CSPC Pharmaceutical (1093 HK)

Core sales inflection with substantial BD optionality

BUY (Maintain)

Target Price	**HK$13.05**
Up/Downside	**85.4%**
Current Price	**HK$7.04**

China Healthcare

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Following robust 1Q26 product sales, we believe CSPC's core domestic franchise has reached an inflection point and is poised for stabilization in FY26E. Concurrently, the company has successfully transitioned into a global innovator, evidenced by a steady cadence of out-licensing agreements. Backed by a highly differentiated, late-stage pipeline, we expect recurring business development (BD) income to serve as a structural driver for long-term growth. We maintain our BUY rating with an unchanged target price of HK$13.05.

- **Domestic sales stabilizing alongside margin expansion.** In 1Q26, CSPC reported total revenue of RMB6.47bn, which included RMB146mn of BD income. Stripping out BD contributions, core product sales rose 7.7% QoQ and 0.4% YoY to RMB6.32bn, outpacing our estimates and tracking at 25.8% of our full-year FY26E forecast. Notably, ex-BD finished drug sales delivered the third consecutive quarter of QoQ growth since 3Q25, reaching RMB5.08bn (+4.0% QoQ) in 1Q26, primarily fueled by a sales recovery in the CNS and cardiovascular portfolios. We view this as a strong signal that domestic product sales headwinds are bottoming out. Margin dynamics also improved sequentially: product gross margin expanded to 65.2% (vs. 64.1% in 4Q25), while the selling expense ratio contracted to 26.3% (vs. 28.4% in 4Q25). The Company maintained its commitment to innovation, with R&D expenses rising 7.7% YoY. Bottom-line net profit printed at RMB860mn (vs. RMB370mn in 4Q25 and RMB1.48bn in 1Q25, with the 1Q25 figure including a high base of upfront payments).
- **Sustainable out-licensing income stream**. CSPC has established a formidable BD track record, validating its pivot toward a global innovation model. In January 2026, the Company secured a landmark out-licensing agreement with AstraZeneca (AZN US, NR) for eight weight management and type 2 diabetes programs. This transformative deal boasts a potential value exceeding US$18.5bn, anchored by a substantial US$1.2bn upfront payment. Beyond this mega-deal, CSPC has executed six additional out-licensing agreements since late 2024, covering a diverse array of assets including an Lp(a) inhibitor, a ROR1 ADC, an oral GLP-1, an irinotecan liposome, and an AI-driven small molecule discovery platform. With the exception of the MAT2A inhibitor (which partner BeOne (ONC US, BUY) has de-prioritized), global clinical development across these partnerships is progressing smoothly. Furthermore, CSPC retains a deep reservoir of highly differentiated assets—such as a PD-1/IL-15 bsAb, a B7-H3 ADC, an EGFR ADC, a GFRAL mAb, an ActRII mAb, alongside multiple siRNA and CAR-T candidates—which we believe possess significant global out-licensing potential. We view CSPC as well-positioned to generate recurring, high-margin streams of BD revenue.
- **Maintain BUY.** We view CSPC's continuous out-licensing execution as a primary catalyst for future earnings growth. We project revenue and attributable net profit to change +10.7%/ +6.4% and +47.2%/ -1.5% YoY in FY26E/FY27E, respectively, with the volatility driven largely by the timing of BD milestone payments. We maintain our DCF-based target price unchanged at HK$13.05 (WACC: 9.34%, terminal growth: 3.0%).

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	29,009	26,006	28,787	30,622	33,072
YoY growth (%)	(7.8)	(10.4)	10.7	6.4	8.0
Net profit (RMB mn)	4,338.8	3,876.1	5,706.3	5,620.8	6,969.8
YoY growth (%)	(28.6)	(10.7)	47.2	(1.5)	24.0
EPS (Reported) (RMB)	0.37	0.34	0.50	0.49	0.61
P/E (x)	16.5	17.9	12.3	12.4	10.0
Net gearing (%)	(23.5)	(24.8)	(26.0)	(28.9)	(31.5)

Source: Company data, Bloomberg, CMBIGM estimates

Stock Data

Mkt Cap (HK$ mn)	83,897.1
Avg 3 mths t/o (HK$ mn)	761.8
52w High/Low (HK$)	11.48/6.82
Total Issued Shares (mn)	11917.2

