

BUY (Maintain)

Target Price	HK\$19.12
(Previous TP)	HK\$20.0)
Up/Downside	+12.89%
Current Price	HK\$16.94

China Healthcare Sector

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Stock Data

Mkt Cap (HK\$ mn)	105,644
Avg 3 mths t/o (HK\$ mn)	580.48
52w High/Low (HK\$)	21.8/11.22
Total Issued Shares (mn)	6,236

Source: Bloomberg

Shareholding Structure

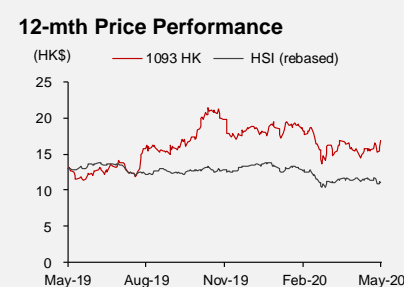
Management	29.94%
Citigroup Inc	5.87%
BlackRock	4.75%
Free float	59.44%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.1%	4.0%
3-mth	-12.7%	-0.4%
6-mth	-19.6%	-7.4%

Source: Bloomberg



Source: Bloomberg

Auditor: Deloitte**Related Reports**

1. Oncology portfolio to be a major growth driver – 31 Mar 2020
2. Another solid quarter – 19 Nov 2019
3. The King is back – 20 Aug 2019

CSPC Pharmaceutical (1093 HK)

Inline 1Q results amid COVID-19 outbreak

CSPC announced 1Q20 results with revenue rose 11.5% YoY to RMB6.1bn, net profit grew 21.8% YoY to RMB1.2bn, and adj. net profit (excluding one-off gain from disposal of a subsidiary) dropped 2.4% YoY to RMB929mn. Revenue and adj. net profit accounted for 23.3%/ 21.1% of our full-year estimates. We trimmed FY20/21E revenue forecasts by 4.3%/ 7.4% to reflect the impact from COVID-19 outbreak and lowered DCF-based TP from HK\$20.00 to HK\$19.12. Maintain BUY.

- **1Q20 results largely inline amid challenging environment during COVID-19 outbreak.** 1Q20 revenue was RMB6.1bn, up 11.5% YoY, of which finished drugs grew 18.3% YoY, while bulk medicines declined 11.6% YoY due to ASP decline. 1Q20 GPM improved 4ppts thanks to increasing proportion of sales from high-margin finished drugs. OPM declined 2.2ppts due to 4ppts increase in selling expenses ratio and 1.3ppts rise in admin expense ratio. CSPC also booked a one-off equity gain of RMB286mn from selling a subsidiary.
- **Oncology portfolio maintained strong momentum.** Oncology drug sales grew 53.7% YoY to RMB1.55bn in 1Q20, driven by the strong growth from Ke'ailli (+114% YoY), Jinyouli (+65% YoY) and Duomeisu (+14% YoY). Ke'ailli becomes one of the only two albumin bound paclitaxel injections that won the volume-based tenders which will significantly lift its sales in 2020E.
- **NBP growth slowed down from a high base.** 1Q20 sales of NBP reached RMB1.45bn, up 18.1% YoY. We think NBP will continue to grow thanks to channel penetration into lower tier cities. Sales force for NBP has expanded from c.2,300 people by end-2019 to 2,600 people in 1Q20. Patent of NBP will expire in 2023E. We think NBP will maintain growth before patent expiration.
- **Accelerating R&D investment.** CSPC spent RMB568mn in R&D in 1Q20, indicating 9.3% R&D expense ratio. CSPC targets to launch 13 innovative drugs in 2020-23E. We expect Amphotericin B cholesteryl sulfate complex for injection to receive NMPA's approval in 2020E, Mitoxantrone hydrochloride liposome injection and Duvelisib (PI3K) to receive approvals from NMPA in 2021E.
- **Maintain BUY.** To reflect impact from COVID-19 pandemic, we trimmed FY20/21 revenue forecasts by 4.3%/ 7.4%, respectively. We expect revenue to grow 13.9%/ 16.2% YoY in FY20/21E and attributable net profit to grow 19.7%/19.0% YoY in FY20/21E. We lowered DCF-based TP to HK\$19.12 (WACC 10.0%, Terminal growth 3.0%).
- **Catalysts:** 1) earlier-than-expected launch of new products, 2) stronger-than-expected product sales, and 3) successful listing on Sci-Tec Board.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	17,717	22,103	25,184	29,259	33,952
YoY growth (%)	32	25	14	16	16
Net profit (RMB mn)	3,081	3,714	4,445	5,291	6,325
EPS (RMB)	0.49	0.60	0.71	0.85	1.01
YoY growth (%)	25.1	20.9	19.5	19.0	19.5
Consensus EPS (RMB)	0.49	0.60	0.78	0.94	1.10
P/E (x)	30.5	25.3	21.2	17.8	14.9
P/B (x)	6.1	4.8	4.2	3.6	3.0
Yield (%)	1.0	1.0	1.4	1.7	2.0
ROE (%)	20.5	20.1	20.6	20.9	21.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Figure 1: 1Q20 results review

