

# Simcere Pharmaceutical (2096 HK)

## Innovative drugs contributing majority of sales

In 1H23, Simcere reported RMB3.38bn (+25% YoY) revenue from drug sales and promotion services. Revenue from innovative drugs increased 37% YoY to RMB2.41bn (accounting for 71% of 1H23 total revenue, vs 65% in FY22 and 62% in FY21). In 1H23, revenue from oncology, autoimmune and other fields recorded 35%, 30%, and 63% YoY growth, respectively, while the sales of CNS products decreased 1.5% YoY in 1H23. The GP margin decreased to 75.8% in 1H23 from 79.4% in 1H22, mainly due to the reduced proportion of sales from high-margin Sanbexin, and relatively high manufacturing cost of Xiannuoxin (3CL) at the initial commercialization stage. Operating cash outflows in 1H23 was RMB82mn, compared to cash inflow of RMB685mn in 1H22, mainly due to the raw material stocking for Xiannuoxin in 1H23. R&D ratio decreased to 36.9% in 1H23 from 38.0% in FY22, and SG&A ratio also fell to 44.5% from 45.1% for the same period. Simcere recorded an attributable net profit of RMB2.27bn in 1H23 (incl. RMB1.14bn from fair value change of investment portfolio and RMB0.79bn from disposal of subsidiaries), while the core net profit was stable (RMB395mn in 1H23 vs RMB393mn in 1H22).

■ **Oncology business recorded growth recovery.** The sales of Endostar in 1H23 increased 51% YoY to RMB434mn. According to 3D Medicines, Enweida (PD-L1) realized RMB353mn sales in 1H23 (+70% YoY). Cosela was at early stage of sales ramp-up, and may obtain approval for domestic production in 1Q24, which will boost the GP margin for the product. We expect Cosela to be added to the NRDL for ES-SCLC in early 2024. In addition, the Ph3 trial of Cosela in TNBC will release data in 1H24. The Company is also exploring the potential of Cosela in combination with ADC or IO drugs. Besides the commercialized assets, the Company recently in-licensed CMAB009 (EGFR) which is currently under the NDA review by CDE for CRC. CMAB009 could potentially become the first domestic EGFR mAb in China.

■ **Non-oncology portfolio continues to grow.** In the CNS field, sales of Sanbexin remained stable YoY in 1H23 at RMB1.03bn (22% market share of stroke injection), with a significant 33% increase in patient numbers offsetting the 32% price cut due to NRDL renewal effective in Mar 2023. The NDA of Sanbexin sublingual tablet for acute ischemic stroke (AIS) was accepted by CDE in Jun 2023. Upon the approval expected in 1H24, the tablet will become a sequential therapy of Sanbexin injection and provide better flexibility for stroke treatment. Additionally, Sanbexin is assessed in a Ph2 trial for hemorrhagic stroke. Daridorexant, a differentiated anti-insomnia drug potentially with better safe profile and no withdrawal symptom, has recently obtained Ph1+3 IND approval in China, which could lead to an NDA in 2024. Meanwhile, Xiannuoxin (3CL) has filed the full approval application, being the first COVID-19 small molecule drug in China to apply for full approval in China.

■ **Maintain BUY.** To factor in the challenging business environment in China, we revise our DCF-based TP from HK\$12.12 to HK\$8.15 (WACC: 11.1%, terminal growth rate 3.0%), implying 27x/17x FY23/24 PE.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	5,000	6,319	7,353	8,885	10,713
YoY growth (%)	11	26	16	21	21
Net profit (RMB mn)	1,507	933	1,535	1,136	1,451
YoY growth (%)	125	-38	65	-26	28
EPS (Reported) (RMB cents)	58	36	58	43	54
P/E (x)	66	28	27	17	13
ROE (%)	12.4	23.2	13.0	18.6	12.6

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** **HK\$8.15**

(Previous TP) **HK\$12.12**

**Up/Downside** **29.6%**

**Current Price** **HK\$6.29**

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### Stock Data

Mkt Cap (HK\$ mn)	16,757
Avg 3 mths t/o (HK\$ mn)	39.53
52w High/Low (HK\$)	14.70/6.07
Total Issued Shares (mn)	2,664

Source: FactSet

### Shareholding Structure

Management	37.4%
Artking Global	22.8%

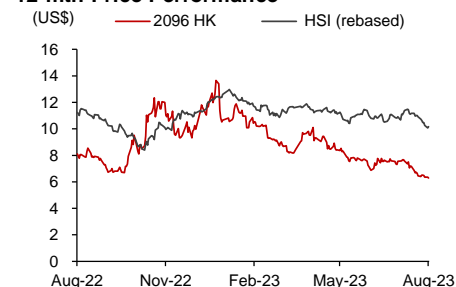
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	-15.8%	-8.8%
3-mth	-24.5%	-16.5%
6-mth	-40.3%	-25.4%

