802.35 billion on 2017, corresponding to the average growth of 15.5%. Moreover, the percentage contribution of the industry to the country's GDP has increased over the years and this trend is predicted to continue in the next 5 years.



Source: BMI



Source: BMI



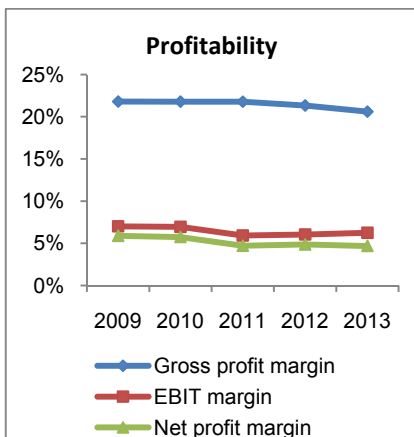
Source: BMI

Profit still fluctuates due to uncontrolled input costs

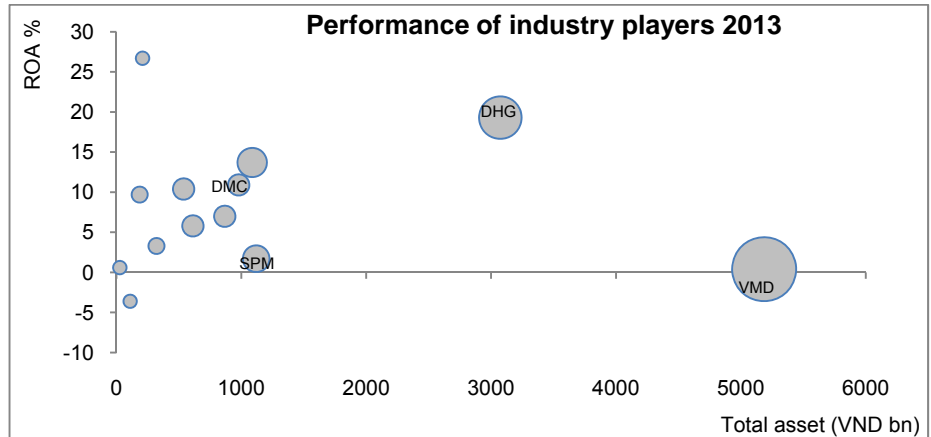
## Profit still fluctuates

Medicines and pharmaceuticals are essential products, thus the industry revenue grows steadily (2 digits on average). However, the industry profit fluctuates as the industry recorded the lowest growth in 2011 (5.03%) and the gradual decrease in profitability indicators of the industry.

This can be explained by several reasons. In particular, the main reason results from sudden increase of materials price in 2011. The input prices for the sector increased by 10% on average in 2011. In addition, the large increase in financial costs in recent years has contributed to reducing the industry profit margin.



Source: VietinbankSc



Source: VietinbankSc

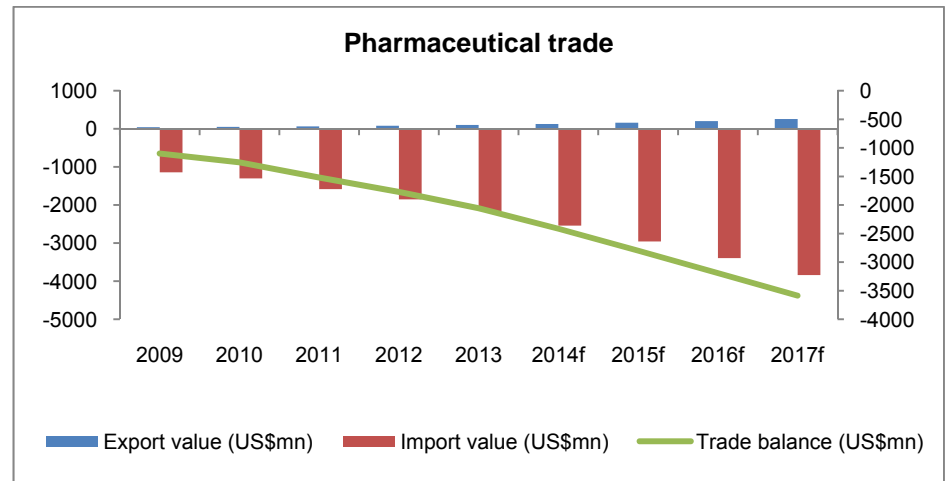


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Furthermore, it is notable that there is huge difference in terms of profit among companies in the industry. When comparing between listed companies in 2013, large companies such as DHG Pharma and Traphaco still keep leading positions with high profits, while the profits of the other companies in the industry do not exceed VND100 billion.