(RMB mn)	1Q19	1Q20	YoY Change
Finished drugs	4,245	5,022	18.3%
Antibiotics	347	208	-40.1%
Vitamin C	9,912	9,912	0.0%
Caffeine and Others	378	469	24.3%
Total revenue	5,493	6,125	11.5%
COGS	(1,652)	(1,596)	-3.4%
Gross profit	3,841	4,529	17.9%
Other income and gains	21	70	226.7%
Selling expenses	(2,064)	(2,551)	23.6%
Administrative expenses	(176)	(278)	57.9%
R&D expenses	(461)	(568)	23.2%
Other expenses	(6)	(40)	548.3%
Operating profit	1,156	1,163	0.6%
Net finance costs	(14)	(2)	-84.7%
Share of results of associates	16	295	1772.4%
Profit before tax	1,158	1,455	25.7%
Income tax	(210)	(283)	34.6%
Minority interest	(5)	13	-371.7%
Net profit	952	1,159	21.8%
Adj. net profit	952	929	-2.4%
Gross margin	69.8%	75.3%	+4.0ppt
Operating margin	21.3%	20.2%	-2.1ppt
Net margin	17.3%	18.9%	+1.6ppt
Adj. net margin	17.8%	16.9%	-2.2ppt

Source: Company data, CMBIS estimates; Note: adj. net profit refers to net profit excludes one-off equity gain.

Figure 2: CMBIS earnings revisions

(RMB mn)	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	25,184	29,259	26,329	31,592	-4.3%	-7.4%
Gross profit	18,636	22,237	19,220	23,378	-3.0%	-4.9%
Operating profit	5,212	6,555	5,451	6,734	-4.4%	-2.7%
Net profit	4,445	5,291	4,410	5,439	0.8%	-2.7%
EPS (RMB)	0.71	0.85	0.71	0.87	0.8%	-2.7%
Gross margin	74.00%	76.00%	73.00%	74.00%	+1.00 ppt	+2.00 ppt
Operating margin	20.70%	22.40%	20.70%	21.31%	-0.01 ppt	+1.09 ppt
Net Margin	17.65%	18.08%	16.75%	17.22%	+0.90 ppt	+0.87 ppt

Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

(RMB mn)	CMBIS		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	25,184	29,259	26,173	31,132	-3.8%	-6.0%
Gross profit	18,636	22,237	18,762	22,564	-0.7%	-1.5%
Operating profit	5,212	6,555	5,426	6,595	-3.9%	-0.6%
Net profit	4,445	5,291	4,837	5,906	-8.1%	-10.4%
EPS (RMB)	0.71	0.85	0.70	0.85	2.0%	-0.2%
Gross margin	74.00%	76.00%	71.7%	72.5%	+2.31ppt	+3.52ppt
Operating margin	20.70%	22.40%	20.7%	21.2%	-0.04ppt	+1.22ppt
Net Margin	17.65%	18.08%	20.7%	20.3%	-3.00ppt	-2.21ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: Peers' valuation

Company	Ticker	Rating	TP	Price	Mkt cap	PER(x)		PBR(x)		EV/EBITDA (x)		ROE(%)	
			LC	LC	LC mn	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
CSPC Pharma	1093 HK	BUY	19.12	16.94	105,644	21.2	17.8	4.2	3.6	13.6	10.9	21.9	23.2
Sino Biopharm	1177 HK	N/A	N/A	11.94	150,226	40.4	33.4	3.9	3.5	19.0	16.3	10.6	11.2
Hansoh Pharma	3692 HK	N/A	N/A	32.80	194,143	56.1	45.2	11.2	9.1	46.7	36.9	20.5	20.5
3SBIO Pharma	1530 HK	BUY	15.0	8.98	22,796	14.8	12.6	1.9	1.7	10.2	8.5	13.7	13.9
Livzon Pharma	1513 HK	N/A	N/A	30.15	35,513	17.1	14.8	2.2	2.0	13.2	11.4	13.2	14.0
Fosun Pharma	2196 HK	N/A	N/A	24.85	81,326	17.3	14.6	1.7	1.6	25.9	21.8	10.0	10.8
					Average	29.2	24.1	4.2	3.6	23.0	19.0	13.6	14.1

