

Simcere Pharmaceutical Group (2096 HK)

FDA approved trilaciclib for chemotherapy-induced myelosuppression

- The first and only myeloprotection therapy for chemotherapy-induced myelosuppression.** On 12 Feb 2021, Simcere's partner G1 Therapeutics (GTHX US) announced that the US FDA has approved COSELA (trilaciclib) for injection to decrease the incidence of chemotherapy-induced myelosuppression in adult patients when administered prior to chemotherapy for extensive-stage SCLC (ES-SCLC). Trilaciclib is the first and only therapy designed to help protect bone marrow (myeloprotection) when administered prior to treatment with chemotherapy. In Jan 2021, Simcere has obtained the IND approval from the NMPA to conduct a Phase I clinical trial of trilaciclib.
- Positive Phase 2 clinical data on trilaciclib in combination with chemotherapy in metastatic TNBC.** At 2020 San Antonio Breast Cancer Symposium (SABCS), G1 Therapeutics presented data of a randomized Phase 2 trial of trilaciclib in mTNBC, showing that trilaciclib significantly improved OS for patients treated with trilaciclib in combination with chemotherapy compared with chemotherapy alone (19.8 months vs 12.6 months).
- Sanbexin's Phase 3 result was recently published in STROKE.** Sanbexin (edaravone dexborneol) has been developed as a novel neuroprotective agent, approved by the NMPA in Aug 2020. In the Phase 3 trial, among the 1,165 enrolled AIS patients, the edaravone dexborneol group showed significantly higher proportion of patients experiencing good functional outcomes on day 90 after randomization, compared with the edaravone group (modified Rankin Scale score ≤ 1 , 67.18% vs 58.97%; odds ratio=1.42; P=0.004).
- Rich innovative drug pipelines.** Simcere has established a comprehensive innovative portfolio with nearly 50 candidates in different stages of development. The Company has launched two innovative drugs, Orenicia (abatacept injection) and Sanbexin in 2H20. Sanbexin was added into the NRDL, effective from Mar 2021. KN035, a potentially first-to-market subcutaneously injectable anti-PD-L1 monoclonal antibody worldwide, filed NDA in China for MSI-H solid tumors in Dec 2020.
- Maintain BUY.** We expect Simcere's attributable net profit to grow from RMB1,004mn in 2019 to RMB1,453mn in 2022E, representing a CAGR of 13.1%. We maintain our target price of HK\$13.84 based on a 10-year DCF valuation (WACC: 10.4%, terminal growth rate: 2.0%).
- Risks:** Lower-than-expected sales from key products, slower-than-expected R&D progress of innovative drugs.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	4,514	5,037	4,554	6,458	8,164
YoY growth (%)	17	12	(10)	42	26
Net income (RMB mn)	734	1,004	684	1,150	1,453
YoY growth (%)	109	37	(32)	68	26
PE ratio (x)	N/A	N/A	27	16	13
EPS (RMB)	N/A	N/A	0.26	0.44	0.56
Consensus EPS (RMB)	N/A	N/A	0.23	0.47	0.60
ROE (%)	46.9	67.8	13.6	19.4	20.5
Net gearing (%)	56	155	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$13.84
(Previous TP)	HK\$13.84)
Up/Downside	+70.85%
Current Price	HK\$8.10

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Mkt. Cap. (HK\$ mn)	21,130
Avg. 3mths t/o (HK\$ mn)	16.23
52W High/Low (HK\$)	11.68/7.65
Total Issued Shares (mn)	2,609

Source: Bloomberg

Shareholding Structure

Simcere Pharmaceutical Holding	45.85%
Artking Global	23.26%
Fortune Fountain Investment	4.64%
Premier Praise	4.41%
Excel Good Group	4.30%
King View Development Internationa	2.25%
Excel Management	2.13%
Free float	13.16%

