

BUY (Maintain)

<b>Target Price</b>	<b>HK\$20.0</b>
(Previous TP)	HK\$23.80
<b>Up/Downside</b>	<b>+23.4%</b>
<b>Current Price</b>	<b>HK\$16.22</b>

## China Healthcare Sector

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

**Amy Ge**  
 (852) 3761 8778  
 amyge@cmbi.com.hk

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

**Stock Data**

Mkt Cap (HK\$ mn)	101,153
Avg 3 mths t/o (HK\$ mn)	630.27
52w High/Low (HK\$)	21.8/11.22
Total Issued Shares (mn)	6,236

Source: Bloomberg

**Shareholding Structure**

Management	29.94%
Citigroup Inc	5.87%
BlackRock	4.75%
Free float	59.44%

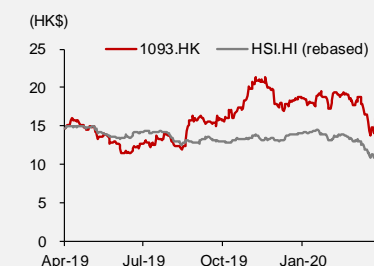
Source: HKEx

**Share Performance**

	Absolute	Relative
1-mth	-8.7%	3.0%
3-mth	-13.8%	5.3%
6-mth	3.0%	16.0%

Source: Bloomberg

## 12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

## Related Reports

- Another solid quarter – 19 Nov 2019
- The King is back – 20 Aug 2019
- Growth prospects intact with encouraging margin performance – 22 May 2019

# CSPC Pharmaceutical (1093 HK)

## Oncology portfolio to be a major growth driver

CSPC's FY19 revenue rose 24.8% YoY to RMB22.1bn and net profit grew 20.6% to RMB3.71bn, which was 2.7%/ 6.8% below our estimate. We trimmed FY20/21E revenue forecasts by 5.3%/ 9.2% to reflect the impact from COVID-19 outbreak and lowered DCF-based TP from HK\$23.8 to HK\$20.0. CSPC trades at 20.4x FY20E P/E and valuation is not demanding. Maintain BUY.

- FY19 earnings miss.** CSPC reported FY19 revenue of RMB22.7bn, of which finished drug sales grew 32.8% YoY and bulk medicine sales declined 1.1% YoY. Innovative drugs were the growth driver with RMB12.98bn sales, up 48.4% YoY. Proportion of revenue from innovative drugs climbed from 49.3% in FY18 to 58.7% in FY19. GPM improved by 5.7ppts to 72% due to better product mix. Meanwhile, selling expense ratio rose 4.5ppts and R&D expense ratio increased 1.5ppts. Besides, EBIT margin of VC eroded by 17.8ppt to 20.36%. Blended net profit margin was slightly down 0.6ppts to 16.8%.
- Oncology portfolio to maintain the strong momentum.** Oncology portfolio surged 148.8% YoY to RMB4.9bn in FY19, thanks to the strong growth from Ke'ailli, Duomeisu and Jinyouli. Ke'ailli becomes one of the two albumin bound paclitaxel injections that won the volume-based tenders and enjoys a good chance for market share gain.
- NBP will continue the growth while patent cliff is near.** Sales of NBP reached RMB5.6bn, up 35.8% YoY. We think NBP will continue to grow on a high base thanks to further channel penetration into lower tier cities. Sales force for NBP has expanded from c.1,500 people by end-2018 to c.2,300 people by end-2019. Patent of NBP will expire in 2023E and in our view, NBP growth may slow down by then.
- Ramping up R&D investment.** CSPC spent RMB2.0bn R&D expense with R&D expenses ratio climbed to 9.1%. The Company now has over 1,800 R&D staff and over 300 projects under development. We expect Amphotericin B cholesteryl sulfate complex for injection to receive NMPA's approval in 2020E and Mitoxantrone hydrochloride liposome injection to receive approval in 2021E.
- Maintain BUY.** To reflect COVID-19 outbreak impact on drug sales, we trimmed FY20/21 revenue forecasts by 2.7%/ 6.8%. We expect revenue to grow 19.1%/ 20% YoY in FY20/21E and net profit to grow 18.7%/23.3% YoY in FY20/21E. We lowered DCF-based TP from HK\$23.8 to HK\$20.0. CSPC trades at 20.4x/ 16.6x FY20/21E P/E and valuation is not demanding.
- Catalysts:** 1) earlier-than-expected launch of new products, 2) stronger-than-expected product sales, and 3) earlier end of COVID-19 outbreak.

## Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	17,717	22,103	26,329	31,592	37,153
YoY growth (%)	32	25	19	20	18
Net profit (RMB mn)	3,081	3,714	4,410	5,439	6,568
EPS (RMB)	0.49	0.60	0.71	0.87	1.05
YoY growth (%)	25.1	20.9	18.5	23.3	20.8
EPS consensus (RMB)	0.49	0.60	0.78	0.94	1.10
P/E (x)	29.2	24.2	20.4	16.6	13.7
P/B (x)	5.8	4.6	4.0	3.4	2.9
ROE (%)	1.1	1.1	1.5	1.8	2.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

**Figure 1: FY19A results review**

(RMB mn)	4Q18	4Q19	YoY Change	FY18A	FY19A	YoY Change	CMBI FY19E	Diff (%)
Finished drugs	3,592	4,550	26.7%	13,503	17,937	32.8%	18,612	-3.6%
Antibiotics	223	164	-26.5%	1,087	879	-19.1%	947	-7.2%
Vitamin C	9,912	9,912	0.0%	1,784	1,922	7.7%	1,951	-1.5%
Caffeine and Others	360	303	-16.0%	1,343	1,366	1.7%	1,213	12.6%
<b>Total revenue</b>	<b>4,574</b>	<b>5,342</b>	<b>16.8%</b>	<b>17,717</b>	<b>22,103</b>	<b>24.8%</b>	<b>22,723</b>	<b>-2.7%</b>
COGS	(1,406)	(1,319)	-6.2%	(5,979)	(6,192)	3.6%	(6,483)	-4.5%
<b>Gross profit</b>	<b>3,191</b>	<b>4,023</b>	<b>26.1%</b>	<b>11,737</b>	<b>15,911</b>	<b>35.6%</b>	<b>16,241</b>	<b>-2.0%</b>
Other income and gains	88	78	-11.9%	295	293	-0.8%	337	-13.2%
Selling expenses	(1,688)	(2,254)	33.5%	(6,185)	(8,712)	40.9%	(8,845)	-1.5%
Administrative expenses	(158)	(165)	4.7%	(657)	(749)	14.0%	(806)	-7.2%
R&D expenses	(426)	(499)	17.0%	(1,342)	(2,000)	49.1%	(1,981)	1.0%
Other expenses	(11)	(105)	894.6%	(26)	(142)	443.6%	(40)	254.6%
<b>Operating profit</b>	<b>973</b>	<b>1,078</b>	<b>10.7%</b>	<b>3,823</b>	<b>4,601</b>	<b>20.3%</b>	<b>4,905</b>	<b>-6.2%</b>
Net finance costs	(24)	(2)	-90.7%	(74)	(32)	-56.4%	(24)	37.1%
Share of results of associates	14	24	68.0%	44	58	34.1%	50	16.8%
Profit before tax	964	1,099	14.1%	3,792	4,626	22.0%	4,931	-6.2%
Income tax	(159)	(212)	33.2%	(734)	(893)	21.7%	(955)	-6.5%
Minority interest	(9)	(16)	80.8%	(22)	19	-186.0%	(7)	N/A
<b>Net profit</b>	<b>813</b>	<b>903</b>	<b>11.1%</b>	<b>3,081</b>	<b>3,714</b>	<b>20.6%</b>	<b>3,984</b>	<b>-6.8%</b>
Gross margin	69.8%	75.3%	+5.5ppt	66.3%	72.0%	+5.7ppt	71.5%	+0.5ppt
Operating margin	21.3%	20.2%	-1.1ppt	21.6%	20.8%	-0.8ppt	21.6%	-0.8ppt
Net margin	17.8%	16.9%	-0.9ppt	17.4%	16.8%	-0.6ppt	17.5%	-0.7ppt

Source: Company data, CMBIS estimates

**Figure 2: CMBIS earnings revisions**

(RMB mn)	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	26,329	31,592	27,798	34,799	-5.3%	-9.2%
Gross profit	19,220	23,378	20,571	26,100	-6.6%	-10.4%
Operating profit	5,451	6,734	6,021	7,575	-9.5%	-11.1%
Net profit	4,410	5,439	4,893	6,146	-9.9%	-11.5%
EPS (RMB)	0.71	0.87	0.78	0.99	-9.9%	-11.5%
Gross margin	73.00%	74.00%	74.00%	75.00%	-1.00 ppt	-1.00 ppt
Operating margin	20.70%	21.31%	21.66%	21.77%	-0.95 ppt	-0.45 ppt
Net Margin	16.75%	17.22%	17.60%	17.66%	-0.85 ppt	-0.45 ppt

