

WuXi AppTec (603259 CH)

Impressive margin improvement in 1H23

WuXi AppTec reported 1H23 revenue of RMB18,871mn, up 6.3% YoY, and attributable recurring net income of RMB4,761mn, up 23.7% YoY, with attributable adjusted non-IFRS net income of RMB5,095mn, up 18.5% YoY. 1H23 revenue / adjusted Non-IFRS net income accounted for 45-52% of both our full-year estimates and consensus estimates, which also fell in its average historical range. Non-IFRS gross profit margin (GPM) improved by 3.4ppt to 41.6% while non-IFRS net profit margin increased by 2.8ppt to 27.0% in 1H23, driven by favourable currency exchange rates and continuously improved operating efficiency. Excluding commercial COVID-19 projects, overall backlog increased by 25% YoY. Despite the high base of 2022, Management reiterated revenue growth target of 5-7% YoY while slightly raised non-IFRS gross profit growth target to 13-14% YoY (from 12-14% YoY) in 2023E, indicating management's confidence in the Company of navigating through the tough macro environment.

- **Non-COVID projects to firmly fuel sustainable growth.** Supported by strong growth of D&M services, non-COVID revenue growth of WuXi Chemistry segment accelerated quarter-by-quarter in 1H23 with +51.6% YoY in 2Q23 vs +21.8% YoY in 1Q23 (both excluding commercial COVID-19 projects). Management expected COVID revenue of ~RMB3.0bn in 2023E with ~RMB1.5bn already recognized in 1H23. We think the strong growth of non-COVID revenue reflected the robust demand from the Company's extensive and balanced client base amid the temporarily challenging financing environment in global pharmaceutical industry.
- **Benefiting from strong demand growth for new modalities services.** Revenue from TIDES (mainly oligo and peptides) in WuXi Chemistry segment grew by 37.9% YoY in 1H23, on top of a 337% YoY growth in 2022. Backlog of TIDES dramatically increased by 188% YoY in 1H23, while Management expected over 70% YoY growth of TIDES revenue in 2023E. We expect meaningful future revenue from the CMO services for a blockbuster dual-targeted GLP-1 product. We are positive on the Company's competency in the global peptide market to capture the increasing weight-loss market opportunity, based on its established capacities (over 10,000 liter peptide solid-phase synthesizers as of Feb 2023) and R&D capabilities (1,000 staff as of Feb 2023).
- **Margin improvement driven by favourable currency exchange rates and operating efficiency improvement.** Management indicated that the GPM improvement of 3.4ppt in 1H23 was mainly attributed to favourable currency exchange rate (2.4ppt) and increasing operation efficiency (1.0ppt). If no major change in foreign exchange in 2H23E, GPM could be maintained at above 40% for 2023E, according to Management. The Company is also optimizing employee output by implementing big data and automation in services.
- **Maintain BUY.** We revised our TP from RMB110.69 to RMB 116.73, based on a 10-year DCF model with WACC of 11.57% and terminal growth of 3.0%. We forecast WuXi AppTec's revenue to grow by 6.1%/ 28.8%/ 25.8% YoY and adjusted non-IFRS net income to grow by 12.5%/ 24.8%/ 23.2% YoY in 2023E/ 24E/ 25E, respectively.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	22,902	39,355	41,742	53,762	67,653
YoY growth (%)	38.5	71.8	6.1	28.8	25.8
Adjusted net profit (RMB mn)	5,131	9,399	10,574	13,202	16,269
EPS (Adjusted) (RMB)	1.76	3.17	3.56	4.45	5.48
Consensus EPS (RMB)	na	na	3.31	4.19	5.24
Adjusted P/E (x)	42.6	23.6	21.0	16.9	13.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **RMB116.73**
 (Previous TP RMB110.69)
Up/Downside **55.7%**
Current Price **RMB74.98**

China Healthcare

Jill WU, CFA
 (852) 3900 0842
 jillwu@cmbi.com.hk

Benchen HUANG, CFA
 huangbenchen@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	212,732.0
Avg 3 mths t/o (RMB mn)	1,447.4
52w High/Low (RMB)	98.18/61.82
Total Issued Shares (mn)	2968.2

Source: FactSet

Shareholding Structure

HK investors	20.1%
Ge Li and concerted parties	15.9%

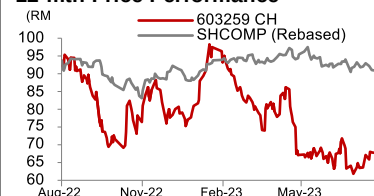
Source: Company

Share Performance

	Absolute	Relative
1-mth	15.0%	11.9%
3-mth	6.1%	7.2%
6-mth	-23.1%	-24.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Historical currency exchange rate of US\$/RMB

