

# WuXi AppTec (603259 CH)

## Strong recovery post COVID-19 disruption

**3Q22 earnings in line.** WuXi AppTec reported 3Q22 revenue of RMB10.64bn, up 78% YoY (71%/66% YoY for 1Q/2Q22), attributable recurring net income of RMB2.38bn, up 143% YoY (106%/65% YoY for 1Q/2Q22), and attributable adjusted Non-IFRS net income of RMB2.47bn, up 82% YoY (118%/49% YoY for 1Q/2Q22). The Company has experienced a strong recovery from COVID-19 disruption in 2Q22. Earnings are in line with our forecasts with 3Q22 revenue / adjusted Non-IFRS net income accounting for 27%/28%, respectively, of our 2022 full-year estimates. Revenue growth in 3Q22 accelerated by 2.3 ppts to 80% YoY and adjusted Non-IFRS GPM improved by 2.3 ppts YoY to 38.6% under constant currency exchange rates. Supported by its solid financial position combined with abundant operating cash flows from large scale CMO projects, WuXi AppTec has decided to terminate its H share placement plan, which we think will boost market sentiment on the stock. In addition, management revised revenue growth guidance to 70-72% YoY from 68-72% YoY for 2022E, and reiterated its revenue CAGR target of over 34% in 2021-24E.

■ **WuXi Chemistry continued to record strong growth from both non-COVID and COVID CDMO projects.** WuXi Chemistry revenue jumped by 115% YoY in 3Q22, mainly driven by the 192% YoY revenue growth of chemical CDMO services. Based on our estimates, the Company booked ~RMB2.7bn revenue from commercial-stage COVID-19 projects in 3Q22 (~RMB1.5bn/RMB2.7bn in 1Q/2Q22), accounting for ~34% of WuXi Chemistry revenue. Excluding the commercial-stage COVID-19 projects, revenue of WuXi Chemistry segment still delivered a solid growth of 41% YoY in 3Q22 (52%/23% YoY in 1Q/2Q22), indicating an increasing demand from non-COVID-19 projects as well. It's worth mentioning that CDMO revenue from oligo & peptide projects increased by more than 4-fold to RMB1.1bn in 9M22, contributing 13% of chemical CDMO revenue (excluding the commercial-stage COVID-19 projects).

■ **WuXi Testing and WuXi Biology rebounded from the negative impacts of COVID-19 pandemic in 2Q22.** Revenue of WuXi Testing grew by 28% YoY in 3Q22 (32%/17% YoY for 1Q/2Q22) while revenue of WuXi Biology increased by 37% YoY in 3Q22 (26%/12% YoY for 1Q/2Q22). WuXi AppTec continued to enhance its competency in various fields such as drug safety assessment, medical device testing, SMO and drug discovery services (i.e., DNA Encoded Compound Library). The Company has built the largest drug discovery team in the world, functioning as a critical project source for its downstream services, such as CDMO and clinical CRO.

■ **Consistent globalization efforts.** In Aug 2022, WuXi AppTec initiated the construction of its large-scale drug product manufacturing facilities in Delaware, the US. The Company also announced to invest US\$1.4bn in next 10 years to build full-suite R&D and manufacturing sites in Singapore. We believe its fast-growing global network will enable the Company to better meet the growing and diversified client demand.

■ **Maintain BUY.** We revise our TP from HK\$185.17 to HK\$142.20, based on a 10-year DCF model (WACC: 10.94%, terminal growth rate: 3.0%).

