

WuXi AppTec (603259 CH)

Building cutting-edge expertise to secure long-term growth

- **Earnings slightly beat.** WuXi AppTec reported 2020 revenue of RMB16.54bn (+29% YoY) and adjusted non-IFRS net profit of RMB3.56bn (+48% YoY), in line with our estimates. By segment, China-based lab service and CDMO service continued strong growth momentum, delivering 32% YoY and 41% YoY revenue growth, respectively, contributing 52% and 32% of total revenue. Affected by the COVID pandemic, US-based lab service income declined 3% YoY and clinical research CRO/SMO service growth slowed down to 10% YoY. When China-based laboratory services and CDMO services maintained stable margins in 2020, US-based laboratory services and clinical services experienced 8.7ppts and 9.7ppts gross margin retreat due to COVID impact. WuXi AppTec continued to expand its customer base and added over 1,300 new customers with total active customers reaching 4,200, including all of the top 20 global pharmaceutical companies. Based on the strong customer demand, WuXi AppTec aims to further grow its employee size from 26,411 in 2020 (+21% YoY) to 33,600 (+27% YoY) by 2021E.
- **Seize long-term growth opportunities by accumulating cutting-edge expertise.** WuXi AppTec aims to invest in new capabilities and capacities, such as PROTAC, oligonucleotide, peptide, ADC, bi-specific antibody, cell and gene therapies, to capture new business opportunities. WuXi STA (subsidiary of WuXi AppTec) and WuXi Biologics plans to form a JV focused on ADCs and other drug conjugates. With integrated platform, the JV will provide customers end-to-end CDMO services from payloads/linkers, antibodies to finished conjugated drug products under one roof. In 2020, the Company also launched China-based cell therapy product CTDMO platform and AAV adherent and suspension manufacturing platform in China. Furthermore, WuXi AppTec will further explore technologies such as AI, medical big data and laboratory automation, etc. With technology advantage, we believe the Company will continue to gain market share from global market.
- **Strong growth momentum to continue in coming years.** We expect China-based laboratory services will grow strongly driven by capacity expansion and growing demand from biotech companies. WuXi AppTec added 575 projects to its small-molecule CDMO pipeline in 2020 and its total small-molecule CDMO pipeline expanded to over 1,300 active projects, including 28 commercial projects and 45 ph3 projects. The Company's cell and gene therapy CTDMO projects reached 38 projects (incl. China-based operations), of which 2-3 products are expected to file BLA in 2021. The Company registered 41% YoY growth in its SMO backlog in 2020 and 48% 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.
- **Maintain BUY.** We revised up the net profit of FY21E/22E by 9%/9%, and forecast the net profit to grow 52%/33%/33% YoY in FY21E/22E/23E respectively. Moreover, WuXi AppTec's diversified investment portfolio will bring significant investment gains over the long term. We raised our TP to RMB218.88 (WACC 9.34%; Terminal growth rate 4.00%).

BUY (Maintain)

Target Price	RMB218.88
(Previous TP)	RMB218.73)
Up/Downside	+56.12%
Current Price	RMB140.20

China Healthcare Sector

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Mkt. Cap. (RMB mn)	339,977
Avg. 3mths t/o (RMB mn)	2,931.44
52W High/Low (RMB)	188.3/62.6
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%

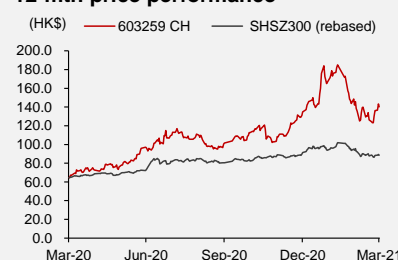
Source: Bloomberg

Share performance

	Absolute	Relative
1-mth	-0.2%	4.5%
3-mth	9.3%	9.7%
6-mth	41.3%	27.2%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

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Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	12,872	16,535	21,742	28,285	36,814
YoY growth (%)	34%	28%	31%	30%	30%
Net income (RMB mn)	1,855	2,960	4,503	5,979	7,964
YoY growth (%)	-18.0%	59.6%	52.1%	32.8%	33.2%
Adj Non-IFRS net income (RMB mn)	2,407	3,565	4,561	6,138	8,193
YoY growth (%)	38.2%	48.1%	27.9%	34.6%	33.5%
EPS (RMB)	0.81	1.27	1.84	2.44	3.25
Change (%)	-49%	56%	45%	33%	33%
Consensus EPS (RMB)	N/A	N/A	1.58	2.06	2.85
P/E (x)	172.44	110.25	76.27	57.45	43.13
P/B (x)	18.37	9.97	9.57	8.56	7.50
ROE (%)	10.98	9.13	12.65	15.02	17.54
Net gearing (%)	0.68	Net cash	Net cash	Net cash	Net cash

