

WuXi Biologics (2269 HK)

Strong and sustainable non-COVID growth

WuXi Bio previously released a positive profit alert for 2022 earnings, expecting revenue to grow ~48.4% YoY, attributable net profit to grow ~30% YoY and adjusted non-IFRS net profit to grow 47% YoY. Excluding ~RMB3bn COVID revenue, we expect non-COVID revenue to grow by ~68.3% YoY in 2022. The Company has well executed on its capacity expansion plan by bringing Ireland and Shijiazhuang sites online in 4Q22. Expecting sustainable non-COVID revenue growth driven by fast increasing CMO revenue and wider collaboration with global large pharma clients, we forecast WuXi Bio's revenue to increase by 31.5%/29.3% YoY and adjusted net income to increase by 30.2%/28.9% YoY in 2023/24E, respectively.

■ **Global healthcare funding shows early signs of recovery while the trend is yet to be confirmed.** According to VBDATA, global healthcare funding decreased by 43% YoY in 2022 while funding in China shrank by 54% YoY. Although some small- to mid-sized pharmaceutical companies were forced to assess their R&D spending more carefully, R&D demand from big pharma companies maintained a healthy level. It is worth noting that some foreign CXO companies signalled early signs of demand recovery at the point. For instance, IQVIA indicated that its request for proposals accelerated to 22% YoY growth in 4Q22 vs 12% YoY growth in full-year 2022. We believe top players such as WuXi Bio will be less impacted by the demand cycle thanks to its superior client mix and strong bargaining power to clients. Given its abundant backlog at hand (US\$18.5bn as of Jun 2022) and the fast increasing number of CMO projects, we expect WuXi Bio will maintain strong revenue growth momentum.

■ **New production sites online to meet the growing demand.** 2022 marked a big leap in manufacturing capacity for WuXi Bio. MFG7 site in Ireland and MFG8 site in Shijiazhuang, each with a capacity of 48k L, were GMP release in Dec and Oct 2022, respectively. As a comparison, total capacity of WuXi Bio was 154k L as of end-2021. WuXi Bio also announced to invest US\$1.4bn in next 10 years to build full-suite CRDMO facilities in Singapore, which will bring an additional capacity of 120k L by 2026. The well-established global network will enable WuXi Bio to better meet the diversified demand of global clients and mitigate potential geopolitical risks, in our view.

■ **Maintain BUY.** We cut our TP from HK\$120.39 to HK\$96.55, based on a 10-year DCF model (WACC: 10.17%, terminal growth rate: 3.0%). Reflecting our conservatism on global funding recovery, we forecast WuXi Bio's revenue to increase by 31.5%/29.3% YoY and adjusted net income to increase by 30.2%/28.9% YoY in 2023/24E, respectively. Specifically, we assume limited COVID revenue and ~63.7% YoY growth of non-COVID revenue in our revenue growth projection for 2023E.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	5,612	10,290	15,271	20,086	25,970
YoY growth (%)	40.9	83.3	48.4	31.5	29.3
Adjusted net profit (RMB mn)	1,722	3,316	4,878	6,353	8,191
EPS (Adjusted) (RMB)	0.44	0.79	1.15	1.50	1.94
Consensus EPS (RMB)	na	na	1.13	1.52	2.02
P/E (x)	109.6	114.4	46.5	37.1	29.8
P/B (x)	8.9	11.9	5.6	4.9	4.2
ROE (%)	10.2	13.3	13.3	14.7	15.8
Net gearing (%)	(21.8)	(19.3)	(15.3)	(11.3)	(11.1)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$96.55**
 (Previous TP **HK\$120.39**)
Up/Downside **76.5%**
Current Price **HK\$54.70**

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Stock Data

Mkt Cap (HK\$ mn) 231,308.3
 Avg 3 mths t/o (HK\$ mn) 60.5
 52w High/Low (HK\$) 83.25/35.50
 Total Issued Shares (mn) 4228.7

Source: FactSet

Shareholding Structure

WuXi Biologics Holdings 13.8%
 JP Morgan 7.0%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-16.2%	-7.5%
3-mth	9.1%	2.5%
6-mth	-21.5%	-20.9%

