

WuXi AppTec (603259 CH)

Stronger-than-expected growth in Q1

- 1Q21 earnings beat.** WuXi AppTec reported 1Q21 revenue of RMB4.95bn (+55% YoY), accounting for 30% of our full-year estimate. Such strong growth was mainly driven by business recovery from the COVID-19 pandemic. By segment, revenue from CDMO services surged 100% YoY in 1Q21 while China-based lab service and clinical research & other services registered 49% and 57% YoY growth, respectively. Due to COVID pandemic, US-based laboratory services decreased 15% YoY, accounting for 7% of total revenue. Attributable net profit and adjusted non-IFRS net profit grew by 395%/ 64% YoY to RMB1,500mn/ RMB943mn, respectively. The strong bottom line growth was mainly due to fast revenue growth and significant increase in investment income and fair value gains.
- China-based laboratory services maintained global leading position.** In 1Q21, China-based laboratory services contributed 52% of total revenue, which remained the Company's largest source of revenue. WuXi AppTec maintained its global leading position in small molecule drug discovery services and chemistry fee-for-service (FFS) achieved 58%+ revenue growth in 1Q21. Thanks to capacity expansion, drug safety assessment services achieved ~114% YoY revenue growth. In addition, WuXi AppTec continued to expand its success-based projects with a total of 207 ongoing projects, including 2 projects in Ph3, 11 projects in Ph2 and 57 in Ph1.
- CDMO revenue surged.** In 1Q21, CDMO revenue rallied 100% YoY to RMB1,695mn, accounting for 34% of the total revenue. The growth was driven by WuXi STA (subsidiary of WuXi AppTec)'s world-leading development capability, expanding manufacturing capacity and growing number of projects. In 1Q21, WuXi STA added 169 new molecules into its pipeline. WuXi STA is working on 1,348 projects, including 28 commercial projects and 46 projects in Ph3. The Company has approximately 14% global market share in terms of clinical stage innovative small molecule project number. In order to seize the large opportunity in ADC area, WuXi STA and WuXi Biologics established a JV focused on ADCs and other drug conjugates, providing end-to-end CDMO services incl. payloads/linkers, antibodies, finished conjugated drug products.
- Maintain BUY.** We revised up adjusted Non-IFRS net profit of FY21/22/23E by 3%/3%/3%, and forecast the adjusted Non-IFRS net profit to grow 32%/35%/33% YoY in FY21E/22E/23E respectively. Moreover, WuXi AppTec's diversified investment portfolio will bring significant investment gains over the long term. We lifted our new DCF-based TP to RMB224.01 (WACC: 9.34%, Terminal growth: 4.0%).

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	12,872	16,535	22,376	29,632	38,714
YoY growth (%)	34%	28%	35%	32%	31%
Net income (RMB mn)	1,855	2,960	4,669	6,268	8,383
YoY growth (%)	-18.0%	59.6%	57.7%	34.2%	33.7%
Adj Non-IFRS net income (RMB mn)	2,407	3,565	4,698	6,349	8,457
YoY growth (%)	38.2%	48.1%	31.8%	35.1%	33.2%
EPS (RMB)	0.81	1.27	1.91	2.56	3.42
Change (%)	-49%	56%	50%	34%	34%
Consensus EPS (RMB)	N/A	N/A	1.65	2.18	2.94
P/E (x)	196.79	125.82	83.97	62.55	46.77
P/B (x)	20.96	11.38	10.88	9.69	8.45
ROE (%)	10.98	9.13	13.07	15.62	18.22
Net gearing (%)	0.68	Net cash	Net cash	Net cash	Net cash

Source: Company data, Wind, CMBIS estimates

BUY (Maintain)

Target Price	RMB224.01
(Previous TP)	RMB218.73)
Up/Downside	+40.01%
Current Price	RMB160.00

China Healthcare Sector

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Mkt. Cap. (RMB mn)	395,290
Avg. 3mths t/o (RMB mn)	2,974.14
52W High/Low (RMB)	188.3/70.6
Total Issued Shares (mn)	2,135
Source: Bloomberg	

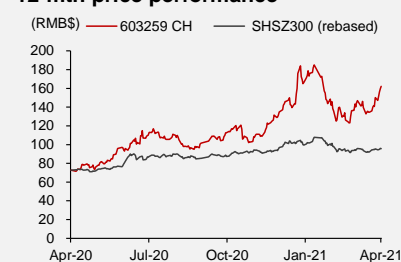
Shareholding Structure

Management	26.63%
A-share public shareholders	60.47%
H-share public shareholders	12.90%
Source: Bloomberg	

