WuXi AppTec (603259 CH)

Impressive order growth despite geopolitical uncertainties

WuXi AppTec reported 1H24 revenue of RMB17.24bn, down 8.6% YoY, attributable recurring net profit of RMB4.41bn, down 8.3% YoY, and attributable adjusted non-IFRS net profit of RMB4.37bn, down 14.2% YoY. 1H24 revenue / attributable adjusted non-IFRS net income accounted for 45.3%/ 46.0% of our 2024 full-year estimates and 43.8%/ 44.7% of Bloomberg consensus, both of which were largely in line with its historical range. The non-COVID D&M revenue (within the Chemistry segment) experienced a slight decline of 2.7% YoY in 1H24, following a relatively high base in 1H23. Notably, WuXi AppTec's backlog, excluding COVID-19 commercial projects, increased by 33.2% YoY in 1H24, indicating strong customer demand amid geopolitical uncertainties. Mgt. has reiterated its revenue guidance of RMB38.3-40.5bn for 2024, forecasting YoY growth of 2.7% to 8.6% for revenues excluding COVID-19 commercial projects. Mgt. expects the adjusted non-IFRS net profit margin to align with the 2023 level.

- **Impressive order growth driven by solid demand.** As of June 2024, WuXi AppTec's backlog reached RMB43.1bn, marking a robust YoY increase of 33.2% excluding COVID-19 commercial projects. Revenue from its global Top20 pharmaceutical clients reached RMB6.59bn, contributing 38.2% of the total revenue and increasing by 11.9% YoY excluding COVID-19 commercial projects. Mgt. highlighted that over 80% of the backlog was expected to convert into revenue within the next 18 months, which should alleviate market concerns about clients' early bookings due to geopolitical considerations (with the ATU segment being an exception). Additionally, mgt. indicated that new orders signed in 1H24 increased by ~25% YoY. The strong order growth demonstrates the resilient demand for WuXi AppTec's high-quality services, indicating a positive outlook for FY25 growth.
- **TIDES business continued to be a major growth engine.** Revenue of TIDES business reached RMB2.08bn in 1H24, demonstrating robust YoY growth of 57.2%, following a significant 64.4% YoY increase in 2023. As of June 2024, the TIDES backlog grew substantially by 147% YoY. In January 2024, the Company's new peptide production facilities commenced operation, which expanded its total capacity to 32,000 liters, positioning the Company as a leader in global TIDES CDMO. With the robust backlog and readily available production capacity, mgt. expects TIDES revenue to grow by over 60% YoY in 2024 and to maintain the strong momentum in 2025. Our model projects TIDES revenue to exceed RMB8.6bn in 2025, contributing ~20% to WuXi AppTec's total revenue, a significant increase from ~4% in 2022.
- **Maintain BUY.** Factoring in the positive trend of customer demand, we lift our TP from RMB53.23 to RMB54.27 (based on a 10-year DCF model with WACC of 10.38% and terminal growth of 2.0%). We forecast revenue to grow by -4.4%/ +10.9%/ +10.8% YoY and adjusted non-IFRS net income to grow by -8.3%/ +11.6%/ +12.1% YoY in 2024E/ 25E/ 26E, respectively.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	39,355	40,341	38,558	42,745	47,353
YoY growth (%)	71.8	2.5	(4.4)	10.9	10.8
Adjusted net profit (RMB m	9,399	10,854	9,953	11,110	12,450
YoY growth (%)	83.2	15.5	(8.3)	11.6	12.1
EPS (Adjusted) (RMB)	3.21	3.70	3.42	3.82	4.28
Consensus EPS (RMB)	na	na	3.37	3.66	4.01
P/E (Adjusted) (x)	12.7	11.0	11.9	10.7	9.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**RMB54.27**
(Previous TP	RMB53.23)
Up/Downside	**33.4%**
Current Price	**RMB40.69**

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Stock Data

Mkt Cap (RMB mn)	118,486.3
Avg 3 mths t/o (RMB mn)	2,227.0
52w High/Low (RMB)	90.88/36.87
Total Issued Shares (mn)	2911.9

