

WuXi Biologics (2269 HK)

Continue strong growth momentum

- **Strong growth continued in FY20.** WuXi Biologics reported FY20 revenue/attributable net profit of RMB5,612mn/ RMB1,689mn, increasing by 41% / 67% YoY and beating our estimates by 9.1%/18.7%. Adjusted net profit grew 42.8% YoY to RMB1,716mn. Gross profit margin improved significantly by 3.5ppts to 45.1%, and net profit margin improved 4.8ppts to 30.2%.
- **Strong growth in China, Europe and the rest-of-the-world market has more than offset the negative impact from the US.** In FY20, North America and China remain the two major sources of revenue, contributing 44.2% and 43.9% of total revenue. Revenue from North America slowed down (+16% YoY) due to delays in clinical progress during COVID pandemic. Revenue from China, Europe and the rest-of-the-world achieved outstanding growth of 75.1% YoY, 43.4% YoY and 75.1% YoY, respectively. We expect the demand in North America to recover strongly in FY20 thanks to the ease of COVID.
- **State-of-the-art technology platforms attract rich number of projects.** Leveraging the Company's advanced platforms, such as mAb, bispecific, ADC, fusion protein and vaccine, WuXi Bio attracted a large number of projects. In 2020, Wuxi Bio added a record-high number of 103 new integrated projects (vs 59 in 2019). There were 334 integrated projects by end of 2020 (vs 250 in 2019), while the number of late-phase (phase III) projects rose from 16 as of end-2019 to 28 as of end-2020. Among the 13 newly-added phase III projects, 6 were transferred to Wuxi Bio through "Win-the-Molecule" strategy. We believe the Company will generate higher revenue from single project thanks to the increasing number of late-stage projects.
- **Phenomenal backlog growth driven by service backlogs from vaccines and COVID-treatment drugs.** WuXi Bio's backlogs surged 122% YoY to US\$11.3bn as of end-2020, including US\$6.6bn service backlogs and US\$4.7bn milestone backlogs. Dramatic growth in service backlogs was mainly due to long-term vaccine CMO projects, surging COVID-treatment projects and fast recovery from non-COVID business. As of end-2020, backlogs within 3 years increased 85.5% YoY to US\$1,458mn.
- **Fast capacity expansion.** WuXi Bio spent RMB6.0bn capex in 2020 and plans to invest RMB8bn capex in 2021E. The Company has acquired two manufacturing facilities from Bayer for €77mn and €150mn, respectively. In Mar 2021, WuXi Bio announced to purchase two China-based facilities from Pfizer and CMAB. The Company plans to expand its capacity from 5,4000L in 2020 to 154,000 in 2021E and further to 430,000 in 2024E.
- **Maintain BUY.** We maintain positive on Wuxi Bio's long-term prospects. We raised FY21/22E net profit forecasts by 25.6%/ 23.3% to reflect its rapid capacity expansion and comprehensive technology platforms. We expect WuXi Biologics' revenue to increase 51%/42%/38% YoY in FY21E/22E/23E and adjusted net profit to grow by 55%/38%/37% YoY in FY21E/22E/23E, respectively. We roll over our TP to 2021 and revise TP to HK\$99.37 based on DCF model (WACC 9.71%, Terminal growth 5.0%). **Catalysts:** Higher-than-expected earnings growth.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	3,984	5,612	8,499	12,106	16,703
Revenue YoY growth (%)	57.18	40.88	51.43	42.45	37.97
Net income (RMB mn)	1,014	1,689	2,245	3,090	4,227
Adjusted net income (RMB mn)	1,205	1,716	2,663	3,686	5,049
EPS (RMB)	0.27	0.43	0.53	0.73	1.00
EPS YoY growth (%)	-47.64	56.65	24.78	37.66	36.80
Consensus EPS (RMB)	N/A	N/A	0.61	0.84	1.15
P/E (x)	267.65	170.86	136.93	99.47	72.71
P/B (x)	21.04	13.81	13.28	11.72	10.09
ROE (%)	9.71	9.99	10.19	12.52	14.91
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$99.37**
 (Previous TP **HK\$196.85**)
 Up/Downside **+12.98%**
 Current Price **HK\$87.95**

China Healthcare Sector

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Mkt. Cap. (HK\$ mn) 370,283
 Avg. 3mths t/o (HK\$ mn) 2,332.95
 52W High/Low (HK\$) 128.90/31.4
 Total Issued Shares (mn) 4,210

Source: Bloomberg

Shareholding Structure

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

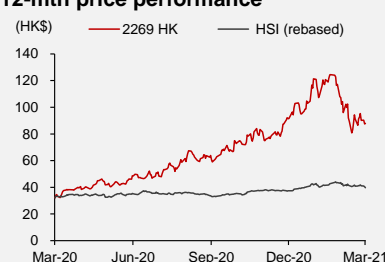
Source: HKEx

Share performance

	Absolute	Relative
1-mth	-18.5%	-12.4%
3-mth	-4.4%	-11.6%
6-mth	36.9%	14.1%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

Related Reports

1. Strong backlogs to drive future growth 19 Aug 2020
2. Growth on track – 29 Mar 2020
3. Fast growing demand in biologicals outsourcing – 13 Dec 2019

