

CSPC Pharmaceutical (1093 HK)

Steady finished drug sales

CSPC reported 1H23 revenue of RMB16.08bn (+3.0% YoY) and attributable net profit of RMB2.97bn (flatish YoY). The adjusted attributable net profit (excl. impact from fair value change of financial assets and share-based compensation) in 1H23 increased 3.0% YoY to RMB3.16bn. The 1H23 sales of finished drugs increased 5.2% YoY to RMB12.93bn, with the nervous system disease products recording +17.5% YoY sales growth to RMB4.55bn, mainly driven by the strong sales growth of NBP. Sales of oncology products weakened in 1H23 (-26.0% YoY), mainly affected by the lowered price of Keaili due to the renewal of centralised procurement. Sales of vitamin C products decreased 25.7% YoY to RMB10.40bn, due to the downward trend in price since 3Q22. However, driven by sales volume growth, sales of antibiotic products increased by 19.1% YoY to RMB0.93bn. Revenue of functional food and other business grew 3.5% YoY to RMB1.18bn, even with decline in the price of caffeine products. The gross profit margin decreased by 2.7% from 72.6% in 1H22 to 69.9% in 1H23, mainly due to the lowered prices of Keaili and vitamin C. In 1H23, CSPC recorded RMB2.30bn R&D expenses, +22.3% YoY, accounting for 17.8% of the revenue of the finished drug business. The SG&A ratio has decreased to 33.8% in 1H23 from 38.3% in 1H22, indicating enhanced marketing efficiency.

■ **New products to ramp up fast.** NBP realized strong sales growth in 1H23, thanks to the ease of COVID-19 and strong sales from retail channels, while we expect the sales of oncology products continue to be under pressure. Overall, we expect the Company's legacy products to maintain stable sales, while new products will ramp up fast, including Duoenda, Anfulike and Mingfule. Already approved for PTCL, Duoenda, as a broad-spectrum anti-tumor nanodrug, has the potential to treat various types of cancers. A Ph3 trial of Duoenda for 2L NPC is ongoing. Anfulike is the main lipid-based amphotericin B with obvious safety advantages for treating invasive fungal infection. CSPC is broadening the hospital coverage for Anfulike. Mingfule, a 3rd-generation thrombolytic drug, has a strong synergy between NBP for the treatment of ischemic stroke. We expect a total of RMB1bn+ revenue from the above new products in 2023. Additionally, we expect Duoenda, glumetinib, duvelisib, and desvenlafaxine to enter NRDL in early 2024.

■ **Continue to expand the product portfolio.** CSPC expects to bring three dozen products to the market over the coming three years. JMT103 (RANKL, for giant cell tumor of bone), irinotecan liposome (for pancreatic cancer), and Mingfule (rhTNK-tPA, for new indication of acute ischemic stroke) are expected to be approved in 2H23. In 2024, we expect multiple products to be launched in China, including batoclimab (FcRn, for MG), omalizumab biosimilar (for urticarial), amphotericin B liposome (for invasive fungal infection), DBPR108 (DPP4, for diabetes), etc., further expanding the Company's commercial product portfolio.

■ **Maintain BUY.** We expect CSPC's revenue to grow 3.0%/ 5.7% and attributable net profit to grow -0.6%/ 7.8% YoY in FY23E/ 24E. Given the challenging business environment in China, we revised our DCF-based TP from HK\$10.28 to HK\$8.08 (WACC 11.85%, terminal growth 2.0%).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	27,867	30,937	31,860	33,677	35,408
YoY growth (%)	11.7	11.0	3.0	5.7	5.1
Net profit (RMB mn)	5,605	6,091	6,058	6,529	6,978
YoY growth (%)	8.8	9.6	0.2	7.8	6.9
EPS (Reported) (RMB)	0.47	0.51	0.51	0.55	0.59
P/E (x)	16.8	14.2	10.3	9.5	8.9
Net gearing (%)	(40.9)	(44.1)	(53.2)	(59.3)	(64.6)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$8.08
(Previous TP)	HK\$10.28)
Up/Downside	43.5%
Current Price	HK\$5.63

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Stock Data

Mkt Cap (HK\$ mn)	67,093.9
Avg 3 mths t/o (HK\$ mn)	245.8
52w High/Low (HK\$)	10.18/5.62
Total Issued Shares (mn)	11,917
Source: FactSet	