Source: FactSet

12-mth Price Performance



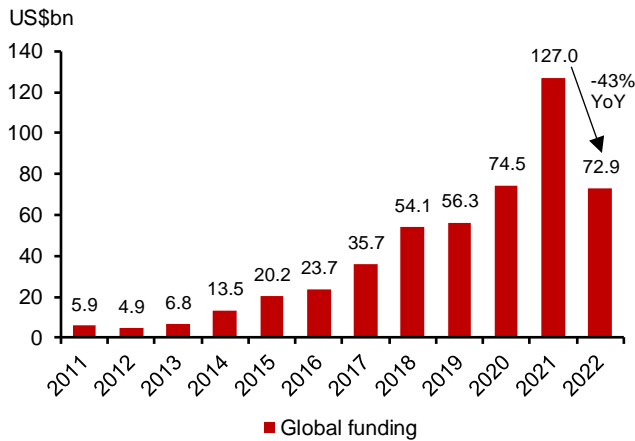
Source: FactSet

Figure 1: What did management in leading foreign CXOs say on 2022 and their expectations for 2023?

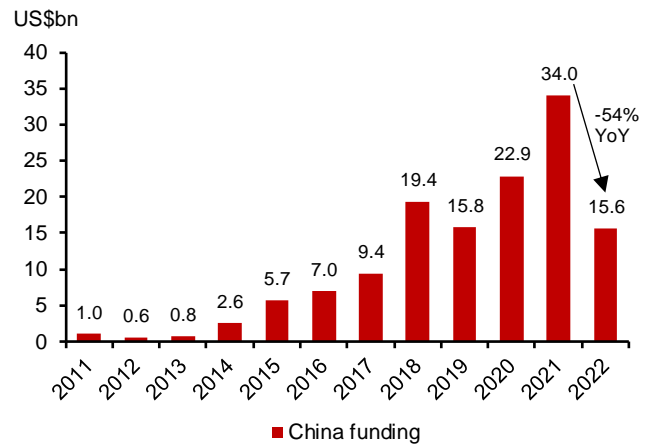
Company	Business focus	2022 revenue	2023 guidance	Management comments on		
				COVID revenue	Healthcare funding	Client demand
Thermo Fisher	Life science equipment & reagent, clinical CRO and CDMO	<ul style="list-style-type: none"> • US\$44.9bn • +15% YoY (reported) • +14% YoY (core organic) 	<ul style="list-style-type: none"> • +1% YoY (reported) • +7% YoY (core organic) 	<ul style="list-style-type: none"> • COVID testing revenue reduced by 57% to US\$3.1bn in 2022 • Expect US\$500mn revenue from COVID vaccine and therapies in 2023E 		<ul style="list-style-type: none"> • Strong contract growth for Clinical CRO (high-teens growth in 2022) • China will remain as a strong end market
IQVIA	Clinical CRO and data service	<ul style="list-style-type: none"> • US\$14.4bn • +3.9% YoY (reported) • +7.8% YoY (CC) • +13% YoY (core organic) 	<ul style="list-style-type: none"> • (+5.1%) ~ (+6.9%) YoY (reported) • (+9%) ~ (+11%) YoY (core organic) 	<ul style="list-style-type: none"> • US\$1.0bn COVID revenue in 2022 (vs US\$1.8bn in 2021) • Expect US\$400mn COVID revenue in 2023E 	<ul style="list-style-type: none"> • Funding level retrieved to pre-pandemic level, lowering overall client demand on clinical and commercial projects • Have not seen any unusual cancellations nor unusual postponements of clinical trials 	<ul style="list-style-type: none"> • RFP (request for proposal) increased 13% YoY in 2022 (22% in 4Q) driven by demand from all client categories
Medpace	Clinical CRO	<ul style="list-style-type: none"> • US\$1.5bn • +27.8% YoY (reported) • +29.2% YoY (CC) 	<ul style="list-style-type: none"> • (+15.8%) ~ (+19.9%) YoY (reported) 		<ul style="list-style-type: none"> • Delayed financing or reprioritization of pipeline is frequent feedbacks from sponsors • Biotech sentiment remained poor to date • Financial distress in a number of clients that cannot proceed with programs 	<ul style="list-style-type: none"> • New RFPs, pending RFPs and initial award notifications down moderately in 2022 • Cancellations rate above usual range in 4Q22 • Have not seen broad-based pullbacks to the point but external risks remain
Syneos	Clinical CRO	<ul style="list-style-type: none"> • US\$5.4bn • +3.5% YoY (reported) • +5.8% YoY (CC) 	<ul style="list-style-type: none"> • (-7.8%) ~ (-4.0%) YoY (reported) 		<ul style="list-style-type: none"> • Relationships with large pharma remain healthy, although continue to see slower pipelines as these customers assess R&D spending and clinical outsourcing strategies • Cancellation rate in 2022 was lower than that in 2021 	<ul style="list-style-type: none"> • Anticipate incremental new awards from large pharma in 2023 • Beginning to see the very early business recovery while RFP flow from small- to mid-sized customers remains down on a TTM basis
