

# WuXi Biologics (2269 HK)

## Non-COVID projects driving long-term growth

**1H22 earnings beat.** WuXi Bio reported 1H22 revenue of RMB7,206mn, up 64% YoY, attributable net income of RMB2,535mn, up 38% YoY, and attributable Non-IFRS net income of RMB2,835mn, up 60% YoY. 1H22 revenue accounted for 48% of our full-year forecasts, mainly attributable to the strong 73% YoY growth of non-COVID revenue and 46% YoY growth of COVID revenue. Gross profit margin was 47.4% in 1H22 (vs 52.2% in 1H21 and 43% in 2H21). Gross margin experienced a high base in 1H21 because of sharp increase of project numbers with moderate staff growth during the period. Total backlogs reached US\$18.5bn as of Jun 2022, representing an increase of 36% over end-2021, which was impressive growth from the very high base. Management lifted the guidance of full-year revenue / adjusted net profit growth from 45%+ YoY to 47%+ YoY.

- **Non-COVID revenue growth further accelerated, reflecting the increasing trust from global clients.** The Company's pipeline contained 534 integrated projects as of Jun 2022 (vs 480 as of Dec 2021), including 29 projects in phase 3 and 14 in commercial stage. 8 out of the total 14 commercial projects were non-COVID-related. WuXi Bio added 59 projects in 1H22, while 56 of which were non-COVID projects. Management expected WuXi Bio to generate ~RMB3bn/ RMB1bn revenue from COVID-19 projects in 2022E/ 23E, respectively. Considering the strong backlogs and pipeline, we believe non-COVID projects will continue to become the major growth driver and forecast non-COVID revenue to grow 67%/ 65% YoY in 2022E/ 23E, respectively.
- **Impact from UVL is largely removed.** US BIS has completed on-site inspection for facilities in WuXi City in June and two of the Company's US-based suppliers already obtained approvals from the US government to export restricted products (bioreactors) to WuXi Bio starting from early Aug. Meanwhile, the schedule for on-site inspection of Shanghai Facilities is pending on the COVID-19 status, although the normal business operation in Shanghai remained intact.
- **Further raised long-term capacity target from ~430k liters by 2024 to ~588k liters by 2026.** WuXi Bio announced to invest US\$1.4bn in next 10 years to build full-suite CRDMO facilities in Singapore. Singapore sites will commence operations by 2026 and will bring an additional capacity of 120k liters. The Singapore facilities will further enhance WuXi Bio's global network, which currently has included China, Ireland, Germany and the US. With a well-established global network, WuXi Bio will be able to meet the diversified demand of global clients and mitigate potential geopolitical risks.
- **Maintain BUY.** We cut our TP from HK\$146.12 to HK\$120.39, based on a 9-year DCF model (WACC: 10.17%, terminal growth rate: 3.0%).

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	5,612.4	10,290.1	15,186.5	21,059.4	28,820.4
YoY growth (%)	40.9%	83.3%	47.6%	38.7%	36.9%
Adjusted net profit (RMB mn)	1,722.0	3,316.4	4,963.1	6,821.7	9,167.7
EPS (Adjusted)(RMB)	0.4	0.8	1.2	1.6	2.1
Consensus EPS (RMB)	na	na	1.1	1.5	2.0
P/E (x)	109.6	114.4	59.1	44.3	33.8
P/B (x)	8.9	11.9	7.2	6.2	5.2
ROE (%)	8.2%	10.5%	12.4%	14.2%	15.7%
Net gearing (%)	(21.8%)	(19.3%)	(15.5%)	(11.8%)	(12.3%)

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** HK\$120.39  
(Previous TP HK\$146.12)  
**Up/Downside** 67.9%  
**Current Price** HK\$71.70

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### Stock Data

Mkt Cap (HK\$ mn)	305,759.7
Avg 3 mths t/o (HK\$ mn)	70.4
52w High/Low (HK\$)	126.50/40.95
Total Issued Shares (mn)	4264.4

Source: FactSet

### Shareholding Structure

WuXi Biologics Holdings	15.3%
JP Morgan	9.8%

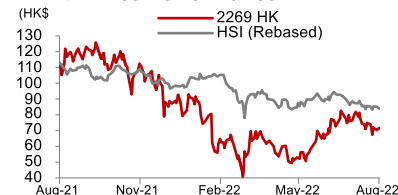
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-6.1%	-0.9%
3-mth	35.4%	41.4%
6-mth	14.6%	43.8%

