

WuXi AppTec (603259 CH)

Growth momentum to accelerate in 2H22E

Strong 1H22 results. WuXi AppTec reported 1H22 revenue of RMB17.8bn, up 69% YoY (71%/66% YoY for 1Q/2Q22), attributable recurring net income of RMB3.8bn, up 81% YoY (106%/65% YoY for 1Q/2Q22), and attributable adjusted Non-IFRS net income of RMB4.3bn, up 76% YoY (118%/49% YoY for 1Q/2Q22). Earnings are in line with our forecasts with 1H22 revenue / adjusted Non-IFRS net income accounting for 46%/51%, respectively, of our 2022 full-year estimates. Revenue growth in 1H22 would have further accelerated by 7.2 ppts to 76% YoY and adjusted Non-IFRS GPM would have improved by 1.9 ppts YoY to 38.1% under constant currency exchange rates. The management increased its revenue growth guidance to 68-72% YoY from 65-70% YoY for 2022E, supported by its solid RMB35bn backlog (+76% YoY) in 1H22.

■ **WuXi Chemistry delivered phenomenal growth despite COVID-19 interruptions, driven by strong growth from both COVID and non-COVID projects.** WuXi Chemistry revenue jumped by 102% YoY in 1H22, mainly driven by the 145% YoY revenue growth of chemical CDMO services. Based on our estimates, the Company booked ~RMB4.2bn revenue from commercial-stage COVID-19 projects in 1H22, accounting for ~32% of WuXi Chemistry revenue. Excluding the commercial-stage COVID-19 projects, the segment revenue still achieved robust growth of 37% YoY in 1H22, indicating a sustainable demand from non-COVID-19 projects. Driven by the successful one-stop CRDMO business model, we forecast revenue of WuXi Chemistry to increase 104%/11%/30% YoY in 2022E/23E/24E, representing a 43% CAGR in FY21-24E.

■ **Cell and gene therapies (CGT) CDMO segment turned positive growth.** CGT CDMO service revenue rebounded strongly to 36% YoY growth in 1H22 from a 3% YoY decline in 2021, thanks to the steady increase in the number of CGT pipeline projects, from 57 as of end-2021 to 67 as of 1H22. The Company's revolutionary AAV manufacturing technology, TESSA, has gained large interests from global clients. Six large biotech/pharma companies are testing TESSA technology and one large pharma client has already initiated TESSA technology licensure in 1H22. Given the significant yield improvement (30-40x) and cost saving (10-40x) compared with conventional production method (i.e., plasmid transfection), we think TESSA has the potential to become a game-changer in global CGT CDMO market.

■ **Expedited globalization pace.** Besides the ongoing constructions of large-scale drug product manufacturing facilities in Delaware, US, WuXi AppTec announced to further invest US\$1.4bn in next 10 years to build full-suite R&D and manufacturing capabilities in Singapore. Singapore sites will commence operations by 2025/26 which will enable the Company to better facilitate the growing and diversified client demand.

■ **Maintain BUY.** We maintained our TP at RMB185.17, based on a 10-year DCF model (WACC: 10.94%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	16,535.4	22,902.4	39,477.2	45,784.6	59,727.0
YoY growth (%)	28.5%	38.5%	72.4%	16.0%	30.5%
Net profit (RMB mn)	2,960.2	5,097.2	9,452.7	10,011.7	13,088.7
YoY growth (%)	59.6%	72.2%	85.5%	5.9%	30.7%
Adjusted net profit (RMB mn)	3,637.2	5,131.2	8,898.3	10,466.7	13,831.0
EPS (Adjusted) (RMB)	1.6	1.8	3.0	3.5	4.7
Consensus EPS (RMB)	na	na	2.8	3.4	4.3
P/E (x)	60.5	77.0	31.8	30.0	22.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB185.17
 (Previous TP RMB185.04)
Up/Downside 92.2%
Current Price RMB96.36

