WuXi AppTec (603259 CH)

Earnings recovery underway

BUY (Maintain)

Target Price	**RMB72.37**
(Previous TP	RMB67.72)
Up/Downside	**35.3%**
Current Price	**RMB53.49**

China Healthcare

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WuXi AppTec reported 3Q24 revenue of RMB10.46bn, slightly down 2.0% YoY, and attributable adjusted non-IFRS net profit of RMB2.97bn, down 3.2% YoY. Total non-COVID revenue and non-COVID Chemistry revenue growth rebounded to 14.6% YoY and 26.4% YoY, respectively, in 3Q24. Despite the challenging geopolitical environment, mgmt. reiterated its revenue guidance of RMB38.3-40.5bn for 2024, indicating 2.7%~8.6% YoY non-COVID revenue growth. Additionally, mgmt. reiterated its commitment to maintaining an adjusted non-IFRS net profit margin consistent with the levels achieved in 2023.

- **Strong global competitiveness led to fast order growth.** As of 3Q24, WuXi AppTec's backlog climbed to RMB43.82bn, representing a YoY increase of 35.3%, maintaining the encouraging momentum of 33.2% YoY growth (excluding COVID-19 commercial projects) in 1H24. The rapid backlog growth signified the enduring trust that global clients place in WuXi AppTec's high-quality and efficient services. This is further evidenced by a robust 23.1% YoY rise in revenues from global Top 20 pharmaceutical companies in 9M24, a notable acceleration from the 11.9% growth observed in 1H24. Management has indicated that 80% of the backlog is expected to convert into revenue within the next 12 to 18 months, providing strong earnings visibility for WuXi AppTec in 4Q24 and throughout 2025, in our view.
- **TIDES continues to exhibit strong growth.** TIDES revenue grew by 71.0% YoY in 9M24, with the growth accelerating to 98.6% YoY in 3Q24. The TIDES backlog as of 3Q24 saw a substantial YoY increase of 196%. In Jan 2024, WuXi AppTec expanded its peptide production capacity from 10k liters to 32k liters, with plans to expand to 41k liters by the end of 2024 and further to 100k liters by 2025. This ambitious expansion underscores WuXi AppTec's commitment to meeting the rapidly growing global demand for peptide services, positioning TIDES as the strongest growth driver for the Company through 2026.
- **Overseas peers struggle to compete with Chinese chemical CDMOs in the medium term.** In our in-depth report published on 21 Oct 2024, we analyzed the business fundamentals of 30 companies from Europe, the US, and India engaged in API and chemical CDMO services. The findings reveal that these companies significantly trail WuXi AppTec in terms of business scale and capacity. Specifically, most Indian peers primarily offer bulk and specialty APIs, with limited capabilities in supporting innovative drugs R&D. Meanwhile, European firms, despite having an established pharmaceutical manufacturing base with several well-known chemical CDMOs, tend to focus more on formulation instead of API. Their manufacturing sites, primarily located in Central and Western Europe, face higher labor costs compared to WuXi AppTec, further disadvantaging them in the competitive market.
- **Maintain BUY.** Factoring in the positive trend of customer demand, we lift our TP from RMB67.72 to RMB72.37 (based on a 10-year DCF model with WACC of 9.42% and terminal growth of 2.0%). We forecast revenue to grow by -3.6%/ +11.4%/ +13.6% YoY and adjusted non-IFRS net income to grow by -3.9%/ +11.9%/ +15.5% YoY in 2024E/ 25E/ 26E, respectively.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	39,355	40,341	38,906	43,332	49,225
YoY growth (%)	71.8	2.5	(3.6)	11.4	13.6
Adjusted net profit (RMB m	9,399	10,854	10,427	11,668	13,474
YoY growth (%)	83.2	15.5	(3.9)	11.9	15.5
EPS (Adjusted) (RMB)	3.21	3.70	3.61	4.04	4.67
Consensus EPS (RMB)	na	na	3.29	3.64	4.03
P/E (Adjusted) (x)	16.7	14.5	14.8	13.2	11.5

Source: Company data, Bloomberg, CMBIGM estimates

Stock Data

Mkt Cap (RMB mn)	154,478.7
Avg 3 mths t/o (RMB mn)	2,822.5
52w High/Low (RMB)	90.88/36.87
Total Issued Shares (mn)	2888.0

