

# WuXi AppTec (603259 CH)

## Enhance leading position amid COVID-19 pandemic

- **Strong growth not interrupted by COVID-19 pandemic.** WuXi AppTec reported 1H20 revenue of RMB7.23bn, up 23% YoY, largely inline with our estimate. Non-IFRS net profit was up 29% YoY to RMB1.52bn. Attributable net profit surged 62% YoY to RMB1.72bn, mainly due to the RMB408mn investment income and RMB222mn fair value gains, offset by RMB487mn fair value loss from derivative component of convertible bonds.
- **Fast expanding customer base during COVID-19 pandemic.** In 1H20, WuXi AppTec added c. 600 new customers which contributed 5.5% of the Company's total revenue. WuXi AppTec has provided services to a wide range of over 4,000 customers, including all the top 20 big pharma companies worldwide. Top 20 pharma companies contributed 31.9% of the Company's total revenue in 1H20.
- **CDMO income to further accelerate on expanding capacity.** In 1H20, CDMO revenue grew 26% YoY to RMB2.16bn, contributing 30% of the total revenue. Thanks to follow-the-molecule strategy, the Company added 269 new molecules into its CDMO pipeline. The CDMO business has rich pipelines with 26 commercialized projects, 42 Phase III projects, 184 Phase II projects and 861 early-stage projects. In order to meet the strong demand, the Company boosted its annual manufacturing capacity of high potency APIs to 100 kg level by Jun 2020 and will further expand its CDMO capacity.
- **DDSU projects allows the Company to share profit from innovative drugs.** In 1H20, WuXi AppTec has submitted 13 INDs for DDSU projects, accounting for 19% of innovative small molecule IND filings accepted by the NMPA. Cumulatively, the Company's DDSU projects have completed 98 IND filings and 66 clinical approvals. In addition, 84 DDSU projects are in discovery or preclinical phase.
- **We lifted SOTP-based TP from RMB118.32 to RMB131.98 to reflect strong long-term growth outlook for WuXi AppTec.** We forecast WuXi AppTec's adjusted Non-IFRS net profit to grow by 27%/33%/29% YoY in FY20E/21E/22E, respectively; and attributable net profit to increase 73%/24%/29% YoY in FY20E/21E/22E. Moreover, WuXi AppTec maintained a diversified investment portfolio with 90+ companies and funds which will bring significant investment gains over the long term.
- **Catalysts:** 1) Higher-than-expected earnings growth, 2) Overseas acquisitions. **Risk:** Operation disrupted by the COVID-19 Pandemic.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	9,614	12,872	16,193	21,090	26,289
YoY growth (%)	24%	34%	26%	30%	25%
Net income (RMB mn)	2,261	1,855	3,216	3,998	5,163
YoY growth (%)	84.2%	-18.0%	73.4%	24.3%	29.1%
Adjusted Non-IFRS net income (RMB mn)	1,742	2,407	3,056	4,069	5,242
YoY growth (%)	23.2%	38.2%	27.0%	33.2%	28.8%
EPS (RMB)	1.59	1.14	1.35	1.68	2.17
Change (%)	22%	-28%	19%	24%	29%
Consensus EPS (RMB)	1.94	1.12	1.16	1.49	1.90
P/E (x)	67.72	94.63	79.84	64.21	49.73
P/B (x)	8.43	10.10	9.76	8.81	7.83
ROE (%)	12.85	10.98	12.32	13.83	15.86
Net gearing (%)	Net cash	0.68	Net cash	Net cash	Net cash

Source: Company data, Wind, CMBIS estimates

### BUY (Maintain)

Target Price	RMB131.98
(Previous TP)	RMB118.32)
Up/Downside	+22.34%
Current Price	RMB107.88

