

WuXi Biologics (2269 HK)

A transition year in 2023

WuXi Bio held a conference call on 4 Dec 2023 to update its latest business developments. Management expected its 2023 revenue to increase by ~10% YoY and 2023 adj. net profit to decline by a single-digit percentage, compared with its previous guidance of 30% YoY growth in revenue and a 25-26% YoY increase in adj. net profit. The latest guidance indicated non-COVID revenue growth of 36%+ YoY in 2023, or c.19% YoY in 2H23, still very impressive given the current market conditions. The guide-down was mainly attributable to 1) the slow-down in the growth of its CDO project number due to the continued softness in global biotech funding, and 2) the slow-down in CMO revenue mainly caused by regulatory approval delays of 3 blockbuster projects from MNC clients. Meanwhile, the company expected to sign over US\$3bn new contracts in 2023, which was 1.25x of its 2023 revenue forecasted by us. For the longer-term growth trend, management anticipated revenue and adj. net profit to grow at teens percentage YoY in 2024E and ~30% YoY in 2025E, and targeted to maintain a long-term growth rate 2x of the industry average.

■ **CMO business to gain global market share.** As of 30 Nov, WuXi Bio added 91 new projects (vs 127 non-COVID project additions in 2022), which was satisfying given the current difficult business environment. Despite the delays in 3 blockbuster CMO projects, management continued to forecast its number of CMO projects to reach 21-23 in 2023E and 32-38 in 2025E, demonstrating its confidence in global market share gains for its CMO business. WuXi Bio is now working on 3 of Global Top30 best-selling biologic drugs and is manufacturing 3 projects with US\$5bn potential peak-sales, 2 with US\$3bn, and 3 with US\$1bn. Management aims to expand its CMO global market share to 10-15% by 2025E, a big rise from the single-digit market share at the moment.

■ **Established global network to fuel long-term growth.** During the pandemic, WuXi Bio successfully established a global network with DNA-to-BLA capability in both China and overseas markets under its "Global Dual Sourcing" vision. WuXi Bio's largest overseas site in Ireland commenced GMP operation in 4Q22 and will soon start its commercial production in 2024E, leading to expected breakeven for this site in 2024E, one-year ahead its original schedule. With 7 contracts signed (as of 1H23) with MNC clients, the Ireland site was almost fully booked for 2025E. We believe WuXi Bio's global network will enable it to better accommodate the diversified demands from global clients.

■ **Maintain BUY.** We revise our TP from HK\$69.39 to HK\$44.66, based on a 10-year DCF model with WACC of 10.46% and terminal growth of 3.0%, to factor in the slower-than-expected 2023-25E guidance as well as the lasting uncertainties in global pharmaceutical R&D demand. We forecast WuXi Bio's revenue to grow by 10.2%/15.4%/29.0% YoY and attributable adj. net income to change by -7.9%/13.1%/27.1% YoY in 2023E/24E/25E, respectively.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	10,290	15,269	16,827	19,423	25,048
YoY growth (%)	83.3	48.4	10.2	15.4	29.0
Adjusted net profit (RMB mn)	3,316	4,925	4,535	5,127	6,517
YoY growth (%)	92.6	48.5	-7.9	13.1	27.1
EPS (Adjusted) (RMB)	0.79	1.18	1.07	1.20	1.53
Consensus EPS (RMB)	na	na	1.22	1.58	2.05
P/E (x) (Adjusted)	37.5	25.3	28.0	24.8	19.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$44.66
(Previous TP)	HK\$69.39
Up/Downside	34.7%
Current Price	HK\$33.15

China Healthcare

Jill WU, CFA

(852) 3900 0842

jillwu@cmbi.com.hk

Benchun HUANG, CFA

huangbenchun@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	141,056.7
Avg 3 mths t/o (HK\$ mn)	855.2
52w High/Low (HK\$)	73.90/33.15
Total Issued Shares (mn)	4255.1

