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CMB International Global Markets | Equity Research | Company Update

招银国际 CMB INTERNATIONAL

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CSPC Pharmaceutical (1093 HK)

Legacy products faced pricing pressures

- **Moderate growth in 1H24.** In 1H24, CSPC's total revenue increased by 1.3% YoY to RMB16.28bn and the attributable net profit increased by 1.8% YoY to RMB3.02bn, accounting for 46% and 45% of our previous full-year estimates. For 2Q24, the total revenue was RMB5.99bn (-8.1% YoY, -20.8% QoQ) and the attributable net profit was RMB2.19bn (+42.2% YoY, +35.7% QoQ). The net profit increase was mainly due to the reduced selling expenses in 2Q24, which decreased by 38.6% QoQ to RMB1.82bn. GP margin in 1H24 improved to 71.6% (up from 69.9% in 1H23), due to a higher proportion of revenue from finished drugs. R&D expenses reached RMB1.37bn in 2Q24 (+17.4% QoQ).
- **Jinyouli and Duomeisu may face pricing pressures**. The company recorded RMB5.99bn in sales from finished drugs in 2Q24 (-8.1% YoY, -20.8% QoQ). The sales of oncology products, cardiovascular drugs, and respiratory disease products decreased by 30.6%, 27.0%, and 23.1% YoY in 2Q24 to RMB1.07bn, RMB509mn, and RMB289mn, respectively. Significant price cuts in the "3+N" Alliance provincial VBP, effective Mar 2024, impacted the sales of oncology products, with the price of Jinyouli reduced by 58.4% to RMB666 (3mg) and Duomeisu by 10.0% (10mg) to RMB2,061 and 21.8% (20mg) to RMB3,504. With more provinces adopting these reduced prices, sales of Jinyouli and Duomeisu are expected to continue to decline. Additionally, Duomeisu is likely to be included in the upcoming national VBP. However, NBP performed well in 1H24, driven by strong growth from retail pharmacy channels, with sales of CNS products increased by 4.2% YoY to RMB2.53bn.
- **Sales target of new products adjusted downward.** Affected by the regulatory environment in China, the company expects certain delays in hospital listings of its new products, and thus revised down its FY24 sales target for new products from RMB3.0bn to RMB2.0bn (excl. channel inventory build-up). Nevertheless, we expect the sales ramp-up of new products to continue in 2H24 and 2025, including Mingfule (rhTNK-tPA), Duoenyi (irinotecan liposome), Anfulike (amphotericin B), etc, which could help offset the decline in oncology products. By end-2024, we expect the company to bring four assets to the NDRL, including narlumosbart (RANKL), enlonstobart (PD-1), Duoenyi (irinotecan liposome) and palbociclib (CDK4/6). We expect the addition of a new indication for Mingfule for acute ischemic stroke during the NRDL negotiation at end-2024, bringing additional sales potential for the product. NBP will also renew its NRDL price by end-2024.
- **Maintain BUY.** Due to the moderate 1H24 growth, pricing pressures of legacy products, and downward revision of new product sales target, we revised our estimate and expect CSPC's revenue and attributable net profit to grow 1.3%/ 1.3% and 0.5%/ -1.5% YoY in FY24E/ 25E, respectively. We revise down our DCF-based TP from HK$8.51 to HK$6.21 (WACC 11.78%, terminal growth 2.0%).

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	30,937	31,450	31,853	32,278	33,782
YoY growth (%)	11.0	1.7	1.3	1.3	4.7
Net profit (RMB mn)	6,232	6,073	5,963	5,873	6,257
YoY growth (%)	9.6	(2.6)	(1.8)	(1.5)	6.5
EPS (Reported) (RMB)	0.51	0.49	0.50	0.49	0.52
P/E (x)	8.7	9.0	8.9	9.1	8.5
Net gearing (%)	(44.1)	(37.3)	(41.2)	(45.8)	(49.3)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$6.21**
(Previous TP	HK$8.51)
Up/Downside	**27.8%**
Current Price	**HK$4.86**

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Stock Data

Mkt Cap (HK$ mn)	57,917.6
Avg 3 mths t/o (HK$ mn)	250.5
52w High/Low (HK$)	7.33/4.86
Total Issued Shares (mn)	11917.2

