

WuXi Biologics (2269 HK)

Expand overseas capacity to mitigate risks

WuXi Biologics (Wuxi Bio) reported 2023 revenue of RMB17.03bn, up 11.6% YoY, attributable net income of RMB3.40bn, down 23.1% YoY, and adjusted attributable net income of RMB4.70bn, down 4.6% YoY. Both revenue and adjusted attributable net income were in-line with our forecasts. If excluding COVID revenue, total revenue would increase by 37.7% YoY, and revenue from late-stage and CMO projects would surge by 101.7% YoY. Total backlog stood at US\$20.59bn as of end-2023 with backlog within three years growing by 6.4% YoY. Considering the recovery momentum of global biotech funding and the potential geopolitical impact on its "Win-the-Molecule" projects, management expects the total revenue to grow by 5-10% YoY and non-COVID revenue to grow by 8-14% YoY in 2024E.

■ **Early signs of industry demand recovery.** WuXi Bio maintained solid growth in non-COVID revenue in 2023. If excluding COVID revenue, the total revenue would increase by 37.7% YoY in 2023, and revenue from late-stage and CMO projects would jump by 101.7% YoY. This proves solid client demand for WuXi Bio's services in the post-COVID era. Geographically, non-COVID revenue from Europe, North America and other regions (ex. China) grew by 172.4%, 20.2% and 37.7% YoY, respectively. Non-COVID revenue in China slightly declined by 1.2% YoY in 2023 due to biotech funding constraints. Meanwhile, we noticed early signs of industry demand recovery such as the YTD rebound in global biotech funding. Thus, we expect steady growth for WuXi Bio's non-COVID revenue in 2024E.

■ **The European market grew rapidly to mitigate geopolitical impact.** Supported by demand from clients across various business sizes, revenue from European market impressively increased by 101.9% YoY in 2023, contributing 30.2% of WuXi Bio revenue. According to the management, European clients tend to be less sensitive to geopolitics. We think expanding revenue from European market will help WuXi Bio to reduce its business reliance on the US market. With a maturing manufacturing network in Ireland and German, management expects its strong performance in the EU market to continue.

■ **Share buyback to underscore mgt.'s confidence in business.** According to an announcement on 5 Dec 2023, WuXi Bio has initiated a share repurchase plan with an aggregate value up to US\$600mn. As of end-2023, the Company has repurchased 34.8mn H-shares with a total value of HK\$1.0bn (~US\$129mn). Based on our calculation, the number of share repurchased by WuXi Bio YTD has reached 47.6mn with a total value of HK\$972mn (~US\$125mn). The Company retains the capacity to repurchase shares valued at ~US\$346mn, representing ~4.6% of WuXi Bio's latest market cap. Management anticipates the continuation of share buybacks.

■ **Maintain BUY.** To reflect the geopolitical uncertainties, we cut our TP from HK\$39.65 to HK\$18.32, based on a 10-year DCF model with WACC of 10.95% and terminal growth of 2.0%. We forecast WuXi Bio's revenue to grow by 5.2%/ 13.6%/ 13.9% YoY and attributable adj. net income to increase by 7.5%/ 14.5%/ 13.9% YoY in 2024E/ 25E/ 26E, respectively.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	15,269	17,034	17,914	20,350	23,185
YoY growth (%)	48.4	11.6	5.2	13.6	13.9
Adjusted net profit (RMB mn)	4,925.3	4,698.9	5,052.0	5,784.5	6,587.7
YoY growth (%)	48.5	(4.6)	7.5	14.5	13.9
EPS (Adjusted) (RMB)	1.18	1.13	1.19	1.36	1.55
Consensus EPS (RMB)	na	na	1.17	1.51	1.81
P/E (x) (adjusted)	10.5	11.0	10.4	9.1	8.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$18.32
(Previous TP)	HK\$39.65)
Up/Downside	33.1%
Current Price	HK\$13.76

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Stock Data

Mkt Cap (HK\$ mn)	58,594.4
Avg 3 mths t/o (HK\$ mn)	1,301.7
52w High/Low (HK\$)	54.80/13.04
Total Issued Shares (mn)	4258.3

Source: FactSet

Shareholding Structure

WuXi Biologics Holdings	13.8%
JP Morgan	5.8%

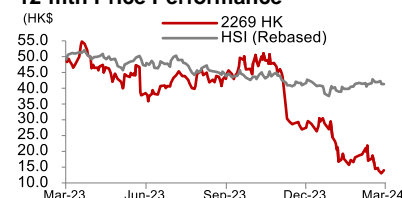
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-27.2%	-25.4%
3-mth	-50.0%	-49.3%
6-mth	-69.1%	-66.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	17,914	20,350	23,185	19,274	24,855	na	-7.06%	-18.12%	na
Gross Profit	7,079	8,193	9,390	8,033	10,688	na	-11.87%	-23.34%	na
Operating Profit	4,728	5,456	6,254	4,757	6,310	na	-0.61%	-13.54%	na
Adjusted net profit	5,052	5,784	6,588	5,252	6,714	na	-3.81%	-13.84%	na
Adjusted EPS (RMB)	1.19	1.36	1.55	1.23	1.58	na	-3.82%	-13.86%	na
Gross Margin	39.52%	40.26%	40.50%	41.68%	43.00%	na	-2.16ppt	-2.74ppt	na
Operating Margin	26.39%	26.81%	26.97%	24.68%	25.39%	na	+1.71ppt	+1.42ppt	na
Adjusted net margin	28.20%	28.43%	28.41%	27.25%	27.01%	na	+0.95ppt	+1.41ppt	na