Source: WIND, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	41,742	53,762	67,653	41,657	53,634	67,498	0.20%	0.24%	0.23%
Gross Profit	16,697	21,066	26,232	16,386	20,696	25,478	1.90%	1.79%	2.96%
Operating Profit	11,279	14,008	17,350	10,804	13,643	16,772	4.39%	2.67%	3.44%
Non-IFRS net profit	10,574	13,202	16,269	10,271	13,090	16,290	2.95%	0.85%	-0.13%
Non-IFRS EPS (RMB)	3.56	4.45	5.48	3.46	4.41	5.49	2.93%	0.83%	-0.15%
Gross Margin	40.00%	39.18%	38.77%	39.71%	39.05%	38.01%	+0.29ppt	+0.14ppt	+0.76ppt
Operating Margin	27.02%	26.05%	25.64%	26.76%	26.70%	26.26%	+0.26ppt	-0.64ppt	-0.62ppt
Net Margin	25.33%	24.56%	24.05%	25.35%	25.40%	25.25%	-0.02ppt	-0.85ppt	-1.21ppt

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	41,742	53,762	67,653	41,845	53,014	66,349	-0.25%	1.41%	1.97%
Gross Profit	16,697	21,066	26,232	16,053	20,487	25,766	4.01%	2.83%	1.81%
Operating Profit	11,279	14,008	17,350	11,183	14,250	17,950	0.86%	-1.70%	-3.35%
Non-IFRS net profit	10,574	13,202	16,269	9,778	12,424	15,492	8.14%	6.26%	5.01%
Non-IFRS EPS (RMB)	3.56	4.45	5.48	3.31	4.19	5.24	7.53%	6.12%	4.54%
Gross Margin	40.00%	39.18%	38.77%	38.36%	38.65%	38.83%	+1.64ppt	+0.54ppt	-0.06ppt
Operating Margin	27.02%	26.05%	25.64%	26.72%	26.88%	27.05%	+0.30ppt	-0.82ppt	-1.41ppt
Net Margin	25.33%	24.56%	24.05%	23.37%	23.44%	23.35%	+1.97ppt	+1.12ppt	+0.70ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: Valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	12,634	14,771	18,191	23,376	29,570	36,815	45,098	54,344	64,397	75,023
Tax rate	16.24%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
EBIT*(1-tax rate)	10,583	12,555	15,463	19,869	25,135	31,293	38,334	46,192	54,738	63,769
+ D&A	1,754	2,397	2,978	3,722	4,709	5,862	7,181	8,653	10,254	11,946
- Change in working capital	351	(1,848)	(2,132)	(2,665)	(3,371)	(4,197)	(5,141)	(6,195)	(7,342)	(8,553)
- Capex	(9,300)	(9,300)	(9,300)	(9,300)	(9,300)	(9,300)	(9,300)	(9,300)	(9,300)	(9,300)
FCFF	3,388	3,804	7,008	11,627	17,172	23,658	31,074	39,350	48,350	57,863
Terminal value										695,838
Terminal growth rate	3.00%									
WACC	11.57%									
Cost of Equity	14.70%									
Cost of Debt	5.00%									
Equity Beta	0.90									
Risk Free Rate	3.00%									
Market Risk Premium	13.00%									
Target Debt to Asset ratio	30.00%									
Effective Corporate Tax Rate	15.00%									
PV of terminal value (RMB mn)	232,932									
Total PV (RMB mn)	342,048									
Net debt (RMB mn)	(4,422)									
Equity value (RMB mn)	346,470									
# of shares (mn)	2,968									
Price per share (RMB per share)	116.73									

