

CSPC Pharmaceutical (1093 HK)

mRNA platform verified with product approval

CSPC reported FY22 revenue of RMB30.94bn (+11.0% YoY) and attributable net profit of RMB6.09bn (+8.7% YoY), in line with our estimates of RMB31.35bn revenue and RMB5.99bn net profit, respectively. The FY22 sales of finished drugs increased +8.1% YoY to RMB22.68bn, mainly driven by the steady sales performance of nervous system disease drugs and strong growth of anti-infective drugs. Bulk product sales delivered +23.8% YoY growth to RMB6.42bn in FY22, thanks to the increase of functional food & other business (+43.9% YoY) driven by the growth of caffeine products in both sales volume and average selling price. Meanwhile, the vitamin C and antibiotics businesses also recorded satisfactory revenue growth in FY22 (+17.7% and +15.1%, respectively). The gross profit margin decreased by 3.9% from 75.8% in FY21 to 71.9% in FY22, mainly attributable to the change in revenue mix and decline in selling prices of vitamin C products in 2022. In FY22, CSPC was able to achieve multiple BD deals, including the acquisition of 51% interest in Recomgen in Feb and the in-licensing of batoclimab (HBM9161) from Harbour in Oct. Importantly, CSPC out-licensed SYSA1801 (Claudin 18.2 ADC) to Elevation in Jul 2022 and SYS6002 (Nectin-4 ADC) to Corbus in Jan 2023, which endorse CSPC's internal R&D capabilities.

■ **mRNA vaccine platform verified with the EUA approval of SYS6006 for COVID-19.** On 22 Mar, CSPC announced that NMPA approved the Company's COVID-19 mRNA vaccine SYS6006 for emergency use. In a heterologous booster study during the pandemic (2022.12-2023.01) with 4,000 participants, using a recombinant protein vaccine as control, SYS6006 demonstrated efficacy of 85.3% in 14 to 28 days after booster vaccination. With the advantage of CSPC's large-scale production capacity (1.5bn doses/year) and the capability to scale up easily, SYS6006 is able to meet the ongoing demand for COVID-19 vaccines once COVID-19 outbreak in China. SYS6006 is the first independently developed mRNA vaccine in China that has been granted EUA, which highlights CSPC's R&D capabilities of the nucleic acid platform. CSPC is actively promoting the development of other products on the mRNA platform, including vaccines for rabies, RSV, VZV.

■ **New products to ramp up quickly while old products remain steady.** The new NRDL renewal price of NBP was implemented in Mar 2023, while the increase in accessibility will offset the impact of the price cut of the product. We expect the sales of NBP, Duomeisu, Jinyouli, Keaili and Xuanning to be stable in 2023. However, we expect remarkable sales growth of the Company's new products this year including Mingfule, Duoenda, Anfulike, even if they are at the early stage of sales ramp-up.

■ **Maintain BUY.** We expect CSPC's revenue to grow 9.6%/ 9.8% YoY in FY23E/ 24E and attributable net profit to grow 6.0%/ 10.0% YoY in FY23E/ 24E. We revised our DCF-based TP to HK\$12.11 from HK\$13.52 (WACC 11.78%, Terminal growth 3.0%).

Earnings Summary

| (YE 31 Dec) | FY21A | FY22A | FY23E | FY24E | FY25E |
|----------------------|---------|---------|---------|---------|---------|
| Revenue (RMB mn) | 27,867 | 30,937 | 33,895 | 37,210 | 40,913 |
| YoY growth (%) | 11.7 | 11.0 | 9.6 | 9.8 | 10.0 |
| Net profit (RMB mn) | 5,688.1 | 6,232.1 | 6,603.5 | 7,284.3 | 8,492.1 |
| YoY growth (%) | 8.8 | 9.6 | 6.0 | 10.3 | 16.6 |
| EPS (Reported) (RMB) | 0.47 | 0.51 | 0.54 | 0.60 | 0.70 |
| Consensus EPS (RMB) | na | na | 0.56 | 0.62 | (0.03) |
| P/E (x) | 16.8 | 14.2 | 13.6 | 12.3 | 10.5 |
| Net gearing (%) | (40.9) | (44.1) | (51.6) | (57.8) | (63.7) |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

| | |
|---------------|-----------|
| Target Price | HK\$12.11 |
| (Previous TP) | HK\$13.52 |
| Up/Downside | 45.0% |
| Current Price | HK\$7.64 |