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	17,914	20,350	23,185	20,139	25,498	29,698	-11.05%	-20.19%	-21.93%
Gross Profit	7,079	8,193	9,390	8,349	10,822	12,669	-15.21%	-24.29%	-25.88%
Operating Profit	4,728	5,456	6,254	5,462	7,166	8,986	-13.44%	-23.87%	-30.41%
Adjusted net profit	5,052	5,784	6,588	5,104	6,649	8,821	-1.02%	-13.00%	-25.32%
Adjusted EPS (RMB)	1.19	1.36	1.55	1.17	1.51	1.81	1.84%	-10.16%	-14.67%
Gross Margin	39.52%	40.26%	40.50%	41.46%	42.44%	42.66%	-1.94ppt	-2.18ppt	-2.16ppt
Operating Margin	26.39%	26.81%	26.97%	27.12%	28.10%	30.26%	-0.73ppt	-1.30ppt	-3.29ppt
Adjusted net margin	28.20%	28.43%	28.41%	25.34%	26.08%	29.70%	+2.86ppt	+2.35ppt	-1.29ppt

Source: 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	4,616	5,385	6,184	7,111	8,107	9,161	10,260	11,388	12,527	13,655
Tax rate	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
EBIT*(1-tax rate)	3,924	4,577	5,256	6,044	6,891	7,786	8,721	9,680	10,648	11,606
+ D&A	1,336	1,472	1,604	1,845	2,103	2,377	2,662	2,955	3,250	3,543
- Change in working capital	166	(694)	(791)	(910)	(1,037)	(1,172)	(1,313)	(1,457)	(1,603)	(1,747)
- Capex	(5,000)	(5,000)	(5,000)	(4,500)	(4,050)	(3,645)	(3,281)	(2,952)	(2,657)	(2,391)
FCFF	425	356	1,069	2,480	3,907	5,346	6,790	8,226	9,639	11,011
Terminal value										125,558
Terminal growth rate	2.00%									
WACC	10.95%									
Cost of Equity	14.55%									
Cost of Debt	5.00%									
Equity Beta	1.10									
Risk Free Rate	3.00%									
Market Risk Premium	10.50%									
Target Debt to Asset ratio	35.00%									
Effective Corporate Tax Rate	15.00%									
Terminal value (RMB mn)	44,439									
Total PV (RMB mn)	67,269									
Net debt (RMB mn)	(2,925)									
Equity value (RMB mn)	70,194									
# of shares (mn)	4,258									
Price per share (RMB per share)	16.48									
Price per share (HK\$ per share)	18.32									

