

WuXi AppTec (603259 CH)

Peptide business becoming a new growth driver

WuXi AppTec reported 3Q23 revenue of RMB10,670mn, up 0.3% YoY, and attributable recurring net income of RMB2,948mn, up 23.8% YoY, with attributable adjusted non-IFRS net income of RMB3,072mn, up 24.3% YoY. 3Q23 revenue accounted for 25.6% of our 2023 full-year estimate, in line with its historical average, while attributable adjusted non-IFRS net income represented 29.1% of our forecast, higher than its historical average of c.26%. In 9M23, non-IFRS gross profit margin (GPM) improved by 3.6ppt to 42.3% while non-IFRS net profit margin increased by 3.7ppt to 27.6%, driven by favourable currency exchange rates and continuously improved operating efficiency. As of Sep 2023, overall backlog increased by 25% YoY, if excluding commercial COVID-19 projects, per management. Considering the weak demand in early-stage discovery services, management revised down the full-year revenue YoY growth target from 5-7% to 2-3%, which now implies non-COVID revenue growth of 25-26% YoY in 2023E. Nevertheless, management slightly raised non-IFRS gross profit margin target by 0.5% to 41.7-42.1% for 2023E to reflect the further improved operating efficiency. Additionally, management has proposed to terminate the 2023 H-share incentive plan, and to repurchase and cancel over 15.5mn H-shares (~0.52% of total share capital) with a value of HK\$1.3bn.

■ **Healthy growth from non-COVID projects.** Excluding commercial COVID-19 projects, 9M23 revenue of WuXi AppTec would grow by 23.4% YoY, primarily driven by the 48.2% YoY growth of the D&M services within its chemistry segment. Based on our calculation, in 9M23, the Company booked c.RMB3.0bn revenue from commercial COVID projects. In addition, the management expected the weak global demand in early-stage R&D services to be temporary and is confident in the Company's long-term growth outlook. The management indicated WuXi AppTec's revenue to grow more than 20% YoY in next few years (excluding the impact of commercial COVID projects).

■ **TIDES business to become the next growth driver.** We believe the promising TIDES (mainly oligo and peptides) business will become a major growth driver for the Company. In 9M23, TIDES revenue grew by 38.1% YoY, on top of 337% YoY growth in 2022. More excitingly, backlog of TIDES as of Sep 2023 dramatically increased by 245% YoY, leading to the management guidance of over 60% YoY growth in TIDES revenue 2023E and another 60%+ YoY growth in 2024E. To accommodate the rapidly growing demand of peptide drugs, WuXi AppTec aimed to increase its solid phase synthesizer capacity for peptide production to 32,000L by the end of 2023, one year ahead of its original schedule. We expect the Company to generate meaningful future revenue from providing CMO services for a blockbuster dual-targeted GLP-1 product. We expect the Company to capture the growing opportunities in the global peptide market given its sizable peptide manufacturing capacities and strong global customer network.

■ **Maintain BUY.** Our TP remains largely unchanged at RMB116.01, based on a 10-year DCF model with WACC of 10.73% and terminal growth of 2.0%. We forecast WuXi AppTec's revenue to grow by 2.8%/ 17.2%/ 23.5% YoY and adjusted non-IFRS net income to grow by 15.2%/ 17.8%/ 24.7% YoY in 2023E/ 24E/ 25E, respectively.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	22,902	39,355	40,465	47,407	58,566
YoY growth (%)	38.5	71.8	2.8	17.2	23.5
Adjusted net profit (RMB mn)	5,131	9,399	10,824	12,747	15,897
EPS (Adjusted) (RMB)	1.76	3.17	3.65	4.29	5.35
Consensus EPS (RMB)	na	na	3.37	4.18	5.22
P/E (adjusted) (x)	49.1	27.3	23.7	20.1	16.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB116.01
(Previous TP	RMB116.73)
Up/Downside	34.1%
Current Price	RMB86.51

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Stock Data

Mkt Cap (RMB mn)	256,818.4
Avg 3 mths t/o (RMB mn)	1,660.2
52w High/Low (RMB)	98.18/61.82
Total Issued Shares (mn)	2968.7

