

Sincere Pharmaceutical (2096 HK)

Innovative drug business continues to grow

In FY22, Sincere reported RMB6.21bn (+24% YoY) revenue from drug sales and promotion services, largely in line with our estimate of RMB6.16bn. Revenue from the innovative drug sales increased 32% YoY, reaching RMB4.13bn (accounting for 65% of FY22 total revenue, vs 45% in FY20 and 62% in FY21), mainly driven by strong sales growth from Sanbexin and Enweida (PD-L1). In FY22, 36%, 23%, 20% and 21% of revenue came from CNS, oncology, autoimmune and other fields, which recorded 41%, 16%, 39% and 9% YoY growth, respectively. The GP margin increased to 79.1% in FY22, compared to 78.4% in FY21. Sincere recorded an attributable net profit of RMB933mn in FY22, which decreased by 38% YoY compared to RMB1.51bn in FY21, mainly due to decrease in fair value of the Company's investment portfolio (RMB382mn in FY21 vs RMB113mn in FY22), and decrease in one-off gains (RMB714mn in FY21 vs RMB209mn in FY22). Sincere recorded RMB1.36bn operating cash inflows in FY22 vs RMB202mn operating cash outflows in FY21.

- **Consistent focus on CNS area with Sanbexin sublingual tablet to file NDA soon.** Sanbexin injection is the Company's core product in the CNS field. The NRDL coverage of Sanbexin injection was renewed in Mar 2023 with 32% price cut. We expect Sanbexin to deliver healthy sales revenue growth in 2023 driven by expanding channel penetration. In Dec 2022, Sanbexin sublingual tablet released positive Ph3 results in acute ischemic stroke (AIS). Sincere submitted the pre-NDA application for Sanbexin sublingual tablet in Dec 2022 and may receive commercial approval in 1H24, in our view. Upon approval, Sanbexin sublingual tablet will become a sequential therapy of Sanbexin injection and provide better flexibility of stroke treatment. Sincere is also planning a Ph1 study of Sanbexin sublingual tablet in the US.
- **New products to drive revenue growth.** In-licensed from G1 Therapeutics in 2020, COSELA (CDK4/6 inhibitor) was approved in China in Jul 2022 for decreasing the incidence of chemo-induced myelosuppression in ES-SCLC patients. The Company is working on transferring COSELA's commercial manufacturing to China's domestic facilities, with supplementary application submitted in Jan 2023. Sincere is also participating in the Ph3 MRCTs in mCRC and TNBC in China. In Jan 2023, XIANNUOXIN (3CL) received EUA approval for treatment of COVID-19, becoming the first China domestic 3CL small molecule drug. We think sales of XIANNUOXIN is largely dependent on the potential future COVID-19 outbreak in China.
- **Rich early stage innovative drug pipelines.** In Sep 2022, the Company out-licensed the overseas rights of its self-developed pre-clinical drug candidate SIM0278 (IL-2muFc) to Almirall and was entitled to receive US\$15mn upfront payment, up to US\$492mn milestone payments and sales royalties. Sincere plans to speed up clinical studies of its potential FIC/BIC assets (i.e. TNFR2, SERD and PRMT5).
- **Maintain BUY.** We revise our DCF-based TP from HK\$12.16 to HK\$12.12 (WACC: 10.6%, terminal growth rate 3.0%), implying 24x/19x FY23/24 PE.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	5,000	6,319	7,642	9,495	11,774
YoY growth (%)	10.9	26.4	20.9	24.3	24.0
Net profit (RMB mn)	1,499	929	1,119	1,433	1,857
YoY growth (%)	125.6	(38.1)	20.5	28.1	29.5
EPS (Reported) (RMB cents)	58	36	42	54	70
P/E (x)	12.8	21.9	17.1	13.4	10.3
ROE (%)	25.5	13.7	14.9	17.0	19.4
Net gearing (%)	(8.6)	(15.9)	(21.0)	(24.5)	(19.3)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$12.12
(Previous TP)	HK\$12.16)
Up/Downside	46.9%
Current Price	HK\$8.25

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Stock Data

Mkt Cap (HK\$ mn)	21,948.1
Avg 3 mths t/o (HK\$ mn)	10.4
52w High/Low (HK\$)	13.66/6.70
Total Issued Shares (mn)	2660.4

