

WuXi Biologics (2269 HK)

2023E growth outlook remains intact

We expect WuXi Bio's revenue to grow by 11% YoY in 1H23E and attributable adjusted net income to stay flat in 1H23E, mainly due to the relatively high base in 1H22 and the reduced revenue from COVID-related projects. In 5M23, the Company added 25 new projects into its pipeline, including 8 external projects under its "Win-the-Molecule" strategy. Despite the sizable capacity additions in 2022 (i.e., MFG7 in Ireland and MFG8 in Shijiazhuang, each with a capacity of 48k L), we forecast WuXi Bio to maintain a satisfying margin level thanks to effective cost controls through the continuous execution of WBS (WuXi Biologics Business System) which targets to improve gross profit margin (GMP) by 300bps in 2023. WuXi Bio management maintained its full-year guidance unchanged with revenue growth of 30% YoY and attributable adjusted net income of 26% YoY for 2023E. In the longer term, management reiterated that WuXi Bio will grow at twice the pace of the industry average.

■ **Commercial manufacturing capabilities highly recognized by global customers.** Management attributed the lower-than-expected number of new projects in 5M23 to the extended sales cycle and softer growth in pre-clinical projects caused by biotech funding slowdown. However, it is worth noting that WuXi Bio successfully won 8 external projects during the period, including 4 phase III projects and 2 CMO projects for blockbuster products. Recall that the Company won a total of 11 projects (including 5 in phase III/commercial stages) in 2022. Thus, the management forecasts the overall CMO project number to reach 32-38 in 2025E. The expedited progress of "Win-the-Molecule" strategy demonstrates WuXi Bio's superior commercial manufacturing capabilities which is highly recognized by the global customers. We think the Company is in a better position to capture the growing business opportunities from MNCs to address their increasing demand in outsourcing manufacturing of biologics products in the long run.

■ **Non-COVID business continued strong growth momentum.** Non-COVID revenue impressively increased by 64%/ 63% YoY in 2021/ 2022, respectively. Assuming no revenue from COVID-related projects in 1H23E, we forecast non-COVID revenue to grow by more than 60% YoY in 1H23E, while the growth is on track with the Company's full-year guidance for non-COVID business. In addition, Ireland site will become another growth driver to WuXi Bio after the pandemic. For the MFG7 in Ireland, management indicated that the new site will contribute significant commercial manufacturing revenue from 2024E and is almost fully booked for 2025E.

■ **Maintain BUY.** We revised our TP from HK\$81.93 to HK\$75.00, based on a 10-year DCF model (WACC: 10.17%, terminal growth rate: 3.0%), to mainly reflect our assumption change on the exchange rate of RMB. We forecast WuXi Bio to grow its revenue by 27.5%/ 29.0%/ 30.3% YoY and attributable adjusted net income by 25.3%/ 26.1%/ 26.9% YoY in 2023E/ 24E/ 25E, respectively.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	10,290	15,269	19,473	25,112	32,727
YoY growth (%)	83.3	48.4	27.5	29.0	30.3
Adjusted net profit (RMB mn)	3,316	4,925	6,173	7,785	9,879
EPS (Adjusted) (RMB)	0.79	1.18	1.46	1.84	2.34
Consensus EPS (RMB)	na	na	1.32	1.71	2.20
P/E (x) (adjusted)	43.9	29.6	23.9	19.0	14.9
Net gearing (%)	(18.1)	(6.5)	(5.6)	(6.0)	(8.5)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$75.00
(Previous TP)	HK\$81.93
Up/Downside	93.5%
Current Price	HK\$38.75

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Stock Data

Mkt Cap (HK\$ mn)	184,444.4
Avg 3 mths t/o (HK\$ mn)	1,052.4
52w High/Low (HK\$)	83.25/35.50
Total Issued Shares (mn)	4230.4

Source: FactSet

Shareholding Structure

WuXi Biologics Holdings	13.8%
JP Morgan	7.0%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.1%	-4.3%
3-mth	-21.7%	-16.4%
6-mth	-14.2%	-16.1%

