

CSPC Pharmaceutical (1093 HK)

Earnings decline amid pricing pressure

- **FY24 net profit to decline.** CSPC released profit warning for FY24. Mgmt expects its FY24 attributable net profit to decline by 26% YoY to RMB4.35bn, which was 11% below our previous estimate. The worse-than-expected earnings was mainly due to weak finished drug sales. Sales from finished drugs in FY24 decreased by 7% YoY to RMB23.84bn, 2% below our previous estimate. Based on our calculation, in 4Q24, sales from finished drugs fell by 19.3% YoY and 2.4% QoQ, while net profit for the quarter dropped by 58.8% YoY and 25.0% QoQ. The significant decline in net profit may be due to margin erosion caused by the large price cuts of Jinyouli and Duomeisu under the “3+N” Alliance provincial VBP program, in our view.
- **Legacy drugs remain pressured.** The decline of finished drug sales in FY24 was mainly due to a 28% decline in oncology revenue and a 15% fall in cardiovascular drugs. Oncology sales were hit by price cuts for Jinyouli (-58%) and Duomeisu (-32%) since Mar 2024. Duomeisu has experienced a further 89% price cut in the national VBP effective from Mar 2025. This has led to inventory adjustments during 2H24. Additionally, the decline in cardiovascular drug sales in FY24 was mainly due to the exclusion of Xuanning from previous VBP rounds. In 3Q24, CNS sales (mainly NBP) declined by 21% QoQ due to stricter hospital controls on medical insurance fund spending, a trend likely to continue in 4Q24 and beyond. Additionally, prices of NBP injection and capsule were cut by 12.5% and 3.6%, respectively, in the 2024 NRDL renewal, which may negatively impact 4Q24 CNS sales due to inventory adjustments. Overall, CSPC's legacy products remain challenging.
- **New products to partly offset the pressure from legacy products.** CSPC's sales of new products in FY24 was expected to meet the RMB2.0bn target. For FY25, mgmt. targets to double the revenue from new products, while growth will be mainly driven by Mingfule (rhTNK-tPA), Kelingda (Omalizumab), Glumetinib, and Duoenyi (irinotecan liposome). With the contribution of these new products, mgmt. anticipates to resume positive sales and net profit growth in 2025. Recently, CSPC has successfully out-licensed several innovative assets, including YS2302018 (a lipoprotein-a inhibitor), SYH2039 (a MAT2A inhibitor), and SYS6005 (a ROR1 ADC). With multiple assets in clinical trials, such as EGFR ADC, B7-H3 ADC, HER-3 ADC, and several GLP-1 compounds, among others, we expect additional out-licensing deals to materialize this year. Notably, the Company may present the Ph1 data of its EGFR ADC at the upcoming AACR meeting in April.
- **Maintain BUY.** We anticipate CSPC's sales to continue to face pressure in 1Q25 and beyond. Considering the payment from out-licensing deals, in FY25/26, we forecast CSPC's revenue and attributable net profit to increase by 4.6%/3.0% and 14.7%/1.6% YoY, respectively. We maintain our TP unchanged at HK\$5.97 (WACC 11.78%, terminal growth 2.0%).

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	30,937	31,450	29,040	30,388	31,300
YoY growth (%)	11.0	1.7	(7.7)	4.6	3.0
Net profit (RMB mn)	6,232.1	6,072.7	4,404.9	5,053.5	5,135.5
YoY growth (%)	9.6	(2.6)	(27.5)	14.7	1.6
EPS (Reported) (RMB)	0.51	0.49	0.38	0.43	0.44
P/E (x)	9.2	9.5	12.4	10.8	10.6
Net gearing (%)	(44.1)	(37.3)	(40.7)	(44.5)	(47.2)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$5.97
(Previous TP)	HK\$5.97)
Up/Downside	18.8%
Current Price	HK\$5.03

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Stock Data

Mkt Cap (HK\$ mn)	59,943.5
Avg 3 mths t/o (HK\$ mn)	318.7
52w High/Low (HK\$)	7.12/4.34
Total Issued Shares (mn)	11917.2