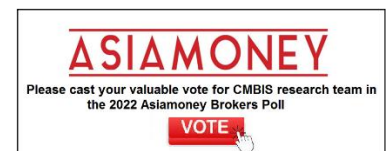
China Healthcare

Jill WU

(852) 3900 0842
 jillwu@cmbi.com.hk

Benchen HUANG

huangbenchen@cmbi.com.hk



Stock Data

Mkt Cap (RMB mn)	300,292.0
Avg 3 mths t/o (RMB mn)	100.1
52w High/Low (RMB)	160.95/83.07
Total Issued Shares (mn)	2956.8

Source: FactSet

Shareholding Structure

HK investors	20.1%
Ge Li and concerted parties	19.1%

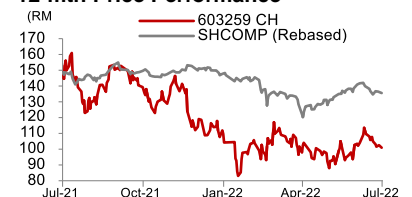
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.1%	1.1%
3-mth	-0.9%	-12.7%
6-mth	-2.6%	5.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	39,477	45,785	59,727	38,370	45,369	59,456	2.88%	0.92%	0.46%
Gross Profit	14,356	16,592	21,654	14,231	16,747	22,021	0.88%	-0.93%	-1.67%
Operating Profit	9,190	10,784	14,316	8,232	9,790	13,082	11.64%	10.15%	9.43%
Attributable net profit	9,453	10,012	13,089	7,692	9,338	12,267	22.90%	7.21%	6.70%
EPS (RMB)	3.20	3.39	4.43	2.60	3.16	4.15	22.86%	7.18%	6.66%
Gross Margin	36.36%	36.24%	36.25%	38.12%	39.10%	37.04%	-1.76ppt	-2.86ppt	-0.78ppt
Operating Margin	23.28%	23.55%	23.97%	20.41%	21.37%	22.00%	+2.87ppt	+2.18ppt	+1.97ppt
Net Margin	23.94%	21.87%	21.91%	22.93%	21.82%	20.63%	+1.02ppt	+0.05ppt	+1.28ppt

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	39,477	45,785	59,727	38,545	45,839	58,090	2.42%	-0.12%	2.82%
Gross Profit	14,356	16,592	21,654	14,693	17,544	22,290	-2.30%	-5.43%	-2.85%
Operating Profit	9,190	10,784	14,316	9,897	11,334	14,513	-7.14%	-4.85%	-1.35%
Attributable net profit	9,453	10,012	13,089	8,254	9,875	12,555	14.52%	1.38%	4.25%
EPS (RMB)	3.20	3.39	4.43	2.77	3.31	4.21	15.41%	2.45%	5.17%
Gross Margin	36.36%	36.24%	36.25%	38.12%	38.27%	38.37%	-1.76ppt	-2.04ppt	-2.12ppt
Operating Margin	23.28%	23.55%	23.97%	25.68%	24.73%	24.98%	-2.40ppt	-1.17ppt	-1.01ppt
Net Margin	23.94%	21.87%	21.91%	21.41%	21.54%	21.61%	+2.53ppt	+0.32ppt	+0.30ppt

Source: Company data, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
EBIT	11,067	11,852	15,522	21,576	29,559	39,905	53,074	69,527	89,690	113,906
Tax rate	15.61%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
EBIT*(1-tax rate)	9,339	10,074	13,194	18,340	25,126	33,919	45,113	59,098	76,236	96,820
+ D&A	1,224	1,945	2,617	3,638	4,984	6,729	8,949	11,723	15,123	19,206
- Change in working capital	(2,914)	(1,321)	(2,919)	(4,058)	(5,559)	(7,505)	(9,982)	(13,076)	(16,868)	(21,423)
- Capex	(11,000)	(11,000)	(11,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
FCFF	(3,351)	(302)	1,892	12,920	19,550	28,143	39,080	52,745	69,490	89,603
Terminal value										1,163,087
Terminal growth rate	3.00%									
WACC	10.94%									
Cost of Equity	13.80%									
Cost of Debt	5.00%									
Equity Beta	0.90									
Risk Free Rate	3.00%									
Market Risk Premium	12.00%									
Target Debt to Asset ratio	30.00%									
Effective Corporate Tax Rate	15.00%									
Terminal value (RMB mn)	412,028									
Total PV (RMB mn)	546,361									
Net debt (RMB mn)	(1,145)									
Equity value (RMB mn)	547,506									
# of shares (mn)	2,957									
Price per share (RMB per share)	185.17									

