

# Simcere Pharmaceutical (2096 HK)

## Innovative drug sales hit record high

Simcere reported 1H22 revenue of RMB2.7bn (+27.3% YoY), mainly attribute to the rapid increase in revenue from Sanbexin (+74.7% YoY). Revenue from innovative pharmaceuticals was RMB1.8bn (+44.8% YoY), accounting for 65.4% of the total revenue, which hit a record high. R&D spending reached RMB652mn, up 3.9% YoY, indicating 24.1% R&D expense ratio in 1H22.

- **Smooth clinical progress of upcoming blockbusters.** On 12 Jul 2022, COSELA (Trilaciclib hydrochloride) has obtained the conditional approval from the NMPA, for myeloprotection in ES-SCLC patients under chemotherapy. COSELA is a potential blockbuster with wide indication potentials, and the Company has already completed patient enrolment of two Ph III clinicals for mCRC and TNBC in China. We expect the peak sales of COSELA to reach RMB2.5bn. On 4 May 2022, Simcere completed all 914 patient enrolment of the Ph III pivotal trial of Sanbexin sublingual tablet, which was only 10 months since FPI on 28 Jun 2021. We expect Sanbexin sublingual tablet to have the Ph III data readout in 2022E, and to complete NDA filing in 1H23E. We expect the product portfolio of Sanbexin injection and sublingual tablet will have a combined peak sales of RMB8bn.
- **Efficient clinical development of 3CL inhibitor, SIM0417.** Targeting 3CL, which is a key protease essential required for SARS-CoV-2 virus replication, SIM0417 has shown good antiviral activity against various COVID variants in pre-clinical studies. SIM0714 had obtained two IND approvals from the NMPA, including 1) for the treatment of mild-to-moderate COVID-19 patients at a high risk of developing severe illness, and 2) for post-exposure prophylaxis in close contacts of individuals who test positive for COVID-19. In symptomatic adult patients with mild-to-moderate COVID, Simcere has completed FPI for a Ph II study on 13 Jun, and finished the follow-up observation for Ph Ib study on 23 Jul. Preliminary data has shown positive effects on viral load, negative turning time and elimination of COVID-19-related symptoms. Simcere is also carrying out two late-stage clinical trials of SIM0417, including a Ph III trial for the treatment of Mild-to-Moderate COVID-19, as well as a Ph II/ III trial for post-exposure prophylaxis in close contacts of individuals with COVID infection.
- **Maintain BUY.** We revise our TP to HK\$12.16 based on a 9-year DCF valuation (WACC: 9.7%, terminal growth rate 3.0%), implying 43x/ 24x FY22E/23E PE. Risks: Lower-than-expected sales from key products.

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	4,509	5,000	6,156	7,687	9,569
YoY growth (%)	(10.5)	10.9	23.1	24.9	24.5
Net profit (RMB mn)	664.3	1,498.9	628.0	1,140.5	1,494.8
YoY growth (%)	(33.8)	125.6	(58.1)	81.6	31.1
EPS (Reported) (RMB)	0.28	0.58	0.24	0.43	0.57
Consensus EPS (RMB)	na	na	0.43	0.50	0.64
P/E (x)	26.8	12.8	28.9	16.0	12.2
ROE (%)	19.6	25.5	9.4	15.7	18.2
Net gearing (%)	(16.7)	(8.6)	(11.9)	(16.6)	(21.5)

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price	HK\$12.16
(Previous TP)	HK\$14.32
Up/Downside	54.7%
Current Price	HK\$7.86

### China Healthcare

**Jill WU, CFA**  
(852) 3900 0842  
jillwu@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	21,996
Avg 3 mths t/o (HK\$ mn)	25.88
52w High/Low (HK\$)	12.02/6.45
Total Issued Shares (mn)	2,647

Source: FactSet

### Shareholding Structure

Management	77.7%
Float	22.3%

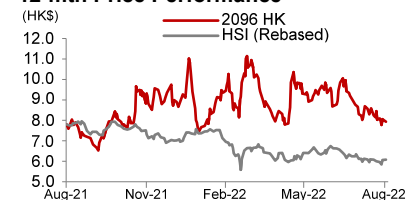
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-5.3%	-4.3%
3-mth	-16.1%	-10.0%
6-mth	-16.8%	-4.5%

