

Simcere Pharmaceutical (2096 HK)

Expanding innovative product portfolio

■ **Sanbexin sales beat in 2021.** In 2021, Simcere recorded 11% YoY revenue growth and 125% YoY attributable net profit growth. Significant net profit growth was mainly due to investment and other gains totaling RMB1.22bn, including RMB399mn gains from disposal of subsidiaries, RMB383mn gains from financial assets, RMB314mn gains from fair value change in associates and RMB116mn foreign exchange gains. The Company's CNS product sales grew 119% YoY, contributing 31% of total revenue, which was mainly driven by strong sales growth in Sanbexin. Sanbexin (edaravone and dexborneol injection) was approved by NMPA in Jul 2020 and was added into the NRDL from Mar 2021. We forecast Sanbexin to be the largest growth driver with sales growing by 60%/45%/35% YoY in 2022E/23E/24E, contributing 39%/44%/48% of total revenue, respectively. We believe the sales growth will be driven by Sanbexin's unique positioning in stroke market, Simcere's strong sales capabilities and the global endorsement of clinical evidence of Sanbexin (Phase III results published in STROKE). Furthermore, to complement sequential treatment need for acute ischemic patients, the Company is developing Y-2 (sublingual edaravone and dexborneol tablet) which is under Phase III trial in China and may file NDA in 1H23E. Enweida (subcutaneous PD-L1 mAb) obtained the conditional approval from the NMPA for treatment of MSI-H solid tumors in Nov 2021. We think Enweida has chance to be included into the NRDL via the price negotiation in 4Q22E and sales of Enweida may gradually ramp up after the potential NRDL inclusion.

■ **Multiple blockbuster drugs under development.** Development progress of trilaciclib (CDK 4/6 small molecule inhibitor) exceeds our expectation given the Company has filed NDA for trilaciclib for treatment of ES-SCLC to the NMPA in Nov 2021 and has obtained priority review designation in Dec 2021. We expect trilaciclib to receive NMPA's conditional approval in 2022E. We think trilaciclib is a potential blockbuster thanks to its wide indication potentials including ES-SCLC, mCRC, TNBC, etc. In addition, Simcere's SIM0417 (SARS-CoV2 3CL protease inhibitor) showed good safety, in-vivo pharmacokinetics and broad-spectrum antiviral activity in pre-clinical studies. We expect SIM0417 to receive IND approvals in China soon. Simcere's strong clinical execution may ensure efficient clinical trial operation for SIM0417. In Mar 2022, Simcere obtained from Lynk Pharma the commercial rights of a selective JAK1 inhibitor for RA and AS in China, which could be a potential blockbuster in auto-immune disease area.

■ **Maintain BUY.** We revise our TP from HK\$13.73 to HK\$14.32 based on a 9-year DCF valuation (WACC: 9.7%, terminal growth rate 3.0%), implying 30x/25x FY22E/23E PE. **Risk:** Lower-than-expected sales from key products.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	4,509	5,000	6,361	8,070	10,100
YoY growth (%)	(10)	11	27	27	25
Net income (RMB mn)	670	1,507	1,026	1,243	1,580
YoY growth (%)	(33)	125	-32	21	27
EPS (RMB)	0.28	0.58	0.39	0.47	0.60
Consensus EPS (RMB)	N/A	N/A	0.38	0.49	N/A
PE	42.0	20.3	30.2	24.9	19.6
ROE (%)	12.4	23.2	14.3	15.4	17.3
Net gearing (%)	Net Cash	6.5	Net Cash	Net Cash	Net Cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$14.32**
 (Previous TP **HK\$13.73**)
 Up/Downside **+35.35%**
 Current Price **HK\$10.58**

China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	27,933
Avg. 3mths t/o (HK\$ mn)	45.00
52W High/Low (HK\$)	14.98/6.45
Total Issued Shares (mn)	2,640

Source: Bloomberg

Shareholding Structure

Management	77.72%
Free float	22.28%

Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	13.0%	20.2%
3-mth	12.6%	22.1%
6-mth	47.4%	66.5%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: KPMG

