

CSPC Pharmaceutical (1093 HK)

Encouraging preliminary clinical results of mRNA COVID-19 vaccine candidate

CSPC reported 1H22 revenue of RMB15.61bn (+12.9% YoY), accounting for 51% of our full year estimate, despite the interruption to sales activities during COVID outbreak in China. Sales of the finished drugs increased by 9.4% YoY to RMB12.29bn, mainly driven by the steady performance of nervous system disease drugs and oncology drugs, as well as the strong growth of anti-infective drugs and other new products. Adjusted attributable net profit increased by 14.9% YoY to RMB3.07bn. Upon the out-license of Claudin 18.2 ADC to Elevation Oncology in Jul 2022, CSPC has received an upfront payment of US\$27mn and is eligible to receive up to US\$148mn development and regulatory milestone payments, up to US\$1.02bn sales milestone payments as well as sales royalties.

■ Efficient clinical development of the COVID-19 mRNA vaccine candidate.

CSPC has initiated six clinical trials in evaluating the safety and immunogenicity of SYS6006. The Company has completed the Ph I study and has finished 2nd dose vaccination of the c. 600 enrolled subjects of the Ph II study (NCT05439824). In addition, CSPC is also expediting the initiation of the Ph III study overseas and in Hong Kong. On 29 Jul, China CDC disclosed to initiate an IIT study (ChiCTR2200062207) assessing 14 new COVID variant targeted vaccine candidates while SYS6006 was included. We believe results of this study will be critical for potential EUA approvals in China. CSPC has already completed production line of capacity of 500mn doses/ year, while the construction of the 2nd phase production lines is undergoing with targeted total capacity of 1.5bn doses/ year.

■ SYS6006 demonstrated superior safety and potent efficacy in early clinical studies.

In its dose-escalation Ph I study (SYS6006-001), SYS6006 has shown a low incidence of both local and systemic adverse events, among which most are Grade 1 AEs. Among subjects who have received two doses of SYS6006 (20 μ g) and SYS6006 (30 μ g), the fever rate after 2nd dose vaccination was 0% and 13.3%, respectively. By comparison, 38.8% of Chinese subjects experienced fever after receiving 2nd dose of BNT162b2 (Pfizer/ BioNTech). In a study evaluating SYS6006 as heterologous booster (SYS6006-IIT003), SYS6006 showed good immunogenicity against Omicron variants. Results of BA.2 live virus neutralizing antibodies showed that the TCID₅₀ at 14 days after booster immunization with SYS6006 based on inactivated vaccines was 5.9~8.7x higher than the homologous booster.

■ Maintain BUY. We currently do not factor in potential revenue contribution from SYS6006. We expect CSPC's revenue to grow 10.6% / 13.6% YoY in FY22E/ 23E and attributable net profit to grow 5.3% / 16.6% YoY in FY22E/ 23E. We revised our DCF-based TP of HK\$12.88 (WACC 11.78%, Terminal growth 3.0%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	24,942	27,867	30,827	35,032	39,276
YoY growth (%)	12.8	11.7	10.6	13.6	12.1
Net profit (RMB mn)	5,229.0	5,688.1	6,003.9	7,003.5	7,994.2
YoY growth (%)	40.1	8.8	5.6	16.6	14.1
EPS (Reported) (RMB)	0.43	0.47	0.49	0.58	0.66
P/E (x)	18.4	16.8	13.5	11.6	10.1
Yield (%)	1.6	1.8	2.2	2.6	3.0
Net gearing (%)	(38.0)	(40.9)	(51.1)	(58.1)	(63.4)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$12.88**
 (Previous TP) **HK\$13.20**
Up/Downside **68.4%**
Current Price **HK\$7.65**

China Healthcare

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Stock Data

Mkt Cap (HK\$ mn) 765.0
 Avg 3 mths t/o (HK\$ mn) 8.0
 52w High/Low (HK\$) 10.46/7.04
 Total Issued Shares (mn) 100.0

Source: FactSet

Shareholding Structure

Management 23.7%
 UBS Group 7.2%

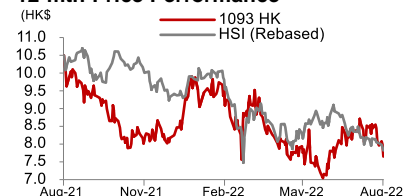
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.8%	-2.5%
3-mth	-1.4%	2.9%
6-mth	-15.8%	2.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: CMBIGM earnings revisions