Source: FactSet

Shareholding Structure

HK investors	22.5%
Ge Li and concerted parties	19.9%

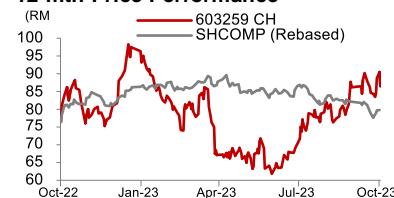
Source: Company

Share Performance

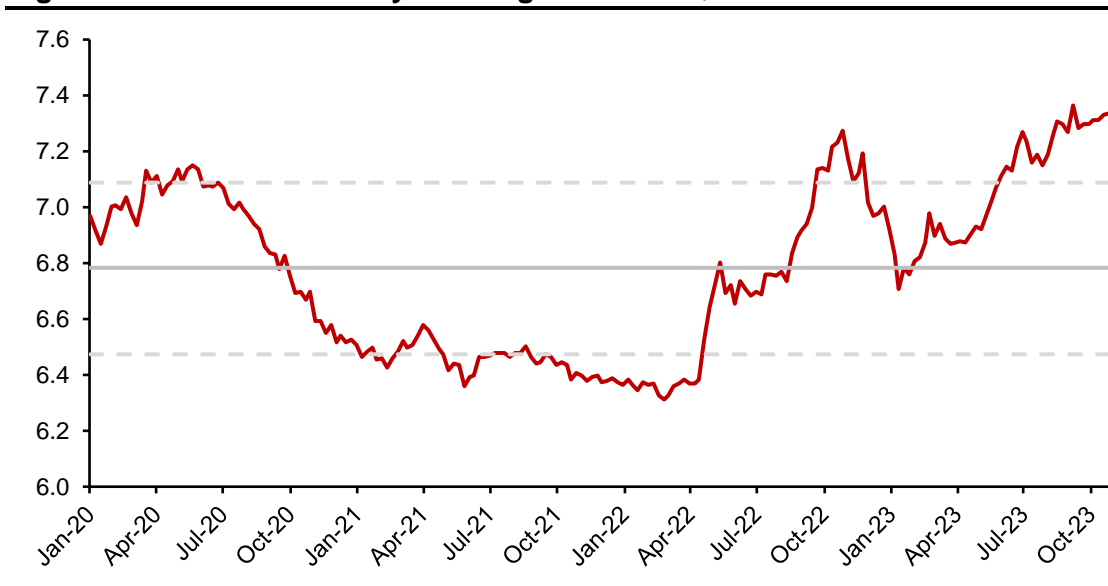
	Absolute	Relative
1-mth	0.4%	3.4%
3-mth	20.7%	31.6%
6-mth	28.1%	41.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Historical currency exchange rate of US\$/RMB

Source: WIND, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	40,465	47,407	58,566	41,742	53,762	67,653	-3.06%	-11.82%	-13.43%
Gross Profit	16,741	19,279	23,975	16,697	21,066	26,232	0.26%	-8.48%	-8.60%
Operating Profit	11,631	13,577	17,019	11,279	14,008	17,350	3.12%	-3.07%	-1.90%
Non-IFRS net profit	10,824	12,747	15,897	10,574	13,202	16,269	2.36%	-3.45%	-2.29%
Non-IFRS EPS (RMB)	3.65	4.29	5.35	3.56	4.45	5.48	2.35%	-3.46%	-2.30%
Gross Margin	41.37%	40.67%	40.94%	40.00%	39.18%	38.77%	+1.37ppt	+1.48ppt	+2.16ppt
Operating Margin	28.74%	28.64%	29.06%	27.02%	26.05%	25.64%	+1.72ppt	+2.59ppt	+3.42ppt
Net Margin	26.75%	26.89%	27.14%	25.33%	24.56%	24.05%	+1.42ppt	+2.33ppt	+3.10ppt