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	15,187	21,059	28,820	14,991	20,771	28,180	1.30%	1.39%	2.27%
Gross Profit	6,685	9,161	12,249	6,596	9,035	12,258	1.35%	1.39%	-0.08%
Operating Profit	4,955	6,676	8,836	4,897	6,826	9,405	1.19%	-2.20%	-6.05%
Net profit	4,469	5,962	7,804	4,448	6,095	8,296	0.47%	-2.18%	-5.93%
EPS (RMB)	1.05	1.40	1.83	1.06	1.45	1.97	-0.68%	-3.30%	-7.01%
Gross Margin	44.02%	43.50%	42.50%	44.00%	43.50%	43.50%	+0.02ppt	0.00ppt	-1.00ppt
Operating Margin	32.63%	31.70%	30.66%	32.67%	32.86%	33.37%	-0.04ppt	-1.16ppt	-2.71ppt
Net Margin	29.43%	28.31%	27.08%	29.67%	29.34%	29.44%	-0.24ppt	-1.03ppt	-2.36ppt

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	15,187	21,059	28,820	15,101	20,874	27,939	0.57%	0.89%	3.15%
Gross Profit	6,685	9,161	12,249	6,919	9,574	12,867	-3.37%	-4.32%	-4.81%
Operating Profit	4,955	6,676	8,836	5,021	6,864	9,219	-1.31%	-2.73%	-4.15%
Net profit	4,469	5,962	7,804	4,783	6,563	8,827	-6.56%	-9.15%	-11.58%
EPS (RMB)	1.05	1.40	1.83	1.12	1.51	2.03	-6.26%	-7.65%	-9.94%
Gross Margin	44.02%	43.50%	42.50%	45.82%	45.87%	46.05%	-1.80ppt	-2.37ppt	-3.55ppt
Operating Margin	32.63%	31.70%	30.66%	33.25%	32.88%	33.00%	-0.62ppt	-1.18ppt	-2.34ppt
Net Margin	29.43%	28.31%	27.08%	31.67%	31.44%	31.59%	-2.24ppt	-3.13ppt	-4.51ppt

Source: Company data, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)		2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT		5,206	7,006	9,166	13,199	18,875	26,802	37,791	52,908	73,542
Tax rate		12.07%	12.07%	12.07%	12.07%	12.07%	12.07%	12.07%	12.07%	12.07%
EBIT*(1-tax rate)		4,578	6,161	8,060	11,606	16,597	23,567	33,230	46,522	64,665
+ D&A		793	975	1,168	1,635	2,272	3,136	4,296	5,843	7,888
- Change in working capital		97	(1,252)	(1,538)	(2,153)	(2,992)	(4,129)	(5,657)	(7,693)	(10,386)
- Capex		(5,500)	(6,500)	(6,500)	(5,850)	(5,265)	(4,739)	(4,265)	(3,838)	(3,454)
FCFF		(32)	(617)	1,190	5,238	10,612	17,836	27,604	40,833	58,713
Terminal value										844,020
Terminal growth rate	3.00%									
WACC	10.17%									
Cost of Equity	13.35%									
Cost of Debt	5.00%									
Equity Beta	0.90									
Risk Free Rate	3.00%									
Market Risk Premium	11.50%									
Target Debt to Asset ratio	35.00%									
Effective Corporate Tax Rate	15.00%									
Terminal value (RMB mn)		353,151								
Total PV (RMB mn)		430,983								
Net debt (RMB mn)		(5,416)								
Equity value (RMB mn)		436,399								
# of shares (mn)		4,264								
Price per share (RMB per share)		102.33								
Price per share (HK\$ per share)		120.39								