Source: Company data, Wind, CMBIS estimate

Figure 1: FY20A results change

	2019A	2020A	YoY Change	CMBIS 2020E	Diff (%)
YE 31 Dec (RMB mn)					
Revenue	12,872	16,535	28.46%	16,528	0.04%
Operating profit	2,341	3,389	44.79%	3,322	2.03%
Pre-tax profit	2,337	3,369	44.18%	3,313	1.70%
Net profit attributable to shareholders	1,855	2,960	59.62%	2,888	2.51%
Core net profit attributable to shareholders	1,914	2,385	24.60%	2,503	-4.72%
Adjusted Non-IFRS attributable net profit	2,407	3,565	48.15%	3,538	0.78%

Source: Company data, CMBIS estimates

Figure 2: CMBIS earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	21,742	28,285	36,814	21,722	28,248	N/A	0.09%	0.13%	N/A
Gross profit	8,451	11,236	14,854	8,500	11,136	N/A	-0.57%	0.90%	N/A
Operating profit	4,319	5,916	7,966	4,304	5,763	N/A	0.34%	2.65%	N/A
Net profit	4,503	5,979	7,964	4,124	5,475	N/A	9.19%	9.21%	N/A
EPS (RMB)	1.84	2.44	3.25	1.69	2.24	N/A	8.82%	8.85%	N/A
Gross margin	38.87%	39.72%	40.35%	39.13%	39.42%	N/A	-0.26 ppt	+0.30 ppt	N/A
Operating margin	19.86%	20.92%	21.64%	19.81%	20.40%	N/A	+0.05 ppt	+0.51 ppt	N/A
Net Margin	20.71%	21.14%	21.63%	18.99%	19.38%	N/A	+1.73 ppt	+1.76ppt	N/A

Source: Bloomberg, CMBIS estimates

Figure 3: CMBIS vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	21,742	28,285	36,814	21,732	28,234	36,590	0.04%	0.18%	0.61%
Gross profit	8,451	11,236	14,854	8,543	11,149	14,636	-1.08%	0.78%	1.49%
Operating profit	4,319	5,916	7,966	4,631	6,002	8,291	-6.75%	-1.43%	-3.92%
Net profit	4,503	5,979	7,964	3,833	5,016	7,051	17.49%	19.20%	12.95%
EPS (RMB)	1.84	2.44	3.25	1.58	2.06	2.85	16.34%	18.76%	14.26%
Gross margin	38.87%	39.72%	40.35%	39.31%	39.49%	40.00%	-0.44 ppt	+0.24 ppt	+0.35 ppt
Operating margin	19.86%	20.92%	21.64%	21.31%	21.26%	22.66%	-1.45 ppt	-0.34 ppt	-1.02 ppt
Net Margin	20.71%	21.14%	21.63%	17.64%	17.77%	19.27%	+3.08 ppt	+3.37 ppt	+2.36 ppt

Source: Bloomberg, CMBIS estimates

Figure 4: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2027E
EBIT	5,290	7,165	9,520	13,804	19,878	28,426	40,365	56,914
Tax rate	13.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
EBIT*(1-tax rate)	4,603	6,090	8,092	11,734	16,896	24,162	34,310	48,377
+ D&A	1,146	1,474	1,547	1,919	2,360	2,879	3,484	4,181
- Change in working capital	(172)	(806)	(1,003)	(1,243)	(1,529)	(1,866)	(2,258)	(2,709)
- Capex	(7,000)	(4,000)	(4,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
FCFF	(1,424)	2,759	4,637	10,409	15,727	23,176	33,536	47,849
Terminal value								932,322
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	456,471							
Total PV	533,317							
Net debt	(2,921)							
Equity value	536,238							
# of shares	2,449,965,618							
DCF per share (in RMB)	218.88							

Source: CMBIS estimates

Figure 5: Sensitivity analysis (RMB mn)

		Terminal growth rate				
		3.00%	3.50%	4.00%	4.50%	5.00%
Equity Beta	0.60	270.25	299.27	336.07	384.28	450.16
	0.70	222.93	242.70	266.84	296.96	335.60
	0.80	187.97	202.10	218.88	239.12	264.04
	0.90	161.17	171.63	183.80	198.13	215.25
	1.00	140.04	148.01	157.13	167.66	179.97