## Import and Export Performance: Large deficit trade balance

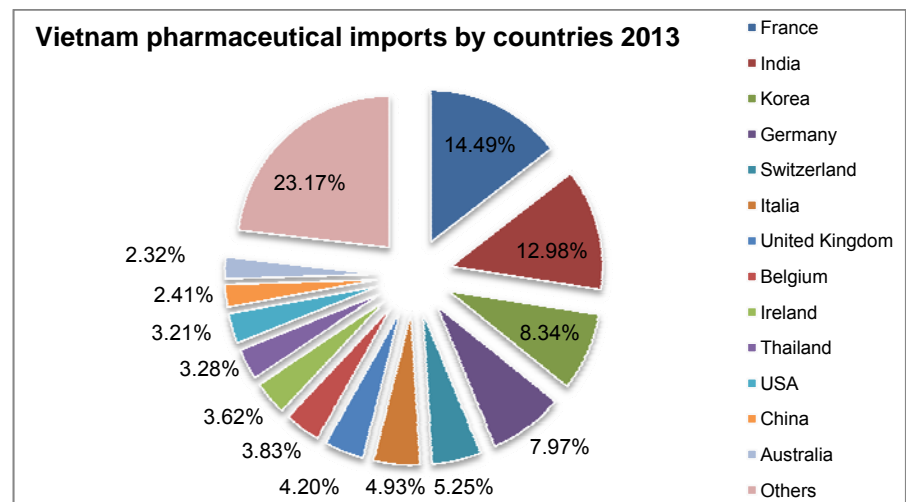


Source: BMI

## Import is still high

Vietnam imports over 60% of domestic demand

Vietnamese medical industry faces great competition from foreign pharmaceutical labels. According to a survey carried out by Ministry of Health, by 2013, the production of Vietnam's pharmaceutical industry just meet 50% of domestic demand, but the consumption proportion is only 38%. The rest belongs to foreign labels. Of about 2,000 active ingredients registered in Vietnam, more than 1,000 active elements are of foreign companies, while domestic companies only register 500 active elements which focus on medicines such as antipyretic, analgesic, vitamin and tonic.



Source: General Department of Vietnam Customs

# Industry Performance

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Pharmaceuticals are imported mainly from France, India and Korea

Vietnam imports pharmaceuticals mainly from France, India and Korea. The advantage of French market is that medicine line is stable and that medicines are seldom counterfeited. Although the price of medicines imported from France is higher than that of domestic products, French medicines are still more rational compared with other markets. Regarding Indian market, due to cheap labor and plentiful raw material sources, Indian pharmaceuticals are competitive in term of price.

## Export is weak

Export price of Vietnamese pharmaceuticals is 20-30% higher India and China.

The pharmaceutical export of Vietnam still faces the barriers of prices and export policies.

Export grew at a rate of 25.93% per annum during the period of 09-13.

Firstly, according to Price Management Department, the annual average export price of Vietnam is 20%-25% higher than other countries in the region such as India and China. If the domestic prices are reduced equal to the prices of those countries, domestic companies will no longer make profit to stay in business. The high price is caused by the fact that Vietnam pharmaceutical industry has to import main materials while those two countries can manage this matter in-house. Secondly, product registration process still faces many difficulties of time consuming. In order to bring products to new markets, companies must send registration form, application form and product sample for testing. This process takes up to 2 years.

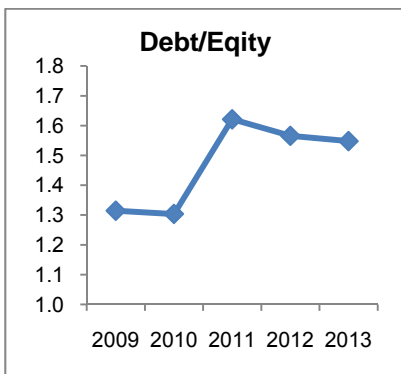
Forecast: Growth rate will stay the same during the period of 14-18

However, export performance is gradually becoming better as export revenues have increased over the years. For example, the export revenue of DHG increased from several thousand USD in 2006 to over one million USD in 2012, taking up 2% of the industry's export turnover. Domesco experiences an increase in revenue from 1.2% in 2009 to nearly 1.5% in 2012.