Source: FactSet

Shareholding Structure

Massive Giant Group Ltd	10.2%
Cai Dongchen	10.0%

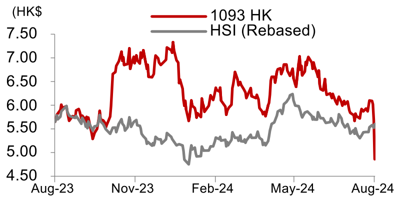
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-20.1%	-20.1%
3-mth	-25.3%	-18.8%
6-mth	-23.7%	-27.6%

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	7,560	7,443	7,666	7,858	8,015	8,175	8,298	8,381	8,423
Tax rate	19.72%	19.72%	19.72%	19.72%	19.72%	19.72%	19.72%	19.72%	19.72%
EBIT*(1-tax rate)	6,069	5,975	6,154	6,308	6,434	6,563	6,662	6,728	6,762
+ D&A	1,114	1,114	1,148	1,176	1,200	1,224	1,242	1,255	1,261
- Change in working capital	-665	-15	-15	-16	-16	-17	-17	-17	-17
- Capx	-1,624	-1,624	-1,624	-1,624	-1,624	-1,624	-1,624	-1,624	-1,624
FCFF	**4,895**	**5,451**	**5,663**	**5,845**	**5,994**	**6,147**	**6,263**	**6,342**	**6,382**
Terminal value									**66,543**

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)	21,846
Total PV (RMB mn)	52,785
Net debt (RMB mn)	-15,378
Minority interests (RMB mn)	1,850
Equity value (RMB mn)	66,313
# of shares (mn)	11,860
DCF per share (in HK$)	**6.21**

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK$)

		WACC				
		10.78%	**11.28%**	**11.78%**	**12.28%**	**12.78%**
	3.00%	7.13	6.78	6.47	6.19	5.94
	2.50%	6.94	6.62	6.33	6.08	5.84
Terminal growth rate	**2.00%**	6.78	6.48	**6.21**	5.97	5.75
	1.50%	6.63	6.35	6.10	5.88	5.67
	1.00%	6.50	6.24	6.00	5.79	5.59

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates - new vs old

	NEW			OLD			Diff (%)		
RMB mn	**FY24E**	**FY25E**	**FY26E**	**FY24E**	**FY25E**	**FY26E**	**FY24E**	**FY25E**	**FY26E**
Revenue	31,853	32,278	33,782	35,065	38,970	43,325	-9.2%	-17.2%	-22.0%
Gross profit	22,864	23,079	24,154	25,301	27,764	31,194	-9.6%	-16.9%	-22.6%
Operating profit	7,560	7,443	7,908	8,325	9,112	10,479	-9.2%	-18.3%	-24.5%
Attributable net profit	5,903	5,814	6,194	6,642	7,269	8,366	-11.1%	-20.0%	-26.0%
EPS (RMB)	0.50	0.49	0.52	0.56	0.61	0.70	-10.7%	-19.6%	-25.6%
Gross margin	71.78%	71.50%	71.50%	72.15%	71.25%	72.00%	-0.37ppt	+0.25ppt	-0.5ppt
Operating margin	23.74%	23.06%	23.41%	23.74%	23.38%	24.19%	0ppt	-0.32ppt	-0.78ppt
Net margin	18.53%	18.01%	18.33%	18.94%	18.65%	19.31%	-0.41ppt	-0.64ppt	-0.98ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

	CMBI			Consensus			Diff (%)		
RMB mn	**FY24E**	**FY25E**	**FY26E**	**FY24E**	**FY25E**	**FY26E**	**FY24E**	**FY25E**	**FY26E**
Revenue	31,853	32,278	33,782	32,525	34,278	36,635	-2.1%	-5.8%	-7.8%
Gross profit	22,864	23,079	24,154	23,276	24,567	26,368	-1.8%	-6.1%	-8.4%
Operating profit	7,560	7,443	7,908	7,585	7,962	8,517	-0.3%	-6.5%	-7.2%
Attributable net profit	5,903	5,814	6,194	6,198	6,402	6,807	-4.8%	-9.2%	-9.0%
EPS (RMB)	0.50	0.49	0.52	0.52	0.54	0.58	-4.7%	-9.7%	-10.4%
Gross margin	71.78%	71.50%	71.50%	71.56%	71.67%	71.97%	+0.22ppt	-0.17ppt	-0.47ppt
Operating margin	23.74%	23.06%	23.41%	23.32%	23.23%	23.25%	+0.41ppt	-0.17ppt	+0.16ppt
Net margin	18.53%	18.01%	18.33%	19.06%	18.68%	18.58%	-0.53ppt	-0.67ppt	-0.25ppt