Share performance

	Absolute	Relative
1-mth	17.1%	14.4%
3-mth	-3.8%	-0.3%
6-mth	41.9%	31.2%
Source: Bloomberg		

12-mth price performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

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Figure 1: CMBIS earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	22,376	29,632	38,714	21,742	28,285	36,814	2.92%	4.76%	5.16%
Gross profit	8,768	11,850	15,710	8,451	11,236	14,854	3.75%	5.47%	5.76%
Operating profit	4,514	6,262	8,467	4,319	5,916	7,966	4.52%	5.85%	6.29%
Net profit	4,669	6,268	8,383	4,503	5,979	7,964	3.69%	4.84%	5.26%
EPS (RMB)	1.91	2.56	3.42	1.84	2.44	3.25	3.55%	4.83%	5.25%
Gross margin	39.18%	39.99%	40.58%	38.87%	39.72%	40.35%	+0.31ppt	+0.27ppt	+0.23ppt
Operating margin	20.17%	21.13%	21.87%	19.86%	20.92%	21.64%	+0.31ppt	+0.22ppt	+0.23ppt
Net Margin	20.87%	21.15%	21.65%	20.71%	21.14%	21.63%	+0.16ppt	+0.02ppt	+0.02ppt

Source: CMBIS estimates

Figure 2: CMBIS vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	22,376	29,632	38,714	21,752	28,440	37,126	2.87%	4.19%	4.28%
Gross profit	8,768	11,850	15,710	8,463	11,137	14,666	3.60%	6.40%	7.12%
Operating profit	4,514	6,262	8,467	4,642	6,133	8,284	-2.75%	2.11%	2.21%
Net profit	4,669	6,268	8,383	4,043	5,319	7,240	15.49%	17.85%	15.79%
EPS (RMB)	1.91	2.56	3.42	1.65	2.18	2.94	15.33%	17.38%	16.27%
Gross margin	39.18%	39.99%	40.58%	38.91%	39.16%	39.50%	+0.27ppt	+0.83ppt	+1.08ppt
Operating margin	20.17%	21.13%	21.87%	21.34%	21.56%	22.31%	-1.17ppt	-0.43ppt	-0.44ppt
Net Margin	20.87%	21.15%	21.65%	18.59%	18.70%	19.50%	+2.28ppt	+2.45ppt	+2.15ppt

Source: Bloomberg, CMBIS estimates

Figure 3: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2027E
EBIT	5,486	7,511	10,021	14,530	20,924	29,921	42,488	59,908
Tax rate	13.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
EBIT*(1-tax rate)	4,773	6,385	8,518	12,351	17,785	25,433	36,115	50,922
+ D&A	1,146	1,544	1,747	2,166	2,665	3,251	3,934	4,720
- Change in working capital	-269	-902	-1,071	-1,328	-1,634	-1,993	-2,411	-2,894
- Capx	-7,000	-5,000	-5,000	-3,500	-3,500	-3,500	-3,500	-3,500
FCFF	-1,350	2,026	4,194	9,689	15,316	23,191	34,137	49,248
Terminal value								959,590
Terminal growth rate		4.00%						
WACC		9.34%						
Cost of Equity		11.70%						
Cost of Debt		4.50%						
Equity Beta		0.80						
Risk Free Rate		2.50%						
Market Risk Premium		11.50%						
Target Debt to Asset ratio		30.00%						
Effective Corporate Tax Rate		15.00%						
Terminal value		469,821						
Total PV		546,031						
Net debt		(2,942)						
Equity value		548,973						
# of shares		2,450,633,599						
DCF per share (in RMB)		224.01						