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Stock Data

| | |
|--------------------------|------------|
| Mkt Cap (HK\$ mn) | 91,528 |
| Avg 3 mths t/o (HK\$ mn) | 345.70 |
| 52w High/Low (HK\$) | 10.36/6.95 |
| Total Issued Shares (mn) | 11,933 |

Source: FactSet

Shareholding Structure

| | |
|-------------------------|-------|
| Massive Giant Group Ltd | 10.2% |
| Cai Dongchen | 9.8% |

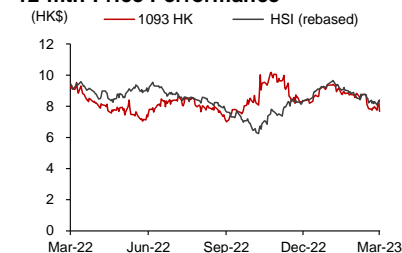
Source: Bloomberg

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -2.5% | 1.7% |
| 3-mth | 0.7% | 1.2% |
| 6-mth | 17.4% | 8.8% |

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: CMBIGM earnings revisions

| RMB mn | New | | | Old | | | Diff (%) | | |
|------------------|--------|--------|--------|--------|--------|-------|----------|----------|-------|
| | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Revenue | 33,895 | 37,210 | 40,913 | 35,032 | 39,276 | NA | -3.2% | -5.3% | NA |
| Gross profit | 24,235 | 26,419 | 28,639 | 24,873 | 27,886 | NA | -2.6% | -5.3% | NA |
| Operating profit | 8,013 | 8,834 | 10,286 | 8,460 | 9,662 | NA | -5.3% | -8.6% | NA |
| Net profit | 6,455 | 7,120 | 8,300 | 6,884 | 7,858 | NA | -6.2% | -9.4% | NA |
| EPS (RMB) | 0.54 | 0.60 | 0.70 | 0.58 | 0.66 | NA | -6.2% | -9.4% | NA |
| Gross margin | 71.50% | 71.00% | 70.00% | 71.00% | 71.00% | NA | +0.5ppt | 0ppt | NA |
| Operating margin | 23.64% | 23.74% | 25.14% | 24.15% | 24.60% | NA | -0.51ppt | -0.86ppt | NA |
| Net margin | 19.04% | 19.13% | 20.29% | 19.65% | 20.01% | NA | -0.61ppt | -0.87ppt | NA |

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

| RMB mn | CMBI | | | Consensus | | | Diff (%) | | |
|-------------------------|--------|--------|--------|-----------|--------|--------|----------|----------|----------|
| | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Revenue | 33,895 | 37,210 | 40,913 | 34,471 | 37,333 | 39,616 | -1.7% | -0.3% | 3.3% |
| Gross profit | 24,235 | 26,419 | 28,639 | 25,098 | 27,380 | 29,116 | -3.4% | -3.5% | -1.6% |
| Operating profit | 8,013 | 8,834 | 10,286 | 8,282 | 9,182 | 10,212 | -3.2% | -3.8% | 0.7% |
| Attributable net profit | 6,455 | 7,120 | 8,300 | 6,672 | 7,383 | 7,898 | -3.3% | -3.6% | 5.1% |
| EPS (RMB) | 0.54 | 0.60 | 0.70 | 0.56 | 0.62 | 0.66 | -3.4% | -3.0% | 5.2% |
| Gross margin | 71.50% | 71.00% | 70.00% | 72.81% | 73.34% | 73.50% | -1.31ppt | -2.34ppt | -3.49ppt |
| Operating margin | 23.64% | 23.74% | 25.14% | 24.03% | 24.59% | 25.78% | -0.39ppt | -0.85ppt | -0.64ppt |
| Net margin | 19.04% | 19.13% | 20.29% | 19.36% | 19.78% | 19.94% | -0.31ppt | -0.64ppt | +0.35ppt |