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	6,156	7,687	9,569	6,361	8,070	10,100	-3.21%	-4.75%	-5.26%
Gross Profit	4,894	6,149	7,703	5,057	6,456	8,130	-3.21%	-4.75%	-5.26%
Operating Profit	739	1,342	1,759	1,189	1,426	1,804	-37.84%	-5.92%	-2.50%
Net profit	633	1,145	1,500	1,010	1,212	1,533	-37.35%	-5.50%	-2.17%
EPS (RMB)	24	43	57	38	46	58	-37.51%	-5.75%	-2.42%
Gross Margin	79.50%	80.00%	80.50%	82.50%	82.50%	82.50%	-3.00 ppt	-2.50 ppt	-2.00 ppt
Operating Margin	12.00%	17.46%	18.38%	20.46%	20.70%	21.00%	-8.46 ppt	-3.24 ppt	-2.62 ppt
Net Margin	10.28%	14.90%	15.67%	17.80%	17.80%	17.85%	-7.52 ppt	-2.90 ppt	-2.17 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	6,156	7,687	9,569	6,373	7,688	9,242	-3.40%	-0.02%	3.53%
Gross Profit	4,894	6,149	7,703	5,101	6,209	7,520	-4.05%	-0.96%	2.43%
Operating Profit	747	1,326	1,727	1,061	1,370	1,799	-29.62%	-3.23%	-3.98%
Attributable net profit	633	1,145	1,500	948	1,217	1,450	-33.23%	-5.88%	3.43%
EPS (RMB)	24	43	57	43	50	64	-43.86%	-13.10%	-11.33%
Gross Margin	79.50%	80.00%	80.50%	80.04%	80.76%	81.37%	-0.54 ppt	-0.76 ppt	-0.87 ppt
Operating Margin	12.13%	17.25%	18.05%	16.65%	17.82%	19.47%	-4.52 ppt	-0.57 ppt	-1.41 ppt
Net Margin	10.28%	14.90%	15.67%	14.88%	15.83%	15.69%	-4.59 ppt	-0.93 ppt	-0.02 ppt

Source: Company data, Bloomberg, CMBIGM estimates

**Figure 3: Risk-adjusted DCF valuation (terminal growth rate: 3.0%)**

DCF Valuation (in Rmb mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	747	1,326	1,727	2,241	2,577	2,938	3,320	3,718	4,127
Tax rate	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	635	1,127	1,468	1,905	2,190	2,497	2,822	3,160	3,508
+ D&A	242	238	235	232	266	304	343	384	427
- Change in working capital	-213	-377	-475	-566	-650	-742	-838	-939	-1,042
- Capex	-200	-200	-200	-200	-200	-200	-200	-200	-180
<b>FCFF</b>	<b>464</b>	<b>787</b>	<b>1,028</b>	<b>1,371</b>	<b>1,606</b>	<b>1,859</b>	<b>2,127</b>	<b>2,406</b>	<b>2,713</b>
<b>Terminal value</b>									<b>41,858</b>
<b>Terminal growth rate</b>	<b>3.0%</b>								
<b>WACC</b>	<b>9.7%</b>								
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	18,231								
Total PV	26,560								
Net debt	-820								
Minority interest	21								
Equity value (RMB mn)	27,359								
<b>Equity value (HK\$ mn)</b>	<b>32,187</b>								
No. of shares outstanding (mn)	2,647								
<b>DCF per share (HK\$)</b>	<b>12.16</b>								

Source: CMBIS estimates

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>5,037</b>	<b>4,509</b>	<b>5,000</b>	<b>6,156</b>	<b>7,687</b>	<b>9,569</b>
Cost of goods sold	(888)	(900)	(1,080)	(1,262)	(1,537)	(1,866)
<b>Gross profit</b>	<b>4,148</b>	<b>3,609</b>	<b>3,920</b>	<b>4,894</b>	<b>6,149</b>	<b>7,703</b>
Selling expense	(2,016)	(1,570)	(2,037)	(2,339)	(2,921)	(3,636)
Admin expense	(352)	(411)	(382)	(400)	(484)	(584)
R&D expense	(716)	(1,142)	(1,417)	(1,478)	(1,768)	(2,105)
<b>Operating profit</b>	<b>1,171</b>	<b>927</b>	<b>1,449</b>	<b>747</b>	<b>1,326</b>	<b>1,727</b>
Other income	92	115	150	150	150	150
Other expense	16	327	1,215	(100)	200	200
Other gains/(losses)	(81)	(107)	(3)	(8)	16	31
Share of (losses)/profits of associates/JV	(8)	(14)	(44)	0	0	0
<b>Pre-tax profit</b>	<b>1,082</b>	<b>805</b>	<b>1,402</b>	<b>739</b>	<b>1,342</b>	<b>1,759</b>
Income tax	(78)	(141)	97	(111)	(201)	(264)
Minority interest	0	5	8	5	5	5
<b>Net profit</b>	<b>1,004</b>	<b>664</b>	<b>1,499</b>	<b>628</b>	<b>1,140</b>	<b>1,495</b>

