

BUY (Maintain)

CSPC Pharmaceutical (1093 HK)

Earnings accelerated in Q3

CSPC announced 3Q20 results with revenue growth of 18.7% YoY to RMB6.6bn, and attributable net profit growth of 29.1% YoY to RMB1.20bn. 9M20 revenue and attributable net profit accounted for 76%/ 79% of our full-year estimates.

- 3Q20 results beat thanks to solid growth in finished drugs and bulk medicines.** 3Q20 revenue reached RMB6.6bn, up 18.7% YoY, of which finished drugs grew 18.6% YoY and bulk medicines grew 19.0% YoY. 3Q20 GPM improved 2.75 pts thanks to increasing proportion of sales from high-margin finished drugs and margin improvement in bulk antibiotics and vitamin C. R&D expense ratio increased 2.32 pts, while selling expenses ratio decreased 2.61 pts and admin expense ratio declined 0.71 pts.
- Oncology portfolio maintained strong momentum.** Oncology drug sales grew 35.4% YoY in 9M20, driven by strong growth from Ke'ailli (+33% YoY), Jinyouli (+45% YoY) and Duomeisu (+36% YoY). Ke'ailli was one of the only two albumin bound paclitaxel injections that won the volume-based tenders in early 2020.
- NBP delivered accelerated growth in Q3.** NBP reached 32% YoY growth in 9M20 vs 30% YoY growth in 1H20, indicating further growth acceleration in 3Q20. As the government will initiate a new round of NRDL revision before end-2020E, NBP may go through price negotiation in order to maintain its inclusion in the NRDL. Thus, NBP may face price cut pressure during the NRDL negotiation. Meanwhile, sales volume of NBP may continue to grow thanks to the Company's consistent efforts in channel penetration. Sales force for NBP has expanded from c.2,300 people as of end-2019 to over 3,000 people as of Nov 2020.
- Aggressive R&D investment.** CSPC spent RMB2.27bn in R&D in 9M20, indicating 11.8% R&D expense ratio. CSPC targets to launch 13 innovative drugs in 2020-25E. We expect it to receive NMPA's approvals for Amphotericin B cholesteryl sulfate complex for injection in 2020E, Mitoxantrone hydrochloride liposome injection in 2021E, and Duvelisib (PI3K) and Irinotecan liposome in 2022E.
- Maintain BUY.** We revised up FY20/21E attributable net profit forecasts by 3.0%/5.5% to reflect better-than-expected earnings growth in 9M20. We expect revenue to grow 14%/16% YoY in FY20/21E and attributable net profit to grow 23%/22% YoY in FY20/21E. We adjusted our TP to reflect earnings revision and share split, and our new TP arrived at HK\$10.10 (WACC 11.08%, Terminal growth 3.0%), indicating 19.5x FY21E P/E.
- Catalysts:** 1) earlier-than-expected launch of new products, 2) stronger-than-expected product sales, and 3) successful listing on Sci-Tec Board.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	17,717	22,103	25,228	29,312	37,039
YoY growth (%)	32	25	14	16	26
Net profit (RMB mn)	3,081	3,714	4,577	5,582	7,541
EPS (RMB)	N/A	N/A	0.38	0.47	0.63
YoY growth (%)	N/A	N/A	N/A	22.0	35.1
Consensus EPS (RMB)	N/A	N/A	0.38	0.43	0.52
P/E (x)	14.8	12.3	19.2	15.7	11.6
P/B (x)	2.9	2.3	3.9	3.3	2.7
Yield (%)	2.1	2.1	1.6	1.9	2.6
ROE (%)	20.5	20.1	21.1	21.8	24.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Target Price	HK\$10.10
(Previous TP)	HK\$19.12)
Up/Downside	+24.10%
Current Price	HK\$8.14

China Healthcare Sector

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Stock Data

Mkt Cap (HK\$ mn)	97,466
Avg 3 mths t/o (HK\$ mn)	479.51
52w High/Low (HK\$)	11.16/6.83
Total Issued Shares (mn)	11,974

Source: Bloomberg

Shareholding Structure

Management	29.94%
Citigroup Inc	5.87%
BlackRock	4.75%
Free float	59.44%

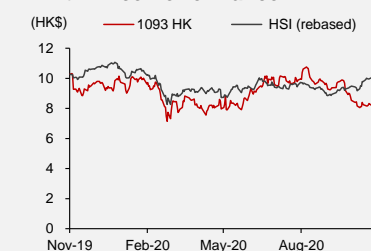
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.0%	-12.9%
3-mth	-17.3%	-21.5%
6-mth	2.6%	-11.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