Source: FactSet

Shareholding Structure

HK investors	16.8%
Ge Li and concerted parties	14.0%

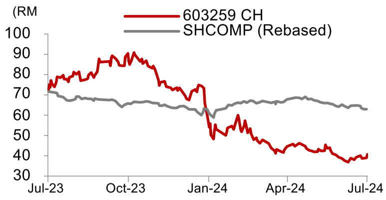
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	3.8%	7.0%
3-mth	-6.8%	0.5%
6-mth	-28.4%	-29.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

	New			Old			Diff (%)		
RMB mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	38,558	42,745	47,353	38,074	41,877	47,124	1.27%	2.07%	0.49%
Gross profit	15,268	17,241	19,265	14,623	16,141	18,511	4.41%	6.81%	4.08%
Operating profit	10,006	11,664	13,087	9,517	10,577	12,320	5.14%	10.28%	6.23%
Non-IFRS net profit	9,953	11,110	12,450	9,503	10,503	12,225	4.73%	5.78%	1.85%
Non-IFRS EPS (RMB)	3.42	3.82	4.28	3.24	3.58	4.17	5.50%	6.55%	2.60%
Gross margin	39.60%	40.33%	40.68%	38.41%	38.55%	39.28%	+1.19ppt	+1.79ppt	+1.40ppt
Operating margin	25.95%	27.29%	27.64%	25.00%	25.26%	26.14%	+0.95ppt	+2.03ppt	+1.49ppt
Net margin	25.81%	25.99%	26.29%	24.96%	25.08%	25.94%	+0.85ppt	+0.91ppt	+0.35ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMB mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	38,558	42,745	47,353	39,472	42,383	45,823	-2.32%	0.86%	3.34%
Gross profit	15,268	17,241	19,265	15,943	17,218	18,473	-4.23%	0.13%	4.29%
Operating profit	10,006	11,664	13,087	11,269	12,392	13,624	-11.21%	-5.87%	-3.94%
Non-IFRS net profit	9,953	11,110	12,450	9,806	10,584	11,650	1.50%	4.97%	6.87%
Non-IFRS EPS (RMB)	3.42	3.82	4.28	3.37	3.66	4.01	1.49%	4.30%	6.62%
Gross margin	39.60%	40.33%	40.68%	40.39%	40.63%	40.31%	-0.79ppt	-0.29ppt	+0.37ppt
Operating margin	25.95%	27.29%	27.64%	28.55%	29.24%	29.73%	-2.60ppt	-1.95ppt	-2.09ppt
Net margin	25.81%	25.99%	26.29%	24.84%	24.97%	25.42%	+0.97ppt	+1.02ppt	+0.87ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
EBIT	10,135	12,164	13,787	15,304	16,758	18,182	19,546	20,816	21,961	22,949
Tax rate	15.22%	15.22%	15.22%	15.22%	15.22%	15.22%	15.22%	15.22%	15.22%	15.22%
EBIT*(1-tax rate)	8,592	10,312	11,688	12,974	14,206	15,414	16,570	17,647	18,618	19,456
+ D&A	2,257	2,554	2,824	3,134	3,432	3,724	4,003	4,263	4,498	4,700
- Change in working capital	142	-244	-852	-946	-1,036	-1,124	-1,208	-1,286	-1,357	-1,418
- Capex	-5,000	-5,000	-5,000	-5,000	-5,000	-5,000	-5,000	-5,000	-5,000	-5,000
FCFF	**5,992**	**7,622**	**8,660**	**10,163**	**11,603**	**13,014**	**14,365**	**15,624**	**16,759**	**17,738**
Terminal value										**216,029**

Terminal growth rate	**2.00%**
WACC	**10.38%**
Cost of equity	13.00%
Cost of debt	5.00%
Equity beta	1.00
Risk free rate	3.00%
Market risk premium	10.00%
Target debt to asset ratio	30.00%
Effective corporate tax rate	15.00%

PV of terminal value (RMB mn)	80,502
Total PV (RMB mn)	147,549
Net debt (RMB mn)	-10,474
Equity value (RMB mn)	158,023
# of shares (mn)	2,912
Price per share (RMB per share)	**54.27**