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	40,465	47,407	58,566	41,771	52,241	65,186	-3.13%	-9.25%	-10.16%
Gross Profit	16,741	19,279	23,975	16,401	20,575	25,709	2.07%	-6.30%	-6.74%
Operating Profit	11,631	13,577	17,019	11,662	14,573	18,251	-0.27%	-6.83%	-6.75%
Non-IFRS net profit	10,824	12,747	15,897	10,023	12,394	15,506	7.99%	2.84%	2.52%
Non-IFRS EPS (RMB)	3.65	4.29	5.35	3.37	4.18	5.22	8.35%	2.72%	2.51%
Gross Margin	41.37%	40.67%	40.94%	39.26%	39.38%	39.44%	+2.11ppt	+1.28ppt	+1.50ppt
Operating Margin	28.74%	28.64%	29.06%	27.92%	27.90%	28.00%	+0.82ppt	+0.74ppt	+1.06ppt
Net Margin	26.75%	26.89%	27.14%	24.00%	23.72%	23.79%	+2.75ppt	+3.16ppt	+3.36ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	12,400	14,287	17,906	22,651	28,314	34,968	42,661	51,406	61,174	71,879
Tax rate	16.24%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
EBIT*(1-tax rate)	10,387	12,144	15,220	19,254	24,067	29,723	36,262	43,695	51,998	61,097
+ D&A	2,026	2,484	2,852	3,565	4,402	5,371	6,472	7,702	9,049	10,497
- Change in working capital	562	(1,067)	(1,698)	(2,122)	(2,621)	(3,197)	(3,853)	(4,585)	(5,387)	(6,249)
- Capex	(11,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
FCFF	1,974	3,562	6,374	10,696	15,849	21,897	28,881	36,812	45,660	55,346
Terminal value										647,021
Terminal growth rate	2.00%									
WACC	10.73%									
Cost of Equity	13.50%									
Cost of Debt	5.00%									
Equity Beta	1.00									
Risk Free Rate	3.00%									
Market Risk Premium	10.50%									
Target Debt to Asset ratio	30.00%									
Effective Corporate Tax Rate	15.00%									
PV of terminal value (RMB mn)	233,594									
Total PV (RMB mn)	340,182									
Net debt (RMB mn)	(4,222)									
Equity value (RMB mn)	344,404									
# of shares (mn)	2,969									
Price per share (RMB per share)	116.01									

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	16,535	22,902	39,355	40,465	47,407	58,566
Cost of goods sold	(10,253)	(14,592)	(24,677)	(23,725)	(28,128)	(34,590)
Gross profit	6,282	8,310	14,678	16,741	19,279	23,975
Operating expenses	(3,155)	(3,898)	(5,372)	(5,110)	(5,702)	(6,956)
Selling expense	(588)	(699)	(732)	(742)	(846)	(1,016)
Admin expense	(1,839)	(2,203)	(2,826)	(2,698)	(2,924)	(3,554)
R&D expense	(693)	(942)	(1,614)	(1,401)	(1,618)	(1,999)
Others	(35)	(54)	(200)	(268)	(314)	(388)
Operating profit	3,127	4,412	9,306	11,631	13,577	17,019
Gain/loss on financial assets at FVTPL	52	(93)	770	61	210	387
Investment gain/loss	606	1,356	188	520	200	200
Net Interest income/(expense)	(520)	(84)	248	499	97	150
Other income/expense	104	425	106	188	300	300
Pre-tax profit	3,369	6,016	10,618	12,899	14,384	18,056
Income tax	(383)	(880)	(1,716)	(2,094)	(2,158)	(2,708)
After tax profit	2,986	5,136	8,903	10,805	12,226	15,348
Minority interest	(26)	(39)	(89)	(76)	(87)	(109)
Net profit	2,960	5,097	8,814	10,728	12,139	15,239
Adjusted net profit	3,637	5,131	9,399	10,824	12,747	15,897
Gross dividends	890	1,529	2,644	3,218	3,642	4,572
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	23,059	21,986	23,997	25,727	29,519	36,121
Cash & equivalents	10,237	8,239	7,986	10,359	12,174	15,741
Account receivables	3,667	4,668	6,047	5,509	6,454	7,973
Inventories	2,686	5,905	5,669	5,563	6,596	8,111
Prepayment	176	303	291	291	291	291
Financial assets at FVTPL	4,618	527	2	2	2	2
Other current assets	1,676	2,344	4,003	4,003	4,003	4,003
Non-current assets	23,232	33,142	40,693	46,966	52,668	58,180
PP&E	5,710	8,554	14,171	19,485	23,343	26,835
Deferred income tax	301	390	492	492	492	492
Investment in JVs & assos	765	678	1,203	1,203	1,203	1,203
Intangibles	998	1,600	1,785	1,641	1,497	1,353
Goodwill	1,392	1,926	1,822	1,822	1,822	1,822
Financial assets at FVTPL	6,717	8,714	8,954	10,480	12,889	15,476
Other non-current assets	7,349	11,280	12,265	11,843	11,421	10,999
Total assets	46,291	55,127	64,690	72,692	82,187	94,301
Current liabilities	7,920	12,985	14,499	15,417	16,328	17,665
Short-term borrowings	1,230	2,261	3,874	4,874	4,874	4,874
Account payables	941	1,931	1,659	1,577	2,488	3,825
Tax payable	379	536	882	882	882	882
Other current liabilities	5,370	8,256	8,084	8,084	8,084	8,084
Non-current liabilities	5,652	3,385	3,264	2,762	2,762	2,762
Long-term borrowings	0	0	279	279	279	279
Bond payables	1,819	607	502	0	0	0
Obligations under finance leases	1,067	1,019	984	984	984	984
Other non-current liabilities	2,766	1,759	1,499	1,499	1,499	1,499
Total liabilities	13,573	16,370	17,764	18,179	19,090	20,427
Share capital	2,442	2,956	2,961	2,961	2,961	2,961
Capital surplus	22,678	25,732	26,512	34,021	42,519	53,187
Other reserves	7,374	9,804	17,118	17,118	17,118	17,118
Total shareholders equity	32,494	38,492	46,590	54,100	62,597	73,265
Minority interest	225	266	337	413	500	608
Total equity and liabilities	46,291	55,127	64,690	72,692	82,187	94,301
CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	3,369	6,016	10,618	12,899	14,384	18,056
Depreciation & amortization	959	1,363	1,718	2,050	2,508	2,876
Tax paid	(383)	(880)	(1,716)	(2,094)	(2,158)	(2,708)
Change in working capital	(494)	(1,151)	(298)	562	(1,067)	(1,698)