Potential export markets: Southeast Asia, Africa, and the Middle East.

By 2013, Vietnamese companies has exported to countries including Myanmar, Lao, Cambodia, India, Hongkong, Phillipin, Malaysia, and more than 20 countries in Africa. BMI forecasts that export continues to grow rapidly and reaches USD250 million in 2017. This is based on the assessment of some potential markets in Africa since 70% of demand in African countries can only be met by import, as WHO said. Primary products needed including medicines for malaria and diarrhea and vaccines are those products that Vietnamese companies can produce.

## Financial performance: Liquidity and leverage



Source: VietinbankSc

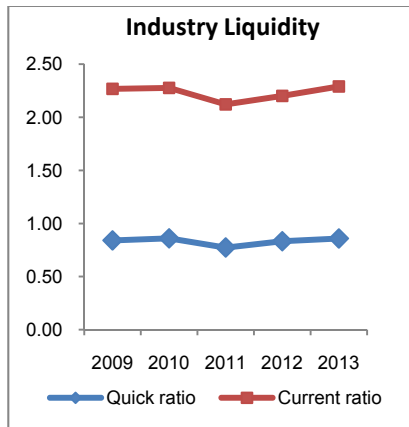
During the 5-year period of 09-13, the pharmaceutical industry has continuously increased its level of debt in order to finance the growth process, especially in 2011. When it is difficult to access to banks' capital flow in 2012 and 2013, the debt ratio was reduced, but pharmaceutical companies were still in alarming state since the ratio of debt over total assets was still greater than 50%.

In larger companies such as DHG, OPC and TRA, the debt ratio is smaller than the industry average debt ratio. This is reasonable since large companies have good profitability. Thus, they can borrow at low interest rates, or use retained earnings.

Solvency also witnessed the same trend as these indicators deteriorated in 2011 and began to improve in 2012. However, the liquidity of the industry still remains high.

# Industry Performance

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Source: VietinbankSc

## Counterfeit medicines are pervasive due to loose management

Counterfeit medicines are pervasive on Vietnamese pharmaceutical market. This directly affects patients and the image of pharmaceutical companies whose medicines are counterfeited. The Drug Administration of Vietnam said that the percentage of substandard medicines was 3.09% in 2012, which increased by 0.2% compared with 2011. The percentage of counterfeited medicines was 0.1%. Especially, the trading of counterfeit medicines primarily focused in the border areas of Laos, Campodia and China.

## The industry is influenced by joint provincial circular No 01/2012/TTLT-BYT-BTC

The Circular No 01 guiding the bidding on medicine purchase in medical facilities takes effect from June, 2012. The Circular aims to reduce the budget of health insurance and costs of medicines for patients by bidding to purchase the cheapest medicines for hospitals. However, this also means that the bidding eliminates pharmaceutical lines of high quality, but also of higher prices.

The implementation of this Circular decreased the competitiveness of companies in the industry which has high quality products. Profits of companies whose revenues mainly depend on the amount of products sold to medical facilities like IMP will be seriously affected.

## Pharmaceutical prices are still rising at a rate of 7.7%

Average pharmaceutical prices still rise annually at the average rate of 7.7%. This is due to the increase of national CPI together with the increase of major costs such as raw materials, wages and electricity and water prices.