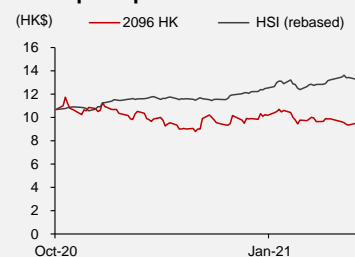
Source: HKEX, Bloomberg

Share performance

	Absolute	Relative
1-mth	-10.1%	-8.8%
3-mth	1.4%	-6.2%
6-mth	N/A	N/A

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: KPMG

Web-site: www.simcere.com

Related report:

Transitioning from generic to innovative (Initiation) – 5 Jan 2021

Valuation

Maintain BUY with TP unchanged at HK\$13.84

We expect Simcere's attributable net profit to grow from RMB1,004mn in 2019 to RMB1,453mn in 2022E, representing a CAGR of 13.1%. To factor in the potential contribution from innovative drug pipelines, we use DCF model in valuing the Company. We derive our target price of HK\$13.84 based on a 10-year DCF valuation (WACC: 10.4%, terminal growth rate: 2.0%).

Figure 1: Risk-adjusted DCF valuation (terminal growth rate: 2.0%)

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	1,348	1,690	1,963	2,450	3,016	3,317	3,616	3,905	4,178	4,429
Tax rate	13.0%	14.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	1,173	1,454	1,669	2,082	2,563	2,820	3,073	3,319	3,552	3,765
+ D&A	155	159	163	162	162	179	195	210	225	238
- Change in working capital	(303)	(243)	(69)	(94)	(103)	(113)	(124)	(134)	(143)	(151)
- Capex	(200)	(200)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)
FCFF	824	1,170	1,613	2,001	2,472	2,735	2,994	3,246	3,484	3,702
Terminal value										45,083
Terminal growth rate	2.0%									
WACC	10.4%									
Cost of Equity	13.0%									
Cost of Debt	5.0%									
Equity Beta	1.0									
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	16,800									
Total PV	29,862									
Net debt	(1,813)									
Minority interest	0									
Equity value (RMB mn)	31,675									
Equity value (HK\$ mn)	36,101									
DCF per share (HK\$)	13.84									

Source: CMBIS estimates

Figure 2: Sensitivity analysis

		WACC				
		9.4%	9.9%	10.4%	10.9%	11.4%
Terminal growth rate	3.0%	17.48	16.10	14.92	13.88	12.98
	2.5%	16.66	15.42	14.34	13.40	12.56
	2.0%	15.95	14.82	13.84	12.97	12.20
	1.5%	15.32	14.30	13.39	12.59	11.86
	1.0%	14.78	13.83	12.99	12.24	11.57

Source: CMBIS estimates

Figure 3: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	4,554	6,458	8,164	4,587	6,524	8,276	-1%	-1%	-1%
Gross Profit	3,734	5,328	6,735	3,743	5,399	6,869	0%	-1%	-2%
Operating Profit	786	1,321	1,690	728	1,484	1,774	8%	-11%	-5%
Net profit	684	1,150	1,453	631	1,200	1,531	8%	-4%	-5%
EPS (RMB cents)	26	44	56	23	47	60	15%	-6%	-7%
Gross Margin	82.00%	82.50%	82.50%	81.60%	82.75%	83.00%	+0.40 ppt	-0.25 ppt	-0.50 ppt
Operating Margin	17.26%	20.46%	20.70%	15.86%	22.75%	21.44%	+1.40 ppt	-2.28 ppt	-0.74 ppt
Net Margin	15.01%	17.80%	17.80%	13.75%	18.39%	18.50%	+1.27 ppt	-0.59 ppt	-0.70 ppt