Others	523	(759)	294	(821)	(307)	(538)
Net cash from operations	3,974	4,589	10,616	12,595	13,361	15,988
Investing						
Capital expenditure	(3,031)	(6,936)	(9,966)	(7,000)	(6,000)	(6,000)
Acquisition of subsidiaries/ investments	(186)	(858)	(161)	0	0	0
Net proceeds from disposal of short-term investments	(5,638)	2,766	82	(1,000)	(2,000)	(2,000)
Others	79	189	355	0	0	0
Net cash from investing	(8,776)	(4,839)	(9,690)	(8,000)	(8,000)	(8,000)
Financing						
Dividend paid	(638)	(916)	(1,598)	(2,720)	(3,545)	(4,421)
Net borrowings	(1,284)	1,071	1,668	1,000	0	0
Proceeds from share issues	13,162	104	150	0	0	0
Others	(1,352)	(1,983)	(1,497)	(502)	0	0
Net cash from financing	9,888	(1,724)	(1,278)	(2,222)	(3,545)	(4,421)
Net change in cash						
Cash at the beginning of the year	5,223	10,228	8,175	7,986	10,359	12,174
Exchange difference	(81)	(79)	161	0	0	0
Cash at the end of the year	10,228	8,175	7,984	10,359	12,174	15,741
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	28.5%	38.5%	71.8%	2.8%	17.2%	23.5%
Gross profit	25.3%	32.3%	76.6%	14.1%	15.2%	24.4%
Operating profit	26.4%	41.1%	110.9%	25.0%	16.7%	25.4%
Net profit	59.6%	72.2%	72.9%	21.7%	13.2%	25.5%
Adj. net profit	51.1%	41.1%	83.2%	15.2%	17.8%	24.7%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	38.0%	36.3%	37.3%	41.4%	40.7%	40.9%
Operating margin	18.9%	19.3%	23.6%	28.7%	28.6%	29.1%
Adj. net profit margin	22.0%	22.4%	23.9%	26.7%	26.9%	27.1%
Return on equity (ROE)	11.9%	14.4%	20.7%	21.3%	20.8%	22.4%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Current ratio (x)	2.9	1.7	1.7	1.7	1.8	2.0
Receivable turnover days	73.2	66.4	49.7	49.7	49.7	49.7
Inventory turnover days	78.8	107.4	85.6	85.6	85.6	85.6
Payable turnover days	107.4	107.8	75.5	75.5	75.5	75.5
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E (adjusted)	55.4	49.1	27.3	23.7	20.1	16.2
P/B	5.5	10.1	5.9	4.7	4.1	3.5
P/CFPS	45.1	85.5	26.1	20.4	19.2	16.1
Div yield (%)	0.5	0.4	1.0	1.3	1.4	1.8

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

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