Source: CMBIGM estimates

Figure 4: Sensitivity analysis of DCF model

		WACC				
		9.38%	**9.88%**	**10.38%**	**10.88%**	**11.38%**
Terminal growth rate	**3.00%**	68.01	62.81	58.32	54.42	50.99
	2.50%	64.91	60.24	56.17	52.60	49.44
	2.00%	62.23	57.99	**54.27**	50.98	48.05
	1.50%	59.89	56.01	52.58	49.53	46.81
	1.00%	57.83	54.25	51.08	48.23	45.68

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**22,902**	**39,355**	**40,341**	**38,558**	**42,745**	**47,353**
Cost of goods sold	(14,592)	(24,677)	(23,729)	(23,290)	(25,504)	(28,088)
Gross profit	**8,310**	**14,678**	**16,612**	**15,268**	**17,241**	**19,265**
Operating expenses	**(3,898)**	**(5,372)**	**(5,318)**	**(5,262)**	**(5,577)**	**(6,178)**
Selling expense	(699)	(732)	(701)	(800)	(801)	(887)
Admin expense	(2,203)	(2,826)	(2,879)	(2,711)	(2,920)	(3,235)
R&D expense	(942)	(1,614)	(1,441)	(1,423)	(1,535)	(1,700)
Others	(54)	(200)	(297)	(328)	(321)	(356)
Operating profit	**4,412**	**9,306**	**11,294**	**10,006**	**11,664**	**13,087**
Gain/loss on financial assets at FVTPL	(93)	770	(38)	(199)	100	200
Investment gain/loss	1,356	188	234	45	100	200
Net Interest income/(expense)	**(84)**	**248**	**338**	**768**	**481**	**544**
Other income/expense	425	106	4	283	300	300
Pre-tax profit	**6,016**	**10,618**	**11,832**	**10,903**	**12,645**	**14,331**
Income tax	(880)	(1,716)	(2,132)	(1,530)	(1,897)	(2,150)
After tax profit	**5,136**	**8,903**	**9,700**	**9,373**	**10,749**	**12,181**
Minority interest	(39)	(89)	(94)	(90)	(103)	(117)
Net profit	**5,097**	**8,814**	**9,607**	**9,283**	**10,646**	**12,065**
Adjusted net profit	**5,131**	**9,399**	**10,854**	**9,953**	**11,110**	**12,450**
Gross dividends	1,529	2,644	2,882	2,785	3,194	3,619