Charles River	Discovery and safety assessment	<ul style="list-style-type: none"> • US\$4.0bn • +12.3% YoY (reported) • +13.4% YoY (organic) 	<ul style="list-style-type: none"> • (+1.5%) ~ (+4.5%) YoY (reported) • (+4.5%) ~ (+7.5%) YoY (organic) 		<ul style="list-style-type: none"> • Hearing very little from clients on concern about access to capital and how that would impair or slow down both the demands and ability to spend • Biotech clients are very judicious and thoughtful about spending 	<ul style="list-style-type: none"> • Strong research model demand from China market; new sites in place to take market share • Safety Assessment growth driven by study volume, pricing and NHP pass-through; Continuing to see broad-based and sustained client demand • CGT business will continue to be a significant growth driver in longer term.
Lonza	CDMO	<ul style="list-style-type: none"> • CHF6.2bn • +15.0% YoY (reported) • +15.1% YoY (CC) 	High single-digit (CC)	<ul style="list-style-type: none"> • COVID revenue peaked in 2022 	<ul style="list-style-type: none"> • Funding issues to affect R&D activities in last 4-6 months but saw some recoveries in end-2022 • Softness in CGT demand from slow funding 	<ul style="list-style-type: none"> • Strong biologics demand driven by mammalian and ADC • Low demand for China site due to COVID and competition
Catalent	CDMO	<ul style="list-style-type: none"> • US\$1.2bn • -6% YoY (reported) • -2% YoY (CC) • +4% YoY (non-COVID) 	<ul style="list-style-type: none"> • (-4%) ~ (+1%) YoY (reported) • High teens (non-COVID) 	<ul style="list-style-type: none"> • FY2Q23 growth adversely impacted by decreasing COVID revenue • Expect US\$600mn COVID revenue in FY23 (vs US\$1.3bn in FY22) 	<ul style="list-style-type: none"> • Funding declined in 2022 but core business (biologics) demand remained solid 	<ul style="list-style-type: none"> • Non-COVID revenue to grow at high-teens in FY23 based on rich backlog, especially from gene therapies

Source: Company data, CMBIGM

Note: For Catalent, 2022 revenue refers to revenue in FY2Q23 (ended Dec 2022) and 2023 guidance refers to revenue in FY23 (ended Jun 2023). CC: constant currency. Core: excluding impacts from environment remediation expenses, M&A, divestitures, litigations and tax effect. Core organic: excluding impacts from M&A, divestitures, currency translation and COVID revenue. Organic: excluding impacts from M&A, divestitures, currency translation and 53rd-week.