Source: FactSet

Shareholding Structure

Massive Giant Group Ltd	10.6%
Cai Dongchen	10.4%

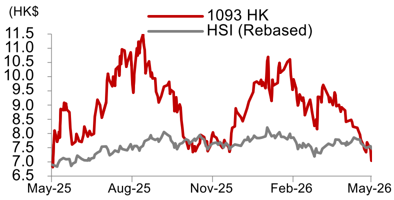
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-20.1%	-18.2%
3-mth	-28.9%	-25.2%
6-mth	-12.4%	-10.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Out-licensing deals of CSPC

Date	Partner	Products	Upfront payment (US$mn)	Milestone (development + sales) & royalties	Regions	Sources
2026.01.30	AstraZeneca	Weight management portfolio, (eight programs including SYH2082, based on the AI-driven peptide drug discovery platform and once-monthly dosing platform)	**1,200**	US$17.3bn & royalties	Outside of Greater China	Link
2025.07.30	Madrigal	SYH2086 (Oral GLP-1 at pre-clinical stage)	**120**	US$1,955mn & royalties	Global	Link
2025.6.13	AstraZeneca	AI-driven oral small molecule drug discovery platform	**110**	US$1,620+3,600mn & royalties	Global	Link
2025.5.15	Cipla USA	Irinotecan liposome injection	**15**	US$25+1,025mn & royalties	US	Link
2025.2.18	Radiance Biopharma	SYS6005 (ROR1 ADC)	**15**	US$150+1,075mn & royalties	US, EU, UK, Switzerland, Norway, Iceland, Liechtenstein, Albania, Montenegro, North Macedonia, Serbia, Australia, and Canada.	Link
2024.12.12	BeOne	SYH2039 (MAT2A inhibitor)	**150**	US$135+1,550mn & royalties	Global	Link
2024.10.7	AstraZeneca	YS2302018 (lipoprotein (a) inhibitor)	**100**	US$370+1,550mn & royalties	Global	Link
2023.2.23	Corbus Pharma	SYS6002 (Nectin-4 ADC)	8	US$130+555mn & royalties	US, EU, UK, Canada, etc	Link
2022.7.28	Elevation Ocology	SYSA1801 (Claudin18.2 ADC)	27	US$148+1,020mn & royalties	Outside of Greater China	Link
2021.8.17	Flame Biosciences	NBL-015 (Claudin 18.2 mAB)	8	US$172.5+460mn & royalties	Outside of Greater China	Link

Source: Company data, CMBIGM

Figure 2: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)		2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT		7,220	7,114	8,766	9,643	10,559	11,509	12,487	13,486	14,498	15,513
Tax rate		19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
EBIT*(1-tax rate)		5,821	5,735	7,067	7,774	8,513	9,279	10,067	10,873	11,688	12,506
+ D&A		1,336	1,336	1,336	1,470	1,609	1,754	1,903	2,056	2,210	2,364
- Change in working capital		-1,020	-237	-664	-731	-800	-872	-946	-1,022	-1,099	-1,176
- Capx		-2,015	-2,015	-2,015	-2,015	-2,015	-2,015	-2,015	-2,015	-2,015	-2,015
FCFF		**4,122**	**4,819**	**5,724**	**6,498**	**7,307**	**8,145**	**9,009**	**9,891**	**10,784**	**11,680**
Terminal value											**189,680**
Terminal growth rate	**3.00%**										
WACC	**9.34%**										
Cost of Equity	13.00%										
Cost of Debt	3.00%										
Equity Beta	1.00										
Risk Free Rate	2.50%										
Market Risk Premium	10.50%										
Target Debt to Asset ratio	35.00%										
Effective Corporate Tax Rate	15.00%										
Terminal value (RMB mn)	77,648										
Total PV (RMB mn)	123,085										
Net debt (RMB mn)	-9,382										
Minority interests (RMB mn)	1,265										
Equity value (RMB mn)	131,202										
# of shares (mn)	11,424										
DCF per share (in HK$)	**13.05**										

Source: CMBIGM estimates

Figure 3: Sensitivity analysis (HK$)