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	30,827	35,032	39,276	30,735	33,899	37,175	0.3%	3.3%	5.7%
Gross Profit	22,295	24,873	27,886	23,051	25,424	27,881	-3.3%	-2.2%	0.0%
Operating Profit	7,306	8,460	9,662	7,687	8,902	10,227	-5.0%	-5.0%	-5.5%
Net profit	5,901	6,884	7,858	6,336	7,333	8,420	-6.9%	-6.1%	-6.7%
EPS (RMB)	0.49	0.58	0.66	0.53	0.61	0.71	-6.9%	-6.1%	-6.7%
Gross Margin	72.32%	71.00%	71.00%	75.00%	75.00%	75.00%	-2.68 ppt	-4.00 ppt	-4.00 ppt
Operating Margin	23.70%	24.15%	24.60%	25.01%	26.26%	27.51%	-1.31 ppt	-2.11 ppt	-2.91 ppt
Net Margin	19.14%	19.65%	20.01%	20.61%	21.63%	22.65%	-1.47 ppt	-1.98 ppt	-2.64 ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	30,827	35,032	39,276	31,408	34,973	38,305	-1.8%	0.2%	2.5%
Gross Profit	22,295	24,873	27,886	23,470	26,160	28,725	-5.0%	-4.9%	-2.9%
Operating Profit	7,306	8,460	9,662	7,643	8,421	9,049	-4.4%	0.5%	6.8%
Attributable net profit	5,901	6,884	7,858	6,110	6,910	7,603	-3.4%	-0.4%	3.3%
EPS (RMB)	0.49	0.58	0.66	0.52	0.58	0.63	-4.3%	0.0%	5.0%
Gross Margin	72.32%	71.00%	71.00%	74.73%	74.80%	74.99%	-2.4 ppt	-3.8 ppt	-4.0 ppt
Operating Margin	23.70%	24.15%	24.60%	24.33%	24.08%	23.62%	-0.6 ppt	+0.1 ppt	+1.0 ppt
Net Margin	19.14%	19.65%	20.01%	19.45%	19.76%	19.85%	-0.3 ppt	-0.1 ppt	+0.2 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 3: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
EBIT	7,306	8,460	9,662	10,918	12,228	13,573	14,930	16,274	17,576	18,806
Tax rate	17.82%	17.82%	17.82%	17.82%	17.82%	17.82%	17.82%	17.82%	17.82%	17.82%
EBIT*(1-tax rate)	6,004	6,952	7,940	8,972	10,049	11,154	12,269	13,374	14,444	15,455
+ D&A	864	864	864	976	1,093	1,213	1,335	1,455	1,571	1,681
- Change in working capital	460	(79)	(326)	(368)	(412)	(458)	(504)	(549)	(593)	(634)
- Capex	(800)	(800)	(800)	(800)	(800)	(800)	(800)	(800)	(800)	(800)
FCFF	6,528	6,937	7,678	8,780	9,929	11,110	12,301	13,480	14,622	15,702
Terminal value										184,304

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	60,547
Total PV	116,153
Net debt	(15,378)
Minority interests	932
Equity value	130,600
# of shares	11,933,219,732

DCF per share (in HK\$) **12.88**

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	22,103	24,942	27,867	30,827	35,032	39,276
Cost of goods sold	(6,192)	(6,257)	(6,732)	(8,532)	(10,159)	(11,390)
Gross profit	15,911	18,685	21,135	22,295	24,873	27,886
Selling expense	(8,712)	(9,378)	(10,443)	(10,660)	(11,911)	(13,275)
Admin expense	(749)	(946)	(1,010)	(1,113)	(1,244)	(1,375)
R&D expense	(2,000)	(2,890)	(3,433)	(3,710)	(3,854)	(4,242)
Operating profit	4,600	6,057	6,795	7,306	8,460	9,662
Other income	292	642	654	587	701	786
Other expense	(142)	(57)	(108)	(93)	(105)	(118)
Gain/loss on financial assets at FVTPL	0	0	0	0	0	0
Other gains/(losses)	(32)	321	30	(2)	2	6
Share of (losses)/profits of associates/JV	58	14	22	2	60	60
EBITDA	5,292	6,865	7,660	8,170	9,324	10,526
Pre-tax profit	4,626	6,391	6,847	7,306	8,522	9,728
Income tax	(893)	(1,162)	(1,159)	(1,302)	(1,519)	(1,734)
Minority interest	(19)	(69)	(83)	(103)	(120)	(137)
Net profit	3,733	5,229	5,688	6,004	7,003	7,994