Source: FactSet

Shareholding Structure

Management	37.4%
Artking Global	22.8%

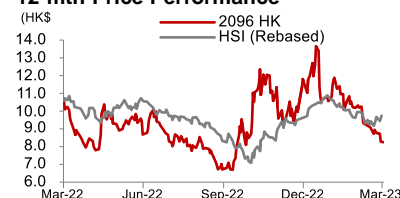
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-19.1%	-21.6%
3-mth	-29.0%	-31.2%
6-mth	21.1%	2.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: CMBIGM earnings revisions

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	7,642	9,495	11,774	7,687	9,569	11,747	-0.58%	-0.77%	0.23%
Gross Profit	6,066	7,556	9,393	6,149	7,703	9,515	-1.36%	-1.91%	-1.29%
Operating Profit	1,243	1,599	2,070	1,326	1,727	2,241	-6.25%	-7.44%	-7.61%
Net profit	1,124	1,438	1,862	1,145	1,500	1,954	-1.88%	-4.10%	-4.72%
EPS (RMB cents)	42	54	70	43	57	74	-2.38%	-4.59%	-5.20%
Gross Margin	79.38%	79.58%	79.78%	80.00%	80.50%	81.00%	-0.62 ppt	-0.92 ppt	-1.22 ppt
Operating Margin	16.26%	16.84%	17.58%	17.25%	18.05%	19.08%	-0.98 ppt	-1.21 ppt	-1.49 ppt
Net Margin	14.71%	15.15%	15.81%	14.90%	15.67%	16.63%	-0.20 ppt	-0.53 ppt	-0.82 ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	7,642	9,495	11,774	8,135	10,277	10,590	-6.06%	-7.61%	11.18%
Gross Profit	6,066	7,556	9,393	6,520	8,307	8,554	-6.96%	-9.04%	9.80%
Operating Profit	1,243	1,599	2,070	1,359	1,674	2,128	-8.55%	-4.48%	-2.72%
Attributable net profit	1,124	1,438	1,862	1,242	1,727	2,282	-9.51%	-16.72%	-18.42%
EPS (RMB cents)	42	54	70	50	69	NA	-15.68%	-22.10%	NA
Gross Margin	79.38%	79.58%	79.78%	80.14%	80.83%	80.78%	-0.77 ppt	-1.25 ppt	-1.00 ppt
Operating Margin	16.26%	16.84%	17.58%	16.71%	16.29%	20.09%	-0.44 ppt	+0.55 ppt	-2.51 ppt
Net Margin	14.71%	15.15%	15.81%	15.27%	16.80%	21.55%	-0.56 ppt	-1.66 ppt	-5.74 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 3: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)		2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT		1,243	1,599	2,070	2,505	3,006	3,577	4,221	4,939
Tax rate		15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)		1,056	1,359	1,760	2,129	2,555	3,041	3,588	4,198
+ D&A		10	10	10	12	15	17	20	24
- Change in working capital		-67	-285	-356	-431	-517	-615	-726	-849
- Capex		-200	-200	-200	-200	-200	-200	-200	-180
FCFF		799	884	1,214	1,511	1,853	2,243	2,682	3,192
Terminal value									43,033
Terminal growth rate		3.0%							
WACC		10.6%							
Cost of Equity		13.4%							
Cost of Debt		5.0%							
Equity Beta		1.0							
Risk Free Rate		2.9%							
Market Risk Premium		10.5%							
Target Debt to Asset ratio		30.0%							
Effective Corporate Tax Rate		15.0%							
Terminal value		17,320							
Total PV		25,752							
Net debt		-1,659							
Minority interest		11							
Equity value (RMB mn)		27,401							
Equity value (HK\$ mn)		32,236							
No. of shares outstanding (mn)		2,660							
DCF per share (HK\$)		12.12							

Source: CMBIS estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	4,509	5,000	6,319	7,642	9,495	11,774
Cost of goods sold	(900)	(1,080)	(1,322)	(1,576)	(1,939)	(2,381)
Gross profit	3,609	3,920	4,997	6,066	7,556	9,393
Selling expense	(1,570)	(2,037)	(2,402)	(2,866)	(3,513)	(4,298)
Admin expense	(411)	(367)	(444)	(522)	(630)	(757)
R&D expense	(1,142)	(1,417)	(1,728)	(1,758)	(2,136)	(2,590)
Operating profit	927	1,449	862	1,243	1,599	2,070
Other income	115	150	172	172	172	172
Other expense	327	1,215	254	150	150	150
Other gains/(losses)	(107)	(3)	25	73	87	114
Share of (losses)/profits of associates/JV	(14)	(44)	0	0	0	0
Pre-tax profit	805	1,402	888	1,316	1,686	2,184
Income tax	(141)	97	40	(197)	(253)	(328)
Minority interest	5	8	4	5	5	5
Net profit	664	1,499	929	1,119	1,433	1,857

