

BUY (Maintain)

Target Price	HK\$11.03
(Previous TP)	HK\$10.10)
Up/Downside	+16.82%
Current Price	HK\$9.44

China Healthcare Sector

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Stock Data

Mkt Cap (HK\$ mn)	113,032
Avg 3 mths t/o (HK\$ mn)	636.98
52w High/Low (HK\$)	11.16/6.83
Total Issued Shares (mn)	11,974

Source: Bloomberg

Shareholding Structure

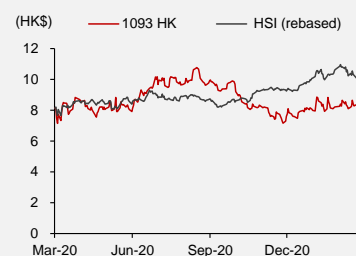
Management	29.94%
Citigroup Inc	5.87%
BlackRock	4.75%
Free float	59.44%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	15.7%	21.5%
3-mth	30.5%	19.8%
6-mth	-2.6%	-16.5%

Source: Bloomberg

12-mth Price Performance

Source: Bloomberg

Auditor: Deloitte**Related Reports**

- Earnings accelerated in Q3 - 24 Nov 2020
- 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

CSPC Pharmaceutical (1093 HK)

Multiple innovative drugs to receive approvals in 2021

For the full-year of 2020, CSPC's revenue grew 12.8% YoY to RMB24.9bn (vs CMBI estimate of 14.1%), and attributable net profit increased 38.9% YoY to RMB5.16bn (vs CMBI estimate of 23.2%). The higher-than-expected bottom line was mainly attributable to one-off gains, incl. RMB531mn fair value gains from financials assets, RMB315mn gain from disposal of subsidiaries, etc. Our calculation indicates that the recurring net profit grew roughly 19% YoY in 2020. Blended GPM improved 2.9 ppts thanks to margin recovery of bulk antibiotics. R&D expense ratio increased 2.53 ppts, while selling expenses ratio decreased 1.82 ppts.

- NBP sales decelerated due to price cuts.** NBP sales grew 7% YoY in 2H20, vs 30% YoY in 1H20 and 36% YoY in full-year of 2019. In Dec 2020, the price of NBP capsule and NBP injection was cut by of 55.6% and 51.3% respectively during the price negotiation with the National Healthcare Security Administration (NHSA). The price has been effective since 1 Mar 2021. We think the price deduction will be partly offset by volume increase thanks to better affordability of the drug.
- Oncology and cardiovascular disease products drove finished drug sales growth.** Oncology drug sales grew 29.0% YoY to RMB6.29bn in 2020, driven by strong growth from Jinyouli (+37.3% YoY), Duomeisu (+41.3% YoY), and Ke'ailli (+16.4% YoY). Cardiovascular disease drug sales rallied 61.9% YoY to RMB2.36bn and respiratory disease drug sales grew 54.4% YoY to RMB491mn.
- Aggressive investment in both product licensing and in-house R&D.** R&D expense increased 44.5% YoY to RMB2.89bn in 2020. We expect the Company to receive NMPA's approvals for Amphotericin B cholesteryl sulfate complex for injection and Mitoxantrone hydrochloride liposome injection in 2021E, and Duvelisib (PI3K), BPI-7711 and Amphotericin B liposome in 2022E. CSPC has just completed two product in-licensing deals, incl. obtaining the exclusive right in BPI-7711, a 3rd generation EGFR-TKI from Beta Pharma and obtaining the exclusive right of CM310 (IL-4R α antibody) from JMT-BIO.
- Maintain BUY.** We trim FY21/22E revenue and attributable net profit forecasts by 8.1%/18% and 4.5%/13.8%, respectively. We expect revenue to grow 8%/13% YoY in FY21/22E and attributable net profit to grow 3%/22% YoY in FY21/22E. We roll over our price target to 2021E and raise our DCF-based TP to HK\$11.03 (WACC 11.08%, Terminal growth 3.0%), indicating 17.6x 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)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	22,103	24,942	26,928	30,378	34,442
YoY growth (%)	25	13	8	13	13
Net profit (RMB mn)	3,714	5,160	5,329	6,504	7,767
EPS (RMB)	0.31	0.43	0.45	0.54	0.65
YoY growth (%)	-37.1	38.9	3.1	22.0	19.4
Consensus EPS (RMB)	0.31	0.37	0.44	0.53	0.61
P/E (x)	25.2	18.2	17.6	14.4	12.1
P/B (x)	4.8	4.1	3.5	3.0	2.5
Yield (%)	1.0	1.6	1.7	2.1	2.5
ROE (%)	20.1	23.1	20.4	21.2	21.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Figure 1: CMBIS earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	26,928	30,378	34,442	29,312	37,039	NA	-8.1%	-18.0%	NA
Gross profit	20,196	23,088	26,520	22,277	28,520	NA	-9.3%	-19.0%	NA
Operating profit	6,617	8,087	9,668	6,991	9,464	NA	-5.3%	-14.5%	NA
Net profit	5,329	6,504	7,767	5,582	7,541	NA	-4.5%	-13.8%	NA
EPS (RMB)	0.45	0.54	0.65	0.47	0.63	NA	-4.5%	-13.8%	NA
Gross margin	75.00%	76.00%	77.00%	76.00%	77.00%	NA	-1.00 ppt	-1.00 ppt	NA
Operating margin	24.57%	26.62%	28.07%	23.85%	25.55%	NA	+0.72 ppt	+1.07 ppt	NA
Net Margin	19.79%	21.41%	22.55%	19.04%	20.36%	NA	+0.75 ppt	+1.05 ppt	NA