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>2,898</b>	<b>6,467</b>	<b>4,980</b>	<b>5,125</b>	<b>5,821</b>	<b>7,332</b>
Cash & equivalents	355	3,270	973	740	697	1,301
Account receivables	1,337	1,871	2,399	2,704	3,376	4,202
Inventories	248	263	235	308	376	456
Prepayment	119	121	140	140	140	140
Financial assets at FVTPL	544	0	0	0	0	0
Other current assets	294	942	1,232	1,232	1,232	1,232
<b>Non-current assets</b>	<b>3,869</b>	<b>4,477</b>	<b>5,182</b>	<b>5,140</b>	<b>5,102</b>	<b>5,067</b>
PP&E	1,870	2,128	1,931	1,899	1,872	1,847
Deferred income tax	275	210	290	290	290	290
Investment in JVs & assos	164	216	9	9	9	9
Intangibles	34	77	60	50	40	30
Goodwill	142	173	173	173	173	173
Financial assets at FVTPL	902	1,232	1,940	1,940	1,940	1,940
Other non-current assets	482	441	778	778	778	778
<b>Total assets</b>	<b>6,767</b>	<b>10,943</b>	<b>10,161</b>	<b>10,264</b>	<b>10,923</b>	<b>12,399</b>
<b>Current liabilities</b>	<b>3,429</b>	<b>3,497</b>	<b>3,064</b>	<b>2,727</b>	<b>2,586</b>	<b>3,016</b>
Short-term borrowings	1,644	1,793	1,530	1,030	530	530
Account payables	1,673	1,565	1,486	1,649	2,009	2,438
Tax payable	86	0	16	16	16	16
Other current liabilities	26	139	32	32	32	32
<b>Non-current liabilities</b>	<b>1,858</b>	<b>2,111</b>	<b>635</b>	<b>637</b>	<b>639</b>	<b>641</b>
Long-term borrowings	1,139	1,276	0	0	0	0
Deferred income	471	448	418	420	422	424
Other non-current liabilities	248	387	217	217	217	217
<b>Total liabilities</b>	<b>5,286</b>	<b>5,608</b>	<b>3,698</b>	<b>3,364</b>	<b>3,225</b>	<b>3,657</b>
Share capital	0	3,003	3,003	3,003	3,003	3,003
Other reserves	1,480	2,299	3,434	3,877	4,679	5,729
<b>Total shareholders equity</b>	<b>1,480</b>	<b>5,302</b>	<b>6,437</b>	<b>6,880</b>	<b>7,682</b>	<b>8,732</b>
Minority interest	0	34	26	21	16	11
<b>Total equity and liabilities</b>	<b>1,480</b>	<b>5,336</b>	<b>6,463</b>	<b>6,901</b>	<b>7,698</b>	<b>8,743</b>

<b>CASH FLOW</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	1,082	805	1,402	739	1,342	1,759
Depreciation & amortization	147	205	234	232	228	225
Tax paid	(265)	(155)	(15)	(111)	(201)	(264)
Change in working capital	(556)	(718)	(784)	(324)	(579)	(739)
Others	365	(41)	(326)	129	195	243
<b>Net cash from operations</b>	<b>773</b>	<b>97</b>	<b>512</b>	<b>665</b>	<b>985</b>	<b>1,223</b>
<b>Investing</b>						
Capital expenditure	(508)	(353)	(209)	(200)	(200)	(200)
Acquisition of subsidiaries/ investments	0	2	0	0	0	0
Others	(85)	880	(226)	49	48	63
<b>Net cash from investing</b>	<b>(593)</b>	<b>529</b>	<b>(436)</b>	<b>(151)</b>	<b>(152)</b>	<b>(137)</b>
<b>Financing</b>						
Dividend paid	(912)	0	(391)	(190)	(344)	(450)
Net borrowings	722	267	(1,437)	(500)	(500)	0
Proceeds from share issues	0	3,003	0	0	0	0
Others	(823)	(916)	203	(57)	(32)	(32)
<b>Net cash from financing</b>	<b>(1,013)</b>	<b>2,354</b>	<b>(1,625)</b>	<b>(747)</b>	<b>(875)</b>	<b>(482)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,188	355	3,270	973	740	697
Exchange difference	0	(64)	(35)	0	0	0
Others	(833)	2,979	(1,548)	(233)	(43)	604
<b>Cash at the end of the year</b>	<b>355</b>	<b>3,270</b>	<b>1,687</b>	<b>740</b>	<b>697</b>	<b>1,301</b>
<b>GROWTH</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Revenue	11.6%	(10.5%)	10.9%	23.1%	24.9%	24.5%
Gross profit	10.8%	(13.0%)	8.6%	24.9%	25.6%	25.3%
Operating profit	24.4%	(20.9%)	56.3%	(48.4%)	77.5%	30.3%
Net profit	36.8%	(33.8%)	125.6%	(58.1%)	81.6%	31.1%
<b>PROFITABILITY</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Gross profit margin	82.4%	80.0%	78.4%	79.5%	80.0%	80.5%
Operating margin	23.3%	20.6%	29.0%	12.1%	17.2%	18.1%
Return on equity (ROE)	65.9%	19.6%	25.5%	9.4%	15.7%	18.2%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	1.6	(0.2)	(0.1)	(0.1)	(0.2)	(0.2)
Current ratio (x)	0.8	1.8	1.6	1.9	2.3	2.4
Receivable turnover days	82.9	129.8	160.3	160.3	160.3	160.3
Inventory turnover days	99.0	103.6	89.2	89.2	89.2	89.2
Payable turnover days	115.5	100.8	54.7	54.7	54.7	54.7
<b>VALUATION</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
P/E	na	26.8	12.8	28.9	16.0	12.2
P/E (diluted)	na	26.8	12.8	28.9	16.0	12.2
Div yield (%)	na	2.2	2.0	1.0	1.9	2.5

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

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM
<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.