Shareholding Structure

Massive Giant Group Ltd	10.2%
Cai Dongchen	9.9%

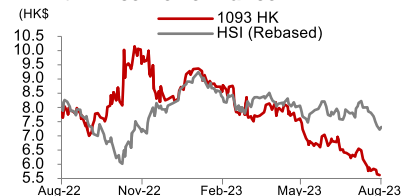
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-11.1%	-4.9%
3-mth	-26.5%	-20.0%
6-mth	-35.9%	-26.9%

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	31,860	33,677	35,408	32,555	34,884	37,482	-2.1%	-3.5%	-5.5%
Gross profit	22,204	23,574	24,785	22,462	24,768	26,237	-1.1%	-4.8%	-5.5%
Operating profit	7,577	8,027	8,581	7,731	8,233	8,696	-2.0%	-2.5%	-1.3%
Net profit	6,058	6,529	6,978	6,251	6,662	7,049	-3.1%	-2.0%	-1.0%
EPS (RMB)	0.51	0.55	0.59	0.53	0.56	0.59	-3.1%	-2.0%	-1.0%
Gross margin	69.69%	70.00%	70.00%	69.00%	71.00%	70.00%	+0.7ppt	-1ppt	0ppt
Operating margin	23.78%	23.84%	24.24%	23.75%	23.60%	23.20%	+0.04ppt	+0.24ppt	+1.04ppt
Net margin	19.01%	19.39%	19.71%	19.20%	19.10%	18.81%	-0.19ppt	+0.29ppt	+0.9ppt

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	31,860	33,677	35,408	32,817	35,542	38,710	-2.9%	-5.2%	-8.5%
Gross profit	22,204	23,574	24,785	22,995	25,107	27,457	-3.4%	-6.1%	-9.7%
Operating profit	7,577	8,027	8,581	7,929	8,656	9,405	-4.4%	-7.3%	-8.8%
Attributable net profit	6,058	6,529	6,978	6,232	6,798	7,425	-2.8%	-4.0%	-6.0%
EPS (RMB)	0.51	0.55	0.59	0.52	0.57	0.62	-2.1%	-3.6%	-4.8%
Gross margin	69.69%	70.00%	70.00%	70.07%	70.64%	70.93%	-0.38ppt	-0.64ppt	-0.93ppt
Operating margin	23.78%	23.84%	24.24%	24.16%	24.35%	24.30%	-0.38ppt	-0.52ppt	-0.06ppt
Net margin	19.01%	19.39%	19.71%	18.99%	19.13%	19.18%	+0.02ppt	+0.26ppt	+0.53ppt

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	7,577	8,027	8,581	8,839	9,060	9,241	9,380	9,473	9,521	9,521
Tax rate	16.94%	16.94%	16.94%	16.94%	16.94%	16.94%	16.94%	16.94%	16.94%	16.94%
EBIT*(1-tax rate)	6,294	6,668	7,128	7,342	7,525	7,676	7,791	7,869	7,908	7,908
+ D&A	1,048	1,048	1,048	1,085	1,112	1,128	1,134	1,128	1,111	1,084
- Change in working capital	345	-176	-114	-118	-121	-122	-123	-122	-121	-118
- Capex	-800	-800	-800	-800	-800	-800	-800	-800	-800	-800
FCFF	6,887	6,739	7,262	7,509	7,716	7,882	8,002	8,075	8,099	8,074
Terminal value										83,654
Terminal growth rate	2.00%									
WACC	11.85%									
Cost of Equity	15.10%									
Cost of Debt	5.00%									
Equity Beta	1.10									
Risk Free Rate	3.00%									
Market Risk Premium	11.00%									
Target Debt to Asset ratio	30.00%									
Effective Corporate Tax Rate	15.00%									
Terminal value (RMB mn)	27,310									
Total PV (RMB mn)	69,826									
Net debt (RMB mn)	-18,319									
Minority interests (RMB mn)	1,610									
Equity value (RMB mn)	86,534									
# of shares (mn)	11,903									
DCF per share (in HK\$)	8.08									