Figure 2: Historical global healthcare funding

Source: VB DATA, CMBIGM

Figure 3: Historical China healthcare funding

Source: VB DATA, CMBIGM

Figure 4: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	15,271	20,086	25,970	15,187	21,059	28,820	0.55%	-4.62%	-9.89%
Gross Profit	6,679	8,637	10,908	6,685	9,161	12,249	-0.09%	-5.72%	-10.95%
Operating Profit	4,889	6,176	7,760	4,955	6,676	8,836	-1.34%	-7.50%	-12.17%
Adjusted net profit	4,878	6,353	8,191	4,963	6,822	9,168	-1.72%	-6.87%	-10.65%
Adjusted EPS (RMB)	1.15	1.50	1.94	1.16	1.60	2.15	-0.89%	-6.09%	-9.90%
Gross Margin	43.74%	43.00%	42.00%	44.02%	43.50%	42.50%	-0.28ppt	-0.50ppt	-0.50ppt
Operating Margin	32.01%	30.75%	29.88%	32.63%	31.70%	30.66%	-0.62ppt	-0.96ppt	-0.78ppt
Adjusted net margin	31.94%	31.63%	31.54%	32.68%	32.39%	31.81%	-0.74ppt	-0.77ppt	-0.27ppt

Source: Company data, CMBIGM estimates

Figure 5: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	15,271	20,086	25,970	15,231	20,822	27,883	0.26%	-3.53%	-6.86%
Gross Profit	6,679	8,637	10,908	7,005	9,492	12,734	-4.66%	-9.00%	-14.34%
Operating Profit	4,889	6,176	7,760	5,084	6,882	9,312	-3.84%	-10.26%	-16.66%
Adjusted net profit	4,878	6,353	8,191	4,883	6,552	8,735	-0.11%	-3.04%	-6.23%
Adjusted EPS (RMB)	1.15	1.50	1.94	1.13	1.52	2.02	2.16%	-0.97%	-4.25%
Gross Margin	43.74%	43.00%	42.00%	46.00%	45.59%	45.67%	-2.26ppt	-2.59ppt	-3.67ppt
Operating Margin	32.01%	30.75%	29.88%	33.38%	33.05%	33.40%	-1.36ppt	-2.31ppt	-3.52ppt
Adjusted net margin	31.94%	31.63%	31.54%	32.06%	31.47%	31.33%	-0.12ppt	+0.16ppt	+0.21ppt

Source: Company data, CMBIGM estimates

Figure 6: Valuation on risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
EBIT	5,140	6,506	8,090	11,003	14,854	19,904	26,473	34,944	45,776	59,509
Tax rate	12.05%	12.05%	12.05%	12.05%	12.05%	12.05%	12.05%	12.05%	12.05%	12.05%
EBIT*(1-tax rate)	4,521	5,722	7,116	9,678	13,065	17,507	23,284	30,735	40,262	52,341
+ D&A	793	975	1,168	1,553	2,050	2,685	3,491	4,504	5,765	7,321
- Change in working capital	87	(986)	(1,114)	(1,482)	(1,956)	(2,563)	(3,332)	(4,298)	(5,502)	(6,987)
- Capex	(5,500)	(6,500)	(6,500)	(5,850)	(5,265)	(4,739)	(4,265)	(3,838)	(3,454)	(3,109)
FCFF	(100)	(789)	669	3,898	7,893	12,891	19,178	27,102	37,071	49,566
Terminal value										712,537
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)	270,627									
Total PV (RMB mn)	341,678									
Net debt (RMB mn)	(5,349)									
Equity value (RMB mn)	347,026									
# of shares (mn)	4,229									
Price per share (RMB per share)	82.07									
Price per share (HK\$ per share)	96.55									