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	26,928	30,378	34,442	29,990	35,244	42,696	-10.2%	-13.8%	-19.3%
Gross profit	20,196	23,088	26,520	22,385	26,601	31,638	-9.8%	-13.2%	-16.2%
Operating profit	6,617	8,087	9,668	6,348	7,569	9,116	4.2%	6.8%	6.1%
Net profit	5,329	6,504	7,767	5,209	6,204	7,269	2.3%	4.8%	6.9%
EPS (RMB)	0.45	0.54	0.65	0.44	0.53	0.61	0.9%	3.3%	6.3%
Gross margin	75.00%	76.00%	77.00%	74.64%	75.48%	74.10%	+0.4 ppt	+0.5 ppt	+2.9 ppt
Operating margin	24.57%	26.62%	28.07%	21.17%	21.48%	21.35%	+3.4 ppt	+5.1 ppt	+6.7 ppt
Net Margin	19.79%	21.41%	22.55%	17.37%	17.60%	17.03%	+2.4 ppt	+3.8 ppt	+5.5 ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 3: Peers' valuation

Company	Ticker	Rating	TP	Price	Mkt cap	PER (x)		PBR (x)		EV/EBITDA (x)		ROE (%)	
						FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
CSPC Pharma	1093 HK	BUY	11.03	9.44	113,032	17.6	14.4	3.5	3.0	11.4	9.0	22.0	23.0
Sino Biopharm	1177 HK	N/A	N/A	8.51	160,511	47.8	33.1	4.0	3.7	21.5	17.7	8.2	9.7
Hansoh Pharma	3692 HK	N/A	N/A	34.85	206,277	60.9	47.0	11.5	9.5	48.7	37.1	18.7	20.4
3SBIO Pharma	1530 HK	N/A	N/A	7.38	18,772	10.9	9.8	1.4	1.2	8.4	7.0	14.1	13.4
Livzon Pharma	1513 HK	N/A	N/A	28.50	35,835	13.4	11.5	1.8	1.7	10.9	9.5	15.0	15.4
Fosun Pharma	2196 HK	N/A	N/A	33.35	114,354	21.1	16.9	2.1	1.9	25.1	22.1	9.8	10.8
				Average		28.6	22.1	4.1	3.5	21.0	17.1	14.6	15.4