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	13,697	15,921	20,337	26,164	32,607	39,370
Cash & equivalents	4,118	7,259	9,284	13,930	18,741	24,004
Account receivables	2,826	2,883	3,890	4,223	4,799	5,380
Inventories	2,536	1,861	2,480	3,039	3,618	4,057
Prepayment	0	0	0	0	0	0
ST bank deposits	1,838	1,535	1,443	1,443	1,443	1,443
Other current assets	2,379	2,382	3,240	3,529	4,005	4,486
Non-current assets	12,621	14,149	14,405	14,341	14,278	14,214
PP&E	8,459	7,770	8,529	8,629	8,729	8,828
Deferred income tax	35	117	43	43	43	43
Intangibles	1,136	509	468	442	417	392
Goodwill	823	1,164	1,035	897	759	621
Financial assets at FVTPL	1,078	1,877	1,979	1,979	1,979	1,979
Other non-current assets	1,091	2,711	2,351	2,351	2,351	2,351
Total assets	26,318	30,070	34,742	40,506	46,885	53,584
Current liabilities	6,237	6,302	7,226	8,769	10,222	11,297
Short-term borrowings	23	99	0	(99)	(198)	(297)
Account payables	4,803	4,759	6,162	7,714	9,185	10,298
Tax payable	259	379	261	261	261	261
Other current liabilities	1,152	1,065	803	893	974	1,036
Non-current liabilities	563	667	687	687	687	687
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	563	667	687	687	687	687
Total liabilities	6,800	6,969	7,913	9,456	10,910	11,985
Share capital	10,899	10,899	10,899	10,899	10,899	10,899
Other reserves	7,562	11,433	15,087	19,218	24,037	29,537
Total shareholders equity	18,462	22,332	25,987	30,118	34,936	40,437
Minority interest	1,056	769	842	932	1,039	1,163
Total equity and liabilities	26,318	30,070	34,742	40,506	46,885	53,584

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	4,626	6,391	6,847	7,306	8,522	9,728
Depreciation & amortization	692	809	865	864	864	864
Tax paid	(867)	(1,061)	(1,141)	(1,302)	(1,519)	(1,734)
Change in working capital	(485)	1,680	(1,388)	460	(79)	(326)
Others	(182)	(1,079)	(547)	0	0	0
Net cash from operations	3,784	6,740	4,637	7,328	7,788	8,532
Investing						
Capital expenditure	(1,883)	(1,356)	(1,410)	(800)	(800)	(800)
Acquisition of subsidiaries/ investments	(508)	0	0	0	0	0
Others	(67)	(773)	773	0	0	0
Net cash from investing	(2,457)	(2,130)	(637)	(800)	(800)	(800)
Financing						
Dividend paid	(965)	(1,528)	(1,691)	(1,770)	(2,065)	(2,357)
Net borrowings	23	169	0	0	0	0
Proceeds from share issues	1,224	0	0	0	0	0
Share repurchases	(101)	0	(264)	0	0	0
Others	(1,726)	(112)	(242)	(112)	(112)	(112)
Net cash from financing	(1,546)	(1,471)	(2,197)	(1,882)	(2,177)	(2,469)
Net change in cash						
Cash at the beginning of the year	4,336	4,118	7,259	9,284	13,930	18,741
Exchange difference	1	2	(2)	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	4,118	7,259	9,060	13,930	18,741	24,004
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	24.8%	12.8%	11.7%	10.6%	13.6%	12.1%
Gross profit	35.3%	17.4%	13.1%	5.5%	11.6%	12.1%
Operating profit	20.3%	31.7%	12.2%	7.5%	15.8%	14.2%
EBITDA	17.2%	29.7%	11.6%	6.7%	14.1%	12.9%
Net profit	22.1%	40.1%	8.8%	5.6%	16.6%	14.1%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	72.0%	74.9%	75.8%	72.3%	71.0%	71.0%
Operating margin	20.8%	24.3%	24.4%	23.7%	24.1%	24.6%
EBITDA margin	23.9%	27.5%	27.5%	26.5%	26.6%	26.8%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	(0.3)	(0.4)	(0.4)	(0.5)	(0.6)	(0.6)
Current ratio (x)	2.2	2.5	2.8	3.0	3.2	3.5
Receivable turnover days	81.9	73.4	92.9	91.3	91.3	91.3
Inventory turnover days	149.5	108.6	134.5	130.0	130.0	130.0
Payable turnover days	315.9	294.5	352.4	348.2	348.2	348.2
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	22.2	18.4	16.8	13.5	11.6	10.1
P/B	4.2	4.1	3.5	2.6	2.2	1.9
Div yield (%)	1.2	1.6	1.8	2.2	2.6	3.0

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

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