Source: Company data, Bloomberg, CMBIGM estimates

Figure 3: Risk-adjusted DCF valuation

| DCF Valuation (in RMB mn) | | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E |
|------------------------------|--|--------|---------|--------|--------|--------|--------|--------|--------|--------|---------|
| EBIT | | 8,013 | 8,834 | 9,894 | 10,982 | 12,080 | 13,167 | 14,221 | 15,216 | 16,129 | 16,936 |
| Tax rate | | 17.81% | 17.81% | 17.81% | 17.81% | 17.81% | 17.81% | 17.81% | 17.81% | 17.81% | 17.81% |
| EBIT*(1-tax rate) | | 6,586 | 7,261 | 8,132 | 9,026 | 9,929 | 10,823 | 11,688 | 12,507 | 13,257 | 13,920 |
| + D&A | | 864 | 864 | 959 | 1,055 | 1,150 | 1,242 | 1,328 | 1,408 | 1,479 | 1,538 |
| - Change in working capital | | -141 | -139 | -154 | -169 | -184 | -199 | -213 | -226 | -237 | -247 |
| - Capex | | -800 | -800 | -800 | -800 | -800 | -800 | -800 | -800 | -800 | -800 |
| FCFF | | 6,509 | 7,186 | 8,137 | 9,112 | 10,094 | 11,065 | 12,004 | 12,889 | 13,698 | 14,411 |
| Terminal value | | | | | | | | | | | 169,153 |
| Terminal growth rate | | | 3.00% | | | | | | | | |
| WACC | | | 11.78% | | | | | | | | |
| Cost of Equity | | | 15.00% | | | | | | | | |
| Cost of Debt | | | 5.00% | | | | | | | | |
| Equity Beta | | | 1.00 | | | | | | | | |
| Risk Free Rate | | | 3.00% | | | | | | | | |
| Market Risk Premium | | | 12.00% | | | | | | | | |
| Target Debt to Asset ratio | | | 30.00% | | | | | | | | |
| Effective Corporate Tax Rate | | | 15.00% | | | | | | | | |
| Terminal value (RMB mn) | | | 55,569 | | | | | | | | |
| Total PV (RMB mn) | | | 110,828 | | | | | | | | |
| Net debt (RMB mn) | | | -17,897 | | | | | | | | |
| Minority interests (RMB mn) | | | 1,581 | | | | | | | | |
| Equity value (RMB mn) | | | 127,144 | | | | | | | | |
| # of shares (mn) | | | 11,933 | | | | | | | | |
| DCF per share (in HK\$) | | | 12.11 | | | | | | | | |

Source: CMBIGM estimates

Financial Summary

| INCOME STATEMENT | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
|--------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Revenue | 24,942 | 27,867 | 30,937 | 33,895 | 37,210 | 40,913 |
| Cost of goods sold | (6,257) | (6,732) | (8,680) | (9,660) | (10,791) | (12,274) |
| Gross profit | 18,685 | 21,135 | 22,256 | 24,235 | 26,419 | 28,639 |
| Selling expense | (9,378) | (10,443) | (10,337) | (11,185) | (12,465) | (13,624) |
| Admin expense | (946) | (1,010) | (1,173) | (1,220) | (1,302) | (1,350) |
| R&D expense | (2,890) | (3,433) | (3,987) | (4,406) | (4,465) | (4,091) |
| Others | 585 | 546 | 815 | 590 | 648 | 712 |
| Operating profit | 6,057 | 6,795 | 7,574 | 8,013 | 8,834 | 10,286 |
| Gain/loss on financial assets at FVTPL | 0 | 0 | 0 | 0 | 0 | 0 |
| Share of (losses)/profits of associates/JV | 347 | 60 | 33 | 60 | 60 | 60 |
| Net Interest income/(expense) | (12) | (8) | (25) | (39) | (31) | (14) |
| Pre-tax profit | 6,391 | 6,847 | 7,582 | 8,034 | 8,863 | 10,332 |
| Income tax | (1,162) | (1,159) | (1,350) | (1,431) | (1,578) | (1,840) |
| Minority interest | 69 | 83 | 141 | 149 | 164 | 192 |
| Net profit | 5,229 | 5,688 | 6,232 | 6,604 | 7,284 | 8,492 |
| Gross dividends | 1,528 | 1,691 | 1,827 | 1,936 | 2,136 | 2,490 |
| Net dividends | 39 | 9 | 9 | 6 | 10 | na |

