

WuXi AppTec (603259 CH)

Strong growth outlook in 2021 and beyond

- **Positive profit alert for 2020.** WuXi AppTec announced positive profit alert that its attributable net profit in 2020 was estimated up 50-60% YoY to RMB2,782-2,967mn, and attributable recurring net profit increased 20-25% YoY to RMB2,297-2,393mn, while its adjusted Non-IFRS net profit rallied 45-50% YoY to RMB3,491-3,611mn. While the US-based laboratory services and clinical CRO services were negatively impacted by the COVID pandemic, the Company's China-based laboratory services and CDMO services continued strong growth momentum. We estimate the Company's revenue to grow 33% YoY in 2H20E, accelerating from 23% YoY growth in 1H20. As of end-2020, WuXi AppTec added over 1,300 new customers and provided services to a wide range of over 4,200 active customers, including all the top 20 big pharma companies worldwide.
- **Phenomenal growth in success-based project numbers.** In 2020, WuXi AppTec enabled 33 IND filings and 30 CTAs among its success-based projects. As of end-2020, the Company had 193 ongoing success-based projects, including 2 projects in Phase III, 9 projects in Phase II and 60 projects in Phase I. In addition, WuXi AppTec developed COVID-19 small molecule drug discovery platform very early and enabled 60+ customers globally, which became a new growth driver for the Company's China-based laboratory services.
- **CDMO revenue grew fast thanks to follow-the-molecule strategy.** WuXi AppTec added 575 new molecules to its CDMO pipeline in 2020 and its total CDMO pipeline expanded to over 1,200 active projects, including 28 commercial projects. The Company's cell and gene therapy CDMO backlog also surged 35% QoQ in 3Q20, with 2-3 projects to file BLA in 2021.
- **Expect solid recovery in clinical CRO services in 2021E.** Despite the impact of COVID pandemic on clinical CRO services in 2020, the Company registered 45% YoY growth in its SMO backlog in 9M20 and c. 100% YoY growth in its CDS backlog during the same period. With the ease of the pandemic, we expect clinical CRO revenue to see strong recovery in 2021E.
- **Lifted DCF-based TP from RMB139.05 to RMB218.73 to reflect strong growth outlook.** We revised up the adjusted Non-IFRS net profit of FY20E/21E/22E by 9%/10%/13%, and forecast the adjusted Non-IFRS net profit to grow 47%/33%/35% YoY in FY20E/21E/22E respectively. Moreover, WuXi AppTec's diversified investment portfolio will bring significant investment gains over the long term.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	9,614	12,872	16,528	21,722	28,248
YoY growth (%)	24%	34%	28%	31%	30%
Net income (RMB mn)	2,261	1,855	2,888	4,124	5,475
YoY growth (%)	84.2%	-18.0%	55.7%	42.8%	32.7%
Adj Non-IFRS net income (RMB mn)	1,742	2,407	3,538	4,714	6,365
YoY growth (%)	23.2%	38.2%	47.0%	33.2%	35.0%
EPS (RMB)	1.59	1.14	1.18	1.69	2.24
Change (%)	22%	-28%	4%	43%	33%
Consensus EPS (RMB)	N/A	N/A	1.24	1.61	2.07
P/E (x)	110.47	154.39	148.81	104.19	78.49
P/B (x)	13.75	16.47	13.23	12.14	10.94
ROE (%)	12.85	10.98	8.96	11.74	14.05
Net gearing (%)	Net cash	0.68	Net cash	Net cash	Net cash

Source: Company data, Wind, CMBIS estimates

BUY (Maintain)

Target Price	RMB218.73
(Previous TP)	RMB139.05
Up/Downside	+24.28%
Current Price	RMB176.00

China Healthcare Sector

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Mkt. Cap. (RMB mn)	428,018
Avg. 3mths t/o (RMB mn)	1,741.50
52W High/Low (RMB)	176.0/61.0
Total Issued Shares (mn)	2,135
Source: Bloomberg	

Shareholding Structure

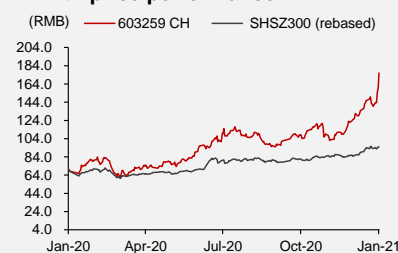
Management	26.63%
A-share public shareholders	60.47%
H-share public shareholders	12.90%
Source: Bloomberg	

Share performance

	Absolute	Relative
1-mth	29.6%	17.6%
3-mth	47.7%	27.2%
6-mth	46.1%	23.2%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

