

## Quantum Hi-Tech China Biological (300149 CH)

### Business recovery from 2Q20

Quantum Hi-Tech China Biological (Quantum) reported 1H20 revenue of RMB270mn, up 9% YoY, while revenue in 2Q20 grew strongly by 23% YoY. Attributable net profit (loss) turned around from RMB14mn loss in 1Q20 to RMB55mn in 2Q20, up 132% YoY in 2Q20. Business recovery was mainly driven by the operation continuation after COVID-19 pandemic in China, growing customer base and capacity expansion. Gross margin recovered significantly from 24.4% in 1Q20 to 40.3% in 2Q20 thanks higher capacity utilization rate.

- Expanding CRO/CDMO customer base.** ChemPartner is one of the few China-based companies offering a broad range of services, including pre-clinical CRO services and CDMO services for both small molecule drugs and biologics. In 1H20, ChemPartner recorded RMB531mn revenue in 1H20, up 3% YoY, while revenue increased 14% YoY in 2Q20. ChemPartner added over 100 new customers in 1H20, indicating promising growth outlook in the future driven by expanding customer base. 74% of CRO/CDMO income were from overseas customers. ChemPartner has maintained stable customer relationship with 18 out of the global top 20 pharma companies. ChemPartner is also acquiring new biotech customers from both China and overseas.
- Fast growing capacity to drive business growth.** ChemPartner has expanded its CRO capacity by over 30% to 24,000 m<sup>2</sup> from early 2020 thanks to the launch of a new laboratory facility in Shanghai. ChemPartner is aggressively expanding its CDMO capacity to meet the strong demand. ChemPartner plans to expand its biologicals CDMO capacity from current 450L to 4,950L by the end of 2020E, and further expand to 13,950L~18,450L in the coming three years. In addition, ChemPartner's new cGMP facility in Fengxian, Shanghai will gradually commence operation from 2021E to fulfill manufacturing demand from clinical stage to commercial stage. Driven by the strong demand and expanding capacity, we forecast ChemPartner's revenue to grow at a 26% CAGR in 2019-22E, contributing 83% of the Company's total revenue in 2022E.
- Strengthening leadership in prebiotics industry.** Prebiotics are substances which stimulate the growth of beneficial bacteria in the digestive system. The Company's prebiotics revenue grew 48% YoY in 1H20 from a low base in 1H19, driven by the industry's demand recovery from the "Quanjian" scandal in 2019.
- Maintain BUY.** We expect revenue to grow at a 25% CAGR in FY19-22E, and attributable net profit to increase 35%/41%/39% YoY in FY20/21/22E. Maintain DCF-based TP unchanged at RMB25.52.
- Catalyst:** CDMO capacity expansion; **Risk:** Weak organic growth.

#### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	997	1,328	1,570	2,009	2,604
YoY growth (%)	262	33	18	28	30
Net income (RMB mn)	161	139	187	264	367
EPS (RMB)	0.35	0.28	0.37	0.53	0.73
YoY growth (%)	155	(20)	35	41	39
P/E (x)	62.4	78.4	58.3	41.2	29.7
P/B (x)	4.6	4.8	4.4	4.0	3.5
Yield (%)	10.9	0.0	0.0	0.0	0.0
ROE	7.3	5.9	7.5	9.5	11.7
Net gearing (%)	34.15	38.87	36.39	35.26	31.08

Source: Bloomberg, CMBIS estimates

**BUY (Maintain)**

**Target Price** RMB25.52  
 (Previous TP RMB25.52)  
**Up/Downside** +17.05%  
**Current Price** RMB21.80

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Mkt. Cap. (RMB mn)	10,895
Avg. 3mths t/o (RMB mn)	182.19
52W High/Low (RMB)	23.53/ 10.63
Total Issued Shares (mn)	500

Source: Bloomberg

#### Shareholding Structure

Management	32.38%
Hangzhou Cixuan Liangjia	11.82%
HKSCC	5.71%
Mega Star Centre	4.54%
Others	45.55%