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**	**31,853**	**32,278**	**33,782**
Cost of goods sold	(6,732)	(8,680)	(9,273)	(8,989)	(9,199)	(9,628)
Gross profit	**21,135**	**22,256**	**22,177**	**22,864**	**23,079**	**24,154**
Selling expense	(10,443)	(10,337)	(9,141)	(9,370)	(9,619)	(9,966)
Admin expense	(1,010)	(1,173)	(1,190)	(1,238)	(1,194)	(1,233)
R&D expense	(3,433)	(3,987)	(4,830)	(5,033)	(5,164)	(5,405)
Others	546	815	421	337	342	358
Operating profit	**6,795**	**7,574**	**7,437**	**7,560**	**7,443**	**7,908**
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**	**7,428**	**7,316**	**7,795**
Income tax	(1,159)	(1,350)	(1,317)	(1,465)	(1,443)	(1,537)
Minority interest	83	141	199	61	60	64
Net profit	**5,688**	**6,232**	**6,073**	**5,963**	**5,873**	**6,257**
Gross dividends	1,691	2,097	2,726	1,771	1,744	1,858
Net dividends	9	9	(4)	0	(2)	7

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**20,337**	**23,957**	**26,745**	**30,102**	**33,869**	**38,115**
Cash & equivalents	9,284	10,298	12,015	14,980	18,531	22,118
Account receivables	3,890	4,631	6,542	6,981	7,075	7,404
Inventories	2,480	2,555	3,139	3,042	3,114	3,259
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	4,021	4,073	4,257
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**	**50,149**	**54,425**	**59,181**
Current liabilities	**7,226**	**8,958**	**10,183**	**9,882**	**10,056**	**10,438**
Short-term borrowings	0	153	450	422	395	367
Account payables	6,162	6,864	8,404	8,147	8,337	8,726
Tax payable	261	262	379	379	379	379
Other current liabilities	803	1,679	948	934	945	967
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**	**10,964**	**11,137**	**11,520**
Share capital	10,899	10,899	10,899	10,899	10,899	10,899
Other reserves	15,087	19,298	22,304	26,436	30,505	34,841
Total shareholders equity	**25,987**	**30,198**	**33,203**	**37,335**	**41,404**	**45,740**
Minority interest	842	1,444	1,815	1,850	1,883	1,921
Total equity and liabilities	**34,742**	**41,770**	**46,282**	**50,149**	**54,425**	**59,181**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**6,847**	**7,582**	**7,389**	**7,428**	**7,316**	**7,795**
Depreciation & amortization	865	1,048	1,114	1,114	1,114	1,114
Tax paid	(1,141)	(1,335)	(1,309)	(1,465)	(1,443)	(1,537)
Change in working capital	(1,388)	798	(3,032)	(665)	(15)	(248)
Others	(547)	(467)	16	0	0	0
Net cash from operations	**4,637**	**7,627**	**4,179**	**6,413**	**6,972**	**7,123**
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)	(1,771)	(1,744)	(1,858)
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)**	**(1,825)**	**(1,798)**	**(1,912)**
Net change in cash						
Cash at the beginning of the year	7,259	9,060	10,298	12,015	14,980	18,531
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**	**14,980**	**18,531**	**22,118**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	11.7%	11.0%	1.7%	1.3%	1.3%	4.7%
Gross profit	13.1%	5.3%	(0.4%)	3.1%	0.9%	4.7%
Operating profit	12.2%	11.5%	(1.8%)	1.7%	(1.6%)	6.2%
Net profit	8.8%	9.6%	(2.6%)	(1.8%)	(1.5%)	6.5%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	75.8%	71.9%	70.5%	71.8%	71.5%	71.5%
Operating margin	24.4%	24.5%	23.6%	23.7%	23.1%	23.4%
Return on equity (ROE)	23.5%	22.2%	19.2%	16.9%	14.9%	14.4%

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)	(0.5)	(0.5)
Current ratio (x)	2.8	2.7	2.6	3.0	3.4	3.7
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	9.5	8.7	9.0	8.9	9.1	8.5
P/E (diluted)	9.5	8.7	9.0	8.9	9.1	8.5
P/B	2.0	1.7	1.5	1.3	1.2	1.1
P/CFPS	11.5	7.0	12.6	8.2	7.6	7.4
Div yield (%)	3.2	4.0	5.2	3.4	3.3	3.5

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

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