Source: Company data, CMBIS estimates

**Figure 3: CMBIS estimates vs consensus**

(RMB mn)	CMBIS		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	26,329	31,592	27,722	32,999	-5.0%	-4.3%
Gross profit	19,220	23,378	19,528	23,611	-1.6%	-1.0%
Operating profit	5,451	6,734	5,834	7,015	-6.6%	-4.0%
Net profit	4,410	5,439	4,837	5,906	-8.8%	-7.9%
EPS (RMB)	0.71	0.87	0.78	0.94	-9.3%	-7.2%
Gross margin	73.00%	74.00%	70.44%	71.55%	+2.6 ppt	+2.5 ppt
Operating margin	20.70%	21.31%	21.04%	21.26%	-0.3 ppt	+0.1 ppt
Net Margin	16.75%	17.22%	17.45%	17.90%	-0.7 ppt	-0.7 ppt

Source: Company data, CMBIS estimates

**Figure 4: Peers' valuation**

Company	Ticker	Rating	TP	Price	Mkt cap	PER(x)		PBR(x)		EV/EBITDA (x)		ROE(%)	
			LC	LC	LC mn	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
<b>CSPC Pharma</b>	<b>1093 HK</b>	<b>BUY</b>	<b>20.00</b>	<b>16.22</b>	<b>101,153</b>	<b>20.4</b>	<b>16.6</b>	<b>4.0</b>	<b>3.4</b>	<b>13.6</b>	<b>10.9</b>	<b>22.0</b>	<b>23.2</b>
Sino Biopharm	1177 HK	N/A	N/A	10.68	134,443	32.2	26.2	3.4	3.0	16.0	13.4	11.0	12.0
Hansoh Pharma	3692 HK	N/A	N/A	26.40	152,819	43.2	35.6	9.6	7.7	33.5	26.6	23.3	22.2
3SBIO Pharma	1530 HK	BUY	16.00	8.23	20,904	11.5	9.8	1.7	1.5	8.2	6.6	15.2	15.6
Livzon Pharma	1513 HK	N/A	N/A	28.55	35,316	16.4	14.2	2.0	1.9	12.7	10.8	13.0	13.5
Fosun Pharma	2196 HK	N/A	N/A	25.20	87,068	16.6	14.7	1.7	1.6	24.9	21.1	10.7	11.3
<b>Average:</b>						<b>24.0</b>	<b>20.1</b>	<b>3.7</b>	<b>3.1</b>	<b>19.1</b>	<b>15.7</b>	<b>14.6</b>	<b>14.9</b>