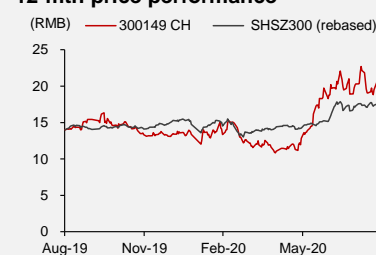
Source: Wind

#### Share performance

	Absolute	Relative
1-mth	10.5%	6.7%
3-mth	69.8%	35.5%
6-mth	63.3%	32.8%

Source: Bloomberg

#### 12-mth price performance



Source: Bloomberg

**Auditor:** PWC

**Web-site:** [www.quantumbio.net.cn](http://www.quantumbio.net.cn)

#### Related report:

Establishing leading integrated CRO/CDMO platform – 31 Jul 2020

**Figure 1: CMBIS earnings revisions**

(RMB mn)	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	1,570	2,009	2,604	1,590	2,048	2,652	-1%	-2%	-2%
Gross profit	567	734	942	599	745	956	-5%	-2%	-2%
Operating profit	209	298	415	221	322	433	-5%	-7%	-4%
Net profit	187	264	367	196	285	383	-5%	-7%	-4%
EPS (RMB)	37	53	73	39	57	77	-5%	-7%	-5%
Gross margin	36.08%	36.54%	36.18%	37.67%	36.40%	36.06%	-1.59 ppt	+0.14 ppt	+0.12 ppt
Operating margin	13.31%	14.83%	15.93%	13.90%	15.71%	16.31%	-0.58 ppt	-0.88 ppt	-0.39 ppt
Net Margin	11.90%	13.15%	14.09%	12.35%	13.92%	14.43%	-0.45 ppt	-0.77 ppt	-0.34 ppt

Source: Company data, CMBIS estimates

**Figure 2: Peers comparison**

Company	Ticker	Rating	TP (LC)	Price (LC)	Mkt Cap (US\$ mn)	Net profit YoY		P/E (x)		P/B (x)		ROE (%)	
						FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
<b>H-share</b>													
WuXi AppTec	2359 HK	NR	N/A	116.80	38,125	28.3%	28.0%	84.5	66.3	11.4	9.9	13.4	15.1
WuXi Biologics	2269 HK	Buy	**	202.20	35,411	29.8%	39.7%	166.3	120.4	14.7	13.3	10.2	11.6
PharmaRon	3759 HK	NR	N/A	105.60	12,397	62.6%	31.2%	87.0	65.4	8.7	7.5	10.5	12.0
Frontage	1521 HK	NR	N/A	4.05	1,063	20.4%	31.2%	40.2	30.7	3.6	3.3	9.8	10.2
Viva	1873 HK	NR	N/A	9.19	2,225	141.8%	50.2%	39.3	26.3	5.4	4.0	8.2	22.2
<b>Average</b>						<b>56.6%</b>	<b>36.1%</b>	<b>83.5</b>	<b>61.8</b>	<b>8.8</b>	<b>7.6</b>	<b>10.4</b>	<b>14.2</b>
<b>A-share</b>													
Quantum Hi-Tech	300149 CH	Buy	25.52	21.80	1,587	34.5%	41.4%	58.3	41.2	4.4	4.0	7.5	9.5
WuXi AppTec	603259 CH	Buy	131.98	111.00	38,124	28.3%	28.0%	90.2	70.8	12.2	10.6	13.4	15.1
Pharmaron	300759 CH	NR	N/A	109.90	12,397	62.6%	31.2%	101.8	76.4	10.2	8.8	10.5	12.0
Joinn Laboratories	603127 CH	NR	N/A	99.50	3,286	60.3%	35.3%	80.6	59.4	21.0	16.4	23.9	25.1
Asymchem Laboratories	002821 CH	NR	N/A	272.00	9,165	31.8%	32.9%	85.1	64.3	16.1	13.0	19.5	20.9
<b>Average</b>						<b>41.7%</b>	<b>33.5%</b>	<b>83.4</b>	<b>62.7</b>	<b>13.5</b>	<b>11.0</b>	<b>15.8</b>	<b>17.4</b>