		WACC				
		8.34%	8.84%	9.34%	9.84%	10.34%
Terminal growth rate	4.00%	18.06	16.14	14.59	13.30	12.22
	3.50%	16.72	15.09	13.75	12.63	11.67
	3.00%	15.62	14.23	**13.05**	12.05	11.19
	2.50%	14.72	13.49	12.45	11.56	10.78
	2.00%	13.96	12.87	11.93	11.12	10.41

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

	CMBI			Consensus			Diff (%)		
RMB mn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	28,787	30,622	33,072	31,629	30,430	32,380	-9.0%	0.6%	2.1%
Gross profit	19,727	20,808	22,793	22,786	21,024	22,808	-13.4%	-1.0%	-0.1%
Operating profit	7,220	7,114	8,766	9,130	6,718	7,397	-20.9%	5.9%	18.5%
Attributable net profit	5,715	5,629	6,980	8,046	5,459	6,083	-29.0%	3.1%	14.7%
EPS (RMB)	0.50	0.49	0.29	0.69	0.50	0.55	-27.9%	-0.9%	10.3%
Gross margin	68.53%	67.95%	68.92%	72.04%	69.09%	70.44%	-3.51ppt	-1.14ppt	-1.52ppt
Operating margin	25.08%	23.23%	26.51%	28.87%	22.08%	22.84%	-3.78ppt	+1.15ppt	+3.66ppt
Net margin	19.85%	18.38%	21.11%	25.44%	17.94%	18.79%	-5.59ppt	+0.44ppt	+2.32ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	**31,450**	**29,009**	**26,006**	**28,787**	**30,622**	**33,072**
Cost of goods sold	(9,273)	(8,711)	(8,947)	(9,060)	(9,814)	(10,279)
Gross profit	**22,177**	**20,299**	**17,058**	**19,727**	**20,808**	**22,793**
Selling expense	(9,141)	(8,662)	(6,463)	(6,611)	(7,088)	(7,138)
Admin expense	(1,190)	(1,080)	(825)	(857)	(954)	(999)
R&D expense	(4,830)	(5,191)	(5,809)	(5,877)	(6,543)	(6,853)
Others	421	346	938	838	891	963
Operating profit	**7,437**	**5,712**	**4,899**	**7,220**	**7,114**	**8,766**
Gain/loss on financial assets at FVTPL	0	0	0	0	0	0
Share of (losses)/profits of associates/JV	(21)	(89)	(52)	(100)	(100)	(100)
Net Interest income/(expense)	**(26)**	**(44)**	**(39)**	**(42)**	**(42)**	**(21)**
Pre-tax profit	**7,389**	**5,579**	**4,808**	**7,078**	**6,972**	**8,645**
Income tax	(1,317)	(1,240)	(932)	(1,372)	(1,351)	(1,675)
Minority interest	199	11	(6)	(8)	(8)	(10)
Net profit	**6,073**	**4,339**	**3,876**	**5,706**	**5,621**	**6,970**
Gross dividends	2,726	2,597	2,497	2,857	2,815	3,490
Net dividends	(4)	(26)	(10)	47	(1)	24

