

## WuXi Biologics (2269 HK)

### Strong backlogs to drive future growth

- **Growth remained solid despite the COVID-19 pandemic.** In 1H20, WuXi Biologics reported revenue of RMB1.94bn, up 21% YoY, accounting for 37% of our full-year forecast. Adjusted net profit was up 41% YoY to RMB734mn, accounting for 47% of our full-year estimate.
- **Strong growth in China and rest-of-the-world has more than offset the negative impact from US and Europe.** Due to the serious COVID-19 outbreak, in 1H20, income from North America increased 4% YoY, contributing 45% of the Company's total revenue, while income from Europe climbed 9% YoY, accounting for 6% of the total revenue. However, the strong growth in China and other regions (such as Singapore, Japan, South Korea, Australia, etc.) has more than offset the impact from US and Europe. Income from China surged 43% YoY in 1H20, accounting for 42% of the total revenue while other regions recorded 62% YoY income growth in 1H20, contributing 7% of the total revenue.
- **Phenomenal backlog growth driven by service backlogs from vaccine business and COVID-19 related projects.** WuXi Biologics' backlogs surged from US\$5,102mn as of end-2019 to US\$9,464mn as of Jun 2020, including US\$5,773mn service backlogs and US\$3,691mn milestone backlogs. US\$925mn backlogs are expected to be converted into revenue within the next three years, rising 18% from the level as of end-2019. During 1H20, WuXi Biologics has secured US\$3.2mn service backlogs from COVID-19 related projects. The Company may realize US\$80mn income from COVID-19 related projects in 2020E and US\$150mn income in 2022E.
- **Late-stage integrated projects continue to increase.** As of Jun 2020, WuXi Biologics works on a total of 286 integrated projects, while the number of late-phase (phase III) projects rose from 16 as of end-2019 to 19 as of Jun 2020. Late-stage projects can bring larger income than early-stage projects and significantly drive the total income growth.
- **Aggressive capex in coming years to meet the strong demand.** WuXi Biologics plans to spend RMB5.0bn capex in 2020E, RMB5.0bn in 2021E and RMB1.0-2.0bn in 2022E. The spending will be mainly used to build manufacturing facilities in the US, Europe and China. The Company aims to expand its total capacity from 54,000L in 2020 to 125,000L in 2021E, 220,000L in 2022E and further expand to above 280,000L in 2023E.
- **We lift our DCF-based TP from HK\$111.93 to HK\$196.85 (WACC 10.17%, Terminal growth rate 5%).** We expect WuXi Biologics' revenue to increase 29%/40%/38% YoY in FY20E/21E/22E and adjusted net profit to grow by 30%/38%/40% YoY in FY20E/21E/22E, respectively. We lift our TP to HK\$196.85 mainly to reflect strong demand to drive future growth.
- **Catalysts:** Higher-than-expected earnings growth.

#### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	2,534	3,984	5,144	7,186	9,881
Revenue YoY growth (%)	56.56	57.18	29.14	39.69	37.50
Net income (RMB mn)	631	1,014	1,423	1,787	2,507
Adjusted net income (RMB mn)	752	1,205	1,571	2,173	3,037
EPS (RMB)	0.52	0.82	1.05	1.32	1.85
EPS YoY growth (%)	121.48	57.07	28.11	25.61	40.26
Consensus EPS (RMB)	N/A	N/A	0.93	1.37	1.94
P/E (x)	300.36	191.22	149.27	118.84	84.73
P/B (x)	23.69	15.03	10.69	9.81	8.79
ROE (%)	10.49	9.71	8.69	8.61	10.95
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$196.85**  
 (Previous TP **HK\$111.93**)  
 Up/Downside **+11.97%**  
 Current Price **HK\$175.80**

#### China Healthcare Sector

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Mkt. Cap. (HK\$ mn) 238,614  
 Avg. 3mths t/o (HK\$ mn) 902.51  
 52W High/Low (HK\$) 193.00/  
 77.00  
 Total Issued Shares (mn) 1,357  
 Source: Bloomberg