Related reports:

- Sanbexin on high growth path upon NRDL inclusion – 8 Jun 2021
- Increasing contribution from innovative products – 29 Mar 2021
- FDA approved trilaciclib for chemotherapy-induced myelosuppression – 1 Mar 2021

Figure 1: CMBIGM earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	6,361	8,070	10,100	7,800	9,370	11,465	-18%	-14%	-12%
Gross profit	5,057	6,456	8,130	6,396	7,683	9,401	-21%	-16%	-14%
Operating profit	1,207	1,463	1,859	1,615	2,047	2,513	-25%	-29%	-26%
Net profit	1,026	1,243	1,580	1,373	1,740	2,136	-25%	-29%	-26%
EPS (RMB cents)	39	47	60	53	67	82	-26%	-29%	-27%
Gross margin	79.50%	80.00%	80.50%	82.00%	82.00%	82.00%	-2.50 ppt	-2.00 ppt	-1.50 ppt
Operating margin	18.97%	18.13%	18.41%	20.71%	21.84%	21.92%	-1.73 ppt	-3.72 ppt	-3.51 ppt
Net Margin	16.13%	15.41%	15.65%	17.60%	18.57%	18.63%	-1.47 ppt	-3.16 ppt	-2.98 ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

(RMB mn)	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	6,361	8,070	10,100	6,537	7,906	N/A	-3%	2%	N/A
Gross Profit	5,057	6,456	8,130	5,386	6,541	N/A	-6%	-1%	N/A
Operating Profit	1,207	1,463	1,859	1,019	1,254	N/A	18%	17%	N/A
Net profit	1,026	1,243	1,580	934	1,140	N/A	10%	9%	N/A
EPS (RMB cents)	39	47	60	38	49	N/A	2%	-4%	N/A
Gross Margin	79.50%	80.00%	80.50%	82.40%	82.73%	N/A	-2.90 ppt	-2.73 ppt	N/A
Operating Margin	18.97%	18.13%	18.41%	15.59%	15.86%	N/A	3.38 ppt	2.26 ppt	N/A
Net Margin	16.13%	15.41%	15.65%	14.29%	14.42%	N/A	1.83 ppt	0.99 ppt	N/A

Source: Company data, CMBIGM estimates

Valuation

Figure 3: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	1,219	1,444	1,824	2,328	2,748	3,215	3,729	4,288	4,889
Tax rate	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	1,036	1,228	1,550	1,979	2,335	2,732	3,170	3,645	4,155
+ D&A	249	245	242	239	282	330	383	440	502
- Change in working capital	-254	-415	-508	-612	-722	-845	-980	-1,127	-1,285
- Capex	-200	-200	-200	-200	-200	-200	-200	-200	-180
FCFF	831	858	1,084	1,406	1,695	2,017	2,372	2,758	3,192
Terminal value									49,259
Terminal growth rate	3.0%								
WACC	9.7%								
Cost of Equity	12.0%								
Cost of Debt	5.0%								
Equity Beta	0.9								
Risk Free Rate	3.0%								
Market Risk Premium	10.0%								
Target Debt to Asset ratio	30.0%								
Effective Corporate Tax Rate	15.0%								
Terminal value	21,454								
Total PV	30,897								
Net debt	-123								
Minority interest	26								
Equity value (RMB mn)	30,994								
Equity value (HK\$ mn)	37,798								
No. of shares outstanding (mn)	2,640								
DCF per share (HK\$)	14.32								