| BALANCE SHEET | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Current assets | 15,921 | 20,337 | 23,957 | 29,435 | 35,525 | 42,778 |
| Cash & equivalents | 7,259 | 9,284 | 10,298 | 14,777 | 19,739 | 25,666 |
| Account receivables | 2,883 | 3,890 | 4,631 | 5,074 | 5,570 | 6,125 |
| Inventories | 1,861 | 2,480 | 2,555 | 2,843 | 3,176 | 3,612 |
| Prepayment | 0 | 0 | 0 | 0 | 0 | 0 |
| ST bank deposits | 1,535 | 1,443 | 3,575 | 3,575 | 3,575 | 3,575 |
| Other current assets | 2,382 | 3,240 | 2,898 | 3,166 | 3,466 | 3,801 |
| Non-current assets | 14,149 | 14,405 | 17,813 | 17,749 | 17,685 | 17,621 |
| PP&E | 7,770 | 8,529 | 9,582 | 9,682 | 9,781 | 9,881 |
| Deferred income tax | 117 | 43 | 113 | 113 | 113 | 113 |
| Intangibles | 509 | 468 | 1,908 | 1,883 | 1,857 | 1,832 |
| Goodwill | 1,164 | 1,035 | 1,395 | 1,257 | 1,119 | 981 |
| Financial assets at FVTPL | 1,877 | 1,979 | 2,126 | 2,126 | 2,126 | 2,126 |
| Other non-current assets | 2,711 | 2,351 | 2,689 | 2,689 | 2,689 | 2,689 |
| Total assets | 30,070 | 34,742 | 41,770 | 47,183 | 53,210 | 60,400 |
| Current liabilities | 6,302 | 7,226 | 8,958 | 9,717 | 10,608 | 11,808 |
| Short-term borrowings | 99 | 0 | 153 | 54 | (45) | (144) |
| Account payables | 4,759 | 6,162 | 6,864 | 7,638 | 8,532 | 9,705 |
| Tax payable | 379 | 261 | 262 | 262 | 262 | 262 |
| Other current liabilities | 1,065 | 803 | 1,679 | 1,763 | 1,859 | 1,985 |
| Non-current liabilities | 667 | 687 | 1,170 | 1,170 | 1,170 | 1,170 |
| Long-term borrowings | 0 | 0 | 0 | 0 | 0 | 0 |
| Other non-current liabilities | 667 | 687 | 1,170 | 1,170 | 1,170 | 1,170 |
| Total liabilities | 6,969 | 7,913 | 10,128 | 10,887 | 11,778 | 12,978 |
| Share capital | 10,899 | 10,899 | 10,899 | 10,899 | 10,899 | 10,899 |
| Other reserves | 11,433 | 15,087 | 19,298 | 23,816 | 28,800 | 34,611 |
| Total shareholders equity | 22,332 | 25,987 | 30,198 | 34,716 | 39,700 | 45,510 |
| Minority interest | 769 | 842 | 1,444 | 1,581 | 1,733 | 1,912 |
| Total equity and liabilities | 30,070 | 34,742 | 41,770 | 47,183 | 53,210 | 60,400 |