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	16,535	22,902	39,560	44,953	58,599
YoY growth (%)	28.5	38.5	72.7	13.6	30.4
Non-IFRS net profit (RMB mn)	3,637	5,131	8,974	10,471	13,711
Non-IFRS EPS (RMB)	1.56	1.76	3.03	3.54	4.63
Consensus EPS (RMB)	na	na	2.89	3.38	4.22
P/E (x)	60.5	77.0	23.6	23.1	17.8

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** RMB142.20  
(Previous TP RMB185.17)  
**Up/Downside** 81.1%  
**Current Price** RMB78.50

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### Stock Data

Mkt Cap (RMB mn)	232,393.5
Avg 3 mths t/o (RMB mn)	83.0
52w High/Low (RMB)	146.32/69.15
Total Issued Shares (mn)	2960.4

Source: FactSet

### Shareholding Structure

HK investors	19.7%
Ge Li and concerted parties	18.4%

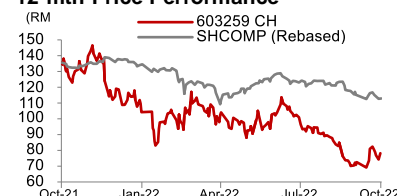
Source: Company

### Share Performance

	Absolute	Relative
1-mth	8.7%	12.7%
3-mth	-18.5%	-10.5%
6-mth	-24.6%	-25.2%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	39,560	44,953	58,599	39,477	45,785	59,727	0.21%	-1.82%	-1.89%
Gross Profit	14,962	16,550	21,460	14,356	16,592	21,654	4.22%	-0.25%	-0.89%
Operating Profit	9,785	10,847	14,261	9,190	10,784	14,316	6.48%	0.59%	-0.38%
Non-IFRS net profit	8,974	10,471	13,711	8,898	10,467	13,831	0.86%	0.04%	-0.87%
Non-IFRS EPS (RMB)	3.03	3.54	4.63	3.01	3.54	4.68	0.73%	-0.08%	-0.99%
Gross Margin	37.82%	36.82%	36.62%	38.12%	39.10%	36.25%	-0.30ppt	-2.28ppt	+0.37ppt
Operating Margin	24.74%	24.13%	24.34%	20.41%	21.37%	23.97%	+4.33ppt	+2.76ppt	+0.37ppt
Net Margin	22.69%	23.29%	23.40%	22.93%	21.82%	23.16%	-0.24ppt	+1.48ppt	+0.24ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	39,560	44,953	58,599	38,877	45,595	57,368	1.76%	-1.41%	2.15%
Gross Profit	14,962	16,550	21,460	14,712	17,298	22,071	1.70%	-4.33%	-2.77%
Operating Profit	9,785	10,847	14,261	9,884	11,716	15,061	-1.00%	-7.41%	-5.31%
Non-IFRS net profit	8,974	10,471	13,711	8,612	9,913	12,583	4.21%	5.63%	8.96%
Non-IFRS EPS (RMB)	3.03	3.54	4.63	2.89	3.38	4.22	4.89%	4.52%	9.67%
Gross Margin	37.82%	36.82%	36.62%	37.84%	37.94%	38.47%	-0.02ppt	-1.12ppt	-1.85ppt
Operating Margin	24.74%	24.13%	24.34%	25.42%	25.70%	26.25%	-0.69ppt	-1.57ppt	-1.92ppt
Net Margin	22.69%	23.29%	23.40%	22.15%	21.74%	21.93%	+0.53ppt	+1.55ppt	+1.46ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
EBIT	11,512	11,885	15,436	20,838	27,715	36,307	46,836	59,482	74,352	91,453
Tax rate	15.61%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
EBIT*(1-tax rate)	9,715	10,102	13,121	17,713	23,558	30,861	39,810	50,559	63,199	77,735
+ D&A	1,224	1,945	2,617	3,533	4,699	6,156	7,941	10,086	12,607	15,507
- Change in working capital	(2,927)	(1,132)	(2,857)	(3,858)	(5,131)	(6,721)	(8,670)	(11,011)	(13,764)	(16,930)
- Capex	(10,500)	(11,000)	(11,000)	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)
<b>FCFF</b>	<b>(2,489)</b>	<b>(84)</b>	<b>1,880</b>	<b>9,388</b>	<b>15,127</b>	<b>22,296</b>	<b>31,082</b>	<b>41,634</b>	<b>54,042</b>	<b>68,312</b>
<b>Terminal value</b>										<b>886,721</b>
<b>Terminal growth rate</b>	<b>3.00%</b>									
<b>WACC</b>	<b>10.94%</b>									
Cost of Equity	13.80%									
Cost of Debt	5.00%									
Equity Beta	0.90									
Risk Free Rate	3.00%									
Market Risk Premium	12.00%									
Target Debt to Asset ratio	30.00%									
Effective Corporate Tax Rate	15.00%									
Terminal value (RMB mn)	314,124									
Total PV (RMB mn)	418,975									
Net debt (RMB mn)	(1,998)									
Equity value (RMB mn)	420,973									
# of shares (mn)	2,960									
Price per share (RMB per share)	<b>142.20</b>									