Source: CMBIGM estimates

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	4,509	5,000	6,361	8,070	10,100
Sales of pharmaceutical products	4,230	4,592	5,892	7,531	9,480
Promotion service income	279	407	468	539	620
Cost of sales	(900)	(1,080)	(1,304)	(1,614)	(1,969)
Gross profit	3,609	3,920	5,057	6,456	8,130
Other income	115	150	150	150	150
Other expenses	327	1,215	400	300	250
Other net (loss)/gain	(1,142)	(1,417)	(1,527)	(1,856)	(2,222)
R&D expenses	(1,142)	(1,417)	(1,527)	(1,856)	(2,222)
Administrative expenses	(411)	(382)	(413)	(508)	(616)
Listing expenses	0	0	0	0	0
Finance cost	(134)	(71)	(68)	(38)	(38)
Profit before tax	805	1,402	1,207	1,463	1,859
Income tax expense	(141)	97	(181)	(219)	(279)
Total net profit	664	1,499	1,026	1,243	1,580
Minority Interests	5	8	0	0	0
Profit attributable to shareholders	670	1,507	1,026	1,243	1,580

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before tax	805	1,402	1,207	1,463	1,859
Depreciation for plant and equipment	205	234	232	228	225
Change in working capital	(718)	(496)	(435)	(635)	(787)
Others	(41)	(33)	241	248	291
Tax paid	(155)	97	(181)	(219)	(279)
Net cash from operating	97	1,204	1,063	1,085	1,309
Capex	(353)	(200)	(200)	(200)	(200)
Acquisition of subsidiaries	2	0	0	0	0
Other investing activities	880	68	56	57	73
Net cash from investing	529	(132)	(144)	(143)	(127)
Net proceeds from shares	3,003	0	0	0	0
Bank borrowing	267	(500)	(500)	(500)	0
New loans from related parties	36	0	0	0	0
Other financing activities	(952)	(465)	(376)	(411)	(512)
Net cash from financing	2,354	(965)	(876)	(911)	(512)
activities					
Net change in cash	2,979	107	43	30	670
Cash at the beginning of the year	355	3,270	1,210	1,253	1,283
Cash at the end of the year	3,270	3,378	1,253	1,283	1,954

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	4,477	5,182	5,102	5,027	4,955
Plant and equipment	2,128	1,931	1,899	1,872	1,847
Goodwill	173	173	173	173	173
Intangible assets	77	60	42	25	7
Prepayments and deposits	114	487	487	487	487
Financial assets at FV through profit	1,232	1,940	1,940	1,940	1,940
Others	754	591	561	531	501
Current assets	6,467	4,980	5,500	6,357	8,006
Inventories	263	235	319	394	481
Accounts and other receivables	1,992	2,539	2,933	3,684	4,575
Amounts due from related parties	0	0	0	0	0
Bank balances and cash	3,270	1,210	1,253	1,283	1,954
Others	942	996	996	996	996
Current liabilities	3,497	3,064	2,782	2,687	3,151
Accounts and other payables	1,565	1,486	1,704	2,109	2,573
Bank Loans & Lease liabilities	1,831	1,562	1,062	562	562
Amounts due to related parties	0	0	0	0	0
Tax payables	0	16	16	16	16
Non-current liabilities	2,111	635	641	646	652
Deferred income	448	418	424	429	435
Deferred tax liabilities	194	143	143	143	143
Total net assets	5,336	6,463	7,181	8,051	9,157
Minority interest	34	26	26	26	26
Shareholders' equity	5,302	6,437	7,155	8,025	9,132

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Sales of pharmaceutical	93.8	91.9	92.6	93.3	93.9
Promotion service income	6.2	8.1	7.4	6.7	6.1
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	80	78	80	80	81
EBITDA margin	25	33	23	21	20
Pre-tax margin	18	28	19	18	18
Net margin	15	30	16	15	16
Effective tax rate	17	(7)	15	15	15
Balance sheet ratios					
Current ratio (x)	1.8	1.6	2.0	2.4	2.5
Trade receivables turnover days	130	160	160	160	160
Trade payables turnover days	101	55	55	55	55
Net debt to equity ratio (%)	Net cash	6.5	Net cash	Net cash	Net cash
Returns (%)					
ROE	12.4	23.2	14.3	15.4	17.3
ROA	6.1	14.8	9.7	10.9	12.2

Source: Company data, CMBIGM estimates

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