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	**26,745**	**21,888**	**22,251**	**24,530**	**27,401**	**30,659**
Cash & equivalents	12,015	6,777	6,090	7,238	9,128	11,263
Account receivables	6,542	6,048	6,286	6,959	7,402	7,994
Inventories	3,139	3,130	3,091	3,130	3,390	3,551
Prepayment	0	0	0	0	0	0
ST bank deposits	1,077	1,307	2,776	2,776	2,776	2,776
Other current assets	3,972	4,626	4,008	4,428	4,705	5,075
Non-current assets	**19,537**	**22,501**	**24,447**	**25,126**	**25,805**	**26,485**
PP&E	10,417	11,374	12,153	13,145	14,137	15,129
Deferred income tax	187	250	212	212	212	212
Intangibles	2,199	2,610	2,775	2,626	2,477	2,328
Goodwill	1,226	1,128	1,336	1,172	1,009	845
Financial assets at FVTPL	2,387	2,334	2,251	2,251	2,251	2,251
Other non-current assets	3,122	4,804	5,720	5,720	5,720	5,720
Total assets	**46,282**	**44,389**	**46,698**	**49,657**	**53,206**	**57,143**
Current liabilities	**10,183**	**9,634**	**10,178**	**10,280**	**11,015**	**11,464**
Short-term borrowings	450	392	329	320	311	302
Account payables	8,404	7,409	7,656	7,752	8,398	8,795
Tax payable	379	138	229	229	229	229
Other current liabilities	948	1,695	1,964	1,979	2,077	2,138
Non-current liabilities	**1,082**	**889**	**1,970**	**1,970**	**1,970**	**1,970**
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	1,082	889	1,970	1,970	1,970	1,970
Total liabilities	**11,264**	**10,523**	**12,148**	**12,250**	**12,985**	**13,434**
Share capital	10,899	11,033	11,061	11,168	11,274	11,381
Other reserves	22,304	21,232	22,117	24,974	27,789	31,279
Total shareholders equity	**33,203**	**32,265**	**33,178**	**36,142**	**39,063**	**42,659**
Minority interest	1,815	1,602	1,372	1,265	1,158	1,049
Total equity and liabilities	**46,282**	**44,389**	**46,698**	**49,657**	**53,206**	**57,143**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**7,389**	**5,579**	**4,808**	**7,078**	**6,972**	**8,645**
Depreciation & amortization	1,114	1,336	1,336	1,336	1,336	1,336
Tax paid	(1,309)	(1,693)	(932)	(1,372)	(1,351)	(1,675)
Change in working capital	(3,032)	(817)	714	(1,020)	(237)	(664)
Others	16	130	0	0	0	0
Net cash from operations	**4,179**	**4,535**	**5,926**	**6,022**	**6,720**	**7,642**
Investing						
Capital expenditure	(1,624)	(2,015)	(2,015)	(2,015)	(2,015)	(2,015)
Acquisition of subsidiaries/ investments	0	(80)	0	0	0	0
Others	2,231	(1,763)	0	0	0	0
Net cash from investing	**607**	**(3,858)**	**(2,015)**	**(2,015)**	**(2,015)**	**(2,015)**
Financing						
Dividend paid	(2,726)	(3,234)	(2,497)	(2,857)	(2,815)	(3,490)
Net borrowings	0	28	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(200)	(1,579)	0	0	0	0
Others	626	(468)	(1)	(1)	(1)	(1)
Net cash from financing	**(2,301)**	**(5,253)**	**(2,498)**	**(2,858)**	**(2,816)**	**(3,491)**
Net change in cash						
Cash at the beginning of the year	10,298	12,015	6,777	6,090	7,238	9,128
Exchange difference	5	3	0	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	**12,015**	**6,777**	**6,090**	**7,238**	**9,128**	**11,263**

GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	1.7%	(7.8%)	(10.4%)	10.7%	6.4%	8.0%
Gross profit	(0.4%)	(8.5%)	(16.0%)	15.6%	5.5%	9.5%
Operating profit	(1.8%)	(23.2%)	(14.2%)	47.4%	(1.5%)	23.2%
Net profit	(2.6%)	(28.6%)	(10.7%)	47.2%	(1.5%)	24.0%

PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	70.5%	70.0%	65.6%	68.5%	68.0%	68.9%
Operating margin	23.6%	19.7%	18.8%	25.1%	23.2%	26.5%
Return on equity (ROE)	19.2%	13.3%	11.8%	16.5%	14.9%	17.1%

GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
Current ratio (x)	2.6	2.3	2.2	2.4	2.5	2.7
Receivable turnover days	120.5	131.4	143.3	143.3	143.3	143.3
Inventory turnover days	123.5	131.2	126.1	126.1	126.1	126.1
Payable turnover days	349.4	367.1	360.0	360.0	360.0	360.0

VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	12.3	16.5	17.9	12.3	12.4	10.0
P/E (diluted)	12.3	16.5	17.9	12.2	12.4	10.0
P/B	2.1	2.1	2.0	1.9	1.7	1.6
P/CFPS	17.3	15.8	11.7	11.7	10.4	9.1
Div yield (%)	3.8	3.6	3.6	4.1	4.0	5.0

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

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