Source: CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	12,872	16,535	22,902	39,560	44,953	58,599
Cost of goods sold	(7,858)	(10,253)	(14,592)	(24,598)	(28,404)	(37,139)
Gross profit	5,014	6,282	8,310	14,962	16,550	21,460
Operating expenses	(2,539)	(3,155)	(3,898)	(5,176)	(5,702)	(7,199)
Selling expense	(439)	(588)	(699)	(792)	(855)	(1,056)
Admin expense	(1,482)	(1,839)	(2,203)	(2,829)	(3,124)	(3,956)
R&D expense	(590)	(693)	(942)	(1,464)	(1,619)	(2,052)
Others	(28)	(35)	(54)	(91)	(104)	(135)
Operating profit	2,474	3,127	4,412	9,785	10,847	14,261
Gain/loss on financial assets at FVTPL	(259)	52	(93)	1,107	438	475
Investment gain/loss	48	606	1,356	433	300	400
Net Interest income/(expense)	(24)	(520)	(84)	235	48	31
Other income/expense	98	104	425	187	300	300
Pre-tax profit	2,337	3,369	6,016	11,748	11,933	15,467
Income tax	(426)	(383)	(880)	(1,834)	(1,790)	(2,320)
Minority interest	(57)	(26)	(39)	(85)	(87)	(112)
Net profit	1,911	2,986	5,136	9,913	10,143	13,147
Adjusted net profit	2,407	3,637	5,131	8,974	10,471	13,711
Gross dividends	556	890	1,529	2,949	3,017	3,910
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	12,663	23,059	21,986	25,602	26,580	31,659
Cash & equivalents	5,227	10,237	8,239	6,886	5,609	5,252
Account receivables	2,961	3,667	4,668	8,129	9,237	12,041
Inventories	1,742	2,686	5,905	7,413	8,560	11,192
Prepayment	92	176	303	303	303	303
Financial assets at FVTPL	1,702	4,618	527	527	527	527
Other current assets	938	1,676	2,344	2,344	2,344	2,344
Non-current assets	16,576	23,232	33,142	39,532	46,804	53,540
PP&E	4,333	5,710	8,554	15,927	22,981	29,364
Deferred income tax	262	301	390	390	390	390
Investment in JVs & assos	794	765	678	678	678	678
Intangibles	918	998	1,600	1,390	1,181	971
Goodwill	1,362	1,392	1,926	1,926	1,926	1,926
Financial assets at FVTPL	4,009	6,717	8,714	8,753	9,491	10,365
Other non-current assets	4,898	7,349	11,280	10,469	10,157	9,846
Total assets	29,239	46,291	55,127	65,134	73,383	85,199
Current liabilities	6,634	7,920	12,985	16,027	17,150	19,729
Short-term borrowings	1,604	1,230	2,261	3,261	3,261	3,261
Account payables	592	941	1,931	3,973	5,096	7,675
Tax payable	282	379	536	536	536	536
Other current liabilities	4,156	5,370	8,256	8,256	8,256	8,256
Non-current liabilities	5,195	5,652	3,385	3,385	3,385	3,385
Long-term borrowings	762	0	0	0	0	0
Bond payables	1,875	1,819	607	607	607	607
Obligations under finance leases	1,105	1,067	1,019	1,019	1,019	1,019
Other non-current liabilities	1,453	2,766	1,759	1,759	1,759	1,759
Total liabilities	11,829	13,573	16,370	19,412	20,535	23,114
Share capital	1,651	2,442	2,956	2,956	2,956	2,956
Capital surplus	10,288	22,678	25,732	32,612	39,651	48,776
Other reserves	5,373	7,374	9,804	9,804	9,804	9,804
Total shareholders equity	17,312	32,494	38,492	45,372	52,411	61,535
Minority interest	97	225	266	351	437	549
Total equity and liabilities	29,239	46,291	55,127	65,134	73,383	85,199
CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	2,337	3,369	6,016	11,748	11,933	15,467
Depreciation & amortization	814	959	1,363	1,628	2,349	3,021
Tax paid	(426)	(383)	(880)	(1,834)	(1,790)	(2,320)
Change in working capital	(497)	(494)	(1,151)	(2,927)	(1,132)	(2,857)
Others	688	523	(759)	(1,154)	(668)	(788)