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	6,467	4,980	5,454	6,007	6,873	8,533
Cash & equivalents	3,270	973	1,658	1,782	1,908	2,660
Account receivables	1,871	2,399	2,337	2,687	3,339	4,140
Inventories	263	235	302	381	469	576
Prepayment	121	140	166	166	166	166
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	942	1,232	991	991	991	991
Non-current assets	4,477	5,182	5,327	5,517	5,708	5,898
PP&E	2,128	1,931	2,136	2,336	2,536	2,736
Deferred income tax	210	290	327	327	327	327
Investment in JVs & assos	216	9	9	10	10	10
Intangibles	77	60	380	370	360	350
Goodwill	173	173	173	173	173	173
Financial assets at FVTPL	1,232	1,940	2,057	2,057	2,057	2,057
Other non-current assets	441	778	246	246	246	246
Total assets	10,943	10,161	10,781	11,525	12,581	14,431
Current liabilities	3,497	3,064	2,964	2,923	2,976	3,526
Short-term borrowings	1,793	1,530	1,292	892	492	492
Account payables	1,565	1,486	1,602	1,962	2,414	2,964
Tax payable	0	16	11	11	11	11
Other current liabilities	139	32	59	59	59	59
Non-current liabilities	2,111	635	675	677	679	681
Long-term borrowings	1,276	0	0	0	0	0
Deferred income	448	418	403	405	408	410
Other non-current liabilities	387	217	271	271	271	271
Total liabilities	5,608	3,698	3,638	3,600	3,654	4,207
Share capital	3,003	3,003	3,081	3,081	3,081	3,081
Other reserves	2,299	3,434	4,046	4,832	5,839	7,142
Total shareholders equity	5,302	6,437	7,127	7,913	8,920	10,223
Minority interest	34	26	16	11	6	1
Total equity and liabilities	10,943	10,161	10,781	11,525	12,581	14,431

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	805	1,402	888	1,316	1,686	2,184
Depreciation & amortization	205	234	0	0	0	9
Tax paid	(155)	(15)	40	(197)	(253)	(5)
Change in working capital	(718)	(784)	127	(265)	(538)	0
Others	(41)	(1,040)	224	134	176	(2,711)
Net cash from operations	97	(202)	1,280	988	1,071	(523)
Investing						
Capital expenditure	(353)	(209)	(200)	(200)	(200)	0
Acquisition of subsidiaries/ investments	2	0	0	0	0	0
Others	880	(226)	60	99	103	(621)
Net cash from investing	529	(436)	(140)	(101)	(97)	(621)
Financing						
Dividend paid	0	(391)	(426)	(337)	(431)	0
Net borrowings	267	(1,437)	0	(400)	(400)	0
Proceeds from share issues	3,003	0	0	0	0	0
Others	(916)	203	(34)	(25)	(16)	(833)
Net cash from financing	2,354	(1,625)	(460)	(762)	(848)	(833)
Net change in cash						
Cash at the beginning of the year	355	3,270	973	1,658	1,782	1,908
Exchange difference	(64)	(35)	0	0	0	0
Others	2,979	(2,262)	680	124	126	752
Cash at the end of the year	3,270	973	1,653	1,782	1,908	2,660
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	(10.5%)	10.9%	26.4%	20.9%	24.3%	24.0%
Gross profit	(13.0%)	8.6%	27.5%	21.4%	24.6%	24.3%
Operating profit	(20.9%)	56.3%	(40.5%)	44.1%	28.7%	29.5%
Net profit	(33.8%)	125.6%	(38.1%)	20.5%	28.1%	29.5%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	80.0%	78.4%	79.1%	79.4%	79.6%	79.8%
Operating margin	20.6%	29.0%	13.6%	16.3%	16.8%	17.6%
Return on equity (ROE)	19.6%	25.5%	13.7%	14.9%	17.0%	19.4%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Current ratio (x)	1.8	1.6	1.8	2.1	2.3	2.4
Receivable turnover days	129.8	160.3	128.4	128.4	128.4	128.4
Inventory turnover days	103.6	89.2	88.3	88.3	88.3	88.3
Payable turnover days	100.8	54.7	98.4	98.4	98.4	98.4
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	26.8	12.8	21.9	17.1	13.4	10.3
P/E (diluted)	26.8	12.8	21.9	17.1	13.4	10.3
Div yield (%)	2.2	2.0	2.1	1.8	2.2	2.9

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

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