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CMB International Global Markets | Equity Research | Company Update

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3SBio (1530 HK)

707 remains the key value driver

3SBio reported 1H26 revenue of RMB4,526mn, up 3.9% YoY, driven by the milestone payment of 707. Excluding licensing revenue, recurring revenue fell 15.6% YoY to RMB3,674mn, reflecting reimbursement controls, VBP-related pressure, and VAT adjustment. Attributable net profit decreased 15.6% YoY to RMB1,147mn, mainly due to FX losses. Excluding FX and other non-operating items, adjusted net profit increased 26.5% YoY. Notably, adjusted recurring operating profit (excl. licensing revenue and FX) fell 32% YoY in 1H26, but still accounted for ~60% of our previous 2026E forecast (vs. historical average of ~54%). In our view, the market has largely priced in the near-term pressure on product sales in 2026E, while 707's global blockbuster potential remains the dominant upside driver.

- **Value recognition for 707 is still at an early stage.** To date, Pfizer has registered 11 global trials and initiated enrollment in nine, including three global Phase III studies across four indications being registered. Another Phase III study in combination with PADCEV is expected to initiate in 2H26E. This progress drove RMB852mn of milestone income in 1H26. Besides, 3SBio was also benefiting from supplying drug substance for Pfizer's clinical studies, with CDMO revenue rising 160.9% YoY to RMB231mn in 1H26. Near-term catalyst includes the updated China Phase II data in 1L NSCLC at ESMO 2026 (Oct 23-27), where we expect mPFS of 707+chemo readout. With more global data readouts likely over the next few years, we continue to view 707's blockbuster potential as the main upside driver.
- **Product headwinds remain, but visibility should improve into 2027E.** Product sales decreased 19.3% YoY in 1H26 mainly due to VAT adjustment, reimbursement control and disciplined regulatory environment. We expect earnings visibility to improve structurally from 2027E onward: 1) the VAT impact should be fully digested in 2026E, 2) TPIAO's final NRDL negotiation in late 2026E should largely remove pricing uncertainty, 3) newly approved products, including oral paclitaxel, NuPIAO(long-acting rhEPO) and 608(IL-17A), 613(IL-1β) are expected to contribute revenue more meaningfully from 2027E. Five additional products/indications, including 611(IL-4R), are expected to be approved over 2H26E-2027E. These new products may help offset pressure on the legacy portfolio, in our view.
- **More clinical data readouts to be expected in 2027E.** Multiple data readouts are expected from 2H26E-2027E, including the Phase II data of 707 (PD-1/VEGF), 705 (HER2/PD-1) and 706 (PD-1/PD-L1), the Phase I data of 627 (TL1A) and SSS68 (April/BAFF). Besides, TPIAO received approval from FDA in July 2026 to conduct an overseas bridging trial for CLDT.
- **Maintain BUY.** We lower our near-term product sales forecast to reflect ongoing pressure on traditional products. However, given Pfizer's rapid global development progress, we raise our milestone payments forecast in 2026E. Totally, we lower our 2026E revenue forecast by 0.8%.Therefore, we revise our target price to HK$34.78 (WACC: 10.11%, terminal growth rate: 2.0%), based on a 10-year DCF. **Risks:** clinical development risks; core product sales underperformance.

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	9,108	17,696	9,100	8,403	9,230
YoY growth (%)	16.5	94.3	(48.6)	(7.7)	9.9
Attributable net profit (RMB mn)	2,090	8,482	2,070	1,612	1,800
YoY growth (%)	34.9	305.8	(75.6)	(22.1)	11.7
EPS (Reported) (RMB)	0.86	3.51	0.82	0.64	0.71
P/E (x)	17.7	4.4	18.7	24.1	21.5
Net gearing (%)	(13.1)	(51.1)	(53.7)	(55.0)	(56.1)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$34.78**
(Previous TP	HK$34.87)
Up/Downside	**95.1%**
Current Price	**HK$17.83**

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Stock Data

Mkt Cap (HK$ mn)	45,252.6
Avg 3 mths t/o (HK$ mn)	597.0
52w High/Low (HK$)	35.90/15.23
Total Issued Shares (mn)	2538.0

Source: FactSet

Shareholding Structure

TMF (Cayman) Ltd.	22.8%
Decade Sunshine	19.6%

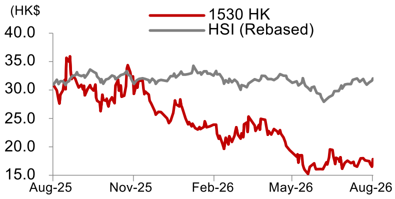
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	5.4%	1.8%
3-mth	-6.1%	-8.3%
6-mth	-25.4%	-24.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New FY26E	FY27E	FY28E	Old FY26E	FY27E	FY28E	Diff (%) FY26E	FY27E	FY28E
Revenue	9,100	8,403	9,230	9,170	9,168	10,090	-0.8%	-8.3%	-8.5%
Gross profit	7,560	6,696	7,390	7,798	7,614	8,421	-3.1%	-12.0%	-12.2%
Operating profit	2,471	1,923	2,147	2,355	2,015	2,252	4.9%	-4.6%	-4.6%
Net profit	2,070	1,612	1,800	1,898	1,616	1,815	9.0%	-0.3%	-0.8%
EPS (RMB)	0.82	0.64	0.71	0.75	0.64	0.72	9.0%	-0.3%	-0.8%
Gross margin	83.08%	79.69%	80.06%	85.04%	83.05%	83.46%	-1.96ppt	-3.35ppt	-3.4ppt
Operating margin	27.16%	22.88%	23.26%	25.68%	21.98%	22.31%	+1.48ppt	+0.9ppt	+0.95ppt
Net margin	22.75%	19.18%	19.51%	20.70%	17.63%	17.99%	+2.05ppt	+1.55ppt	+1.52ppt