Source: FactSet

12-mth Price Performance



Source: Bloomberg

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	19,473	25,112	32,727	19,890	25,844	33,693	-2.10%	-2.83%	-2.87%
Gross Profit	8,179	10,296	13,255	8,354	10,596	13,646	-2.10%	-2.83%	-2.87%
Operating Profit	5,330	6,493	8,437	5,372	6,625	8,613	-0.78%	-1.99%	-2.04%
Adjusted net profit	6,173	7,785	9,879	6,173	7,850	9,970	0.00%	-0.83%	-0.91%
Adjusted EPS (RMB)	1.46	1.84	2.34	1.46	1.86	2.36	-0.06%	-1.07%	-1.05%
Gross Margin	42.00%	41.00%	40.50%	42.00%	41.00%	40.50%	0.00ppt	0.00ppt	0.00ppt
Operating Margin	27.37%	25.86%	25.78%	27.01%	25.63%	25.56%	+0.36ppt	+0.22ppt	+0.22ppt
Adjusted net margin	31.70%	31.00%	30.19%	31.04%	30.37%	29.59%	+0.66ppt	+0.63ppt	+0.60ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	19,473	25,112	32,727	19,960	26,024	33,491	-2.44%	-3.50%	-2.28%
Gross Profit	8,179	10,296	13,255	8,523	11,234	14,625	-4.04%	-8.35%	-9.37%
Operating Profit	5,330	6,493	8,437	5,928	7,876	10,331	-10.09%	-17.56%	-18.33%
Adjusted net profit	6,173	7,785	9,879	5,763	7,435	9,559	7.11%	4.70%	3.35%
Adjusted EPS (RMB)	1.46	1.84	2.34	1.32	1.71	2.20	10.37%	7.93%	6.29%
Gross Margin	42.00%	41.00%	40.50%	42.70%	43.17%	43.67%	-0.70ppt	-2.17ppt	-3.17ppt
Operating Margin	27.37%	25.86%	25.78%	29.70%	30.26%	30.85%	-2.33ppt	-4.41ppt	-5.07ppt
Adjusted net margin	31.70%	31.00%	30.19%	28.87%	28.57%	28.54%	+2.83ppt	+2.43ppt	+1.64ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in RMB mn)		2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT		6,030	8,023	9,967	12,957	16,715	21,395	27,172	34,237	42,796	53,067
Tax rate		15.08%	15.08%	15.08%	15.08%	15.08%	15.08%	15.08%	15.08%	15.08%	15.08%
EBIT*(1-tax rate)		5,121	6,813	8,464	11,004	14,195	18,169	23,075	29,075	36,343	45,066
+ D&A		1,074	1,248	1,416	1,770	2,195	2,700	3,294	3,986	4,783	5,692
- Change in working capital		(264)	(1,514)	(1,997)	(2,496)	(3,095)	(3,807)	(4,644)	(5,619)	(6,743)	(8,024)
- Capex		(6,000)	(6,000)	(6,000)	(5,400)	(4,860)	(4,374)	(3,937)	(3,543)	(3,189)	(2,870)
FCFF		(69)	547	1,884	4,878	8,435	12,689	17,788	23,898	31,194	39,863
Terminal value											573,050
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)		217,649									
Total PV (RMB mn)		283,296									
Net debt (RMB mn)		(2,238)									
Equity value (RMB mn)		285,534									
# of shares (mn)		4,230									
Price per share (RMB per share)		67.50									
Price per share (HK\$ per share)		75.00									