Source: FactSet

Shareholding Structure

Massive Giant Group Ltd	10.6%
Cai Dongchen	10.4%

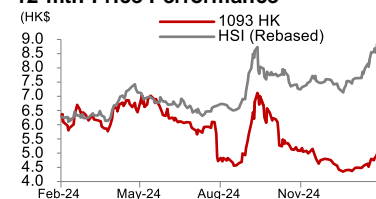
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	13.8%	-0.9%
3-mth	-1.0%	-17.7%
6-mth	6.6%	-18.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	5,619	6,422	6,743	7,046	7,328	7,621	7,888	8,125	8,328
Tax rate	19.72%	19.72%	19.72%	19.72%	19.72%	19.72%	19.72%	19.72%	19.72%
EBIT*(1-tax rate)	4,511	5,155	5,413	5,657	5,883	6,118	6,332	6,522	6,685
+ D&A	1,114	1,114	1,170	1,223	1,271	1,322	1,369	1,410	1,445
- Change in working capital	321	-101	-106	-111	-116	-120	-124	-128	-131
- Capx	-1,624	-1,624	-1,624	-1,624	-1,624	-1,624	-1,624	-1,624	-1,624
FCFF	4,322	4,544	4,853	5,144	5,415	5,697	5,953	6,180	6,375
Terminal value									66,472

Terminal growth rate	2.00%
WACC	11.78%
Cost of Equity	15.08%
Cost of Debt	5.00%
Equity Beta	1.15
Risk Free Rate	3.00%
Market Risk Premium	10.50%
Target Debt to Asset ratio	30.00%
Effective Corporate Tax Rate	18.00%

Terminal value (RMB mn)	21,822
Total PV (RMB mn)	48,687
Net debt (RMB mn)	-17,312
Minority interests (RMB mn)	1,859
Equity value (RMB mn)	64,140
# of shares (mn)	11,544

DCF per share (in HK\$) 5.97

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

		WACC			
		10.78%	11.28%	11.78%	12.28%
Terminal growth rate	3.00%	6.86	6.52	6.23	5.96
	2.50%	6.68	6.37	6.09	5.85
	2.00%	6.51	6.23	5.97	5.75
	1.50%	6.37	6.10	5.87	5.65
	1.00%	6.24	5.99	5.77	5.56

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	29,040	30,388	31,300	30,200	30,795	32,741	-3.8%	-1.3%	-4.4%
Gross profit	20,010	20,778	21,727	21,321	21,673	23,134	-6.2%	-4.1%	-6.1%
Operating profit	5,619	6,422	6,511	6,415	6,754	7,175	-12.4%	-4.9%	-9.3%
Attributable net profit	4,360	5,002	5,083	5,301	5,376	5,733	-17.8%	-7.0%	-11.3%
EPS (RMB)	0.38	0.43	0.44	0.46	0.47	0.50	-17.7%	-7.4%	-12.1%
Gross margin	68.90%	68.37%	69.42%	70.60%	70.38%	70.66%	-1.7ppt	-2ppt	-1.24ppt
Operating margin	19.35%	21.13%	20.80%	21.24%	21.93%	21.91%	-1.89ppt	-0.8ppt	-1.11ppt
Net margin	15.01%	16.46%	16.24%	17.55%	17.46%	17.51%	-2.54ppt	-1ppt	-1.27ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	27,867	30,937	31,450	29,040	30,388	31,300
Cost of goods sold	(6,732)	(8,680)	(9,273)	(9,031)	(9,610)	(9,573)
Gross profit	21,135	22,256	22,177	20,010	20,778	21,727
Selling expense	(10,443)	(10,337)	(9,141)	(8,540)	(8,504)	(9,017)
Admin expense	(1,010)	(1,173)	(1,190)	(1,129)	(1,078)	(1,127)
R&D expense	(3,433)	(3,987)	(4,830)	(5,029)	(5,096)	(5,404)
Others	546	815	421	308	322	332
Operating profit	6,795	7,574	7,437	5,619	6,422	6,511
Gain/loss on financial assets at FVTPL	0	0	0	0	0	0
Share of (losses)/profits of associates/JV	60	33	(21)	(103)	(100)	(100)
Net Interest income/(expense)	(8)	(25)	(26)	(28)	(27)	(13)
Pre-tax profit	6,847	7,582	7,389	5,487	6,295	6,397
Income tax	(1,159)	(1,350)	(1,317)	(1,082)	(1,241)	(1,262)
Minority interest	83	141	199	45	51	52
Net profit	5,688	6,232	6,073	4,405	5,053	5,136
Gross dividends	1,691	2,097	2,726	2,180	1,501	1,525
Net dividends	9	9	(4)	(26)	15	2