Source: CMBIS estimates

Financial Statements

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE Dec 31 (Rmb mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	12,872	16,535	22,376	29,632	38,714	Total net profit	1,911	2,986	4,710	6,323	8,457
China-based laboratory	6,473	8,546	11,537	15,229	19,797	Depreciation and	814	959	1,366	1,764	1,967
CMO/CDMO services	3,752	5,282	7,659	10,340	13,752	Change in working capital	(497)	(494)	(269)	(902)	(1,071)
US-based laboratory	1,563	1,517	1,517	1,820	2,184	Investment loss (gain)	219	(631)	(772)	(1,049)	(1,354)
Clinical research and other CRO services	1,063	1,169	1,636	2,209	2,938	Other operating activities	469	1,154	258	258	258
Others	21	22	28	35	43	Net cash from operating	2,916	3,974	5,293	6,394	8,257
Cost of sales	(7,858)	(10,253)	(13,609)	(17,781)	(23,004)	Capex	(2,532)	(3,031)	(5,000)	(3,000)	(3,000)
Gross profit	5,014	6,282	8,768	11,850	15,710	Acquisition of subsidiaries	(785)	(186)	-	-	-
Business taxes	(28)	(35)	(47)	(62)	(81)	Other investing activities	(1,658)	(5,559)	(2,000)	(2,000)	(2,000)
Selling & distribution	(439)	(588)	(806)	(1,052)	(1,355)	Net cash from investing	(4,975)	(8,776)	(7,000)	(5,000)	(5,000)
Administrative expenses	(1,482)	(1,839)	(2,461)	(3,260)	(4,259)	Net proceeds from shares	769	13,162	-	-	-
R&D expenses	(590)	(693)	(940)	(1,215)	(1,549)	Net borrowings	4,510	(1,284)	-	-	-
Operating profit	2,474	3,127	4,514	6,262	8,467	Acquisition of non-controlling interests	-	-	-	-	-
Finance costs, net	(24)	(520)	(72)	(72)	(72)	Dividends and interests paid	(730)	(638)	(1,473)	(1,952)	(2,587)
Investment gains	48	606	100	100	100	Other financing activities	(2,991)	(1,352)	-	-	-
Net gain from fair value	(259)	52	672	949	1,254	Net cash from financing	1,558	9,888	(1,473)	(1,952)	(2,587)
Other gains	98	104	200	200	200	FX changes	(33)	(81)	-	-	-
Pre-tax profit	2,337	3,369	5,414	7,439	9,949	Net change in cash	(501)	5,086	(3,179)	(559)	670
Income tax	(426)	(383)	(704)	(1,116)	(1,492)	Cash at the beginning of the	5,758	5,223	10,237	7,058	6,499
Minority interests	(57)	(26)	(41)	(55)	(74)	Cash at the end of the year	5,223	10,228	7,058	6,499	7,169
Net profit	1,855	2,960	4,669	6,268	8,383						
Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	16,576	23,232	29,452	33,551	37,752	Sales mix (%)					
Fixed asset	4,333	5,710	9,564	11,021	12,274	China-based laboratory	50	52	52	51	51
Intangible assets	918	998	919	840	761	CMO/CDMO services	29	32	34	35	36
Financial assets	4,009	6,717	9,489	12,538	15,892	US-based laboratory services	12	9	7	6	6
Goodwill	1,362	1,392	1,392	1,392	1,392	Clinical research and other CRO services	8	7	7	7	8
Other non-current assets	5,954	8,415	8,088	7,761	7,434	Others	0	0	0	0	0
Current assets	12,663	23,059	20,757	22,329	25,606	Profit & loss ratios (%)					
Cash	5,227	10,237	7,058	6,499	7,169	Gross margin	39	38	39	40	41
Inventories	1,742	2,686	2,939	3,840	4,968	EBITDA margin	25	29	31	31	31
Trade and bills receivables	2,961	3,667	4,291	5,520	7,000	Pre-tax margin	18	20	24	25	26
Prepayments, deposits and other receivables	123	210	210	210	210	Net margin	14	18	21	21	22
Other current assets	2,609	6,259	6,259	6,259	6,259	Effective tax rate	18	11	13	15	15
Current liabilities	6,634	7,920	8,529	9,756	11,293	Balance sheet ratios					
Borrowings	1,604	1,230	1,230	1,230	1,230	Current ratio (x)	2	3	2	2	2
Trade and other payables	592	941	1,550	2,777	4,314	Trade receivables turnover	70	73	70	68	66
Other current liabilities	4,438	5,749	5,749	5,749	5,749	Trade payables turnover	103	107	107	107	107
Non-current liabilities	5,195	5,652	5,652	5,652	5,652	Net debt to total equity ratio (%)	1	Net cash	Net cash	Net cash	Net cash
Borrowings	762	-	-	-	-	Returns (%)					
Other non-current liabilities	4,433	5,652	5,652	5,652	5,652	ROE	11	9	13	16	18
Total net assets	17,410	32,718	36,028	40,471	46,413	ROA	7	6	9	11	13
Minority interest	97	225	266	321	395	Per share					
Shareholders' equity	17,312	32,494	35,762	40,150	46,018	EPS (RMB)	0.81	1.27	1.91	2.56	3.42
						DPS (RMB)	0.24	0.38	0.57	0.77	1.03
						BVPS (RMB)	7.63	14.06	14.70	16.51	18.94

Source: Company data, CMBIS estimates

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