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	19,473	25,112	32,727
Cost of goods sold	(3,079)	(5,461)	(8,545)	(11,294)	(14,816)	(19,473)
Gross profit	2,533	4,829	6,724	8,179	10,296	13,255
Operating expenses	(689)	(1,306)	(1,810)	(2,849)	(3,803)	(4,817)
Selling expense	(94)	(125)	(163)	(407)	(502)	(622)
Admin expense	(511)	(876)	(1,270)	(1,731)	(2,210)	(2,782)
R&D expense	(304)	(502)	(683)	(1,011)	(1,281)	(1,604)
Others	220	197	305	300	190	190
Operating profit	1,844	3,523	4,914	5,330	6,493	8,437
Share of (losses)/profits of associates/JV	3	0	0	0	0	0
Net Interest income/(expense)	(43)	(39)	(64)	(65)	(65)	(65)
Others	162	509	508	400	800	800
Pre-tax profit	1,966	3,993	5,358	5,665	7,228	9,172
Income tax	(273)	(485)	(808)	(914)	(1,210)	(1,504)
After tax profit	1,693	3,509	4,550	4,750	6,017	7,668
Minority interest	(4)	(120)	(130)	(144)	(191)	(237)
Net profit	1,689	3,388	4,420	4,606	5,826	7,431
Adjusted net profit	1,722	3,316	4,925	6,173	7,785	9,879

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	14,204	19,530	18,470	20,029	23,530	29,313
Cash & equivalents	7,096	9,003	6,395	6,355	6,907	8,795
Account receivables	3,242	4,857	5,610	6,515	8,195	10,411
Inventories	1,084	1,687	2,281	2,623	3,440	4,522
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	2,217	2,669	3,267
Non-current assets	14,759	24,503	31,095	36,021	40,773	45,357
PP&E	11,996	18,065	24,171	29,236	34,127	38,850
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	56,050	64,303	74,670
Current liabilities	4,498	8,256	9,319	10,654	12,090	13,988
Short-term borrowings	767	2,122	1,321	1,321	1,321	1,321
Account payables	2,729	3,698	3,269	4,605	6,040	7,939
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	14,687	16,122	18,021
Share capital	0	0	0	0	0	0
Capital surplus	20,564	32,278	35,047	40,053	46,680	54,911
Total shareholders equity	20,564	32,279	35,047	40,054	46,680	54,911
Minority interest	335	428	1,166	1,310	1,501	1,738
Total equity and liabilities	20,899	32,706	36,213	41,363	48,181	56,649

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,966	3,993	5,358	6,065	8,028	9,972
Depreciation & amortization	304	482	801	1,074	1,248	1,416
Tax paid	(94)	(350)	(586)	(914)	(1,210)	(1,504)
Change in working capital	(367)	(963)	(974)	(264)	(1,514)	(1,997)
Others	73	270	943	65	65	65
Net cash from operations	1,881	3,431	5,542	6,025	6,616	7,953
Investing						
Capital expenditure	(6,025)	(6,508)	(5,868)	(6,000)	(6,000)	(6,000)
Acquisition of subsidiaries/ investments	(6)	(2,535)	(281)	0	0	0
Others	(1,186)	(559)	241	0	0	0
Net cash from investing	(7,216)	(9,602)	(5,908)	(6,000)	(6,000)	(6,000)
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)	(65)	(65)	(65)
Net cash from financing	6,566	8,209	(2,592)	(65)	(65)	(65)
Net change in cash						
Cash at the beginning of the year	6,205	7,096	9,003	6,395	6,355	6,907
Exchange difference	(340)	(132)	350	0	0	0
Cash at the end of the year	7,096	9,003	6,395	6,355	6,907	8,795
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	40.9%	83.3%	48.4%	27.5%	29.0%	30.3%
Gross profit	52.7%	90.6%	39.2%	21.6%	25.9%	28.7%
Operating profit	62.5%	91.1%	39.5%	8.5%	21.8%	29.9%
Net profit	66.6%	100.6%	30.5%	4.2%	26.5%	27.5%
Adj. net profit	42.5%	92.6%	48.5%	25.3%	26.1%	26.9%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	45.1%	46.9%	44.0%	42.0%	41.0%	40.5%
Operating margin	32.8%	34.2%	32.2%	27.4%	25.9%	25.8%
Adj. net profit margin	30.7%	32.2%	32.3%	31.7%	31.0%	30.2%
Return on equity (ROE)	10.1%	12.8%	13.1%	12.3%	13.4%	14.6%
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	2.1
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)	80.1	43.9	29.6	23.9	19.0	14.9
P/B	8.9	11.9	6.1	4.1	3.5	3.0
P/CFPS	98.4	113.0	39.8	27.8	25.3	21.1

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

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