Source: FactSet

Shareholding Structure

Ge Li and concerted parties	20.5%
HK investors	18.2%

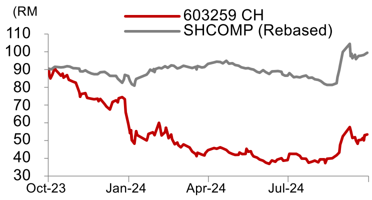
Source: Company report

Share Performance

	Absolute	Relative
1-mth	12.4%	5.6%
3-mth	37.2%	20.7%
6-mth	20.0%	13.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New FY24E	New FY25E	New FY26E	Old FY24E	Old FY25E	Old FY26E	Diff (%) FY24E	Diff (%) FY25E	Diff (%) FY26E
Revenue	38,906	43,332	49,225	38,558	42,745	48,404	0.90%	1.37%	1.70%
Gross profit	15,946	17,963	20,700	15,268	17,241	19,710	4.44%	4.19%	5.02%
Operating profit	10,691	12,358	14,332	10,006	11,664	13,394	6.84%	5.95%	7.00%
Non-IFRS net profit	10,427	11,668	13,474	9,947	11,089	12,691	4.83%	5.22%	6.17%
Non-IFRS EPS (RMB)	3.58	4.01	4.63	3.42	3.81	4.36	4.83%	5.22%	6.17%
Gross margin	40.99%	41.45%	42.05%	39.60%	40.33%	40.72%	+1.39ppt	+1.12ppt	+1.33ppt
Operating margin	27.48%	28.52%	29.12%	25.95%	27.29%	27.67%	+1.53ppt	+1.23ppt	+1.44ppt
Net margin	26.80%	26.93%	27.37%	25.80%	25.94%	26.22%	+1.00ppt	+0.99ppt	+1.15ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM FY24E	CMBIGM FY25E	CMBIGM FY26E	Consensus FY24E	Consensus FY25E	Consensus FY26E	Diff (%) FY24E	Diff (%) FY25E	Diff (%) FY26E
Revenue	38,906	43,332	49,225	39,311	42,804	47,068	-1.03%	1.23%	4.58%
Gross profit	15,946	17,963	20,700	15,906	17,476	19,300	0.26%	2.79%	7.25%
Operating profit	10,691	12,358	14,332	11,294	12,501	13,895	-5.34%	-1.15%	3.14%
Non-IFRS net profit	10,427	11,668	13,474	9,551	10,635	11,758	9.18%	9.71%	14.60%
Non-IFRS EPS (RMB)	3.58	4.01	4.63	3.29	3.64	4.03	9.01%	10.20%	14.82%
Gross margin	40.99%	41.45%	42.05%	40.46%	40.83%	41.01%	+0.53ppt	+0.63ppt	+1.05ppt
Operating margin	27.48%	28.52%	29.12%	28.73%	29.21%	29.52%	-1.25ppt	-0.69ppt	-0.41ppt
Net margin	26.80%	26.93%	27.37%	24.30%	24.85%	24.98%	+2.51ppt	+2.08ppt	+2.39ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
EBIT	10,819	12,858	15,032	16,911	18,771	20,648	22,507	24,307	26,009	27,569
Tax rate	15.22%	15.22%	15.22%	15.22%	15.22%	15.22%	15.22%	15.22%	15.22%	15.22%
EBIT*(1-tax rate)	9,172	10,900	12,744	14,337	15,914	17,505	19,080	20,607	22,049	23,372
+ D&A	2,209	2,511	2,832	3,186	3,537	3,891	4,241	4,580	4,901	5,195
- Change in working capital	80	-284	-1,088	-1,224	-1,358	-1,494	-1,629	-1,759	-1,882	-1,995
- Capex	-5,000	-6,000	-5,000	-5,000	-5,000	-5,000	-5,000	-5,000	-5,000	-5,000
FCFF	**6,461**	**7,127**	**9,488**	**11,299**	**13,092**	**14,901**	**16,692**	**18,428**	**20,068**	**21,572**
Terminal value										**296,539**