Source: FactSet

Shareholding Structure

WuXi Biologics Holdings	13.8%
JP Morgan	7.0%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-30.9%	-26.6%
3-mth	-26.3%	-16.5%
6-mth	-25.4%	-15.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	16,827	19,423	25,048	19,696	25,614	33,619	-14.57%	-24.17%	-25.49%
Gross Profit	6,728	8,061	10,771	8,266	10,886	14,456	-18.61%	-25.95%	-25.49%
Operating Profit	4,320	4,893	6,407	5,844	7,301	9,448	-26.09%	-32.99%	-32.19%
Adjusted net profit	4,535	5,127	6,517	6,175	7,799	10,016	-26.56%	-34.26%	-34.93%
Adjusted EPS (RMB)	1.07	1.20	1.53	1.45	1.84	2.36	-26.64%	-34.34%	-35.01%
Gross Margin	39.98%	41.50%	43.00%	41.97%	42.50%	43.00%	-1.99ppt	-1.00ppt	0.00ppt
Operating Margin	25.67%	25.19%	25.58%	29.67%	28.50%	28.10%	-4.00ppt	-3.31ppt	-2.53ppt
Adjusted net margin	26.95%	26.40%	26.02%	31.35%	30.45%	29.79%	-4.40ppt	-4.05ppt	-3.77ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	16,827	19,423	25,048	19,355	24,630	31,522	-13.06%	-21.14%	-20.54%
Gross Profit	6,728	8,061	10,771	8,123	10,579	13,873	-17.18%	-23.80%	-22.36%
Operating Profit	4,320	4,893	6,407	5,638	7,378	9,764	-23.38%	-33.69%	-34.38%
Adjusted net profit	4,535	5,127	6,517	5,370	6,893	8,857	-15.55%	-25.62%	-26.41%
Adjusted EPS (RMB)	1.07	1.20	1.53	1.22	1.58	2.05	-12.93%	-23.49%	-25.14%
Gross Margin	39.98%	41.50%	43.00%	41.97%	42.95%	44.01%	-1.99ppt	-1.45ppt	-1.01ppt
Operating Margin	25.67%	25.19%	25.58%	29.13%	29.96%	30.98%	-3.46ppt	-4.77ppt	-5.40ppt
Adjusted net margin	26.95%	26.40%	26.02%	27.74%	27.99%	28.10%	-0.79ppt	-1.59ppt	-2.08ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	4,260	4,943	6,457	8,329	10,661	13,540	17,060	21,326	26,444	32,526
Tax rate	12.60%	12.60%	12.60%	12.60%	12.60%	12.60%	12.60%	12.60%	12.60%	12.60%
EBIT*(1-tax rate)	3,724	4,320	5,643	7,280	9,318	11,834	14,911	18,639	23,112	28,427
+ D&A	1,057	1,197	1,333	1,719	2,200	2,794	3,521	4,401	5,458	6,713
- Change in working capital	565	(649)	(1,492)	(1,925)	(2,464)	(3,130)	(3,943)	(4,929)	(6,112)	(7,518)
- Capex	(5,000)	(5,000)	(5,000)	(4,500)	(4,050)	(3,645)	(3,281)	(2,952)	(2,657)	(2,391)
FCFF	345	(132)	483	2,574	5,004	7,854	11,208	15,158	19,800	25,231
Terminal value										348,478
Terminal growth rate	3.00%									
WACC	10.46%									
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	35.00%									
Effective Corporate Tax Rate	15.00%									
Terminal value (RMB mn)	128,891									
Total PV (RMB mn)	168,399									
Net debt (RMB mn)	(2,616)									
Equity value (RMB mn)	171,015									
# of shares (mn)	4,255									
Price per share (RMB per share)	40.19									
Price per share (HK\$ per share)	44.66									

Source: CMBIGM estimates. HK\$/RMB=0.90

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	5,612	10,290	15,269	16,827	19,423	25,048
Cost of goods sold	(3,079)	(5,461)	(8,545)	(10,099)	(11,362)	(14,277)
Gross profit	2,533	4,829	6,724	6,728	8,061	10,771
Operating expenses	(689)	(1,306)	(1,810)	(2,408)	(3,168)	(4,364)
Selling expense	(94)	(125)	(163)	(355)	(505)	(701)
Admin expense	(511)	(876)	(1,270)	(1,597)	(1,942)	(2,630)
R&D expense	(304)	(502)	(683)	(842)	(991)	(1,303)
Others	220	197	305	385	270	270
Operating profit	1,844	3,523	4,914	4,320	4,893	6,407
Share of (losses)/profits of associates/JV	3	0	0	0	0	0
Net Interest income/(expense)	(43)	(39)	(64)	(158)	(65)	(65)
Others	162	509	508	91	200	200
Pre-tax profit	1,966	3,993	5,358	4,252	5,027	6,541
Income tax	(273)	(485)	(808)	(536)	(633)	(824)
After tax profit	1,693	3,509	4,550	3,717	4,394	5,717
Minority interest	(4)	(120)	(130)	(113)	(132)	(172)
Net profit	1,689	3,388	4,420	3,603	4,262	5,546
Adjusted net profit	1,722	3,316	4,925	4,535	5,127	6,517