<b>Net cash from operations</b>	<b>2,916</b>	<b>3,974</b>	<b>4,589</b>	<b>7,460</b>	<b>10,692</b>	<b>12,522</b>
<b>Investing</b>						
Capital expenditure	(2,532)	(3,031)	(6,936)	(9,000)	(9,000)	(9,000)
Acquisition of subsidiaries/ investments	(785)	(186)	(858)	0	0	0
Net proceeds from disposal of short-term investments	(1,792)	(5,638)	2,766	1,500	0	0
Others	134	79	189	400	0	0
<b>Net cash from investing</b>	<b>(4,975)</b>	<b>(8,776)</b>	<b>(4,839)</b>	<b>(7,100)</b>	<b>(9,000)</b>	<b>(9,000)</b>
<b>Financing</b>						
Dividend paid	(730)	(638)	(916)	(2,713)	(2,969)	(3,879)
Net borrowings	4,510	(1,284)	1,071	1,000	0	0
Proceeds from share issues	769	13,162	104	0	0	0
Others	(2,991)	(1,352)	(1,983)	0	0	0
<b>Net cash from financing</b>	<b>1,558</b>	<b>9,888</b>	<b>(1,724)</b>	<b>(1,713)</b>	<b>(2,969)</b>	<b>(3,879)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	5,758	5,223	10,228	8,239	6,886	5,609
Exchange difference	(33)	(81)	(79)	0	0	0
<b>Cash at the end of the year</b>	<b>5,223</b>	<b>10,228</b>	<b>8,175</b>	<b>6,886</b>	<b>5,609</b>	<b>5,252</b>
<b>GROWTH</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Revenue	33.9%	28.5%	38.5%	72.7%	13.6%	30.4%
Gross profit	32.2%	25.3%	32.3%	80.0%	10.6%	29.7%
Operating profit	33.1%	26.4%	41.1%	121.8%	10.9%	31.5%
Net profit	(18.1%)	56.2%	72.0%	93.0%	2.3%	29.6%
Adj. net profit	38.2%	51.1%	41.1%	74.9%	16.7%	30.9%
<b>PROFITABILITY</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Gross profit margin	39.0%	38.0%	36.3%	37.8%	36.8%	36.6%
Operating margin	19.2%	18.9%	19.3%	24.7%	24.1%	24.3%
Adj. net profit margin	18.7%	22.0%	22.4%	22.7%	23.3%	23.4%
Return on equity (ROE)	10.9%	12.0%	14.5%	23.6%	20.7%	23.1%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	0.0	(0.2)	(0.1)	(0.0)	(0.0)	(0.0)
Current ratio (x)	1.9	2.9	1.7	1.6	1.5	1.6
Receivable turnover days	70.3	73.2	66.4	75.0	75.0	75.0
Inventory turnover days	62.6	78.8	107.4	110.0	110.0	110.0
Payable turnover days	103.5	107.4	107.8	107.8	107.8	107.8
<b>VALUATION</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
P/E	52.4	60.5	77.0	23.6	23.1	17.8
P/E (diluted)	52.5	61.0	77.6	23.6	23.1	17.8
P/B	5.6	5.5	10.1	5.1	4.4	3.7
P/CFPS	33.3	45.1	85.5	31.2	21.7	18.6
Div yield (%)	0.6	0.5	0.4	1.3	1.3	1.7

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

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