### China Healthcare Sector

**Jill Wu, CFA**  
 (852) 3900 0842  
 jillwu@cmbi.com.hk

**Sam HU, PhD**  
 (852) 3900 0882  
 samhu@cmbi.com.hk

Mkt. Cap. (RMB mn)	254,446
Avg. 3mths t/o (RMB mn)	1,589.18
52W High/Low (RMB)	118.5/48.6
Total Issued Shares (mn)	2,073
Source: Bloomberg	

### Shareholding Structure

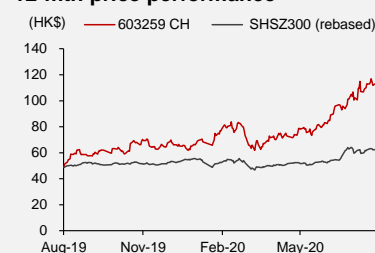
Management	26.63%
A-share public shareholders	60.47%
H-share public shareholders	12.90%
Source: Bloomberg	

### Share performance

	Absolute	Relative
1-mth	4.3%	6.5%
3-mth	37.0%	14.3%
6-mth	37.6%	16.6%

Source: Bloomberg

### 12-mth price performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

### Related Reports

1. Strong core business growth – 26 Mar 2020
2. Strengthening leading position in global CRO/CDMO industry – 13 Dec 2019

Please cast your valuable vote for CMBIS research team in the 2020 Asiamoney Brokers Poll:  
<https://euromoney.com/brokers>

**Figure 1: CMBIS earnings revisions**

(RMB mn)	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	16,193	21,090	16,400	21,385	-1.26%	-1.38%
Gross profit	6,178	8,214	6,384	8,384	-3.23%	-2.03%
Operating profit	2,901	4,165	3,160	4,154	-8.21%	0.27%
Net profit	3,216	3,998	2,860	3,761	12.44%	6.31%
EPS (RMB)	1.35	1.68	1.73	2.28	-21.89%	-26.31%
Gross margin	38.15%	38.95%	38.93%	39.21%	-0.78ppt	-0.26ppt
Operating margin	17.91%	19.75%	19.27%	19.42%	-1.36ppt	+0.33ppt
Net Margin	19.86%	18.96%	17.44%	17.59%	+2.42ppt	+1.37ppt

Source: Company data, CMBIS estimates

**Figure 2: SOTP valuation**

SOTP valuation	2021E
Attributable Non-IFRS net profit (RMB mn)	4,069
PE multiple of core business	65.0
<b>Valuation of CRO/CDMO business (RMB mn)</b>	<b>264,466</b>
Fair value of other non-current financial assets (RMB mn)	9,922
PB multiple of investment business	5.0
<b>Valuation of investment business (RMB mn)</b>	<b>49,611</b>
<b>SOTP valuation (RMB mn)</b>	<b>314,076</b>
# of shares	2,379,782,543
<b>Target price (RMB per share)</b>	<b>131.98</b>

Source: CMBIS estimates

**Figure 3: Peers' valuation**

			Price	Mkt Cap	Net profit YoY			P/E (x)		P/B (x)		ROE (%)	
Company	Ticker	Rating	(LC)	(US\$ mn)	FY20E	FY21E	FY22E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
H-share													
WuXi AppTec	2359 HK	BUY	112.00	36,609	73.4%	24.3%	29.1%	79.8	64.2	9.8	8.8	12.3	13.8
WuXi Biologics	2269 HK	BUY	161.40	28,264	26.8%	40.7%	33.7%	89.5	63.6	8.1	7.2	9.5	12.0
Pharmaron	3759 HK	NR	83.30	10,303	57.2%	22.3%	32.1%	65.5	53.2	6.6	5.9	10.3	11.7
Frontage	1521 HK	NR	3.70	970.6	33.2%	29.0%	24.4%	36.7	28.1	3.3	3.0	9.8	10.2
VIVA Biotech	1873 HK	NR	10.34	767	57.7%	41.8%	41.6%	39.0	29.9	5.8	4.6	17.7	21.3
	Average				49.6%	31.6%	32.2%	62.1	47.8	6.7	5.9	11.9	13.8
A-share													
WuXi AppTec	603259 CH	BUY	107.88	36,609	73.4%	24.3%	29.1%	79.8	64.2	9.8	8.8	15.5	18.5
Tigermid	300347 CH	BUY	100.48	12,357	-0.1%	39.3%	35.8%	68.6	49.2	11.9	10.0	18.4	20.9
Pharmaron	300759 CH	NR	93.28	10,303	60.1%	30.3%	31.4%	85.4	64.5	8.6	7.5	10.3	12.0
Joinn Lab	603127 CH	NR	87.71	2,861	39.1%	35.4%	31.9%	71.0	52.3	18.5	14.4	23.9	25.1
Asymchem Lab	002821 CH	NR	227.92	7,586	33.4%	32.8%	31.7%	71.1	53.6	13.5	10.9	19.5	20.9
	Average				41.2%	32.4%	32.0%	75.2	56.8	12.5	10.3	17.5	19.5