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	31,860	33,677	35,408
Cost of goods sold	(6,257)	(6,732)	(8,680)	(9,656)	(10,103)	(10,622)
Gross profit	18,685	21,135	22,256	22,204	23,574	24,785
Selling expense	(9,378)	(10,443)	(10,337)	(9,636)	(10,440)	(10,906)
Admin expense	(946)	(1,010)	(1,173)	(1,061)	(1,179)	(1,168)
R&D expense	(2,890)	(3,433)	(3,987)	(4,355)	(4,378)	(4,603)
Others	585	546	815	426	450	473
Operating profit	6,057	6,795	7,574	7,577	8,027	8,581
Gain/loss on financial assets at FVTPL	0	0	0	0	0	0
Share of (losses)/profits of associates/JV	347	60	33	(37)	60	60
Net Interest income/(expense)	(12)	(8)	(25)	(24)	15	17
Pre-tax profit	6,391	6,847	7,582	7,517	8,102	8,658
Income tax	(1,162)	(1,159)	(1,350)	(1,273)	(1,372)	(1,466)
Minority interest	69	83	141	186	200	214
Net profit	5,160	5,605	6,091	6,058	6,529	6,978
Gross dividends	1,528	1,691	2,097	1,817	1,959	2,093
Net dividends	39	9	9	(1)	8	7

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	15,921	20,337	23,957	28,969	33,864	39,149
Cash & equivalents	7,259	9,284	10,298	14,802	19,128	23,844
Account receivables	2,883	3,890	4,631	4,769	5,041	5,300
Inventories	1,861	2,480	2,555	2,842	2,974	3,126
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	2,982	3,146	3,303
Non-current assets	14,149	14,405	17,813	17,565	17,317	17,069
PP&E	7,770	8,529	9,582	9,579	9,577	9,574
Deferred income tax	117	43	113	113	113	113
Intangibles	509	468	1,908	1,818	1,727	1,637
Goodwill	1,164	1,035	1,395	1,240	1,085	930
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	46,534	51,181	56,218
Current liabilities	6,302	7,226	8,958	9,316	9,212	9,171
Short-term borrowings	99	0	153	(342)	(838)	(1,334)
Account payables	4,759	6,162	6,864	7,635	7,988	8,399
Tax payable	379	261	262	262	262	262
Other current liabilities	1,065	803	1,679	1,762	1,800	1,844
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	10,486	10,382	10,341
Share capital	10,899	10,899	10,899	10,899	10,899	10,899
Other reserves	11,433	15,087	19,298	23,539	28,109	32,994
Total shareholders equity	22,332	25,987	30,198	34,438	39,009	43,893
Minority interest	769	842	1,444	1,610	1,790	1,983
Total equity and liabilities	30,070	34,742	41,770	46,534	51,181	56,218

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	6,391	6,847	7,582	7,517	8,102	8,658
Depreciation & amortization	809	865	1,048	1,048	1,048	1,048
Tax paid	(1,061)	(1,141)	(1,335)	(1,273)	(1,372)	(1,466)
Change in working capital	1,680	(1,388)	798	345	(176)	(114)
Others	(1,079)	(547)	(467)	0	0	0
Net cash from operations	6,740	4,637	7,627	7,637	7,601	8,126
Investing						
Capital expenditure	(1,356)	(1,410)	(2,220)	(800)	(800)	(800)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(773)	773	(4,576)	0	0	0
Net cash from investing	(2,130)	(637)	(6,796)	(800)	(800)	(800)
Financing						
Dividend paid	(1,528)	(1,691)	(2,097)	(1,817)	(1,959)	(2,093)
Net borrowings	169	0	486	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	0	(264)	(14)	0	0	0
Others	(112)	(242)	(279)	(516)	(516)	(516)
Net cash from financing	(1,471)	(2,197)	(1,904)	(2,334)	(2,475)	(2,609)
Net change in cash						
Cash at the beginning of the year	4,118	7,259	9,060	10,298	14,802	19,128
Exchange difference	2	(2)	14	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	7,259	9,060	8,001	14,802	19,128	23,844
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	12.8%	11.7%	11.0%	3.0%	5.7%	5.1%
Gross profit	17.4%	13.1%	5.3%	(0.2%)	6.2%	5.1%
Operating profit	31.7%	12.2%	11.5%	0.0%	5.9%	6.9%
Net profit	40.1%	8.8%	9.6%	0.2%	7.8%	6.9%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	74.9%	75.8%	71.9%	69.7%	70.0%	70.0%
Operating margin	24.3%	24.4%	24.5%	23.8%	23.8%	24.2%
Return on equity (ROE)	25.6%	23.5%	22.2%	19.3%	18.3%	17.4%
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	3.1	3.7	4.3
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	10.3	9.5	8.9
P/E (diluted)	18.4	16.8	14.2	10.3	9.5	8.9
P/B	4.1	3.5	2.7	1.7	1.5	1.4
P/CFPS	14.1	20.3	11.4	8.2	8.2	7.7
Div yield (%)	1.6	1.8	2.4	2.9	3.1	3.4

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

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