- Inline 1Q results amid COVID-19 outbreak – 28 May 2020
- Oncology portfolio to be a major growth driver – 31 Mar 2020
- Another solid quarter – 19 Nov 2019
- The King is back – 20 Aug 2019

Figure 1: CMBIS earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	25,228	29,312	37,039	25,184	29,259	33,952	0.2%	0.2%	9.1%
Gross profit	18,916	22,277	28,520	18,636	22,237	26,143	1.5%	0.2%	9.1%
Operating profit	5,415	6,991	9,464	5,212	6,555	7,845	3.9%	6.7%	20.6%
Net profit	4,577	5,582	7,541	4,445	5,291	6,325	3.0%	5.5%	19.2%
EPS (RMB)	0.38	0.47	0.63	0.71	0.85	1.01	-46.4%	-45.1%	-37.9%
Gross margin	74.98%	76.00%	77.00%	74.00%	76.00%	77.00%	+0.98 ppt	+0.00 ppt	+0.00 ppt
Operating margin	21.47%	23.85%	25.55%	20.70%	22.40%	23.11%	+0.77 ppt	+1.45 ppt	+2.44 ppt
Net Margin	18.14%	19.04%	20.36%	17.65%	18.08%	18.63%	+0.49 ppt	+0.96 ppt	+1.73 ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	25,228	29,312	37,039	26,106	30,869	36,204	-3.4%	-5.0%	2.3%
Gross profit	18,916	22,277	28,520	19,328	23,076	27,349	-2.1%	-3.5%	4.3%
Operating profit	5,415	6,991	9,464	5,344	6,506	7,680	1.3%	7.5%	23.2%
Net profit	4,577	5,582	7,541	4,525	5,310	6,507	1.1%	5.1%	15.9%
EPS (RMB)	0.38	0.47	0.63	0.38	0.43	0.52	-0.5%	8.9%	21.6%
Gross margin	74.98%	76.00%	77.00%	74.04%	74.76%	75.54%	+0.9 ppt	+1.2 ppt	+1.5 ppt
Operating margin	21.47%	23.85%	25.55%	20.47%	21.08%	21.21%	+1.0 ppt	+2.8 ppt	+4.3 ppt
Net Margin	18.14%	19.04%	20.36%	17.33%	17.20%	17.97%	+0.8 ppt	+1.8 ppt	+2.4 ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 3: Peers' valuation

Company	Ticker	Rating	TP LC	Price LC	Mkt cap LC mn	PER (x)		PBR (x)		EV/EBITDA (x)		ROE (%)	
						FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
CSPC Pharma	1093 HK	BUY	19.12	8.14	97,466	19.2	15.7	3.9	3.3	13.3	10.2	21.1	21.8
Sino Biopharm	1177 HK	N/A	N/A	7.75	146,177	37.7	31.0	3.5	3.1	17.9	14.7	9.8	10.8
Hansoh Pharma	3692 HK	N/A	N/A	35.05	207,461	61.2	46.6	11.7	9.7	49.6	38.1	18.7	21.0
3SBIO Pharma	1530 HK	N/A	N/A	7.60	19,331	11.6	10.0	1.4	1.3	8.2	6.7	13.6	13.7
Livzon Pharma	1513 HK	N/A	N/A	31.10	44,013	15.1	13.0	2.0	1.9	14.4	12.6	14.1	14.7
Fosun Pharma	2196 HK	N/A	N/A	35.05	149,325	22.1	17.8	2.3	2.1	33.9	28.3	9.4	10.5
Average						29.6	23.7	4.2	3.6	24.8	20.1	13.1	14.1