Source: Bloomberg, CMBIS estimates

## 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>17,717</b>	<b>22,103</b>	<b>26,329</b>	<b>31,592</b>	<b>37,153</b>	<b>EBIT</b>	<b>3,823</b>	<b>4,601</b>	<b>5,451</b>	<b>6,734</b>	<b>8,144</b>
Finished drug	13,503	17,937	22,218	27,481	33,042	Depreciation and amortization	629	2,066	2,758	2,703	3,395
Bulk medicines	4,213	4,166	4,111	4,111	4,111	Change in working capital	172	(1,604)	(530)	(677)	(758)
Cost of sales	(5,979)	(6,192)	(7,109)	(8,214)	(9,288)	Income tax paid	(644)	(893)	(1,074)	(1,324)	(1,599)
<b>Gross profit</b>	<b>11,737</b>	<b>15,911</b>	<b>19,220</b>	<b>23,378</b>	<b>27,865</b>	Others	(185)	(386)	(2,011)	(1,954)	(2,646)
Other income and gains	295	293	351	424	501	<b>Net cash from operating activities</b>	<b>3,795</b>	<b>3,784</b>	<b>4,594</b>	<b>5,481</b>	<b>6,536</b>
Distribution expenses	(6,185)	(8,712)	(10,795)	(13,111)	(15,604)	Capex	(1,641)	(2,185)	(1,500)	(1,500)	(1,500)
Administrative expenses	(657)	(749)	(891)	(1,069)	(1,257)	Placement of restricted bank deposits	(3,234)	-	-	-	-
R&D expenses	(1,342)	(2,000)	(2,264)	(2,685)	(3,121)	Other	1,321	(849)	(90)	-	-
Other expenses	(26)	(142)	(169)	(203)	(239)	<b>Net cash from investing activities</b>	<b>(3,554)</b>	<b>(3,034)</b>	<b>(1,590)</b>	<b>(1,500)</b>	<b>(1,500)</b>
<b>Operating profit</b>	<b>3,823</b>	<b>4,601</b>	<b>5,451</b>	<b>6,734</b>	<b>8,144</b>	Change of Debts	(774)	-	-	-	-
Share of profit of associate / JV	44	58	58	58	58	Dividend paid	(789)	(965)	(1,323)	(1,632)	(1,970)
Net finance cost	(74)	(32)	(3)	(1)	(1)	Other	1,412	(2)	(2)	(2)	(2)
Exceptional	-	-	-	-	-	<b>Net cash from financing activities</b>	<b>(151)</b>	<b>(967)</b>	<b>(1,325)</b>	<b>(1,634)</b>	<b>(1,973)</b>
<b>Pre-tax profit</b>	<b>3,792</b>	<b>4,626</b>	<b>5,506</b>	<b>6,791</b>	<b>8,202</b>	Net change in cash	90	(218)	1,679	2,348	3,063
Profits tax	(734)	(893)	(1,074)	(1,324)	(1,599)	Cash at the beginning of the year	4,350	4,336	4,118	5,797	8,145
Minority interest	22	(19)	(23)	(28)	(34)	Exchange difference	(225)	-	-	-	-
<b>Net profit</b>	<b>3,081</b>	<b>3,714</b>	<b>4,410</b>	<b>5,439</b>	<b>6,568</b>	Bank deposits with more than 3 months to maturity upon placement	121	-	-	-	-
						<b>Cash at the end of the year</b>	<b>4,336</b>	<b>4,118</b>	<b>5,797</b>	<b>8,145</b>	<b>11,208</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>9,413</b>	<b>12,621</b>	<b>13,430</b>	<b>14,238</b>	<b>15,047</b>	<b>Sales mix (%)</b>					
Fixed asset	6,692	8,459	9,371	10,283	11,196	Finished drugs	76.2	81.2	84.4	87.0	88.9
Goodwill	527	823	737	652	566	Bulk medicines	23.8	18.8	15.6	13.0	11.1
Intangible assets	807	1,136	1,118	1,100	1,082	<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Other non-current assets	1,387	2,203	2,203	2,203	2,203	<b>Profit &amp; loss ratios (%)</b>					
<b>Current assets</b>	<b>13,803</b>	<b>13,697</b>	<b>16,699</b>	<b>20,680</b>	<b>25,431</b>	Gross margin	66.3	72.0	73.0	74.0	75.0
Cash	4,336	4,118	5,797	8,145	11,208	EBITDA margin	25.5	23.9	23.3	23.5	10.3
Account receivable	2,546	2,826	3,366	4,039	4,750	Pre-tax margin	21.4	20.9	20.9	21.5	22.1
Inventories	3,045	2,536	2,911	3,364	3,804	Net margin	17.4	16.8	16.7	17.2	17.7
Other current assets	3,877	4,217	4,625	5,133	5,669	Effective tax rate	19.3	19.3	19.5	19.5	19.5
<b>Current liabilities</b>	<b>7,247</b>	<b>6,237</b>	<b>7,030</b>	<b>7,986</b>	<b>8,916</b>	<b>Balance sheet ratios</b>					
Borrowings	71	23	23	23	23	Current ratio (x)	1.9	2.2	2.4	2.6	2.9
Trade and other payables	4,540	4,803	5,513	6,370	7,204	Trade receivables turnover	77	82	82	82	82
Other current liabilities	2,637	1,411	1,494	1,593	1,689	Trade payables turnover	361	316	316	316	316
<b>Non-current liabilities</b>	<b>440</b>	<b>563</b>	<b>473</b>	<b>473</b>	<b>473</b>	Inventory turnover days	178	149	149	149	149
Borrowings	-	-	-	-	-	Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Other non-current	440	563	473	473	473	<b>Returns (%)</b>					
<b>Total net assets</b>	<b>15,530</b>	<b>19,518</b>	<b>22,626</b>	<b>26,459</b>	<b>31,089</b>	ROE	20.5	20.1	20.5	21.4	21.9
Minority interest	477	1,056	1,077	1,103	1,135	ROA	13.3	14.1	14.6	15.6	16.2
Shareholders' equity	15,052	18,462	21,549	25,356	29,953	<b>Per share data</b>					
						EPS (RMB)	0.49	0.60	0.71	0.87	1.05
						DPS (RMB)	0.15	0.16	0.21	0.26	0.32
						BVPS (RMB)	2.5	3.1	3.6	4.2	5.0

Source: Company data, CMBIS estimates

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## CMB International Securities Limited

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

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