Terminal growth rate	**2.00%**
WACC	**9.42%**
Cost of Equity	12.00%
Cost of Debt	4.00%
Equity Beta	0.90
Risk Free Rate	3.00%
Market Risk Premium	10.00%
Target Debt to Asset ratio	30.00%
Effective Corporate Tax Rate	15.00%
PV of terminal value (RMB mn)	120,536
Total PV (RMB mn)	200,099
Net debt (RMB mn)	-8,900
Equity value (RMB mn)	208,999
# of shares (mn)	2,888
Price per share (RMB per share)	**72.37**

Source: CMBIGM estimates

Figure 4: Sensitivity analysis of DCF model

		WACC				
		8.42%	**8.92%**	**9.42%**	**9.92%**	**10.42%**
Terminal growth rate	**3.00%**	95.41	86.68	79.34	73.08	67.69
	2.50%	89.79	82.13	75.60	69.98	65.08
	2.00%	85.04	78.23	**72.37**	67.27	62.79
	1.50%	80.98	74.86	69.54	64.87	60.75
	1.00%	77.47	71.92	67.05	62.75	58.93

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**22,902**	**39,355**	**40,341**	**38,906**	**43,332**	**49,225**
Cost of goods sold	(14,592)	(24,677)	(23,729)	(22,960)	(25,369)	(28,525)
Gross profit	**8,310**	**14,678**	**16,612**	**15,946**	**17,963**	**20,700**
Operating expenses	**(3,898)**	**(5,372)**	**(5,318)**	**(5,256)**	**(5,605)**	**(6,368)**
Selling expense	(699)	(732)	(701)	(807)	(812)	(922)
Admin expense	(2,203)	(2,826)	(2,879)	(2,714)	(2,936)	(3,335)
R&D expense	(942)	(1,614)	(1,441)	(1,414)	(1,532)	(1,740)
Others	(54)	(200)	(297)	(321)	(326)	(370)
Operating profit	**4,412**	**9,306**	**11,294**	**10,691**	**12,358**	**14,332**
Gain/loss on financial assets at FVTPL	(93)	770	(38)	(199)	100	200
Investment gain/loss	1,356	188	234	45	100	200
Net Interest income/(expense)	**(84)**	**248**	**338**	**784**	**451**	**515**
Other income/expense	425	106	4	283	300	300
Pre-tax profit	**6,016**	**10,618**	**11,832**	**11,604**	**13,308**	**15,547**
Income tax	(880)	(1,716)	(2,132)	(1,752)	(1,996)	(2,332)
After tax profit	**5,136**	**8,903**	**9,700**	**9,852**	**11,312**	**13,215**
Minority interest	(39)	(89)	(94)	(94)	(108)	(127)
Net profit	**5,097**	**8,814**	**9,607**	**9,757**	**11,204**	**13,089**
Adjusted net profit	**5,131**	**9,399**	**10,854**	**10,427**	**11,668**	**13,474**
Gross dividends	1,529	2,644	2,882	2,927	3,361	3,927