However, according to the Drug Administration of Vietnam, domestic medicine prices have not changed as much as imported medicine prices. This can be explained by the following reasons:

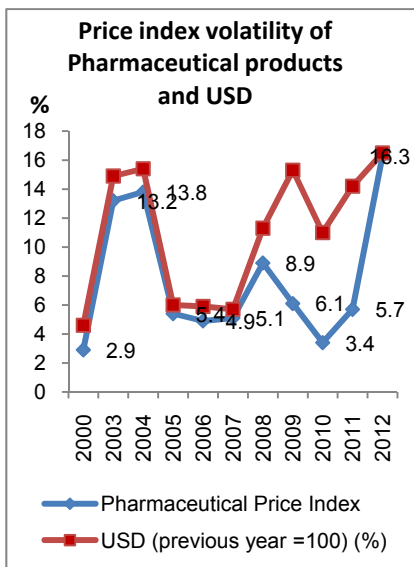
- (1) The devaluation of Vietnam Dong against US dollar.
- (2) This could be due to tacit agreements between foreign manufacturers and domestic importers. For example, the branch of GSK in Vietnam had agreements with companies in the country to raise the price up to 4-5 times more than the original price.

## The number of companies and drug stores that qualify GMP certificate of WHO is still low.

On January 13<sup>th</sup>, 2004, Ministry of Health issued Decision No 3886/2004/QĐ-BYT on applying “Good Manufacturing Practices” rule of WHO. Accordingly, by the end of 2006, all western medicine manufacturing facilities must satisfy the rule. By 2010, all companies that produce medicines for external use and pharmaceuticals must meet this standard. However, by 2013, there are only 79 of around 105 western medicines manufacturing enterprises and 5 of 80 traditional medicine manufacturing enterprises that qualify GMP certificate of WHO.

Therefore, it is expected that Ministry of Health will be more aggressive in encouraging companies to meet the standard or eliminating those companies that do not have ability to meet the standard in the coming time. The number of enterprise thus can be significantly reduced.

Pharmaceutical prices and the CPI increase in the same direction. Prices of imported pharmaceuticals increase more than that of domestic ones.



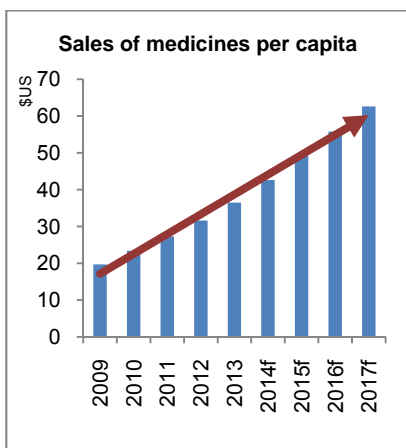
Source: GSO

# Industry Performance

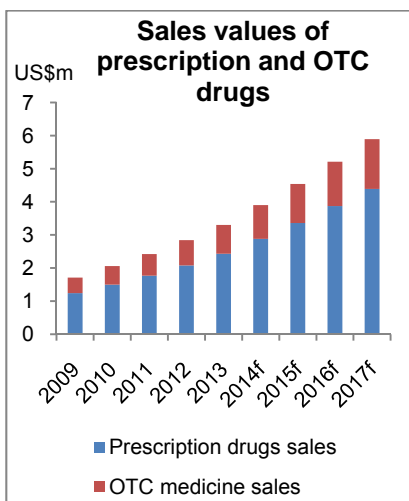
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## Industry outlook

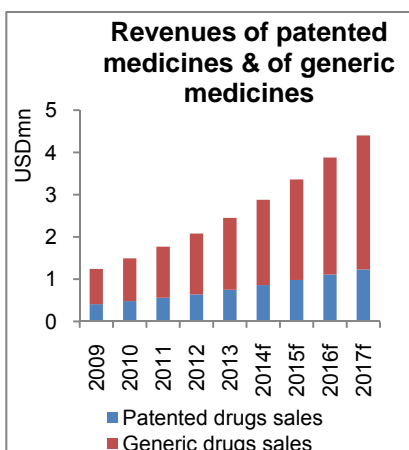
Continue to grow at an average rate of 14.7% per annum during the period of 14-18



Source: BMI



Source: BMI



Source: BMI

The pharmaceutical industry is forecasted to continue to grow in the next 5 years. Low pharmaceutical expenditure per capita (31.6 USD), together with population explosion and the increasing awareness about healthcare will create strong premise for purchasing power of pharmaceuticals, leading to the growth of the industry.

BMI forecasts that medicine consumption will increase to VND117,802.35 billion in 2017, corresponding to the average growth rate of 14.7%. Sales of medicines per capita also increase at the same rate. Moreover, the contribution rate of the industry to the country's GDP will increase 2.07% in 2013 to 2.19% in 2017 with a continuous upward trend.