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	3,984	5,612	10,290	15,271	20,086	25,970
Cost of goods sold	(2,325)	(3,079)	(5,461)	(8,591)	(11,449)	(15,063)
Gross profit	1,659	2,533	4,829	6,679	8,637	10,908
Operating expenses	(524)	(689)	(1,306)	(1,790)	(2,461)	(3,147)
Selling expense	(77)	(94)	(125)	(172)	(221)	(273)
Admin expense	(367)	(511)	(876)	(1,246)	(1,587)	(2,000)
R&D expense	(260)	(304)	(502)	(674)	(844)	(1,065)
Others	180	220	197	302	190	190
Operating profit	1,135	1,844	3,523	4,889	6,176	7,760
Share of (losses)/profits of associates/JV	(3)	3	0	0	0	0
Net Interest income/(expense)	(20)	(43)	(39)	(45)	(86)	(86)
Others	15	162	509	339	400	400
Pre-tax profit	1,127	1,966	3,993	5,182	6,490	8,074
Income tax	(116)	(273)	(485)	(624)	(782)	(973)
Minority interest	3	(4)	(120)	(144)	(171)	(213)
Net profit	1,010	1,693	3,509	4,558	5,708	7,102
Adjusted net profit	1,208	1,722	3,316	4,878	6,353	8,191
Gross dividends	0	0	0	0	0	0
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	9,672	14,204	19,530	20,434	22,418	26,464
Cash & equivalents	6,205	7,096	9,003	8,278	7,475	8,131
Account receivables	1,737	3,242	4,857	5,884	7,575	9,580
Inventories	399	1,084	1,687	2,118	2,823	3,714
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	2,030	2,421	2,916
Non-current assets	7,930	14,759	24,503	29,210	34,735	40,067
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
Total assets	17,602	28,964	44,033	49,644	57,153	66,531
Current liabilities	2,871	4,498	8,256	9,972	11,772	14,049
Short-term borrowings	506	767	2,122	2,122	2,122	2,122
Account payables	1,844	2,729	3,698	5,414	7,215	9,492
Tax payable	142	251	558	558	558	558
Other current liabilities	379	752	1,878	1,878	1,878	1,878
Non-current liabilities	1,835	3,566	3,071	3,071	3,071	3,071
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
Total liabilities	4,706	8,064	11,326	13,042	14,843	17,120
Share capital	0	0	0	0	0	0
Capital surplus	12,784	20,564	32,278	36,029	41,566	48,455
Total shareholders equity	12,784	20,564	32,279	36,029	41,566	48,455
Minority interest	112	335	428	572	743	956
Total equity and liabilities	12,896	20,899	32,706	36,601	42,309	49,411
CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,127	1,966	3,993	5,182	6,490	8,074
Depreciation & amortization	224	304	482	793	975	1,168
Tax paid	(78)	(94)	(350)	(624)	(782)	(973)
Change in working capital	(219)	(367)	(963)	87	(986)	(1,114)
Others	154	73	270	28	86	86
Net cash from operations	1,208	1,881	3,431	5,465	5,783	7,241

Investing						
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
Net cash from investing	(4,494)	(7,216)	(9,602)	(5,482)	(6,500)	(6,500)
Financing						
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)
Net cash from financing	5,413	6,566	8,209	(708)	(86)	(86)
Net change in cash						
Cash at the beginning of the year	4,084	6,205	7,096	9,003	8,278	7,475
Exchange difference	(6)	(340)	(132)	0	0	0
Cash at the end of the year	6,205	7,096	9,003	8,278	7,475	8,131
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	57.2%	40.9%	83.3%	48.4%	31.5%	29.3%
Gross profit	63.0%	52.7%	90.6%	38.3%	29.3%	26.3%
Operating profit	46.9%	62.5%	91.1%	38.8%	26.3%	25.7%
Net profit	60.3%	67.5%	107.3%	29.9%	25.2%	24.4%
Adj. net profit	60.8%	42.5%	92.6%	47.1%	30.2%	28.9%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	41.6%	45.1%	46.9%	43.7%	43.0%	42.0%
Operating margin	28.5%	32.8%	34.2%	32.0%	30.7%	29.9%
Adj. net profit margin	30.3%	30.7%	32.2%	31.9%	31.6%	31.5%
Return on equity (ROE)	9.7%	10.2%	13.3%	13.3%	14.7%	15.8%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
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	2.0	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
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	84.8	109.6	114.4	46.5	37.1	29.8
P/E (diluted)	84.8	109.6	114.4	46.5	37.1	29.8
P/B	6.7	8.9	11.9	5.6	4.9	4.2
P/CFPS	71.2	98.4	113.0	37.6	35.5	28.4
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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CMBIGM Ratings

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
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

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