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	12,872	16,535	22,902	39,477	45,785	59,727
Cost of goods sold	(7,858)	(10,253)	(14,592)	(25,122)	(29,193)	(38,073)
Gross profit	5,014	6,282	8,310	14,356	16,592	21,654
Operating expenses	(2,539)	(3,155)	(3,898)	(5,166)	(5,808)	(7,337)
Selling expense	(439)	(588)	(699)	(791)	(871)	(1,077)
Admin expense	(1,482)	(1,839)	(2,203)	(2,823)	(3,182)	(4,032)
R&D expense	(590)	(693)	(942)	(1,461)	(1,649)	(2,091)
Others	(28)	(35)	(54)	(91)	(106)	(138)
Operating profit	2,474	3,127	4,412	9,190	10,784	14,316
Gain/loss on financial assets at FVTPL	(259)	52	(93)	1,307	468	506
Investment gain/loss	48	606	1,356	333	300	400
Net Interest income/(Expense)	(24)	(520)	(84)	231	28	9
Other Income/ Expense	98	104	425	237	300	300
Pre-tax profit	2,337	3,369	6,016	11,298	11,880	15,531
Income tax	(426)	(383)	(880)	(1,764)	(1,782)	(2,330)
Net profit	1,911	2,986	5,136	9,534	10,098	13,201
Minority interest	(57)	(26)	(39)	(81)	(86)	(113)
Net profit to shareholders	1,855	2,960	5,097	9,453	10,012	13,089
Adjusted net profit	2,407	3,637	5,131	8,898	10,467	13,831
Gross dividends	556	890	1,529	2,836	3,003	3,927
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	12,663	23,059	21,986	24,890	25,885	31,014
Cash & equivalents	5,227	10,237	8,239	6,033	4,505	4,093
Account receivables	2,961	3,667	4,668	8,112	9,408	12,273
Inventories	1,742	2,686	5,905	7,571	8,798	11,474
Prepayment	92	176	303	303	303	303
Financial assets at FVTPL	1,702	4,618	527	527	527	527
Other current assets	938	1,676	2,344	2,344	2,344	2,344
Non-current assets	16,576	23,232	33,142	40,132	47,434	54,201
PP&E	4,333	5,710	8,554	15,927	22,981	29,364
Deferred income tax	262	301	390	390	390	390
Investment in JVs & assos	794	765	678	678	678	678
Intangibles	918	998	1,600	1,390	1,181	971
Goodwill	1,362	1,392	1,926	1,926	1,926	1,926
Financial assets at FVTPL	4,009	6,717	8,714	9,353	10,121	11,027
Other non-current assets	4,898	7,349	11,280	10,469	10,157	9,846
Total assets	29,239	46,291	55,127	65,022	73,318	85,215
Current liabilities	6,634	7,920	12,985	16,181	17,383	20,005
Short-term borrowings	1,604	1,230	2,261	3,261	3,261	3,261
Account payables	592	941	1,931	4,127	5,329	7,951
Tax payable	282	379	536	536	536	536
Other current liabilities	4,156	5,370	8,256	8,256	8,256	8,256
Non-current liabilities	5,195	5,652	3,385	3,385	3,385	3,385
Long-term borrowings	762	0	0	0	0	0
Bond payables	1,875	1,819	607	607	607	607
Obligations under finance leases	1,105	1,067	1,019	1,019	1,019	1,019
Other non-current liabilities	1,453	2,766	1,759	1,759	1,759	1,759
Total liabilities	11,829	13,573	16,370	19,566	20,768	23,390
Share capital	1,651	2,442	2,956	2,956	2,956	2,956
Capital surplus	10,288	22,678	25,732	32,349	39,357	48,519
Other reserves	5,373	7,374	9,804	9,804	9,804	9,804