### Import and Export rate

As forecasted by BMI, export value will grow at an average annual rate of 26.5%, while import value will increase at a lower rate of 15.7% and in a decreasing trend. However, foreign products will still dominate domestic ones as the percentage of import over total revenue still reach over 60%. In the coming period to 2017, the trade balance of import and export of the pharmaceutical industry is expected to have a deficit of USD 3.5 billion.

### The percentage of prescription medicines will increase while the percentage of medicines sold without prescription will correspondingly decrease

Currently, only about 20%-30% of Vietnamese buy medicines with prescriptions. However, this rate will gradually increase, mainly because the demand for specific medicines increases and people prefer to have medical examination at hospitals rather than at home. Furthermore, on the supply side, companies will increase revenues by pay commissions to doctors if they advise companies' products through prescription. Currently, the commission price for doctors is around 10-30% of total value of pharmaceuticals.

BMI predicted that the usage percentage of medicines through prescription will rise from 73.3% in 2012 to 74.6% in the next 5 years. This is because rural areas will have more opportunities to seek medical care and access to professional health care. Accordingly, the percentage of medicines sold without prescription will decline from 26.67% to 25.44%.

### Companies in the industry remain staying focused on producing generic medicines rather than patented medicines

Due to poor technology in the country, plus low investment, Vietnamese companies are weak in producing high technology dosage form of pharmaceuticals. According to BMI, the revenue of patented medicines will rise at an average of 12.7% per annum, and the percentage of this medicines line over total revenue will decrease from 22.7% in 2012 to 18.51% in 2020. Meanwhile, generic medicine line still accounts for the large proportion on the market. Vietnam has great potential in producing this type of medicines due to the low purchasing power of the market.

# Industry Performance

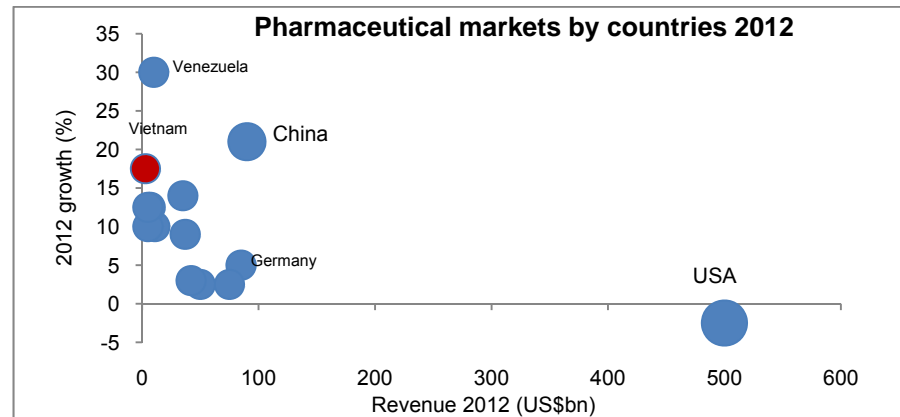
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## Industry life cycle

The pharmaceutical industry is still in the early stage of **GROWTH** period.

Although Vietnam's pharmaceutical industry was formed in 50s of the last century, it is still in the early stage of growth period, which is reflected in high growth rate compared with the average growth rate of other economic industries in the country and the world pharmaceutical industry, increasing number of products, great demand to invest in technology and product development.

Vietnam's pharmaceutical industry has a high growth rate of about 19% per annum. This figure is greater than the GDP growth rate of Vietnam (7% per annum) and the average growth rate of the world pharmaceutical industry (7-10% per annum)



Source: IMS Health Market Prognosis

According to the assessment scale of WTO and UNIDO, the pharmaceutical industry of Vietnam is around level 3, which means that Vietnam has a domestic pharmaceutical industry manufacturing generic medicines and exporting some products. However, most companies in the industry still have to import raw materials from foreign countries. Therefore, Vietnam's pharmaceutical industry has opportunities to develop when the industry has a strong supply chain of pharmaceutical raw materials and when there is huge investment in specific medicine subsector in order to decrease import.