Source: Bloomberg, CMBIS estimates

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	17,717	22,103	25,228	29,312	37,039
Finished drug	13,503	17,937	20,921	24,922	32,562
Bulk medicines	4,213	4,166	4,306	4,389	4,477
Cost of sales	(5,979)	(6,192)	(6,312)	(7,035)	(8,519)
Gross profit	11,737	15,911	18,916	22,277	28,520
Other income and gains	295	293	325	379	479
Distribution expenses	(6,185)	(8,712)	(9,741)	(11,139)	(13,890)
Administrative expenses	(657)	(749)	(1,067)	(1,172)	(1,407)
R&D expenses	(1,342)	(2,000)	(2,906)	(3,224)	(4,074)
Other expenses	(26)	(142)	(111)	(129)	(163)
Operating profit	3,823	4,601	5,415	6,991	9,464
Share of profit of associate / JV	44	58	36	58	58
Net finance cost	(74)	(32)	(6)	(6)	(6)
Exceptional	-	-	296	-	-
Pre-tax profit	3,792	4,626	5,741	7,044	9,516
Profits tax	(734)	(893)	(1,116)	(1,374)	(1,856)
Minority interest	22	(19)	(48)	(88)	(119)
Net profit	3,081	3,714	4,577	5,582	7,541

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
EBIT	3,823	4,601	5,415	6,991	9,464
Depreciation and amortization	629	2,404	3,484	3,430	4,122
Change in working capital	172	(490)	(647)	(587)	(1,057)
Income tax paid	(644)	(867)	(1,116)	(1,374)	(1,856)
Others	(185)	(1,863)	(2,467)	(2,686)	(3,378)
Net cash from operating activities	3,795	3,784	4,670	5,775	7,295
Capex	(1,641)	(1,873)	(1,500)	(1,300)	(1,000)
Placement of restricted bank deposits	(3,234)	(1,935)	-	-	-
Other	1,321	1,350	-	-	-
Net cash from investing activities	(3,554)	(2,457)	(1,500)	(1,300)	(1,000)
Change of Debts	(774)	(48)	-	-	-
Dividend paid	(789)	(965)	(1,373)	(1,675)	(2,262)
Other	1,412	(533)	(3)	(3)	(3)
Net cash from financing activities	(151)	(1,546)	(1,376)	(1,678)	(2,265)
Net change in cash	90	(219)	1,794	2,798	4,029
Cash at the beginning of the year	4,350	4,336	4,118	5,912	8,710
Exchange difference	3	1	-	-	-
Bank deposits with more than 3 months to maturity upon placement	(107)	-	-	-	-
Cash at the end of the year	4,336	4,118	5,912	8,710	12,739

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	9,413	12,621	13,430	14,038	14,347
Fixed asset	6,692	8,459	9,371	10,083	10,496
Goodwill	527	823	737	652	566
Intangible assets	807	1,136	1,118	1,100	1,082
Other non-current assets	1,387	2,203	2,203	2,203	2,203
Current assets	13,803	13,697	16,241	20,251	26,622
Cash	4,336	4,118	5,912	8,710	12,739
Account receivable	2,546	2,826	3,226	3,748	4,736
Inventories	3,045	2,536	2,585	2,881	3,489
Other current assets	3,877	4,217	4,518	4,913	5,658
Current liabilities	7,247	6,237	6,340	6,966	8,250
Borrowings	71	23	23	23	23
Trade and other payables	4,540	4,803	4,895	5,456	6,607
Other current liabilities	2,637	1,411	1,422	1,487	1,620
Non-current liabilities	440	563	563	563	563
Borrowings	-	-	-	-	-
Other non-current	440	563	563	563	563
Total net assets	15,530	19,518	22,767	26,760	32,155
Minority interest	477	1,056	1,102	1,187	1,303
Shareholders' equity	15,052	18,462	21,666	25,573	30,852

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Finished drugs	76.2	81.2	82.9	85.0	87.9
Bulk medicines	23.8	18.8	17.1	15.0	12.1
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	66.3	72.0	75.0	76.0	77.0
EBITDA margin	25.5	23.9	24.2	26.2	12.4
Pre-tax margin	21.4	20.9	22.8	24.0	25.7
Net margin	17.4	16.8	18.1	19.0	20.4
Effective tax rate	19.3	19.3	19.4	19.5	19.5
Balance sheet ratios					
Current ratio (x)	1.9	2.2	2.6	2.9	3.2
Trade receivables turnover	77	82	82	82	82
Trade payables turnover	361	316	316	316	316
Inventory turnover days	178	149	149	149	149
Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	20.5	20.1	21.1	21.8	24.4
ROA	13.3	14.1	15.4	16.3	18.4
Per share data					
EPS (RMB)	0.49	0.60	0.38	0.47	0.63
DPS (RMB)	0.15	0.16	0.11	0.14	0.19
BVPS (RMB)	2.5	3.1	1.9	2.2	2.7

Source: Company data, CMBIS estimates

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