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**21,986**	**23,997**	**30,422**	**34,848**	**38,838**	**46,441**
Cash & equivalents	8,239	7,986	13,764	18,352	21,559	27,420
Account receivables	4,668	6,047	7,922	7,462	7,717	8,766
Inventories	5,905	5,669	4,736	5,034	5,562	6,254
Prepayment	303	291	244	244	244	244
Financial assets at FVTPL	527	2	11	11	11	11
Other current assets	2,344	4,003	3,746	3,746	3,746	3,746
Non-current assets	**33,142**	**40,693**	**43,247**	**45,663**	**49,123**	**51,462**
PP&E	8,554	14,171	17,190	19,359	23,230	25,779
Deferred income tax	390	492	367	367	367	367
Investment in JVs & assos	678	1,203	2,216	2,216	2,216	2,216
Intangibles	1,600	1,785	1,864	1,706	1,548	1,390
Goodwill	1,926	1,822	1,821	1,821	1,821	1,821
Financial assets at FVTPL	8,714	8,954	8,626	9,483	9,683	10,083
Other non-current assets	11,280	12,265	11,164	10,712	10,259	9,807
Total assets	**55,127**	**64,690**	**73,669**	**80,511**	**87,961**	**97,903**
Current liabilities	**12,985**	**14,499**	**14,756**	**18,674**	**18,172**	**18,826**
Short-term borrowings	2,261	3,874	3,667	7,667	6,667	6,667
Account payables	1,931	1,659	1,645	1,563	2,061	2,715
Tax payable	536	882	1,374	1,374	1,374	1,374
Other current liabilities	8,256	8,084	8,070	8,070	8,070	8,070
Non-current liabilities	**3,385**	**3,264**	**3,396**	**3,396**	**3,396**	**3,396**
Long-term borrowings	0	279	687	687	687	687
Bond payables	607	502	0	0	0	0
Obligations under finance leases	1,019	984	1,099	1,099	1,099	1,099
Other non-current liabilities	1,759	1,499	1,610	1,610	1,610	1,610
Total liabilities	**16,370**	**17,764**	**18,152**	**22,069**	**21,568**	**22,222**
Share capital	2,956	2,961	2,969	2,969	2,969	2,969
Capital surplus	25,732	26,512	28,401	35,231	43,074	52,236
Other reserves	9,804	17,118	23,753	19,753	19,753	19,753
Total shareholders equity	**38,492**	**46,590**	**55,122**	**57,953**	**65,795**	**74,957**
Minority interest	266	337	395	489	598	724
Total equity and liabilities	**55,127**	**64,690**	**73,669**	**80,511**	**87,961**	**97,903**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**6,016**	**10,618**	**11,832**	**11,604**	**13,308**	**15,547**
Depreciation & amortization	1,363	1,718	2,288	2,214	2,516	2,837
Tax paid	(880)	(1,716)	(2,132)	(1,752)	(1,996)	(2,332)
Change in working capital	(1,151)	(298)	(105)	80	(284)	(1,088)
Others	(759)	294	1,504	(414)	(426)	(691)
Net cash from operations	**4,589**	**10,616**	**13,387**	**11,731**	**13,117**	**14,273**
Investing						
Capital expenditure	(6,936)	(9,966)	(5,517)	(4,000)	(6,000)	(5,000)
Acquisition of subsidiaries/ investments	(858)	(161)	(22)	0	0	0
Net proceeds from disposal of short-term investments	2,766	82	(2,321)	(1,000)	0	0
Others	189	355	299	0	0	0
Net cash from investing	**(4,839)**	**(9,690)**	**(7,561)**	**(5,000)**	**(6,000)**	**(5,000)**
Financing						
Dividend paid	(916)	(1,598)	(2,756)	(2,143)	(2,911)	(3,411)
Net borrowings	1,071	1,668	178	4,000	(1,000)	0
Proceeds from share issues	104	150	247	0	0	0
Others	(1,983)	(1,497)	(1,610)	(4,000)	0	0
Net cash from financing	**(1,724)**	**(1,278)**	**(3,941)**	**(2,143)**	**(3,911)**	**(3,411)**
Net change in cash						
Cash at the beginning of the year	10,228	8,175	7,984	13,764	18,352	21,559
Exchange difference	(79)	161	132	0	0	0
Cash at the end of the year	**8,175**	**7,984**	**10,001**	**18,352**	**21,559**	**27,420**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	38.5%	71.8%	2.5%	(3.6%)	11.4%	13.6%
Gross profit	32.3%	76.6%	13.2%	(4.0%)	12.6%	15.2%
Operating profit	41.1%	110.9%	21.4%	(5.3%)	15.6%	16.0%
Net profit	72.2%	72.9%	9.0%	1.6%	14.8%	16.8%
Adj. net profit	41.1%	83.2%	15.5%	(3.9%)	11.9%	15.5%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	36.3%	37.3%	41.2%	41.0%	41.5%	42.1%
Operating margin	19.3%	23.6%	28.0%	27.5%	28.5%	29.1%
Adj. net profit margin	22.4%	23.9%	26.9%	26.8%	26.9%	27.4%
Return on equity (ROE)	14.4%	20.7%	18.9%	17.3%	18.1%	18.6%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)
Current ratio (x)	1.7	1.7	2.1	1.9	2.1	2.5
Receivable turnover days	66.4	49.7	63.2	70.0	65.0	65.0
Inventory turnover days	107.4	85.6	80.0	80.0	80.0	80.0
Payable turnover days	107.8	75.5	75.6	75.6	75.6	75.6

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E (adjusted)	30.4	16.7	14.5	14.8	13.2	11.5
P/B	4.0	3.3	2.8	2.6	2.3	2.0
P/CFPS	34.0	14.8	11.7	13.2	11.8	10.8
Div yield (%)	1.0	1.7	1.8	1.9	2.2	2.5

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

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