Source: CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>3,984</b>	<b>5,612</b>	<b>10,290</b>	<b>15,187</b>	<b>21,059</b>	<b>28,820</b>
Cost of goods sold	(2,325)	(3,079)	(5,461)	(8,502)	(11,899)	(16,572)
<b>Gross profit</b>	<b>1,659</b>	<b>2,533</b>	<b>4,829</b>	<b>6,685</b>	<b>9,161</b>	<b>12,249</b>
<b>Operating expenses</b>	<b>(524)</b>	<b>(689)</b>	<b>(1,306)</b>	<b>(1,730)</b>	<b>(2,485)</b>	<b>(3,413)</b>
Selling expense	(77)	(94)	(125)	(163)	(211)	(288)
Admin expense	(367)	(511)	(876)	(1,198)	(1,622)	(2,190)
R&D expense	(260)	(304)	(502)	(670)	(842)	(1,124)
Others	180	220	197	302	190	190
<b>Operating profit</b>	<b>1,135</b>	<b>1,844</b>	<b>3,523</b>	<b>4,955</b>	<b>6,676</b>	<b>8,836</b>
Share of (losses)/profits of associates	(3)	3	0	0	0	0
<b>Net Interest income/(Expense)</b>	<b>(20)</b>	<b>(43)</b>	<b>(39)</b>	<b>(45)</b>	<b>(86)</b>	<b>(86)</b>
Others	15	162	509	339	400	400
<b>Pre-tax profit</b>	<b>1,127</b>	<b>1,966</b>	<b>3,993</b>	<b>5,249</b>	<b>6,990</b>	<b>9,150</b>
Income tax	(116)	(273)	(485)	(634)	(844)	(1,104)
<b>Net profit</b>	<b>1,010</b>	<b>1,693</b>	<b>3,509</b>	<b>4,615</b>	<b>6,147</b>	<b>8,046</b>
Minority interest	3	(4)	(120)	(146)	(184)	(241)
<b>Net profit to shareholders</b>	<b>1,014</b>	<b>1,689</b>	<b>3,388</b>	<b>4,469</b>	<b>5,962</b>	<b>7,804</b>
<b>Adjusted net profit</b>	<b>1,208</b>	<b>1,722</b>	<b>3,316</b>	<b>4,963</b>	<b>6,822</b>	<b>9,168</b>
Gross dividends	0	0	0	0	0	0
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>9,672</b>	<b>14,204</b>	<b>19,530</b>	<b>20,435</b>	<b>23,197</b>	<b>28,855</b>
Cash & equivalents	6,205	7,096	9,003	8,346	7,715	8,891
Account receivables	1,737	3,242	4,857	5,852	7,942	10,631
Inventories	399	1,084	1,687	2,096	2,934	4,086
ST bank deposits	0	1,272	1,148	1,148	1,148	1,148
Financial assets at FVTPL	85	112	976	976	976	976
Other current assets	1,245	1,398	1,859	2,018	2,483	3,123
<b>Non-current assets</b>	<b>7,930</b>	<b>14,759</b>	<b>24,503</b>	<b>29,210</b>	<b>34,735</b>	<b>40,067</b>
PP&E	6,338	11,996	18,065	22,849	28,452	33,861
Deferred income tax	36	80	221	221	221	221
Investment in JVs & assos	31	188	752	752	752	752
Intangibles	416	392	601	553	505	458
Goodwill	185	185	1,530	1,530	1,530	1,530
Financial assets at FVTPL	282	759	1,356	1,356	1,356	1,356
Other non-current assets	641	1,159	1,978	1,948	1,919	1,889
<b>Total assets</b>	<b>17,602</b>	<b>28,964</b>	<b>44,033</b>	<b>49,644</b>	<b>57,932</b>	<b>68,922</b>
<b>Current liabilities</b>	<b>2,871</b>	<b>4,498</b>	<b>8,256</b>	<b>9,915</b>	<b>12,056</b>	<b>15,000</b>
Short-term borrowings	506	767	2,122	2,122	2,122	2,122
Account payables	1,844	2,729	3,698	5,357	7,498	10,442
Tax payable	142	251	558	558	558	558
Other current liabilities	379	752	1,878	1,878	1,878	1,878
<b>Non-current liabilities</b>	<b>1,835</b>	<b>3,566</b>	<b>3,071</b>	<b>3,071</b>	<b>3,071</b>	<b>3,071</b>
Long-term borrowings	1,395	1,838	641	641	641	641
Deferred income	149	214	224	224	224	224
Other non-current liabilities	291	1,515	2,206	2,206	2,206	2,206
<b>Total liabilities</b>	<b>4,706</b>	<b>8,064</b>	<b>11,326</b>	<b>12,986</b>	<b>15,126</b>	<b>18,071</b>
Share capital	0	0	0	0	0	0
Capital surplus	12,784	20,564	32,278	36,085	42,047	49,851
<b>Total shareholders equity</b>	<b>12,784</b>	<b>20,564</b>	<b>32,279</b>	<b>36,085</b>	<b>42,047</b>	<b>49,852</b>
Minority interest	112	335	428	574	758	999