| CASH FLOW | 2020A | 2021A | 2022E | 2023E | 2024E | 2025E |
|------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Operating | | | | | | |
| Profit before taxation | 6,391 | 6,847 | 7,582 | 8,034 | 8,863 | 10,332 |
| Depreciation & amortization | 809 | 865 | 864 | 864 | 864 | 864 |
| Tax paid | (1,061) | (1,141) | (1,350) | (1,431) | (1,578) | (1,840) |
| Change in working capital | 1,680 | (1,388) | 1,059 | (141) | (139) | (27) |
| Others | (1,079) | (547) | 0 | 0 | 0 | 0 |
| Net cash from operations | 6,740 | 4,637 | 8,155 | 7,326 | 8,009 | 9,329 |
| Investing | | | | | | |
| Capital expenditure | (1,356) | (1,410) | (5,200) | (800) | (800) | (800) |
| Acquisition of subsidiaries/ investments | 0 | 0 | 0 | 0 | 0 | 0 |
| Others | (773) | 773 | 0 | 0 | 0 | 0 |
| Net cash from investing | (2,130) | (637) | (5,200) | (800) | (800) | (800) |
| Financing | | | | | | |
| Dividend paid | (1,528) | (1,691) | (1,827) | (1,936) | (2,136) | (2,490) |
| Net borrowings | 169 | 0 | 0 | 0 | 0 | 0 |
| Proceeds from share issues | 0 | 0 | 0 | 0 | 0 | 0 |
| Share repurchases | 0 | (264) | 0 | 0 | 0 | 0 |
| Others | (112) | (242) | (112) | (112) | (112) | (112) |
| Net cash from financing | (1,471) | (2,197) | (1,939) | (2,048) | (2,247) | (2,602) |
| Net change in cash | | | | | | |
| Cash at the beginning of the year | 4,118 | 7,259 | 9,284 | 10,298 | 14,777 | 19,739 |
| Exchange difference | 2 | (2) | 0 | 0 | 0 | 0 |
| Others | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash at the end of the year | 7,259 | 9,060 | 10,299 | 14,777 | 19,739 | 25,666 |
| GROWTH | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| Revenue | 12.8% | 11.7% | 11.0% | 9.6% | 9.8% | 10.0% |
| Gross profit | 17.4% | 13.1% | 5.3% | 8.9% | 9.0% | 8.4% |
| Operating profit | 31.7% | 12.2% | 11.5% | 5.8% | 10.2% | 16.4% |
| Net profit | 40.1% | 8.8% | 9.6% | 6.0% | 10.3% | 16.6% |
| PROFITABILITY | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| Gross profit margin | 74.9% | 75.8% | 71.9% | 71.5% | 71.0% | 70.0% |
| Operating margin | 24.3% | 24.4% | 24.5% | 23.6% | 23.7% | 25.1% |
| Return on equity (ROE) | 25.6% | 23.5% | 22.2% | 20.3% | 19.6% | 19.9% |
| GEARING/LIQUIDITY/ACTIVITIES | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| Net debt to equity (x) | (0.4) | (0.4) | (0.4) | (0.5) | (0.6) | (0.6) |
| Current ratio (x) | 2.5 | 2.8 | 2.7 | 3.0 | 3.3 | 3.6 |
| Receivable turnover days | 73.4 | 92.9 | 87.7 | 87.7 | 87.7 | 87.7 |
| Inventory turnover days | 108.6 | 134.5 | 107.4 | 107.4 | 107.4 | 107.4 |
| Payable turnover days | 294.5 | 352.4 | 319.6 | 319.6 | 319.6 | 319.6 |
| VALUATION | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| P/E | 18.4 | 16.8 | 14.2 | 13.6 | 12.3 | 10.5 |
| P/E (diluted) | 18.4 | 16.8 | 14.2 | 13.6 | 12.3 | 10.5 |
| P/B | 4.1 | 3.5 | 2.7 | 2.4 | 2.1 | 1.8 |
| P/CFPS | 14.1 | 20.3 | 10.6 | 11.9 | 10.9 | 9.4 |
| Div yield (%) | 1.6 | 1.8 | 2.1 | 2.2 | 2.4 | 2.8 |

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

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| | |
|-----------------------|-----------------------------------------------------------------------------------------------------|
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