Source: Bloomberg, CMBIS estimates, as at 14 Aug 2020.

## Financial Statements

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>9,614</b>	<b>12,872</b>	<b>16,193</b>	<b>21,090</b>	<b>26,289</b>	<b>Total net profit</b>	<b>2,334</b>	<b>1,911</b>	<b>3,241</b>	<b>4,030</b>	<b>5,203</b>
China-based lab services	5,113	6,473	8,240	10,547	13,289	Depreciation and amortization	650	814	937	1,077	1,163
CMO/CDMO services	2,699	3,752	4,908	6,527	7,833	Change in working capital	(837)	(497)	58	(510)	(482)
US-based laboratory services	1,204	1,563	1,720	2,236	2,862	Investment loss (gain)	(676)	219	(707)	(416)	(536)
Clinical research & other CRO services	585	1,063	1,297	1,752	2,277	Other operating activities	170	469	192	149	149
Others	13	21	28	28	28	<b>Net cash from operating</b>	<b>1,640</b>	<b>2,916</b>	<b>3,721</b>	<b>4,331</b>	<b>5,498</b>
Cost of sales	(5,821)	(7,858)	(10,015)	(12,876)	(16,002)	Capex	(2,249)	(2,532)	(2,000)	(1,500)	(1,500)
<b>Gross profit</b>	<b>3,793</b>	<b>5,014</b>	<b>6,178</b>	<b>8,214</b>	<b>10,287</b>	Acquisition of subsidiaries	(124)	(785)	-	-	-
Business taxes	(29)	(28)	(35)	(46)	(58)	Other investing activities	(2,904)	(1,658)	(2,000)	(2,000)	(1,500)
Selling & distribution expenses	(338)	(439)	(588)	(696)	(841)	<b>Net cash from investing</b>	<b>(5,277)</b>	<b>(4,975)</b>	<b>(4,000)</b>	<b>(3,500)</b>	<b>(3,000)</b>
Administrative expenses	(1,131)	(1,482)	(1,872)	(2,378)	(2,833)	Net proceeds from shares issued	9,252	769	6,630	-	-
R&D expenses	(437)	(590)	(782)	(928)	(1,130)	Net borrowings	(1,518)	4,510	(3,000)	-	-
<b>Operating profit</b>	<b>1,859</b>	<b>2,474</b>	<b>2,901</b>	<b>4,165</b>	<b>5,425</b>	Acquisition of non-controlling					
Finance costs, net	(56)	(24)	(36)	0	0	Dividends and interests paid	(103)	(730)	(1,001)	(1,199)	(1,548)
Investment gains	80	48	438	80	80	Other financing activities	(647)	(2,991)	-	-	-
Net gain from FV changes	606	(259)	272	336	456	<b>Net cash from financing</b>	<b>6,984</b>	<b>1,558</b>	<b>2,629</b>	<b>(1,199)</b>	<b>(1,548)</b>
Other gains	92	98	129	160	160	FX changes	(56)	(33)	-	-	-
<b>Pre-tax profit</b>	<b>2,581</b>	<b>2,337</b>	<b>3,703</b>	<b>4,741</b>	<b>6,122</b>	Net change in cash	3,348	(501)	2,350	(368)	949
Income tax	(247)	(426)	(462)	(711)	(918)	Cash at the beginning of the year	2,466	5,758	5,227	7,577	7,209
Minority interests	(73)	(57)	(25)	(32)	(41)	<b>Cash at the end of the year</b>	<b>5,75</b>	<b>5,22</b>	<b>7,57</b>	<b>7,20</b>	<b>8,15</b>
<b>Net profit</b>	<b>2,261</b>	<b>1,855</b>	<b>3,216</b>	<b>3,998</b>	<b>5,163</b>						
Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>10,861</b>	<b>16,576</b>	<b>20,190</b>	<b>22,879</b>	<b>25,102</b>	<b>Sales mix (%)</b>					
Fixed asset	3,491	4,333	5,586	6,202	6,732	China-based lab services	53	50	51	50	51
Intangible assets	626	918	847	776	705	CMO/CDMO services	28	29	30	31	30
Financial assets	2,079	4,009	6,713	9,129	11,165	US-based laboratory services	13	12	11	11	11
Goodwill	1,144	1,362	1,362	1,362	1,362	Clinical research and other CRO services	6	8	8	8	9
Other non-current assets	3,520	5,954	5,682	5,410	5,138	Others	0	0	0	0	0
<b>Current assets</b>	<b>11,807</b>	<b>12,663</b>	<b>15,143</b>	<b>16,093</b>	<b>18,406</b>	<b>Profit &amp; loss ratios (%)</b>					
Cash	5,761	5,227	7,577	7,209	8,158	Gross margin	39	39	38	39	39
Inventories	952	1,742	1,729	2,222	2,762	EBITDA margin	34	25	29	28	28
Trade and bills receivables	1,997	2,961	3,105	3,929	4,754	Pre-tax margin	27	18	23	22	23
Prepayments, deposits and other receivables	168	123	123	123	123	Net margin	24	14	20	19	20
Other current assets	2,929	2,609	2,609	2,609	2,609	Effective tax rate	10	18	12	15	15
<b>Current liabilities</b>	<b>3,762</b>	<b>6,634</b>	<b>5,323</b>	<b>6,130</b>	<b>7,012</b>	<b>Balance sheet ratios</b>					
Borrowings	120	1,604	104	104	104	Current ratio (x)	3	2	3	3	3
Trade and other payables	399	592	780	1,588	2,470	Trade receivables turnover days	68	70	70	68	66
Other current liabilities	3,243	4,438	4,438	4,438	4,438	Trade payables turnover days	118	103	103	103	103
<b>Non-current liabilities</b>	<b>740</b>	<b>5,195</b>	<b>3,695</b>	<b>3,695</b>	<b>3,695</b>	Net debt to total equity ratio (%)	Net cash	1	Net cash	Net cash	Net cash
Borrowings	15	762	762	762	762	<b>Returns (%)</b>					
Other non-current liabilities	725	4,433	2,933	2,933	2,933	ROE	13	11	12	14	16
<b>Total net assets</b>	<b>18,165</b>	<b>17,410</b>	<b>26,316</b>	<b>29,146</b>	<b>32,801</b>	ROA	10	7	9	10	12
<b>Minority interest</b>	<b>477</b>	<b>97</b>	<b>123</b>	<b>155</b>	<b>195</b>	<b>Per share</b>					
<b>Shareholders' equity</b>	<b>17,688</b>	<b>17,312</b>	<b>26,193</b>	<b>28,992</b>	<b>32,605</b>	EPS (RMB)	1.59	1.14	1.35	1.68	2.17
						DPS (RMB)	0.06	0.34	0.41	0.50	0.65
						BVPS (RMB)	12.80	10.69	11.06	12.25	13.78

Source: Company data, CMBIS estimates

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIS Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIS

<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Securities Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.