Source: CMBIGM estimates. HK\$/RMB=0.90

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	10,290	15,269	17,034	17,914	20,350	23,185
Cost of goods sold	(5,461)	(8,545)	(10,206)	(10,835)	(12,157)	(13,795)
Gross profit	4,829	6,724	6,828	7,079	8,193	9,390
Operating expenses	(1,306)	(1,810)	(2,159)	(2,351)	(2,737)	(3,136)
Selling expense	(125)	(163)	(294)	(322)	(366)	(417)
Admin expense	(876)	(1,270)	(1,495)	(1,537)	(1,725)	(1,943)
R&D expense	(502)	(683)	(786)	(824)	(936)	(1,067)
Others	197	305	417	332	291	290
Operating profit	3,523	4,914	4,669	4,728	5,456	6,254
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
Net Interest income/(expense)	(39)	(64)	(158)	(152)	(143)	(134)
Others	509	508	(337)	100	100	100
Pre-tax profit	3,993	5,358	4,174	4,676	5,413	6,220
Income tax	(485)	(808)	(603)	(701)	(812)	(933)
After tax profit	3,509	4,550	3,571	3,975	4,601	5,287
Minority interest	(120)	(130)	(171)	(199)	(230)	(264)
Net profit	3,388	4,420	3,400	3,776	4,371	5,023
Adjusted net profit	3,316	4,925	4,699	5,052	5,784	6,588
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	19,530	18,470	21,198	18,951	20,415	22,790
Cash & equivalents	9,003	6,395	9,670	7,146	7,525	8,626
Account receivables	4,857	5,610	6,293	6,112	6,775	7,529
Inventories	1,687	2,281	1,766	2,148	2,410	2,735
ST bank deposits	1,148	304	340	340	340	340
Financial assets at FVTPL	976	2,015	1,234	1,234	1,234	1,234
Other current assets	1,859	1,864	1,896	1,972	2,130	2,327
Non-current assets	24,503	31,095	35,377	39,042	42,569	45,965
PP&E	18,065	24,171	27,378	31,350	35,186	38,889
Deferred income tax	221	223	236	236	236	236
Investment in JVs & assos	752	1,582	1,394	1,394	1,394	1,394
Intangibles	601	549	512	451	390	329
Goodwill	1,530	1,530	1,530	1,530	1,530	1,530
Financial assets at FVTPL	1,356	1,086	1,519	1,519	1,519	1,519
Other non-current assets	1,978	1,955	2,809	2,562	2,315	2,068
Total assets	44,033	49,564	56,576	57,993	62,984	68,754
Current liabilities	8,256	9,319	7,636	8,078	8,469	8,952
Short-term borrowings	2,122	1,321	576	576	576	576
Account payables	3,698	3,269	2,756	3,198	3,588	4,072
Tax payable	558	774	619	619	619	619
Other current liabilities	1,775	3,805	3,530	3,530	3,530	3,530
Lease liabilities	104	149	155	155	155	155
Non-current liabilities	3,071	4,033	4,922	4,922	4,922	4,922
Long-term borrowings	641	1,462	1,571	1,571	1,571	1,571
Obligations under finance leases	1,429	1,490	2,259	2,259	2,259	2,259
Deferred income	224	238	258	258	258	258
Other non-current liabilities	777	844	834	834	834	834
Total liabilities	11,326	13,351	12,558	13,000	13,390	13,874
Share capital	0	0	0	0	0	0
Capital surplus	32,278	35,047	40,331	41,107	45,478	50,501
Total shareholders equity	32,279	35,047	40,332	41,108	45,478	50,501
Minority interest	428	1,166	3,686	3,885	4,115	4,379
Total equity and liabilities	32,706	36,213	44,018	44,993	49,594	54,881

CASH FLOW	2021A	2022A	2023E	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	3,993	5,358	4,174	4,676	5,413	6,220
Depreciation & amortization	482	801	1,386	1,336	1,472	1,604
Tax paid	(350)	(586)	(603)	(701)	(812)	(933)
Change in working capital	(963)	(974)	(1,104)	166	(694)	(791)
Others	270	943	136	152	143	134
Net cash from operations	3,431	5,542	3,989	5,628	5,522	6,234
Investing						
Capital expenditure	(6,508)	(5,868)	(4,100)	(5,000)	(5,000)	(5,000)
Acquisition of subsidiaries/ investments	(2,535)	(281)	0	0	0	0
Others	(559)	241	22	0	0	0
Net cash from investing	(9,602)	(5,908)	(4,078)	(5,000)	(5,000)	(5,000)
Financing						
Net borrowings	(53)	(174)	0	0	0	0
Proceeds from share issues	10,978	0	0	0	0	0
Others	(2,715)	(2,418)	3,363	(3,152)	(143)	(134)
Net cash from financing	8,209	(2,592)	3,363	(3,152)	(143)	(134)
Net change in cash						
Cash at the beginning of the year	7,096	9,003	6,395	9,670	7,146	7,525
Exchange difference	(132)	350	0	0	0	0
Cash at the end of the year	9,003	6,395	9,670	7,146	7,525	8,626
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	83.3%	48.4%	11.6%	5.2%	13.6%	13.9%
Gross profit	90.6%	39.2%	1.5%	3.7%	15.7%	14.6%
Operating profit	91.1%	39.5%	(5.0%)	1.3%	15.4%	14.6%
Net profit	100.6%	30.5%	(23.1%)	11.1%	15.8%	14.9%
Adj. net profit	92.6%	48.5%	(4.6%)	7.5%	14.5%	13.9%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	46.9%	44.0%	40.1%	39.5%	40.3%	40.5%
Operating margin	34.2%	32.2%	27.4%	26.4%	26.8%	27.0%
Adj. net profit margin	32.2%	32.3%	27.6%	28.2%	28.4%	28.4%
Return on equity (ROE)	12.8%	13.1%	9.0%	9.3%	10.1%	10.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Current ratio (x)	2.4	2.0	2.8	2.3	2.4	2.5
Receivable turnover days	143.6	125.1	127.5	124.5	121.5	118.5
Inventory turnover days	92.6	84.8	72.4	72.4	72.4	72.4
Payable turnover days	214.8	148.8	107.7	107.7	107.7	107.7
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E (adjusted)	15.6	10.5	11.0	10.4	9.1	8.0
P/B	11.9	6.1	4.0	1.2	1.1	1.0
P/CFPS	113.0	39.8	44.4	9.6	9.8	8.7

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

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