#### Shareholding Structure

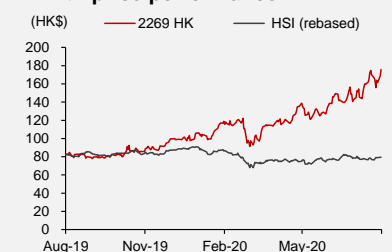
Management 29.38%  
 JPMorgan 12.42%  
 Citigroup 11.80%  
 The Capital Group 5.94%  
 Free float 40.44%  
 Source: HKEx

#### Share performance

	Absolute	Relative
1-mth	18.8%	17.6%
3-mth	25.1%	17.4%
6-mth	44.8%	59.7%

Source: Bloomberg

#### 12-mth price performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

#### Related Reports

1. Growth on track – 29 Mar 2020
2. Fast growing demand in biologicals outsourcing – 13 Dec 2019

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**Figure 1: CMBIS earnings revisions**

(RMB mn)	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	5,144	7,186	5,278	7,392	-2.53%	-2.78%
Gross profit	2,115	3,054	2,217	3,142	-4.57%	-2.78%
Operating profit	1,391	1,991	1,484	2,058	-6.26%	-3.24%
Net profit	1,423	1,787	1,286	1,809	10.66%	-1.23%
EPS (RMB)	1.05	1.32	0.99	1.40	5.40%	-5.92%
Gross margin	41.12%	42.50%	42.00%	42.50%	-0.88ppt	0.00ppt
Operating margin	27.03%	27.70%	28.11%	27.84%	-1.08ppt	-0.13ppt
Net Margin	27.66%	24.87%	24.36%	24.48%	+3.29ppt	+0.39ppt

Source: Company data, CMBIS estimates

**Figure 2: CMBIS estimates vs consensus**

(RMB mn)	CMBIS		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	5,144	7,186	5,300	7,442	-2.94%	-3.44%
Gross profit	2,115	3,054	2,211	3,154	-4.32%	-3.17%
Operating profit	1,391	1,991	1,254	1,969	10.90%	1.11%
Net profit	1,423	1,787	1,255	1,875	13.36%	-4.69%
EPS (RMB)	1.05	1.32	0.93	1.37	12.71%	-3.61%
Gross margin	41.12%	42.50%	41.72%	42.38%	-0.59ppt	+0.12ppt
Operating margin	27.03%	27.70%	23.66%	26.46%	+3.37ppt	+1.25ppt
Net Margin	27.66%	24.87%	23.68%	25.19%	+3.98ppt	-0.33ppt