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**21,986**	**23,997**	**30,422**	**33,028**	**38,624**	**45,373**
Cash & equivalents	8,239	7,986	13,764	16,526	21,420	26,782
Account receivables	4,668	6,047	7,922	7,395	7,612	8,433
Inventories	5,905	5,669	4,736	5,106	5,592	6,158
Prepayment	303	291	244	244	244	244
Financial assets at FVTPL	527	2	11	11	11	11
Other current assets	2,344	4,003	3,746	3,746	3,746	3,746
Non-current assets	**33,142**	**40,693**	**43,247**	**45,615**	**48,032**	**50,380**
PP&E	8,554	14,171	17,190	20,311	23,139	25,697
Deferred income tax	390	492	367	367	367	367
Investment in JVs & assos	678	1,203	2,216	2,216	2,216	2,216
Intangibles	1,600	1,785	1,864	1,706	1,548	1,390
Goodwill	1,926	1,822	1,821	1,821	1,821	1,821
Financial assets at FVTPL	8,714	8,954	8,626	8,483	8,683	9,083
Other non-current assets	11,280	12,265	11,164	10,712	10,259	9,807
Total assets	**55,127**	**64,690**	**73,669**	**78,643**	**86,656**	**95,753**
Current liabilities	**12,985**	**14,499**	**14,756**	**15,342**	**15,800**	**16,335**
Short-term borrowings	2,261	3,874	3,667	4,267	4,267	4,267
Account payables	1,931	1,659	1,645	1,631	2,089	2,624
Tax payable	536	882	1,374	1,374	1,374	1,374
Other current liabilities	8,256	8,084	8,070	8,070	8,070	8,070
Non-current liabilities	**3,385**	**3,264**	**3,396**	**3,396**	**3,396**	**3,396**
Long-term borrowings	0	279	687	687	687	687
Bond payables	607	502	0	0	0	0
Obligations under finance leases	1,019	984	1,099	1,099	1,099	1,099
Other non-current liabilities	1,759	1,499	1,610	1,610	1,610	1,610
Total liabilities	**16,370**	**17,764**	**18,152**	**18,737**	**19,196**	**19,731**
Share capital	2,956	2,961	2,969	2,969	2,969	2,969
Capital surplus	25,732	26,512	28,401	34,899	42,351	50,796
Other reserves	9,804	17,118	23,753	21,553	21,553	21,553
Total shareholders equity	**38,492**	**46,590**	**55,122**	**59,421**	**66,873**	**75,318**
Minority interest	266	337	395	485	588	705
Total equity and liabilities	**55,127**	**64,690**	**73,669**	**78,643**	**86,656**	**95,753**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**6,016**	**10,618**	**11,832**	**10,903**	**12,645**	**14,331**
Depreciation & amortization	1,363	1,718	2,288	2,261	2,559	2,828
Tax paid	(880)	(1,716)	(2,132)	(1,530)	(1,897)	(2,150)
Change in working capital	(1,151)	(298)	(105)	142	(244)	(852)
Others	(759)	294	1,504	(397)	(457)	(720)
Net cash from operations	**4,589**	**10,616**	**13,387**	**11,380**	**12,606**	**13,438**
Investing						
Capital expenditure	(6,936)	(9,966)	(5,517)	(5,000)	(5,000)	(5,000)
Acquisition of subsidiaries/ investments	(858)	(161)	(22)	0	0	0
Net proceeds from disposal of short-term investments	2,766	82	(2,321)	0	0	0
Others	189	355	299	0	0	0
Net cash from investing	**(4,839)**	**(9,690)**	**(7,561)**	**(5,000)**	**(5,000)**	**(5,000)**
Financing						
Dividend paid	(916)	(1,598)	(2,756)	(2,017)	(2,712)	(3,075)
Net borrowings	1,071	1,668	178	600	0	0
Proceeds from share issues	104	150	247	0	0	0
Others	(1,983)	(1,497)	(1,610)	(2,200)	0	0
Net cash from financing	**(1,724)**	**(1,278)**	**(3,941)**	**(3,617)**	**(2,712)**	**(3,075)**
Net change in cash						
Cash at the beginning of the year	10,228	8,175	7,984	13,764	16,526	21,420
Exchange difference	(79)	161	132	0	0	0
Cash at the end of the year	**8,175**	**7,984**	**10,001**	**16,526**	**21,420**	**26,782**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	38.5%	71.8%	2.5%	(4.4%)	10.9%	10.8%
Gross profit	32.3%	76.6%	13.2%	(8.1%)	12.9%	11.7%
Operating profit	41.1%	110.9%	21.4%	(11.4%)	16.6%	12.2%
Net profit	72.2%	72.9%	9.0%	(3.4%)	14.7%	13.3%
Adj. net profit	41.1%	83.2%	15.5%	(8.3%)	11.6%	12.1%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	36.3%	37.3%	41.2%	39.6%	40.3%	40.7%
Operating margin	19.3%	23.6%	28.0%	26.0%	27.3%	27.6%
Adj. net profit margin	22.4%	23.9%	26.9%	25.8%	26.0%	26.3%
Return on equity (ROE)	14.4%	20.7%	18.9%	16.2%	16.9%	17.0%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)
Current ratio (x)	1.7	1.7	2.1	2.2	2.4	2.8
Receivable turnover days	66.4	49.7	63.2	70.0	65.0	65.0
Inventory turnover days	107.4	85.6	80.0	80.0	80.0	80.0
Payable turnover days	107.8	75.5	75.6	75.6	75.6	75.6

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E (adjusted)	23.1	12.7	11.0	11.9	10.7	9.5
P/B	3.1	2.5	2.2	2.0	1.8	1.6
P/CFPS	25.8	11.2	8.9	10.4	9.4	8.8
Div yield (%)	1.3	2.2	2.4	2.4	2.7	3.1

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

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