Related Reports

1. Accelerated growth in 3Q20 driven by strong performance in CDMO and China-base lab service – 30 Oct 2020
2. Enhance leading position amid COVID-19 pandemic – 17 Aug 2020
3. Strong core business growth – 26 Mar 2020
4. Strengthening leading position in global CRO/CDMO industry – 13 Dec 2019

Figure 1: CMBIS earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	16,528	21,722	28,248	16,424	21,586	27,900	0.64%	0.63%	1.24%
Gross profit	6,278	8,500	11,136	6,234	8,443	10,997	0.70%	0.68%	1.26%
Operating profit	2,979	4,304	5,763	3,075	4,381	5,836	-3.14%	-1.76%	-1.24%
Net profit	2,888	4,124	5,475	3,438	4,183	5,529	-16.01%	-1.41%	-0.98%
EPS (RMB)	1.18	1.69	2.24	1.41	1.71	2.26	-16.00%	-1.40%	-0.97%
Gross margin	37.99%	39.13%	39.42%	37.96%	39.11%	39.41%	+0.03ppt	+0.02ppt	+0.01ppt
Operating margin	18.02%	19.81%	20.40%	18.72%	20.30%	20.92%	-0.70ppt	-0.48ppt	-0.51ppt
Net Margin	17.47%	18.99%	19.38%	20.94%	19.38%	19.82%	-3.46ppt	-0.39ppt	-0.44ppt

Source: CMBIS estimates

Figure 2: CMBIS vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	16,528	21,722	28,248	16,511	21,562	27,756	0.10%	0.74%	1.77%
Gross profit	6,278	8,500	11,136	6,312	8,503	11,008	-0.53%	-0.04%	1.16%
Operating profit	2,979	4,304	5,763	3,479	4,626	5,948	-14.38%	-6.96%	-3.10%
Net profit	2,888	4,124	5,475	2,941	3,860	4,972	-1.81%	6.85%	10.11%
EPS (RMB)	1.18	1.69	2.24	1.24	1.61	2.07	-4.23%	5.24%	8.53%
Gross margin	37.99%	39.13%	39.42%	38.23%	39.44%	39.66%	-0.24ppt	-0.30ppt	-0.24ppt
Operating margin	18.02%	19.81%	20.40%	21.07%	21.45%	21.43%	-3.05ppt	-1.64ppt	-1.03ppt
Net Margin	17.47%	18.99%	19.38%	17.81%	17.90%	17.91%	-0.34ppt	+1.09ppt	+1.47ppt

Source: Bloomberg, CMBIS estimates

Figure 3: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2027E
EBIT	4,889	6,490	9,410	13,551	19,378	27,516	38,798	54,317
Tax rate	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
EBIT*(1-tax rate)	4,156	5,516	7,999	11,518	16,471	23,389	32,978	46,170
+ D&A	884	970	1,213	1,504	1,849	2,256	2,730	3,276
- Change in working capital	(551)	(635)	(793)	(984)	(1,210)	(1,476)	(1,786)	(2,144)
- Capx	(3,500)	(3,000)	(2,000)	(2,000)	(1,000)	(1,000)	(800)	(800)
FCFF	989	2,852	6,418	10,038	16,110	23,169	33,122	46,502
Terminal value								906,090

Terminal growth rate	4.00%
WACC	9.34%
Cost of Equity	11.70%
Cost of Debt	4.50%
Equity Beta	0.80
Risk Free Rate	2.50%
Market Risk Premium	11.50%
Target Debt to Asset ratio	30.00%
Effective Corporate Tax Rate	15.00%

Terminal value	443,627
Total PV	523,221
Net debt	(10,837)
Equity value	534,058
# of shares	2,441,684,821
DCF per share (in RMB)	218.73

Source: CMBIS estimates

Figure 4: Sensitivity analysis (RMB mn)

		Terminal growth rate				
		3.00%	3.50%	4.00%	4.50%	5.00%
Equity Beta	0.60	268.91	297.21	333.10	380.11	444.35
	0.70	222.72	242.00	265.54	294.91	332.59
	0.80	188.58	202.36	218.73	238.47	262.76
	0.90	162.41	172.62	184.49	198.46	215.15
	1.00	141.76	149.54	158.43	168.71	180.71