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	7,353	8,885	10,713	7,642	9,495	11,774	-3.78%	-6.43%	-9.01%
Gross Profit	5,646	7,001	8,494	6,066	7,556	9,393	-6.91%	-7.35%	-9.56%
Operating Profit	1,619	1,238	1,586	1,243	1,599	2,070	30.26%	-22.58%	-23.41%
Net profit	1,535	1,136	1,451	1,132	1,454	1,885	35.61%	-21.86%	-23.03%
EPS (RMB cents)	58	43	54	43	55	71	35.43%	-21.97%	-23.14%
Gross Margin	76.79%	78.79%	79.29%	79.38%	79.58%	79.78%	-2.58 ppt	-0.78 ppt	-0.48 ppt
Operating Margin	22.02%	13.93%	14.80%	16.26%	16.84%	17.58%	+5.75 ppt	-2.91 ppt	-2.78 ppt
Net Margin	20.88%	12.79%	13.55%	14.81%	15.31%	16.01%	+6.06 ppt	-2.53 ppt	-2.47 ppt

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	7,353	8,885	10,713	7,646	9,710	11,413	-3.83%	-8.50%	-6.14%
Gross Profit	5,646	7,001	8,494	6,056	7,721	9,090	-6.77%	-9.32%	-6.55%
Operating Profit	1,619	1,238	1,586	1,310	1,340	1,767	23.57%	-7.62%	-10.27%
Attributable net profit	1,535	1,136	1,451	1,147	1,358	1,740	33.82%	-16.33%	-16.61%
EPS (RMB cents)	58	43	54	44	54	77	32.15%	-21.02%	-29.26%
Gross Margin	76.79%	78.79%	79.29%	79.21%	79.51%	79.65%	-2.42 ppt	-0.72 ppt	-0.35 ppt
Operating Margin	22.02%	13.93%	14.80%	17.13%	13.80%	15.48%	+4.88 ppt	+0.13 ppt	-0.68 ppt
Net Margin	20.88%	12.79%	13.55%	15.00%	13.99%	15.25%	+5.87 ppt	-1.20 ppt	-1.70 ppt

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
EBIT		1,619	1,238	1,586	1,824	2,061	2,287	2,493	2,668
Tax rate		10.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)		1,457	1,052	1,348	1,550	1,752	1,944	2,119	2,268
+ D&A		283	274	267	307	347	385	420	449
- Change in working capital		149	-375	-322	-370	-418	-464	-506	-542
- Capex		-200	-200	-200	-200	-200	-200	-200	-180
<b>FCFF</b>		<b>1,689</b>	<b>752</b>	<b>1,093</b>	<b>1,287</b>	<b>1,480</b>	<b>1,665</b>	<b>1,833</b>	<b>1,995</b>
<b>Terminal value</b>									<b>25,391</b>
<b>Terminal growth rate</b>		<b>3.0%</b>							
<b>WACC</b>		<b>11.1%</b>							
Cost of Equity		14.0%							
Cost of Debt		5.0%							
Equity Beta		1.1							
Risk Free Rate		3.0%							
Market Risk Premium		10.5%							
Target Debt to Asset ratio		30.0%							
Effective Corporate Tax Rate		15.0%							
Terminal value		9,852							
Total PV		17,121							
Net debt		-2,436							
Minority interest		11							
Equity value (RMB mn)		19,546							
<b>Equity value (HK\$ mn)</b>		<b>21,718</b>							
No. of shares outstanding (mn)		2,664							
<b>DCF per share (HK\$)</b>		<b>8.15</b>							

Source: CMBIS estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>4,509</b>	<b>5,000</b>	<b>6,319</b>	<b>7,353</b>	<b>8,885</b>	<b>10,713</b>
Cost of goods sold	(900)	(1,080)	(1,322)	(1,706)	(1,884)	(2,218)
<b>Gross profit</b>	<b>3,609</b>	<b>3,920</b>	<b>4,997</b>	<b>5,646</b>	<b>7,001</b>	<b>8,494</b>
Selling expense	(1,570)	(2,037)	(2,402)	(2,757)	(3,287)	(3,910)
Admin expense	(411)	(367)	(444)	(551)	(649)	(761)
R&D expense	(1,142)	(1,417)	(1,728)	(1,691)	(1,999)	(2,410)
<b>Operating profit</b>	<b>927</b>	<b>1,449</b>	<b>862</b>	<b>1,619</b>	<b>1,238</b>	<b>1,586</b>
Other income	115	150	172	172	172	172
Other expense	327	1,215	254	800	0	0
Other gains/(losses)	(107)	(3)	25	81	93	116
Share of (losses)/profits of associates/JV	(14)	(44)	0	0	0	0
<b>Pre-tax profit</b>	<b>805</b>	<b>1,402</b>	<b>888</b>	<b>1,700</b>	<b>1,331</b>	<b>1,701</b>
Income tax	(141)	97	40	(170)	(200)	(255)
Minority interest	5	8	4	5	5	5
<b>Net profit</b>	<b>664</b>	<b>1,499</b>	<b>929</b>	<b>1,530</b>	<b>1,131</b>	<b>1,446</b>