When compared to other countries with developed pharmaceutical industries, infrastructure and technology of Vietnam is still backward. After joining WHO, Vietnam's pharmaceutical industry began to develop and to catch up with other countries in the region such as China, India, thus, the investment needed in infrastructure is very high. According to the statistics of the Drug Administration of Vietnam, the country has 39 foreign investment projects, of which 26 projects came into operation with total registered capital of USD 302.6 million. Ministry of Health also encourages investment in new plants with preferential interest rates.

In the past 5 years, many products have been introduced and many new remedies have been discovered. By the end of 2009, the number of domestic registered medicines was less than the number of foreign medicines (10,092 and 11,923 units respectively). However, by July, 2013, the number of registered domestic medicines increased to 15,799 units which were higher the number of foreign medicines (12,860 units), according to DAV.

These significantly growing figures point out that the pharmaceutical industry of Vietnam is on track to thrive. With the domestic demand for industry products as well as oriented investment in projects of antibiotics and specific medicines proposed by Ministry of Health, Vietnam's pharmaceutical industry will thrive in the next 5 years.

# Products and Markets

Supply Chain | Products and Services | Demand Determinants | Major Markets | Business location

## Supply Chain

### Main Supply Chain

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#### Domestic materials inputs

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Companies in the industry purchase auxiliary materials, natural herbs and some domestic synthetic materials.

#### Imported materials inputs

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Companies in the industry often have to import synthetic materials such as Lactose, Gelatin, Vaseline, and other precious herbs from India and China.

#### Imported pharmaceuticals

---

Companies distribute pharmaceutical products imported from countries such as France, India and China.

### Main Sale Channel

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#### Medical facilities

---

Domestic companies sell products directly to medical facilities, in which doctors fill a prescription for patients.

#### Drugstores

---

Domestic companies distribute products to retail drugstores.

#### Medicine manufacturing companies

---

Some companies now can produce auxiliary materials for manufacturing finished pharmaceutical products.

#### Export

---

Domestic companies find paths for their products by exporting to some neighboring countries in Southeast Asia and to African market.

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## Products and Services

The revenue of traditional medicines contributes from 0.5% to 1.5% to total revenues.

### In term of medical origin

Products in the industry include western and traditional pharmaceuticals, of which traditional pharmaceuticals contribute only 0.5%-1.5% of total production value of the industry. Currently, the country has 80 traditional pharmaceutical manufacturing companies, of which only 5 companies qualify GMP certificate of WHO. In addition, there are 400 small manufacturing facilities without registration, according to Ministry of Health.

In 2009, the number of registered traditional pharmaceuticals was equal to 10% of total registered pharmaceuticals of the industry. Meanwhile, traditional pharmaceutical segment has great potential to develop due to increasing domestic demand and proactive production costs with plentiful domestic pharmaceutical material source. Hence, Ministry of Health advocates that the number of registered traditional pharmaceuticals increase to 30% by 2015.

### In term of disease

Revenues obtained from nutrition pharmaceuticals and systemic infection pharmaceuticals are the highest, followed by cardiovascular and nerve.

The largest proportion of revenue comes from the sub-sector of metabolic nutritional medicine and systemic infection.



# Products and Markets

Supply Chain | Products and Services | Demand Determinants | Major Markets | Business Location

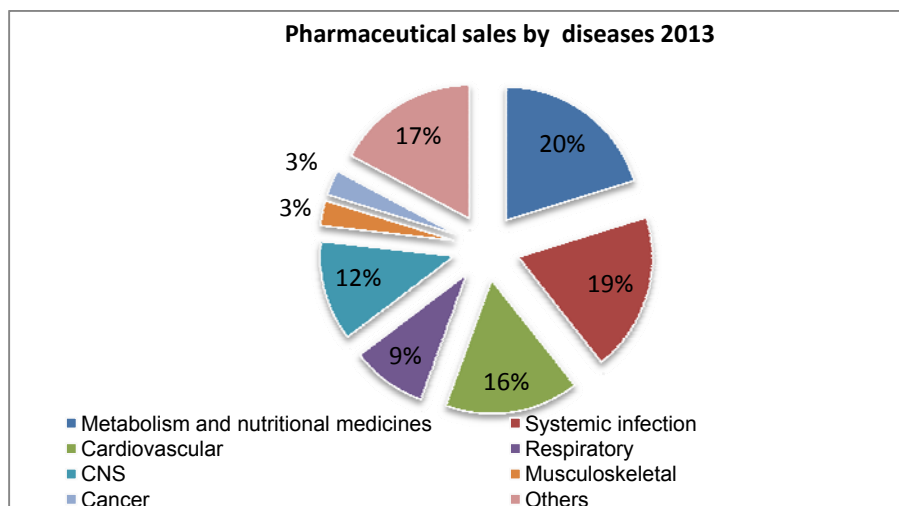
## Statistics on metabolism and nutritional medicines