Total shareholders equity	17,312	32,494	38,492	45,108	52,117	61,279
Minority interest	97	225	266	347	434	546
Total equity and liabilities	29,239	46,291	55,127	65,022	73,318	85,215

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
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YE 31 Dec (RMB mn)

Operating

Profit before taxation	2,337	3,369	6,016	11,298	11,880	15,531
Depreciation & amortization	814	959	1,363	1,628	2,349	3,021
Tax paid	(426)	(383)	(880)	(1,764)	(1,782)	(2,330)
Change in working capital	(497)	(494)	(1,151)	(2,914)	(1,321)	(2,919)
Others	688	523	(759)	(1,250)	(678)	(797)
Net cash from operations	2,916	3,974	4,589	6,999	10,448	12,506

Investing

Capital expenditure	(2,532)	(3,031)	(6,936)	(9,000)	(9,000)	(9,000)
Acquisition of subsidiaries/ investments	(785)	(186)	(858)	0	0	0
Net proceeds from disposal of short-term investments	(1,792)	(5,638)	2,766	1,000	0	0
Others	134	79	189	400	0	0
Net cash from investing	(4,975)	(8,776)	(4,839)	(7,600)	(9,000)	(9,000)

Financing

Dividend paid	(730)	(638)	(916)	(2,605)	(2,975)	(3,918)
Net borrowings	4,510	(1,284)	1,071	1,000	0	0
Proceeds from share issues	769	13,162	104	0	0	0
Others	(2,991)	(1,352)	(1,983)	0	0	0
Net cash from financing	1,558	9,888	(1,724)	(1,605)	(2,975)	(3,918)

Net change in cash

Cash at the beginning of the year	5,758	5,223	10,228	8,239	6,033	4,505
Exchange difference	(33)	(81)	(79)	0	0	0
Cash at the end of the year	5,223	10,228	8,175	6,033	4,505	4,093

GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
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YE 31 Dec

Revenue	33.9%	28.5%	38.5%	72.4%	16.0%	30.5%
Gross profit	32.2%	25.3%	32.3%	72.7%	15.6%	30.5%
Operating profit	33.1%	26.4%	41.1%	108.3%	17.3%	32.8%
Net profit	(18.1%)	56.2%	72.0%	85.6%	5.9%	30.7%
Adj. net profit	38.2%	51.1%	41.1%	73.4%	17.6%	32.1%

PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
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YE 31 Dec

Gross profit margin	39.0%	38.0%	36.3%	36.4%	36.2%	36.3%
Operating margin	19.2%	18.9%	19.3%	23.3%	23.6%	24.0%
Net profit margin	14.4%	17.9%	22.3%	23.9%	21.9%	21.9%
Adj. net profit margin	18.7%	22.0%	22.4%	22.5%	22.9%	23.2%
Return on assets (ROA)	6.3%	6.4%	9.2%	14.5%	13.7%	15.4%
Return on equity (ROE)	10.7%	9.1%	13.2%	21.0%	19.2%	21.4%

GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
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YE 31 Dec

Net debt to equity (x)	0.0	(0.2)	(0.1)	(0.0)	0.0	0.0
Current ratio (x)	1.9	2.9	1.7	1.5	1.5	1.6
Receivable turnover days	70.3	73.2	66.4	75.0	75.0	75.0
Inventory turnover days	62.6	78.8	107.4	110.0	110.0	110.0
Payable turnover days	103.5	107.4	107.8	107.8	107.8	107.8

VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
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YE 31 Dec

P/E	52.4	60.5	77.0	31.8	30.0	22.9
P/E (diluted)	52.5	61.0	77.6	31.8	30.0	22.9
P/B	5.6	5.5	10.1	6.6	5.7	4.9
P/CFPS	33.3	45.1	85.5	42.9	28.7	24.0
Div yield (%)	0.6%	0.5%	0.4%	0.9%	1.0%	1.3%

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

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CMB International Global Markets Limited

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

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