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>6,467</b>	<b>4,980</b>	<b>5,454</b>	<b>6,713</b>	<b>7,385</b>	<b>8,864</b>
Cash & equivalents	3,270	973	1,658	2,559	2,648	3,404
Account receivables	1,871	2,399	2,337	2,586	3,125	3,767
Inventories	263	235	302	413	456	537
Prepayment	121	140	166	166	166	166
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	942	1,232	991	991	991	991
<b>Non-current assets</b>	<b>4,477</b>	<b>5,182</b>	<b>5,327</b>	<b>5,245</b>	<b>5,170</b>	<b>5,103</b>
PP&E	2,128	1,931	2,136	2,068	2,008	1,956
Deferred income tax	210	290	327	327	327	327
Investment in JVs & assos	216	9	9	10	10	10
Intangibles	77	60	380	365	350	335
Goodwill	173	173	173	173	173	173
Financial assets at FVTPL	1,232	1,940	2,057	2,057	2,057	2,057
Other non-current assets	441	778	246	246	246	246
<b>Total assets</b>	<b>10,943</b>	<b>10,161</b>	<b>10,781</b>	<b>11,958</b>	<b>12,556</b>	<b>13,968</b>
<b>Current liabilities</b>	<b>3,497</b>	<b>3,064</b>	<b>2,964</b>	<b>3,085</b>	<b>2,907</b>	<b>3,323</b>
Short-term borrowings	1,793	1,530	1,292	892	492	492
Account payables	1,565	1,486	1,602	2,124	2,345	2,761
Tax payable	0	16	11	11	11	11
Other current liabilities	139	32	59	59	59	59
<b>Non-current liabilities</b>	<b>2,111</b>	<b>635</b>	<b>675</b>	<b>660</b>	<b>646</b>	<b>632</b>
Long-term borrowings	1,276	0	0	0	0	0
Deferred income	448	418	403	389	375	361
Other non-current liabilities	387	217	271	271	271	271
<b>Total liabilities</b>	<b>5,608</b>	<b>3,698</b>	<b>3,638</b>	<b>3,746</b>	<b>3,553</b>	<b>3,954</b>
Share capital	3,003	3,003	3,081	3,081	3,081	3,081
Other reserves	2,299	3,434	4,046	5,120	5,915	6,931
<b>Total shareholders equity</b>	<b>5,302</b>	<b>6,437</b>	<b>7,127</b>	<b>8,201</b>	<b>8,997</b>	<b>10,012</b>
Minority interest	34	26	16	11	6	1
<b>Total equity and liabilities</b>	<b>10,943</b>	<b>10,161</b>	<b>10,781</b>	<b>11,958</b>	<b>12,556</b>	<b>13,968</b>

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	805	1,402	888	1,700	1,331	1,701
Depreciation & amortization	205	234	268	268	259	9
Tax paid	(155)	(15)	7	(170)	(200)	(5)
Change in working capital	(718)	(784)	86	(21)	(574)	0
Others	(41)	(1,040)	105	104	122	(2,228)
<b>Net cash from operations</b>	<b>97</b>	<b>(202)</b>	<b>1,355</b>	<b>1,880</b>	<b>938</b>	<b>(523)</b>
<b>Investing</b>						
Capital expenditure	(353)	(209)	(343)	(200)	(200)	0
Acquisition of subsidiaries/ investments	2	0	0	0	0	0
Others	880	(226)	411	106	109	(621)
<b>Net cash from investing</b>	<b>529</b>	<b>(436)</b>	<b>68</b>	<b>(94)</b>	<b>(91)</b>	<b>(621)</b>
<b>Financing</b>						
Dividend paid	0	(391)	(391)	(460)	(341)	0
Net borrowings	267	(1,437)	(267)	(400)	(400)	0
Proceeds from share issues	3,003	0	0	0	0	0
Others	(916)	203	(95)	(25)	(16)	(833)
<b>Net cash from financing</b>	<b>2,354</b>	<b>(1,625)</b>	<b>(754)</b>	<b>(886)</b>	<b>(757)</b>	<b>(833)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	355	3,270	973	1,658	2,559	2,648
Exchange difference	(64)	(35)	15	0	0	0
Others	2,979	(2,262)	669	901	90	756
<b>Cash at the end of the year</b>	<b>3,270</b>	<b>973</b>	<b>1,658</b>	<b>2,559</b>	<b>2,648</b>	<b>3,404</b>

Source: Company data, CMBIGM estimates.

Note: The calculation of net cash includes financial assets.

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