Source: Company data, CMBIS estimates

Financial Statements

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	12,872	16,535	21,742	28,285	36,814	Total net profit	1,911	2,986	4,543	6,032	8,034
China-based lab services	6,473	8,546	11,110	14,442	18,775	Depreciation and amortization	814	959	1,366	1,694	1,768
CMO/CDMO services	3,752	5,282	7,131	9,413	12,425	Change in working capital	(497)	(494)	(172)	(806)	(1,003)
US-based laboratory services	1,563	1,517	1,896	2,313	2,822	Investment loss (gain)	219	(631)	(772)	(1,049)	(1,354)
Clinical research & other CRO services	1,063	1,169	1,578	2,083	2,749	Other operating activities	469	1,154	254	254	254
Others	21	22	28	35	43	Net cash from operating	2,916	3,974	5,219	6,126	7,699
Cost of sales	(7,858)	(10,253)	(13,290)	(17,049)	(21,960)	Capex	(2,532)	(3,031)	(5,000)	(2,000)	(2,000)
Gross profit	5,014	6,282	8,451	11,236	14,854	Acquisition of subsidiaries	(785)	(186)	-	-	-
Business taxes	(28)	(35)	(45)	(59)	(77)	Other investing activities	(1,658)	(5,559)	(2,000)	(2,000)	(2,000)
Selling & distribution expenses	(439)	(588)	(783)	(990)	(1,288)	Net cash from investing	(4,975)	(8,776)	(7,000)	(4,000)	(4,000)
Administrative expenses	(1,482)	(1,839)	(2,392)	(3,111)	(4,050)	Net proceeds from shares issued	769	13,162	-	-	-
R&D expenses	(590)	(693)	(913)	(1,160)	(1,473)	Net borrowings	4,510	(1,284)	-	-	-
Operating profit	2,474	3,127	4,319	5,916	7,966	Acquisition of non-controlling					
Finance costs, net	(24)	(520)	(69)	(69)	(69)	Dividends and interests paid	(730)	(638)	(1,420)	(1,862)	(2,458)
Investment gains	48	606	100	100	100	Other financing activities	(2,991)	(1,352)	-	-	-
Net gain from FV changes	(259)	52	672	949	1,254	Net cash from financing	1,558	9,888	(1,420)	(1,862)	(2,458)
Other gains	98	104	200	200	200	FX changes	(33)	(81)	-	-	-
Pre-tax profit	2,337	3,369	5,222	7,096	9,452	Net change in cash	(501)	5,086	(3,200)	264	1,242
Income tax	(426)	(383)	(679)	(1,064)	(1,418)	Cash at the beginning of the year	5,758	5,223	10,237	7,037	7,301
Minority interests	(57)	(26)	(40)	(53)	(70)	Cash at the end of the year	5,223	10,228	7,037	7,301	8,542
Net profit	1,855	2,960	4,503	5,979	7,964						
Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	16,576	23,232	29,452	32,621	36,021	Sales mix (%)					
Fixed asset	4,333	5,710	9,564	10,090	10,543	China-based lab services	50	52	51	51	51
Intangible assets	918	998	919	840	761	CMO/CDMO services	29	32	33	33	34
Financial assets	4,009	6,717	9,489	12,538	15,892	US-based laboratory services	12	9	9	8	8
Goodwill	1,362	1,392	1,392	1,392	1,392	Clinical research and other CRO services	8	7	7	7	7
Other non-current assets	5,954	8,415	8,088	7,761	7,434	Others	0	0	0	0	0
Current assets	12,663	23,059	20,546	22,721	26,410	Profit & loss ratios (%)					
Cash	5,227	10,237	7,037	7,301	8,542	Gross margin	39	38	39	40	40
Inventories	1,742	2,686	2,870	3,682	4,742	EBITDA margin	25	29	31	31	31
Trade and bills receivables	2,961	3,667	4,170	5,270	6,657	Pre-tax margin	18	20	24	25	26
Prepayments, deposits and other receivables	123	210	210	210	210	Net margin	14	18	21	21	22
Other current assets	2,609	6,259	6,259	6,259	6,259	Effective tax rate	18	11	13	15	15
Current liabilities	6,634	7,920	8,435	9,541	10,986	Balance sheet ratios					
Borrowings	1,604	1,230	1,230	1,230	1,230	Current ratio (x)	2	3	2	2	2
Trade and other payables	592	941	1,456	2,562	4,007	Trade receivables turnover days	70	73	70	68	66
Other current liabilities	4,438	5,749	5,749	5,749	5,749	Trade payables turnover days	103	107	107	107	107
Non-current liabilities	5,195	5,652	5,652	5,652	5,652	Net debt to total equity ratio (%)	0.68	Net cash	Net cash	Net cash	Net cash
Borrowings	762	-	-	-	-	Returns (%)					
Other non-current liabilities	4,433	5,652	5,652	5,652	5,652	ROE	11	9	13	15	18
Total net assets	17,410	32,718	35,910	40,148	45,793	ROA	7	6	9	11	13
Minority interest	97	225	264	317	387	Per share					
Shareholders' equity	17,312	32,494	35,646	39,832	45,406	EPS (RMB)	0.81	1.27	1.84	2.44	3.25
						DPS (RMB)	0.24	0.38	0.55	0.73	0.98
						BVPS (RMB)	7.63	14.06	14.66	16.39	18.69

Source: Company data, CMBIS estimates

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