Source: CMBIGM estimates

Figure 2: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	2,211	1,669	1,899	2,186	2,842	3,983	5,629	7,481	9,575	11,820
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)	1,880	1,419	1,615	1,858	2,416	3,385	4,784	6,359	8,139	10,047
+ D&A	388	394	400	406	411	416	421	425	430	434
- Change in working capital	92	-9	-113	-153	-187	-214	-207	-71	-74	-80
- Capex	-541	-541	-541	-541	-541	-541	-541	-541	-541	-541
FCFF	**1,819**	**1,262**	**1,360**	**1,570**	**2,098**	**3,046**	**4,457**	**6,172**	**7,953**	**9,859**
Terminal value										**123,939**

Terminal growth rate	**2.00%**
WACC	**10.11%**
Cost of Equity	13.50%
Cost of Debt	4.50%
Equity Beta	1.00
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)	47,293
Total PV (RMB mn)	**67,307**
Net debt (RMB mn)	-15,412
Minority interests (RMB mn)	3,271
Equity value (RMB mn)	**79,447**
Equity value (HK$ mn)	**88,275**
# of shares (mn)	2,538
Price per share (HK$ per share)	**34.78**

Source: CMBIGM estimates

Figure 3: Sensitivity analysis

		WACC				
		9.11%	**9.61%**	**10.11%**	**10.61%**	**11.11%**
Terminal growth rate	**3.00%**	45.03	41.19	37.92	35.11	32.66
	2.50%	42.60	39.18	36.25	33.70	31.47
	2.00%	40.50	37.44	**34.78**	32.45	30.40
	1.50%	38.69	35.91	33.48	31.35	29.45
	1.00%	37.09	34.56	32.33	30.35	28.59

Source: CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM FY26E	FY27E	FY28E	Consensus FY26E	FY27E	FY28E	Diff (%) FY26E	FY27E	FY28E
Revenue	9,100	8,403	9,230	10,236	10,869	11,921	-11.1%	-22.7%	-22.6%
Gross Profit	7,560	6,696	7,390	8,929	9,389	10,238	-15.3%	-28.7%	-27.8%
Operating Profit	2,471	1,923	2,147	3,161	3,143	3,428	-21.8%	-38.8%	-37.4%
Attributable net profit	2,070	1,612	1,800	2,732	2,617	3,099	-24.2%	-38.4%	-41.9%
EPS (RMB)	0.82	0.64	0.71	1.01	1.00	1.11	-19.5%	-36.5%	-36.1%
Gross Margin	83.08%	79.69%	80.06%	87.23%	86.39%	85.88%	-4.15ppt	-6.69ppt	-5.82ppt
Operating Margin	27.16%	22.88%	23.26%	30.88%	28.92%	28.76%	-3.72ppt	-6.04ppt	-5.5ppt
Net Margin	22.75%	19.18%	19.51%	26.69%	24.08%	26.00%	-3.94ppt	-4.9ppt	-6.49ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	**7,816**	**9,108**	**17,696**	**9,100**	**8,403**	**9,230**
Cost of goods sold	(1,174)	(1,280)	(1,348)	(1,540)	(1,706)	(1,840)
Gross profit	**6,642**	**7,828**	**16,347**	**7,560**	**6,696**	**7,390**
Selling expense	(3,006)	(3,351)	(3,631)	(2,849)	(2,976)	(3,330)
Admin expense	(481)	(502)	(651)	(477)	(484)	(530)
R&D expense	(795)	(1,327)	(1,520)	(1,617)	(1,587)	(1,665)
Others	(139)	(89)	381	(145)	273	282
Operating profit	**2,221**	**2,560**	**10,926**	**2,471**	**1,923**	**2,147**
Share of (losses)/profits of associates/JV	(30)	349	(102)	0	0	0
Net Interest income/(expense)	(212)	(191)	(76)	14	29	44
Pre-tax profit	**1,978**	**2,718**	**10,748**	**2,486**	**1,952**	**2,191**
Income tax	(392)	(501)	(1,652)	(373)	(293)	(329)
Minority interest	37	127	614	43	47	62
Attributable net profit	**1,549**	**2,090**	**8,482**	**2,070**	**1,612**	**1,800**