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	16,535	22,902	39,355	41,742	53,762	67,653
Cost of goods sold	(10,253)	(14,592)	(24,677)	(25,045)	(32,696)	(41,421)
Gross profit	6,282	8,310	14,678	16,697	21,066	26,232
Operating expenses	(3,155)	(3,898)	(5,372)	(5,418)	(7,059)	(8,882)
Selling expense	(588)	(699)	(732)	(799)	(1,057)	(1,330)
Admin expense	(1,839)	(2,203)	(2,826)	(2,851)	(3,699)	(4,654)
R&D expense	(693)	(942)	(1,614)	(1,490)	(1,946)	(2,449)
Others	(35)	(54)	(200)	(277)	(357)	(449)
Operating profit	3,127	4,412	9,306	11,279	14,008	17,350
Gain/loss on financial assets at FVTPL	52	(93)	770	511	263	342
Investment gain/loss	606	1,356	188	570	200	200
Net Interest income/(expense)	(520)	(84)	248	495	105	162
Other income/expense	104	425	106	274	300	300
Pre-tax profit	3,369	6,016	10,618	13,129	14,876	18,354
Income tax	(383)	(880)	(1,716)	(2,132)	(2,231)	(2,753)
After tax profit	2,986	5,136	8,903	10,997	12,644	15,601
Minority interest	(26)	(39)	(89)	(90)	(103)	(127)
Net profit	2,960	5,097	8,814	10,907	12,541	15,473
Adjusted net profit	3,637	5,131	9,399	10,574	13,202	16,269
Gross dividends	890	1,529	2,644	3,272	3,762	4,642
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	23,059	21,986	23,997	25,410	30,574	38,540
Cash & equivalents	10,237	8,239	7,986	9,559	11,292	15,321
Account receivables	3,667	4,668	6,047	5,682	7,319	9,210
Inventories	2,686	5,905	5,669	5,873	7,667	9,713
Prepayment	176	303	291	291	291	291
Financial assets at FVTPL	4,618	527	2	2	2	2
Other current assets	1,676	2,344	4,003	4,003	4,003	4,003
Non-current assets	23,232	33,142	40,693	46,694	51,995	56,793
PP&E	5,710	8,554	14,171	20,913	27,017	32,539
Deferred income tax	301	390	492	492	492	492
Investment in JVs & assos	765	678	1,203	1,203	1,203	1,203
Intangibles	998	1,600	1,785	1,641	1,497	1,353
Goodwill	1,392	1,926	1,822	1,822	1,822	1,822
Financial assets at FVTPL	6,717	8,714	8,954	8,780	8,543	8,385
Other non-current assets	7,349	11,280	12,265	11,843	11,421	10,999
Total assets	46,291	55,127	64,690	72,104	82,569	95,333
Current liabilities	7,920	12,985	14,499	14,690	16,273	18,078
Short-term borrowings	1,230	2,261	3,874	3,874	3,874	3,874
Account payables	941	1,931	1,659	1,850	3,433	5,238
Tax payable	379	536	882	882	882	882
Other current liabilities	5,370	8,256	8,084	8,084	8,084	8,084
Non-current liabilities	5,652	3,385	3,264	2,762	2,762	2,762
Long-term borrowings	0	0	279	279	279	279
Bond payables	1,819	607	502	0	0	0
Obligations under finance leases	1,067	1,019	984	984	984	984
Other non-current liabilities	2,766	1,759	1,499	1,499	1,499	1,499
Total liabilities	13,573	16,370	17,764	17,453	19,035	20,841
Share capital	2,442	2,956	2,961	2,961	2,961	2,961
Capital surplus	22,678	25,732	26,512	34,147	42,925	53,756
Other reserves	7,374	9,804	17,118	17,118	17,118	17,118
Total shareholders equity	32,494	38,492	46,590	54,225	63,004	73,835
Minority interest	225	266	337	427	530	657
Total equity and liabilities	46,291	55,127	64,690	72,104	82,569	95,333
CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	3,369	6,016	10,618	13,129	14,876	18,354
Depreciation & amortization	959	1,363	1,718	2,121	2,764	3,345
Tax paid	(383)	(880)	(1,716)	(2,132)	(2,231)	(2,753)
Change in working capital	(494)	(1,151)	(298)	351	(1,848)	(2,132)

Others	523	(759)	294	(1,317)	(369)	(505)
Net cash from operations	3,974	4,589	10,616	12,152	13,191	16,308
Investing						
Capital expenditure	(3,031)	(6,936)	(9,966)	(8,500)	(8,500)	(8,500)
Acquisition of subsidiaries/ investments	(186)	(858)	(161)	0	0	0
Net proceeds from disposal of short-term investments	(5,638)	2,766	82	1,200	700	700
Others	79	189	355	0	0	0
Net cash from investing	(8,776)	(4,839)	(9,690)	(7,300)	(7,800)	(7,800)
Financing						
Dividend paid	(638)	(916)	(1,598)	(2,777)	(3,658)	(4,480)
Net borrowings	(1,284)	1,071	1,668	0	0	0
Proceeds from share issues	13,162	104	150	0	0	0
Others	(1,352)	(1,983)	(1,497)	(502)	0	0
Net cash from financing	9,888	(1,724)	(1,278)	(3,279)	(3,658)	(4,480)
Net change in cash						
Cash at the beginning of the year	5,223	10,228	8,175	7,986	9,559	11,292
Exchange difference	(81)	(79)	161	0	0	0
Cash at the end of the year	10,228	8,175	7,984	9,559	11,292	15,321
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	28.5%	38.5%	71.8%	6.1%	28.8%	25.8%
Gross profit	25.3%	32.3%	76.6%	13.8%	26.2%	24.5%
Operating profit	26.4%	41.1%	110.9%	21.2%	24.2%	23.9%
Net profit	59.6%	72.2%	72.9%	23.8%	15.0%	23.4%
Adj. net profit	51.1%	41.1%	83.2%	12.5%	24.8%	23.2%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	38.0%	36.3%	37.3%	40.0%	39.2%	38.8%
Operating margin	18.9%	19.3%	23.6%	27.0%	26.1%	25.6%
Adj. net profit margin	22.0%	22.4%	23.9%	25.3%	24.6%	24.0%
Return on equity (ROE)	11.9%	14.4%	20.7%	21.6%	21.4%	22.6%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Current ratio (x)	2.9	1.7	1.7	1.7	1.9	2.1
Receivable turnover days	73.2	66.4	49.7	49.7	49.7	49.7
Inventory turnover days	78.8	107.4	85.6	85.6	85.6	85.6
Payable turnover days	107.4	107.8	75.5	75.5	75.5	75.5
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	59.0	42.9	25.2	20.4	17.7	14.4
P/E (adjusted)	48.0	42.6	23.6	21.0	16.9	13.7
P/B	5.3	5.6	4.7	4.1	3.5	3.0

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

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

CMB International Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.