Source: Bloomberg, CMBIS estimates

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	17,717	22,103	25,184	29,259	33,952
Finished drug	13,503	17,937	21,230	25,297	29,980
Bulk medicines	4,213	4,166	3,954	3,961	3,971
Cost of sales	(5,979)	(6,192)	(6,548)	(7,022)	(7,809)
Gross profit	11,737	15,911	18,636	22,237	26,143
Other income and gains	295	293	337	394	458
Distribution expenses	(6,185)	(8,712)	(10,325)	(12,142)	(14,260)
Administrative expenses	(657)	(749)	(1,007)	(1,170)	(1,358)
R&D expenses	(1,342)	(2,000)	(2,267)	(2,575)	(2,920)
Other expenses	(26)	(142)	(162)	(188)	(218)
Operating profit	3,823	4,601	5,212	6,555	7,845
Share of profit of associate / JV	44	58	58	58	58
Net finance cost	(74)	(32)	(6)	(6)	(6)
Exceptional	-	-	286	-	-
Pre-tax profit	3,792	4,626	5,550	6,607	7,897
Profits tax	(734)	(893)	(1,082)	(1,288)	(1,540)
Minority interest	22	(19)	(23)	(27)	(33)
Net profit	3,081	3,714	4,445	5,291	6,325

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
EBIT	3,823	4,601	5,212	6,555	7,845
Depreciation and amortization	629	2,066	2,758	2,703	3,395
Change in working capital	172	(490)	(529)	(698)	(694)
Income tax paid	(644)	(867)	(1,082)	(1,288)	(1,540)
Others	(185)	(1,526)	(1,728)	(1,959)	(2,651)
Net cash from operating activities	3,795	3,784	4,631	5,312	6,355
Capex	(1,641)	(1,873)	(1,500)	(1,300)	(1,000)
Placement of restricted bank deposits	(3,234)	(1,935)	-	-	-
Other	1,321	1,350	-	-	-
Net cash from investing activities	(3,554)	(2,457)	(1,500)	(1,300)	(1,000)
Change of Debts	(774)	(48)	-	-	-
Dividend paid	(789)	(965)	(1,334)	(1,587)	(1,897)
Other	1,412	(533)	(3)	(3)	(3)
Net cash from financing activities	(151)	(1,546)	(1,336)	(1,590)	(1,900)
Net change in cash	90	(219)	1,794	2,422	3,454
Cash at the beginning of the year	4,350	4,336	4,118	5,912	8,334
Exchange difference	3	1	-	-	-
Bank deposits with more than 3 months to maturity upon placement	(107)	-	-	-	-
Cash at the end of the year	4,336	4,118	5,912	8,334	11,789

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	9,413	12,621	13,430	14,038	14,347
Fixed asset	6,692	8,459	9,371	10,083	10,496
Goodwill	527	823	737	652	566
Intangible assets	807	1,136	1,118	1,100	1,082
Other non-current assets	1,387	2,203	2,203	2,203	2,203
Current assets	13,803	13,697	16,328	19,858	24,688
Cash	4,336	4,118	5,912	8,334	11,789
Account receivable	2,546	2,826	3,220	3,741	4,341
Inventories	3,045	2,536	2,681	2,876	3,198
Other current assets	3,877	4,217	4,514	4,907	5,360
Current liabilities	7,247	6,237	6,545	6,955	7,636
Borrowings	71	23	23	23	23
Trade and other payables	4,540	4,803	5,078	5,446	6,056
Other current liabilities	2,637	1,411	1,443	1,486	1,556
Non-current liabilities	440	563	563	563	563
Borrowings	-	-	-	-	-
Other non-current	440	563	563	563	563
Total net assets	15,530	19,518	22,650	26,378	30,835
Minority interest	477	1,056	1,077	1,101	1,131
Shareholders' equity	15,052	18,462	21,573	25,277	29,704

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Finished drugs	76.2	81.2	84.3	86.5	88.3
Bulk medicines	23.8	18.8	15.7	13.5	11.7
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	66.3	72.0	74.0	76.0	77.0
EBITDA margin	25.5	23.9	23.4	24.8	10.8
Pre-tax margin	21.4	20.9	23.2	24.5	24.9
Net margin	17.4	16.8	18.8	20.0	20.3
Effective tax rate	19.3	19.3	18.5	17.9	18.2
Balance sheet ratios					
Current ratio (x)	1.9	2.2	2.5	2.9	3.2
Trade receivables turnover	77	82	82	82	82
Trade payables turnover	361	316	316	316	316
Inventory turnover days	178	149	149	149	149
Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	20.5	20.1	21.9	23.2	23.2
ROA	13.3	14.1	15.9	17.3	17.7
Per share data					
EPS (RMB)	0.49	0.60	0.71	0.85	1.01
DPS (RMB)	0.15	0.16	0.21	0.25	0.30
BVPS (RMB)	2.5	3.1	3.6	4.2	4.9

Source: Company data, CMBIS estimates

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