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	**9,193**	**9,347**	**22,671**	**20,978**	**21,564**	**22,236**
Cash & equivalents	2,611	2,143	12,177	10,578	11,031	11,523
Account receivables	1,095	1,305	1,082	614	567	622
Inventories	778	795	1,048	1,040	1,138	1,212
Prepayment	1,132	741	811	1,193	1,275	1,325
Financial assets at FVTPL	3,303	3,769	3,858	3,858	3,858	3,858
Other current assets	274	594	3,696	3,696	3,696	3,696
Non-current assets	**14,432**	**14,866**	**13,580**	**13,718**	**13,851**	**13,978**
PP&E	4,692	4,993	4,994	5,139	5,277	5,408
Intangibles	1,554	1,685	1,765	1,777	1,789	1,802
Goodwill	4,199	4,253	4,172	4,172	4,172	4,172
Other non-current assets	3,986	3,935	2,649	2,630	2,612	2,595
Total assets	**23,625**	**24,213**	**36,250**	**34,696**	**35,415**	**36,214**
Current liabilities	**3,728**	**5,464**	**4,416**	**1,320**	**943**	**511**
Short-term borrowings	2,112	2,244	1,831	(1,264)	(1,764)	(2,264)
Account payables	212	180	245	104	115	124
Tax payable	33	50	172	172	172	172
Other current liabilities	1,371	2,990	2,169	2,308	2,421	2,479
Non-current liabilities	**3,384**	**713**	**1,398**	**1,398**	**1,398**	**1,398**
Long-term borrowings	1,463	38	723	723	723	723
Bond payables	1,226	0	0	0	0	0
Deferred income	412	390	374	374	374	374
Other non-current liabilities	283	285	301	301	301	301
Total liabilities	**7,111**	**6,176**	**5,814**	**2,718**	**2,342**	**1,909**
Share capital	0	0	0	0	0	0
Othera	10,752	12,942	21,667	23,166	24,213	25,383
Total shareholders equity	**14,034**	**15,436**	**27,208**	**28,707**	**29,754**	**30,925**
Minority interest	2,480	2,600	3,228	3,271	3,318	3,381
Total equity and liabilities	**23,625**	**24,213**	**36,250**	**34,696**	**35,415**	**36,214**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**1,978**	**2,718**	**10,748**	**2,486**	**1,952**	**2,191**
Depreciation & amortization	351	413	543	388	394	400
Tax paid	(471)	(506)	(1,532)	(373)	(293)	(329)
Change in working capital	(162)	566	(199)	92	(9)	(113)
Others	386	11	109	(274)	(298)	(322)
Net cash from operations	**2,083**	**3,201**	**9,669**	**2,319**	**1,746**	**1,828**
Investing						
Capital expenditure	(704)	(963)	(541)	(541)	(541)	(541)
Others	(641)	(394)	(1,293)	274	283	292
Net cash from investing	**(1,345)**	**(1,358)**	**(1,834)**	**(267)**	**(259)**	**(250)**
Financing						
Dividend paid	(225)	(555)	(560)	(571)	(564)	(630)
Net borrowings	1,188	(1,264)	248	(3,095)	(500)	(500)
Others	(1,316)	(434)	2,666	14	29	44
Net cash from financing	**(353)**	**(2,253)**	**2,354**	**(3,651)**	**(1,035)**	**(1,086)**
Net change in cash						
Cash at the beginning of the year	2,152	2,611	2,143	12,177	10,578	11,031
Exchange difference	75	(59)	(154)	0	0	0
Cash at the end of the year	**2,611**	**2,143**	**12,177**	**10,578**	**11,031**	**11,523**
GROWTH	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
Revenue	13.8%	16.5%	94.3%	(48.6%)	(7.7%)	9.9%
Gross profit	17.1%	17.9%	108.8%	(53.8%)	(11.4%)	10.4%
Operating profit	(8.1%)	15.3%	326.8%	(77.4%)	(22.2%)	11.7%
Net profit	(19.1%)	34.9%	305.8%	(75.6%)	(22.1%)	11.7%
PROFITABILITY	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
Gross profit margin	85.0%	86.0%	92.4%	83.1%	79.7%	80.1%
Operating margin	28.4%	28.1%	61.7%	27.2%	22.9%	23.3%
Return on equity (ROE)	11.5%	14.2%	39.8%	7.4%	5.5%	5.9%
GEARING/LIQUIDITY/ACTIVITIES	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
Net debt to equity (x)	(0.0)	(0.1)	(0.5)	(0.5)	(0.5)	(0.6)
Current ratio (x)	2.5	1.7	5.1	15.9	22.9	43.5
Receivable turnover days	56.2	48.1	24.6	24.6	24.6	24.6
Inventory turnover days	231.6	224.3	249.4	246.4	243.4	240.4
Payable turnover days	71.7	55.9	57.4	57.4	57.4	57.4
VALUATION	**2023A**	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
YE 31 Dec						
P/E	24.1	17.7	4.4	18.7	24.1	21.5
P/E (diluted)	24.5	18.0	4.5	18.7	24.1	21.5
P/B	2.3	2.1	1.2	1.2	1.2	1.1
Div yield (%)	1.5	1.5	1.5	1.5	1.5	1.6

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

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