Source: Bloomberg, CMBIS estimates

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	22,103	24,942	26,928	30,378	34,442
Finished drug	17,937	20,405	22,326	25,707	29,699
Bulk medicines	4,166	4,538	4,603	4,671	4,743
Cost of sales	(6,192)	(6,257)	(6,732)	(7,291)	(7,922)
Gross profit	15,911	18,685	20,196	23,088	26,520
Other income and gains	293	642	323	365	413
Distribution expenses	(8,712)	(9,378)	(9,829)	(10,936)	(12,399)
Administrative expenses	(749)	(946)	(1,049)	(1,170)	(1,344)
R&D expenses	(2,000)	(2,890)	(2,962)	(3,190)	(3,444)
Other expenses	(142)	(57)	(62)	(69)	(79)
Operating profit	4,601	6,057	6,617	8,087	9,668
Share of profit of associate / JV	58	14	60	60	60
Net finance cost	(32)	(12)	(10)	(10)	(10)
Exceptional	-	333	-	-	-
Pre-tax profit	4,626	6,391	6,668	8,137	9,718
Profits tax	(893)	(1,162)	(1,267)	(1,546)	(1,846)
Minority interest	(19)	(69)	(72)	(87)	(104)
Net profit	3,714	5,160	5,329	6,504	7,767

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT	4,601	6,057	6,617	8,087	9,668
Depreciation and amortization	692	692	692	692	692
Change in working capital	(490)	429	(157)	(409)	(496)
Income tax paid	(867)	(1,162)	(1,267)	(1,546)	(1,846)
Others	(151)	334	50	50	50
Net cash from operating activities	3,784	6,350	5,935	6,873	8,067
Capex	(1,873)	(1,500)	(1,300)	(1,000)	(1,000)
Placement of restricted bank deposits	(1,935)	-	-	-	-
Other	1,350	-	-	-	-
Net cash from investing activities	(2,457)	(1,500)	(1,300)	(1,000)	(1,000)
Change of Debts	(48)	-	-	-	-
Dividend paid	(965)	(1,528)	(1,599)	(1,951)	(2,330)
Other	(533)	(3)	(3)	(3)	(3)
Net cash from financing activities	(1,546)	(1,531)	(1,602)	(1,954)	(2,333)
Net change in cash	(219)	3,319	3,033	3,919	4,734
Cash at the beginning of the year	4,336	4,118	7,259	10,293	14,212
Exchange difference	1	-	-	-	-
Bank deposits with more than 3 months to maturity upon placement	-	-	-	-	-
Cash at the end of the year	4,118	7,438	10,293	14,212	18,947

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	12,621	14,149	14,757	15,066	15,374
Fixed asset	8,459	7,770	8,483	8,895	9,307
Goodwill	823	1,164	1,078	992	907
Intangible assets	1,136	509	491	473	455
Other non-current assets	2,203	4,706	4,706	4,706	4,706
Current assets	13,697	15,921	19,496	24,275	30,015
Cash	4,118	7,259	10,293	14,212	18,947
Account receivable	2,826	2,883	3,113	3,512	3,981
Inventories	2,536	1,861	2,002	2,169	2,356
Other current assets	4,217	3,918	4,088	4,383	4,730
Current liabilities	6,237	6,302	6,685	7,136	7,645
Borrowings	23	99	99	99	99
Trade and other payables	4,803	4,759	5,121	5,546	6,026
Other current liabilities	1,411	1,444	1,466	1,491	1,521
Non-current liabilities	563	667	667	667	667
Borrowings	-	-	-	-	-
Other non-current	563	667	667	667	667
Total net assets	19,518	23,101	26,900	31,537	37,076
Minority interest	1,056	769	838	922	1,024
Shareholders' equity	18,462	22,332	26,063	30,615	36,053

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Finished drugs	81.2	81.8	82.9	84.6	86.2
Bulk medicines	18.8	18.2	17.1	15.4	13.8
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	72.0	74.9	75.0	76.0	77.0
EBITDA margin	23.9	27.1	27.1	28.9	30.1
Pre-tax margin	20.9	25.6	24.8	26.8	28.2
Net margin	16.8	20.7	19.8	21.4	22.6
Effective tax rate	19.3	18.2	19.0	19.0	19.0
Balance sheet ratios					
Current ratio (x)	2.2	2.5	2.9	3.4	3.9
Trade receivables turnover	82	73	73	73	73
Trade payables turnover	316	295	295	295	295
Inventory turnover days	149	109	109	109	109
Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	20.1	23.1	20.4	21.2	21.5
ROA	14.1	17.2	15.6	16.5	17.1
Per share data					
EPS (RMB)	0.31	0.43	0.45	0.54	0.65
DPS (RMB)	0.08	0.13	0.13	0.16	0.19
BVPS (RMB)	1.6	1.9	2.2	2.6	3.1

Source: Company data, CMBIS estimates

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