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	20,337	23,957	26,745	28,174	31,719	34,730
Cash & equivalents	9,284	10,298	12,015	13,998	16,886	19,599
Account receivables	3,890	4,631	6,542	6,365	6,660	6,860
Inventories	2,480	2,555	3,139	3,056	3,253	3,240
Prepayment	0	0	0	0	0	0
ST bank deposits	1,443	3,575	1,077	1,077	1,077	1,077
Other current assets	3,240	2,898	3,972	3,678	3,842	3,954
Non-current assets	14,405	17,813	19,537	20,047	20,556	21,066
PP&E	8,529	9,582	10,417	11,173	11,929	12,686
Deferred income tax	43	113	187	187	187	187
Intangibles	468	1,908	2,199	2,116	2,033	1,950
Goodwill	1,035	1,395	1,226	1,062	898	734
Financial assets at FVTPL	1,979	2,126	2,387	2,387	2,387	2,387
Other non-current assets	2,351	2,689	3,122	3,122	3,122	3,122
Total assets	34,742	41,770	46,282	48,221	52,275	55,796
Current liabilities	7,226	8,958	10,183	9,922	10,450	10,386
Short-term borrowings	0	153	450	422	395	367
Account payables	6,162	6,864	8,404	8,184	8,710	8,676
Tax payable	261	262	379	379	379	379
Other current liabilities	803	1,679	948	936	966	964
Non-current liabilities	687	1,170	1,082	1,082	1,082	1,082
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	687	1,170	1,082	1,082	1,082	1,082
Total liabilities	7,913	10,128	11,264	11,004	11,531	11,467
Share capital	10,899	10,899	10,899	10,899	10,899	10,899
Other reserves	15,087	19,298	22,304	24,484	27,985	31,543
Total shareholders equity	25,987	30,198	33,203	35,383	38,885	42,443
Minority interest	842	1,444	1,815	1,834	1,859	1,885
Total equity and liabilities	34,742	41,770	46,282	48,221	52,275	55,796

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	6,847	7,582	7,389	5,487	6,295	6,397
Depreciation & amortization	865	1,048	1,114	1,114	1,114	1,114
Tax paid	(1,141)	(1,335)	(1,309)	(1,082)	(1,241)	(1,262)
Change in working capital	(1,388)	798	(3,032)	321	(101)	(335)
Others	(547)	(467)	16	0	0	0
Net cash from operations	4,637	7,627	4,179	5,840	6,066	5,915
Investing						
Capital expenditure	(1,410)	(2,220)	(1,624)	(1,624)	(1,624)	(1,624)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	773	(4,576)	2,231	0	0	0
Net cash from investing	(637)	(6,796)	607	(1,624)	(1,624)	(1,624)
Financing						
Dividend paid	(1,691)	(2,097)	(2,726)	(2,180)	(1,501)	(1,525)
Net borrowings	0	486	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(264)	(14)	(200)	0	0	0
Others	(242)	(279)	626	(54)	(54)	(54)
Net cash from financing	(2,197)	(1,904)	(2,301)	(2,234)	(1,554)	(1,579)
Net change in cash						
Cash at the beginning of the year	7,259	9,060	10,298	12,015	13,998	16,886
Exchange difference	(2)	14	5	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	9,060	8,001	12,015	13,998	16,886	19,599
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	11.7%	11.0%	1.7%	(7.7%)	4.6%	3.0%
Gross profit	13.1%	5.3%	(0.4%)	(9.8%)	3.8%	4.6%
Operating profit	12.2%	11.5%	(1.8%)	(24.4%)	14.3%	1.4%
Net profit	8.8%	9.6%	(2.6%)	(27.5%)	14.7%	1.6%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	75.8%	71.9%	70.5%	68.9%	68.4%	69.4%
Operating margin	24.4%	24.5%	23.6%	19.3%	21.1%	20.8%
Return on equity (ROE)	23.5%	22.2%	19.2%	12.8%	13.6%	12.6%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.5)
Current ratio (x)	2.8	2.7	2.6	2.8	3.0	3.3
Receivable turnover days	92.9	87.7	120.5	124.6	124.6	124.6
Inventory turnover days	134.5	107.4	123.5	123.5	123.5	123.5
Payable turnover days	352.4	319.6	349.4	349.4	349.4	349.4
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	10.0	9.2	9.5	12.4	10.8	10.6
P/E (diluted)	10.0	9.2	9.5	12.4	10.8	10.6
P/B	2.1	1.8	1.6	1.5	1.3	1.2
P/CFPS	12.1	7.3	13.3	9.3	8.9	9.2
Div yield (%)	3.0	3.8	4.9	4.0	2.8	2.8

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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