Source: Bloomberg, CMBIS estimates; Note: \*\*= TP under review

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>997</b>	<b>1,328</b>	<b>1,570</b>	<b>2,009</b>	<b>2,604</b>
Outsourcing service	694	1,091	1,259	1,641	2,163
Prebiotics and medical service	288	224	306	362	434
Others	14	13	5	6	6
Cost of services	(570)	(821)	(1,004)	(1,275)	(1,662)
<b>Gross profit</b>	<b>427</b>	<b>507</b>	<b>567</b>	<b>734</b>	<b>942</b>
Business taxes	(7)	(5)	(6)	(7)	(10)
Selling and distribution expenses	(44)	(58)	(60)	(86)	(112)
Administrative expenses	(135)	(182)	(199)	(241)	(286)
R&D expenses	(55)	(63)	(58)	(80)	(104)
Finance cost	(27)	(51)	(43)	(37)	(31)
Other gains	8	9	8	16	16
Investment gains	15	1	8	0	0
<b>Profit before tax</b>	<b>178</b>	<b>144</b>	<b>209</b>	<b>298</b>	<b>415</b>
Income tax expense	(18)	(8)	(24)	(36)	(50)
<b>Total net profit</b>	<b>160</b>	<b>136</b>	<b>185</b>	<b>262</b>	<b>365</b>
Minority Interests	(1)	(3)	(1)	(2)	(2)
<b>Profit attributable to shareholders</b>	<b>161</b>	<b>139</b>	<b>187</b>	<b>264</b>	<b>367</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Net Profit</b>	<b>160</b>	<b>136</b>	<b>185</b>	<b>262</b>	<b>365</b>
Financial cost	38	48	43	37	31
Change in working capital	(21)	(99)	(73)	(68)	(89)
Others	15	51	51	50	50
Depreciation of PP&E	52	79	79	121	144
<b>Net cash from operating activities</b>	<b>243</b>	<b>215</b>	<b>285</b>	<b>401</b>	<b>501</b>
Capex	(110)	(254)	(400)	(300)	(200)
Acquisition of subsidiaries	(856)	0	0	0	0
Other investing activities	(1,602)	(453)	0	0	0
<b>Net cash from investing activities</b>	<b>(940)</b>	<b>(255)</b>	<b>(392)</b>	<b>(300)</b>	<b>(200)</b>
Net proceeds from shares issued	0	0	0	0	0
Net bank borrowing	680	129	0	0	(200)
Advance from related parties	0	0	0	0	0
Other financing activities	(86)	(81)	(43)	(37)	(31)
<b>Net cash from financing activities</b>	<b>594</b>	<b>48</b>	<b>(43)</b>	<b>(37)</b>	<b>(231)</b>
Net change in cash	(102)	8	(150)	64	69
Cash at the beginning of the year	291	189	201	52	116
<b>Cash at the end of the year</b>	<b>189</b>	<b>198</b>	<b>52</b>	<b>116</b>	<b>185</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>2,612</b>	<b>2,968</b>	<b>3,247</b>	<b>3,377</b>	<b>3,383</b>
Long-term equity investment	63	116	124	124	124
Intangible assets	212	192	170	148	126
Goodwill	1,617	1,617	1,617	1,617	1,617
PP&E	553	606	927	1,107	1,163
Long-term deferred expenses	59	260	233	205	177
Others	108	176	176	176	176
<b>Current assets</b>	<b>735</b>	<b>800</b>	<b>678</b>	<b>885</b>	<b>1,149</b>
Inventories	50	68	72	91	119
Accounts and other receivables	336	409	441	565	732
Held for trading financial assets	0	64	64	64	64
Bank balances and cash	191	201	52	116	185
Others	159	58	49	49	49
<b>Current liabilities</b>	<b>355</b>	<b>789</b>	<b>753</b>	<b>827</b>	<b>934</b>
Accounts and other payables	70	85	99	126	164
Advances from customers	43	48	48	48	48
Non-current liabilities due within 1yr	54	275	275	275	275
Tax payables	10	12	12	12	12
<b>Non-current liabilities</b>	<b>789</b>	<b>675</b>	<b>675</b>	<b>675</b>	<b>475</b>
Long-term payables	0	9	9	9	9
Deferred tax liabilities	25	21	21	21	21
<b>Total net assets</b>	<b>2,205</b>	<b>2,303</b>	<b>2,497</b>	<b>2,759</b>	<b>3,124</b>
Minority interest	14	11	10	8	6
<b>Shareholders' equity</b>	<b>2,190</b>	<b>2,292</b>	<b>2,479</b>	<b>2,743</b>	<b>3,110</b>

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Outsourcing service	69.6	82.2	80.2	81.7	83.1
Prebiotics and medical service	28.9	16.9	19.5	18.0	16.7
Others	1.4	0.9	0.3	0.3	0.2
Total	100	100	100	100	100
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	43	38	36	37	36
EBITDA margin	28	24	24	25	25
Pre-tax margin	18	11	13	15	16
Net margin	16	10	12	13	14
Effective tax rate	10	6	11	12	12
<b>Balance sheet ratios</b>					
Current ratio (x)	2.1	1.0	0.9	1.1	1.2
Trade receivables turnover days	72	103	103	103	103
Trade payables turnover days	32	36	36	36	36
Net debt to total equity ratio (%)	34	39	36	35	31
<b>Returns (%)</b>					
ROE	7	6	7	10	12
ROA	5	4	5	6	8
<b>Per share value</b>					
EPS (RMB)	0.35	0.28	0.37	0.53	0.73
DPS (RMB)	0.08	0.00	0.00	0.00	0.00
BVP (RMB)	4.75	4.59	4.96	5.49	6.22

Source: Company data, CMBIS estimates

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