Year	Businesses	No of products	Imported	Produced
2009	1,114	1,861	832	1,029
2010	1,626	3,721	1,632	2,089
2011	1,512	3,560	1,836	1,724
2012	1,552	5,514	3,198	2,316

Source: Vaff

## Metabolic pharmaceuticals and Nutrition pharmaceuticals

This is a group of anti-obesity medicines, anti-malnutrition and vitamin which has a highly growing demand. However, most metabolic pharmaceuticals still need to be imported, with the growth rate of 35%-40% per annum. Main import sources are from the United State, Switzerland, France and Thailand. There have been many domestic companies to participate in this field such as LDP, VG5 and HGP. However, the production rate is only about 42% of domestic demand. Of which, the usage rate in Hanoi is 68.1%, that figure in HCM city is 43.0%.



Source: Drug Administration of Vietnam

Ministry of Health has a target. Accordingly, by the 2020, pharmaceutical industry on nutrition will ensure to meet 50% of domestic demand and 50% of domestic companies will apply advanced and modern technology. Moreover, the export will reach VND 1 billion per annum.

## The percentage of using systemic infection medicines over total revenue (2010)

Vietnam	Indonesia	Philippines
19%	17%	15%
Thailand	Malaysia	Singapore
18%	15%	14%

Source: The Drug Administration of Vietnam

## Pharmaceuticals on systemic infection

Regarding to pharmaceuticals on systemic infection, the usage percentage in Vietnam is higher than that in other countries in the region. The reason for this situation is due to the fact that sanitation in Vietnam is weak and the rate of disease structure in Vietnam is mainly caused by bacteria.

Besides, in other treatment pharmaceuticals groups including cancer, central nervous system, the production rate of Vietnamese pharmaceutical companies is still low since these groups need complex medicines. Vietnamese enterprises have produced pharmaceuticals related to those disease groups, but only in the form of supplements or for temporary use.

# Products and Markets

Supply Chain | Products and Services | Demand Determinants | Major Markets | Business Location

## Demand Determinants

Vietnam's pharmaceutical industry mainly serves the domestic market, in which the sale channels through medical facilities account for over 70% of revenue.

Demand determinants of Vietnamese pharmaceutical products include quality of products, Vietnamese people's conception on consuming Vietnamese goods and prescription habits of doctors and pharmacists

### Quality of pharmaceutical products

This is the decisive factor since pharmaceutical is the product line that is directly related to human health. Pharmaceutical industry is the industry whose demand is inelastic with price. It means that if the price increases, consumers will still buy that product as long as it can cure the disease. Therefore, regarding pharmaceutical products, the quality factor is put on the top.

### Prescription habit of doctors and pharmacists

According to the statistics from Ministry of Health, less than 39% value of prescription medicines is of domestic medicines. In particular, in the central hospitals, the amount spent on domestic medicines takes up only 12%. In addition to reasons that companies' introduction of product quality is weak and that there are many specific complex medicines that domestic companies cannot produce, prescription habit of doctors and pharmacists needs to take into concerns. Consumers are passive and doctors decide types of medicines needed. Therefore, domestic companies need to have better introduction methods in order to change habit of those people who are entitled to deciding types of pharmaceuticals needed to purchase.

### Habit of consuming Vietnamese products

Revenue of Vietnam's pharmaceutical industry still heavily depends on revenues from retail drugstores. Vietnamese have a habit of home treatment and using medicines that they are familiar with. According to Vietnamese people's conception, Vietnamese products are normally not as high quality as foreign products such as products from France, Germany, Korea, etc. Therefore, each year, Ministry of Industry and Trade always boosts the movement called "Vietnamese people use Vietnamese products" in order to encourage people to consume products made in the country. Removing this habit will help Vietnamese enterprises have a big leap forward in business market share.