<b>Total equity and liabilities</b>	<b>12,896</b>	<b>20,899</b>	<b>32,706</b>	<b>36,659</b>	<b>42,805</b>	<b>50,851</b>
<b>CASH FLOW</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>1,127</b>	<b>1,966</b>	<b>3,993</b>	<b>5,249</b>	<b>6,990</b>	<b>9,150</b>
Depreciation & amortization	224	304	482	793	975	1,168
Tax paid	(78)	(94)	(350)	(634)	(844)	(1,104)
Change in working capital	(219)	(367)	(963)	97	(1,252)	(1,538)
Others	154	73	270	28	86	86
<b>Net cash from operations</b>	<b>1,208</b>	<b>1,881</b>	<b>3,431</b>	<b>5,533</b>	<b>5,955</b>	<b>7,762</b>
<b>Investing</b>						
Capital expenditure	(3,211)	(6,025)	(6,508)	(5,500)	(6,500)	(6,500)
Acquisition of subsidiaries/ investments	(267)	(6)	(2,535)	0	0	0
Others	(1,016)	(1,186)	(559)	18	0	0
<b>Net cash from investing</b>	<b>(4,494)</b>	<b>(7,216)</b>	<b>(9,602)</b>	<b>(5,482)</b>	<b>(6,500)</b>	<b>(6,500)</b>
<b>Financing</b>						
Net borrowings	1,910	870	(53)	0	0	0
Proceeds from share issues	3,534	5,585	10,978	0	0	0
Others	(31)	110	(2,715)	(708)	(86)	(86)
<b>Net cash from financing</b>	<b>5,413</b>	<b>6,566</b>	<b>8,209</b>	<b>(708)</b>	<b>(86)</b>	<b>(86)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	4,084	6,205	7,096	9,003	8,346	7,715
Exchange difference	(6)	(340)	(132)	0	0	0
<b>Cash at the end of the year</b>	<b>6,205</b>	<b>7,096</b>	<b>9,003</b>	<b>8,346</b>	<b>7,715</b>	<b>8,891</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	57.2%	40.9%	83.3%	47.6%	38.7%	36.9%
Gross profit	63.0%	52.7%	90.6%	38.4%	37.0%	33.7%
Operating profit	46.9%	62.5%	91.1%	40.6%	34.7%	32.4%
Net profit	60.3%	67.5%	107.3%	31.5%	33.2%	30.9%
Adj. net profit	60.8%	42.5%	92.6%	49.7%	37.4%	34.4%
<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	41.6%	45.1%	46.9%	44.0%	43.5%	42.5%
Operating margin	28.5%	32.8%	34.2%	32.6%	31.7%	30.7%
Net profit margin	25.4%	30.1%	32.9%	29.4%	28.3%	27.1%
Adj. net profit margin	30.3%	30.7%	32.2%	32.7%	32.4%	31.8%
Return on assets (ROA)	5.8%	5.8%	7.7%	9.0%	10.3%	11.3%
Return on equity (ROE)	7.9%	8.2%	10.5%	12.4%	14.2%	15.7%
<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)	(0.3)	(0.2)	(0.2)	(0.2)	(0.1)	(0.1)
Current ratio (x)	3.4	3.2	2.4	2.1	1.9	1.9
Receivable turnover days	128.5	161.9	143.6	140.6	137.6	134.6
Inventory turnover days	49.2	87.9	92.6	90.0	90.0	90.0
Payable turnover days	200.6	271.0	214.8	230.0	230.0	230.0
<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	84.8	109.6	114.4	59.1	44.3	33.8
P/E (diluted)	84.8	109.6	114.4	59.1	44.3	33.8
P/B	6.7	8.9	11.9	7.2	6.2	5.2

P/CFPS	71.2	98.4	113.0	47.7	44.4	34.0
Div yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

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

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**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
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