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	14,204	19,530	18,470	19,091	20,197	23,435
Cash & equivalents	7,096	9,003	6,395	6,733	6,675	7,232
Account receivables	3,242	4,857	5,610	5,630	6,339	7,968
Inventories	1,084	1,687	2,281	2,345	2,638	3,315
ST bank deposits	1,272	1,148	304	304	304	304
Financial assets at FVTPL	112	976	2,015	2,015	2,015	2,015
Other current assets	1,398	1,859	1,864	2,064	2,226	2,600
Non-current assets	14,759	24,503	31,095	35,038	38,841	42,508
PP&E	11,996	18,065	24,171	28,253	32,195	36,002
Deferred income tax	80	221	223	223	223	223
Investment in JVs & assos	188	752	1,582	1,582	1,582	1,582
Intangibles	392	601	549	492	435	378
Goodwill	185	1,530	1,530	1,530	1,530	1,530
Financial assets at FVTPL	759	1,356	1,086	1,086	1,086	1,086
Other non-current assets	1,159	1,978	1,955	1,873	1,791	1,709
Total assets	28,964	44,033	49,564	54,129	59,038	65,944
Current liabilities	4,498	8,256	9,319	10,167	10,682	11,870
Short-term borrowings	767	2,122	1,321	1,321	1,321	1,321
Account payables	2,729	3,698	3,269	4,117	4,632	5,821
Tax payable	251	558	774	774	774	774
Other current liabilities	691	1,775	3,805	3,805	3,805	3,805
Lease liabilities	61	104	149	149	149	149
Non-current liabilities	3,566	3,071	4,033	4,033	4,033	4,033
Long-term borrowings	1,838	641	1,462	1,462	1,462	1,462
Obligations under finance leases	667	1,429	1,490	1,490	1,490	1,490
Deferred income	214	224	238	238	238	238
Other non-current liabilities	848	777	844	844	844	844
Total liabilities	8,064	11,326	13,351	14,199	14,714	15,903
Share capital	0	0	0	0	0	0
Capital surplus	20,564	32,278	35,047	38,651	42,913	48,459
Total shareholders equity	20,564	32,279	35,047	38,651	42,913	48,459
Minority interest	335	428	1,166	1,279	1,411	1,582
Total equity and liabilities	20,899	32,706	36,213	39,930	44,324	50,041

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,966	3,993	5,358	4,253	5,027	6,541
Depreciation & amortization	304	482	801	1,057	1,197	1,333
Tax paid	(94)	(350)	(586)	(536)	(633)	(824)
Change in working capital	(367)	(963)	(974)	565	(649)	(1,492)
Others	73	270	943	147	65	65
Net cash from operations	1,881	3,431	5,542	5,485	5,007	5,623
Investing						
Capital expenditure	(6,025)	(6,508)	(5,868)	(5,000)	(5,000)	(5,000)
Acquisition of subsidiaries/ investments	(6)	(2,535)	(281)	0	0	0
Others	(1,186)	(559)	241	11	0	0
Net cash from investing	(7,216)	(9,602)	(5,908)	(4,989)	(5,000)	(5,000)
Financing						
Net borrowings	870	(53)	(174)	0	0	0
Proceeds from share issues	5,585	10,978	0	0	0	0
Others	110	(2,715)	(2,418)	(158)	(65)	(65)
Net cash from financing	6,566	8,209	(2,592)	(158)	(65)	(65)
Net change in cash						
Cash at the beginning of the year	6,205	7,096	9,003	6,395	6,733	6,675
Exchange difference	(340)	(132)	350	0	0	0
Cash at the end of the year	7,096	9,003	6,395	6,733	6,675	7,232
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	40.9%	83.3%	48.4%	10.2%	15.4%	29.0%
Gross profit	52.7%	90.6%	39.2%	0.1%	19.8%	33.6%
Operating profit	62.5%	91.1%	39.5%	(12.1%)	13.3%	30.9%
Net profit	66.6%	100.6%	30.5%	(18.5%)	18.3%	30.1%
Adj. net profit	42.5%	92.6%	48.5%	(7.9%)	13.1%	27.1%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	45.1%	46.9%	44.0%	40.0%	41.5%	43.0%
Operating margin	32.8%	34.2%	32.2%	25.7%	25.2%	25.6%
Adj. net profit margin	30.7%	32.2%	32.3%	27.0%	26.4%	26.0%
Return on equity (ROE)	10.1%	12.8%	13.1%	9.8%	10.5%	12.1%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Current ratio (x)	3.2	2.4	2.0	1.9	1.9	2.0
Receivable turnover days	161.9	143.6	125.1	122.1	119.1	116.1
Inventory turnover days	87.9	92.6	84.8	84.8	84.8	84.8
Payable turnover days	271.0	214.8	148.8	148.8	148.8	148.8
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E (adjusted)	68.5	37.5	25.3	28.0	24.8	19.5
P/B	8.9	11.9	6.1	3.2	2.9	2.6
P/CFPS	98.4	113.0	39.8	23.5	25.7	22.9

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

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong. Tel: (852) 3900 0888 Fax: (852) 3900 0800

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