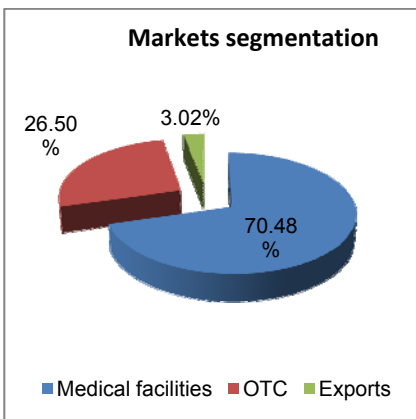


# Products and Markets

Supply Chain | Products and Services | Demand Determinants | Major Markets | Business location

## Major Markets

Vietnam pharmaceutical industry concentrates on domestic market. Especially, revenues generated from medical facilities account for 70%.



Source: VietinbankSc

Pharmaceutical products are marketed to users through a variety of channels from hospital, regional polyclinics, clinics, personal pharmacies, affiliated drugstores of enterprise and hospital, and other retail drugstores.

### Medical facilities

More than 70% of medicine revenues in Vietnam come from hospitals (including the direct use of medicines in hospitals and from prescription by doctors). The fact the number of medical facilities has increased over the years and that people have a habit of seeing doctors facilitate the growth of the industry's revenue in this segment.

When separately calculating in terms of domestic medicines, this figure is less than 50%. Besides, the usage rate of domestic medicines in hospitals is different when the usage rate of domestic medicines in the central hospitals is 12% while that figure of provincial hospitals and district health stations are 34% and 60% respectively.

Additionally, the usage rate of domestic medicines in hospitals is likely to decrease due to the effect of Circular 01 as medicines of cheap prices win the bid. And it is more likely that most medicines of cheap prices are those imported from China and India.

The number of medical facilities and drugstores in Vietnam				
	2009	2010	2011	2012
Hospitals	1,002	1,030	1,040	1,030
Regional polyclinics	682	622	620	641
Nursing hospitals	43	44	59	62
Clinics	10,979	11,028	11,047	10,757
Institutional health stations	710	710	710	715
Other facilities	34	33	30	34
Retail drugstores	41849	42000	N/A	57000

Source: GSO, BMI

### Retail drugstores

The number of drugs sold in drugstores in Vietnam is quite high (50-60%). However, since medicines sold in drugstores are common medicines and tonic with lower prices than specific medicines prescribed through hospitals, then in terms of revenue, medicines at drugstores take up only 26.5% of market share. In 2012, there were about 57,000 drugstores in the country, which means that every 10,000 people, there were 6.3 drugstores.

### Export

Export of Vietnam pharmaceutical products is still low. The trade balance of pharmaceutical industry remains negative in the past years. Nevertheless, the government still provides favorable conditions to encourage Vietnamese enterprises to export to international markets. Those conditions include urging enterprises to meet GMP standards, supporting investment projects, reducing import tax of raw material to 0%.

Following the same strategy of neighboring countries such as Bangladesh, Pakistan, Vietnam pharmaceutical industry targets exporting to markets that have low barriers to entry. The Southeast Asian countries such as Laos and Cambodia are primary markets, while African region and the Middle East will eventually be noticed.

# Products and Markets

Supply Chain | Products and Services | Demand Determinants | Major Markets | Business Location

## Business location



Source: VietinbankSc

According to statistics from Ministry of Health, pharmaceutical manufacturing companies mainly focus in two cities, namely Ho Chi Minh city that takes up 50% of the number of enterprises) and Hanoi that accounts for 30%. The rest of 20% belongs to An Giang, Can Tho, Nam Dinh and Phu Yen.

The concentration of factories leads to the concentration of distribution. In small provinces, the number of drugstores of enterprise is also smaller. Therefore, According to the development plan of pharmaceutical industry, Ministry of Health encourages enterprises to build factories in areas that have not had any pharmaceutical manufacturing companies such as High Land and Northern Mountainous area. Accordingly, these factories will focus on manufacturing generic medicines and prioritize the use of pharmaceutical products that have raw materials available in the region. Regarding the regions that have many factories such as HCM city, Ministry of Health orient to manufacture various kinds of specific medicines and high-tech medicines.

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