Source: Company data, CMBIS estimates

Financial Statements

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	9,614	12,872	16,528	21,722	28,248	Total net profit	2,334	1,911	2,910	4,156	5,517
China-based lab services	5,113	6,473	8,588	11,165	14,514	Depreciation and amortization	650	814	937	1,077	1,163
CMO/CDMO services	2,699	3,752	5,111	6,900	9,108	Change in working capital	(837)	(497)	19	(551)	(635)
US-based laboratory services	1,204	1,563	1,592	1,990	2,428	Investment loss (gain)	(676)	219	(899)	(425)	(567)
Clinical research & other CRO services	585	1,063	1,209	1,632	2,154	Other operating activities	170	469	192	149	149
Others	13	21	28	34	43	Net cash from operating	1,640	2,916	3,159	4,406	5,628
Cost of sales	(5,821)	(7,858)	(10,250)	(13,221)	(17,112)	Capex	(2,249)	(2,532)	(2,000)	(1,500)	(1,500)
Gross profit	3,793	5,014	6,278	8,500	11,136	Acquisition of subsidiaries	(124)	(785)	-	-	-
Business taxes	(29)	(28)	(36)	(48)	(62)	Other investing activities	(2,904)	(1,658)	(2,000)	(2,000)	(1,500)
Selling & distribution expenses	(338)	(439)	(628)	(782)	(989)	Net cash from investing	(5,277)	(4,975)	(4,000)	(3,500)	(3,000)
Administrative expenses	(1,131)	(1,482)	(1,884)	(2,433)	(3,107)	Net proceeds from shares issued	9,252	769	13,030	-	-
R&D expenses	(437)	(590)	(752)	(934)	(1,215)	Net borrowings	(1,518)	4,510	(3,000)	-	-
Operating profit	1,859	2,474	2,979	4,304	5,763	Acquisition of non-controlling					
Finance costs, net	(56)	(24)	(36)	0	0	Dividends and interests paid	(103)	(730)	(903)	(1,237)	(1,642)
Investment gains	80	48	458	80	100	Other financing activities	(647)	(2,991)	-	-	-
Net gain from FV changes	606	(259)	444	345	467	Net cash from financing	6,984	1,558	9,127	(1,237)	(1,642)
Other gains	92	98	(531)	160	160	FX changes	(56)	(33)	-	-	-
Pre-tax profit	2,581	2,337	3,313	4,889	6,490	Net change in cash	3,348	(501)	8,287	(331)	986
Income tax	(247)	(426)	(403)	(733)	(974)	Cash at the beginning of the year	2,466	5,758	5,227	13,514	13,183
Minority interests	(73)	(57)	(22)	(32)	(42)	Cash at the end of the year	5,758	5,223	13,514	13,183	14,169
Net profit	2,261	1,855	2,888	4,124	5,475						
Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	10,861	16,576	20,383	23,081	25,334	Sales mix (%)					
Fixed asset	3,491	4,333	5,586	6,202	6,732	China-based lab services	53	50	52	51	51
Intangible assets	626	918	847	776	705	CMO/CDMO services	28	29	31	32	32
Financial assets	2,079	4,009	6,905	9,330	11,397	US-based laboratory services	13	12	10	9	9
Goodwill	1,144	1,362	1,362	1,362	1,362	Clinical research and other CRO services	6	8	7	8	8
Other non-current assets	3,520	5,954	5,682	5,410	5,138	Others	0	0	0	0	0
Current assets	11,807	12,663	21,185	22,244	24,963	Profit & loss ratios (%)					
Cash	5,761	5,227	13,514	13,183	14,169	Gross margin	39	39	38	39	39
Inventories	952	1,742	1,769	2,282	2,954	EBITDA margin	34	25	26	27	27
Trade and bills receivables	1,997	2,961	3,170	4,047	5,108	Pre-tax margin	27	18	20	23	23
Prepayments, deposits and other receivables	168	123	123	123	123	Net margin	24	14	17	19	19
Other current assets	2,929	2,609	2,609	2,609	2,609	Effective tax rate	10	18	12	15	15
Current liabilities	3,762	6,634	5,389	6,228	7,325	Balance sheet ratios					
Borrowings	120	1,604	104	104	104	Current ratio (x)	3	2	4	4	3
Trade and other payables	399	592	847	1,685	2,783	Trade receivables turnover days	68	70	70	68	66
Other current liabilities	3,243	4,438	4,438	4,438	4,438	Trade payables turnover days	118	103	103	103	103
Non-current liabilities	740	5,195	3,695	3,695	3,695	Net debt to total equity ratio (%)	Net cash	1	Net cash	Net cash	Net cash
Borrowings	15	762	762	762	762	Returns (%)					
Other non-current liabilities	725	4,433	2,933	2,933	2,933	ROE	13	11	9	12	14
Total net assets	18,165	17,410	32,483	35,402	39,276	ROA	10	7	7	9	11
Minority interest	477	97	120	151	193	Per share					
Shareholders' equity	17,688	17,312	32,364	35,251	39,083	EPS (RMB)	1.59	1.14	1.18	1.69	2.24
						DPS (RMB)	0.06	0.34	0.35	0.51	0.67
						BVPS (RMB)	12.80	10.69	13.30	14.50	16.09

Source: Company data, CMBIS estimates

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