Source: Company data, CMBIS estimates

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	4,514	5,037	4,554	6,458	8,164
Sales of pharmaceutical products	4,309	4,800	4,311	6,207	7,906
Promotion service income	205	236	243	251	258
Cost of sales	(771)	(888)	(820)	(1,130)	(1,429)
Gross profit	3,743	4,148	3,734	5,328	6,735
Other income	68	92	90	90	90
Other expenses	91	16	0	0	0
Other net (loss)/gain	(447)	(716)	(820)	(1,033)	(1,306)
R&D expenses	(447)	(716)	(820)	(1,033)	(1,306)
Administrative expenses	(290)	(352)	(319)	(446)	(555)
Listing expenses	0	0	0	0	0
Finance cost	(48)	(116)	(106)	(86)	(66)
Profit before tax	929	1,082	786	1,321	1,690
Income tax expense	(195)	(78)	(102)	(172)	(237)
Total net profit	734	1,004	684	1,150	1,453
Minority Interests	0	0	0	0	0
Profit attributable to shareholders	734	1,004	684	1,150	1,453

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	929	1,082	786	1,321	1,690
Depreciation for plant and equipment	103	147	140	145	149
Change in working capital	(210)	(556)	(64)	(475)	(479)
Others	108	365	168	216	255
Tax paid	(155)	(265)	(102)	(172)	(237)
Net cash from operating	776	773	927	1,036	1,378
Capex	(335)	(508)	(200)	(200)	(200)
Acquisition of subsidiaries	0	0	0	0	0
Other investing activities	(137)	(85)	58	59	65
Net cash from investing	(472)	(593)	(142)	(141)	(135)
Net proceeds from shares	0	0	2,986	0	0
Bank borrowing	903	722	(300)	(500)	(500)
New loans from related parties	297	12	0	0	0
Other financing activities	(889)	(1,747)	(242)	(316)	(356)
Net cash from financing	311	(1,013)	2,443	(816)	(856)
activities					
Net change in cash	615	(833)	3,229	80	387
Cash at the beginning of the year	573	1,188	355	3,584	3,663
Cash at the end of the year	1,188	355	3,584	3,663	4,050

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	2,673	3,869	3,911	3,948	3,981
Plant and equipment	1,375	1,870	1,930	1,985	2,036
Goodwill	142	142	142	142	142
Intangible assets	49	34	24	14	4
Prepayments and deposits	22	325	325	325	325
Financial assets at FV through profit	860	902	902	902	902
Others	224	596	588	580	572
Current assets	3,666	2,898	5,798	6,394	7,250
Inventories	234	248	222	307	388
Accounts and other receivables	1,032	1,456	1,154	1,586	1,974
Amounts due from related parties	678	0	0	0	0
Bank balances and cash	1,188	355	3,584	3,663	4,050
Others	534	838	838	838	838
Current liabilities	4,111	3,429	2,838	2,552	2,278
Accounts and other payables	1,815	1,673	1,382	1,596	1,822
Bank Loans & Lease liabilities	1,993	1,670	1,370	870	370
Amounts due to related parties	204	0	0	0	0
Tax payables	100	86	86	86	86
Non-current liabilities	662	1,858	1,858	1,858	1,858
Deferred income	331	471	471	471	471
Deferred tax liabilities	208	117	117	117	117
Total net assets	1,565	1,480	5,013	5,933	7,095
Minority interest	0	0	0	0	0
Shareholders' equity	1,565	1,480	5,013	5,933	7,095

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Sales of pharmaceutical	95.5	95.3	94.7	96.1	96.8
Promotion service income	4.5	4.7	5.3	3.9	3.2
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	83	82	82	83	83
EBITDA margin	23	26	22	23	23
Pre-tax margin	21	21	17	20	21
Net margin	16	20	15	18	18
Effective tax rate	21	7	13	13	14
Balance sheet ratios					
Current ratio (x)	0.9	0.8	2.0	2.5	3.2
Trade receivables turnover days	67	83	83	83	83
Trade payables turnover days	124	116	116	116	116
Net debt to equity ratio (%)	56	155	Net cash	Net cash	Net cash
Returns (%)					
ROE	46.9	67.8	13.6	19.4	20.5
ROA	11.6	14.8	7.0	11.1	12.9

Source: Company data, CMBIS estimates

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