Source: Company data, CMBIS estimates

## Financial Statements

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>2,534</b>	<b>3,984</b>	<b>5,144</b>	<b>7,186</b>	<b>9,881</b>
Pre-IND services	1,451	1,808	2,304	3,217	4,343
Post-IND services	1,084	2,152	2,793	3,921	5,490
Cost of sales	(1,517)	(2,325)	(3,029)	(4,132)	(5,632)
<b>Gross profit</b>	<b>1,018</b>	<b>1,659</b>	<b>2,115</b>	<b>3,054</b>	<b>4,249</b>
Other income	194	180	208	180	180
Selling & distribution expenses	(42)	(77)	(112)	(144)	(188)
Administrative expenses	(228)	(367)	(491)	(647)	(870)
R&D expenses	(169)	(260)	(329)	(453)	(613)
<b>Operating profit</b>	<b>773</b>	<b>1,135</b>	<b>1,391</b>	<b>1,991</b>	<b>2,759</b>
Finance costs, net	0	(20)	(45)	(67)	(67)
Other gains and losses	21	22	226	0	0
Impairment losses, net of reversal	(56)	(7)	(57)	(10)	(10)
<b>Pre-tax profit</b>	<b>738</b>	<b>1,127</b>	<b>1,513</b>	<b>1,908</b>	<b>2,676</b>
Income tax	(107)	(116)	(96)	(120)	(169)
Minority interests	0	3	5	0	0
<b>Net profit</b>	<b>631</b>	<b>1,014</b>	<b>1,423</b>	<b>1,787</b>	<b>2,507</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Profit before tax</b>	<b>738</b>	<b>1,127</b>	<b>1,513</b>	<b>1,908</b>	<b>2,676</b>
Depreciation & amortization	146	196	452	675	801
Change in working capital	(246)	(216)	(341)	(393)	(506)
Share-based payment expense	128	204	0	0	0
Other operating activities	(5)	(103)	(27)	(25)	(74)
<b>Net cash from operating</b>	<b>762</b>	<b>1,208</b>	<b>1,597</b>	<b>2,164</b>	<b>2,897</b>
Capex	(1,341)	(3,211)	(5,000)	(5,000)	(1,500)
Acquisition of subsidiaries	(333)	(1)	0	0	0
Other investing activities	1,258	(1,282)	4	0	0
<b>Net cash from investing</b>	<b>(416)</b>	<b>(4,494)</b>	<b>(4,996)</b>	<b>(5,000)</b>	<b>(1,500)</b>
Net proceeds from shares issued	3,206	3,534	5,546	0	0
Bank borrowing	0	1,910	500	0	0
Acquisition of non-controlling interests	0	(50)	(45)	(67)	(67)
Dividends and interests paid	1	19	0	0	0
Other financing activities	3,207	5,413	6,001	(67)	(67)
<b>Net cash from financing</b>	<b>3,207</b>	<b>5,413</b>	<b>6,001</b>	<b>(67)</b>	<b>(67)</b>
FX changes	28	(6)	0	0	0
Net change in cash	3,581	2,121	2,602	(2,903)	1,330
Cash at the beginning of the year	504	4,084	6,205	8,807	5,904
<b>Cash at the end of the year</b>	<b>4,084</b>	<b>6,205</b>	<b>8,807</b>	<b>5,904</b>	<b>7,234</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>3,648</b>	<b>7,930</b>	<b>12,450</b>	<b>16,748</b>	<b>17,418</b>
Fixed asset	2,904	6,338	10,907	15,253	15,973
Intangible assets	332	416	395	374	353
Equity instruments at fair value	137	139	139	139	139
Financial assets at fair value	56	282	282	282	282
Other non-current assets	220	755	727	699	671
<b>Current assets</b>	<b>5,745</b>	<b>9,672</b>	<b>12,436</b>	<b>10,532</b>	<b>13,192</b>
Cash	4,084	6,205	8,807	5,904	7,234
Inventories	227	399	408	557	759
Trade and bills receivables	1,067	1,737	1,804	2,520	3,465
Contract costs	295	284	370	505	689
Other current assets	72	1,046	1,046	1,046	1,046
<b>Current liabilities</b>	<b>1,319</b>	<b>2,871</b>	<b>2,692</b>	<b>3,298</b>	<b>4,123</b>
Borrowings	0	506	506	506	506
Trade and other payables	712	1,844	1,665	2,271	3,095
Other current liabilities	607	521	521	521	521
<b>Non-current liabilities</b>	<b>80</b>	<b>1,835</b>	<b>2,335</b>	<b>2,335</b>	<b>2,335</b>
Borrowings	0	1,395	1,895	1,895	1,895
Other non-current liabilities	80	440	440	440	440
<b>Total net assets</b>	<b>7,994</b>	<b>12,896</b>	<b>19,859</b>	<b>21,646</b>	<b>24,153</b>
<b>Minority interest</b>	<b>0</b>	<b>112</b>	<b>106</b>	<b>106</b>	<b>106</b>
<b>Shareholders' equity</b>	<b>7,994</b>	<b>12,784</b>	<b>19,753</b>	<b>21,540</b>	<b>24,046</b>

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Pre-IND services	57	45	45	45	44
Post-IND services	43	54	54	55	56
Total	100	99	99	99	100
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	40	42	41	43	43
EBITDA margin	38	33	38	36	36
Pre-tax margin	29	28	29	27	27
Net margin	25	25	28	25	25
Effective tax rate	15	10	6	6	6
<b>Balance sheet ratios</b>					
Current ratio (x)	4	3	5	3	3
Trade receivables turnover days	121	128	128	128	128
Trade payables turnover days	180	201	201	201	201
Net debt to total equity ratio (%)	Net	Net	Net	Net	Net
<b>Returns (%)</b>					
ROE	10	10	9	9	11
ROA	9	8	7	7	9
<b>Per share</b>					
EPS (RMB)	0.52	0.82	1.05	1.32	1.85
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	6.60	10.41	14.63	15.95	17.79

Source: Company data, CMBIS estimates

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