Figure 1: FY20A results change

YE Dec 31 (RMB mn)	2019A	2020A	YoY Change	CMBIS 2020E	Diff (%)
Revenue	3,984	5,612	40.9%	5,144	9.1%
Pre-IND services	1,808	2,800	54.8%	2,304	21.5%
Post-IND services	2,152	2,725	26.6%	2,793	-2.4%
Cost of sales	(2,325)	(3,079)	32.5%	(3,029)	1.7%
Gross profit	1,659	2,533	52.7%	2,115	19.7%
Other income	180	220	22.4%	208	5.6%
Selling & distribution expenses	(77)	(94)	22.5%	(112)	-16.0%
Administrative expenses	(367)	(511)	39.2%	(491)	4.1%
R&D expenses	(260)	(304)	17.0%	(329)	-7.7%
Operating profit	1,135	1,844	62.5%	1,391	32.6%
Finance costs, net	(20)	(43)	118.0%	(45)	-4.6%
Other gains and losses	22	283	1216.9%	226	25.6%
Impairment losses, net of reversal	(7)	(121)	1669.4%	(57)	113.9%
Pre-tax profit	1,127	1,966	74.5%	1,513	29.9%
Income tax	(116)	(273)	134.8%	(96)	185.7%
Minority interests	3	(4)	-209.8%	5	-170.4%
Net profit	1,014	1,689	66.6%	1,423	18.7%

Source: Company data, CMBIS estimates

Figure 2: CMBIS earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	8,499	12,106	16,703	7,186	9,881	N/A	18.26%	22.53%	N/A
Gross profit	3,739	5,266	7,266	3,054	4,249	N/A	22.44%	23.95%	N/A
Operating profit	2,568	3,550	4,870	1,991	2,759	N/A	28.99%	28.67%	N/A
Net profit	2,245	3,090	4,227	1,787	2,507	N/A	25.60%	23.27%	N/A
EPS (RMB)	0.53	0.73	1.00	0.44	0.61	N/A	21.78%	19.52%	N/A
Gross margin	44.00%	43.50%	43.50%	42.50%	43.00%	N/A	+1.50ppt	+0.50ppt	N/A
Operating margin	30.22%	29.32%	29.16%	27.70%	27.92%	N/A	+2.51ppt	+1.40ppt	N/A
Net Margin	26.41%	25.52%	25.31%	24.87%	25.37%	N/A	+1.54ppt	+0.15ppt	N/A

Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

(RMB mn)	New			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	8,499	12,106	16,703	8,521	12,240	16,883	-0.26%	-1.09%	-1.07%
Gross profit	3,739	5,266	7,266	3,628	5,235	7,082	3.06%	0.60%	2.59%
Operating profit	2,568	3,550	4,870	2,146	3,232	4,904	19.67%	9.83%	-0.69%
Net profit	2,245	3,090	4,227	2,550	3,556	4,783	-11.98%	-13.11%	-11.63%
EPS (RMB)	0.53	0.73	1.00	0.61	0.84	1.15	-11.88%	-12.21%	-12.32%
Gross margin	44.00%	43.50%	43.50%	42.58%	42.77%	41.95%	+1.42ppt	+0.73ppt	+1.55ppt
Operating margin	30.22%	29.32%	29.16%	25.18%	26.41%	29.05%	+5.03ppt	+2.92ppt	+0.11ppt
Net Margin	26.41%	25.52%	25.31%	29.93%	29.05%	28.33%	-3.52ppt	-3.53ppt	-3.02ppt

Source: Company data, CMBIS estimates

Financial Statements

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	3,984	5,612	8,499	12,106	16,703	Profit before tax	1,127	1,966	2,607	3,588	4,909
Pre-IND services	1,808	2,800	4,021	5,429	7,057	Depreciation & amortization	196	380	801	1,031	1,128
Post-IND services	2,152	2,725	4,381	6,572	9,530	Change in working capital	(216)	(1,069)	1	(822)	(1,067)
Cost of sales	(2,325)	(3,079)	(4,759)	(6,840)	(9,437)	Share-based payment expense	204	0	0	0	0
Gross profit	1,659	2,533	3,739	5,266	7,266	Other operating activities	(103)	(173)	(242)	(379)	(562)
						Net cash from operating	1,208	1,104	3,166	3,419	4,408
Other income	180	220	180	160	160	Capex	(3,211)	(6,000)	(8,000)	(3,000)	(3,000)
Selling & distribution expenses	(77)	(94)	(153)	(206)	(284)	Acquisition of subsidiaries	(1)	0	0	0	0
Administrative expenses	(367)	(511)	(748)	(1,041)	(1,420)	Other investing activities	(1,282)	11	0	0	0
R&D expenses	(260)	(304)	(450)	(630)	(852)	Net cash from investing	(4,494)	(5,989)	(8,000)	(3,000)	(3,000)
Operating profit	1,135	1,844	2,568	3,550	4,870	Net proceeds from shares issued	3,534	5,546	0	0	0
Finance costs, net	(20)	(43)	(52)	(52)	(52)	Bank borrowing	1,910	200	0	0	0
Other gains and losses	22	283	100	100	100	Acquisition of non-controlling interests					
Impairment losses, net of reversal	(7)	(121)	(10)	(10)	(10)	Dividends and interests paid	(50)	(43)	(52)	(52)	(52)
Pre-tax profit	1,127	1,966	2,607	3,588	4,909	Other financing activities	19	0	0	0	0
Income tax	(116)	(273)	(362)	(498)	(682)	Net cash from financing	5,413	5,703	(52)	(52)	(52)
Minority interests	3	(4)	0	0	0	FX changes	(6)	0	0	0	0
Net profit	1,014	1,689	2,245	3,090	4,227	Net change in cash	2,121	818	(4,885)	368	1,356
						Cash at the beginning of the year	4,084	6,205	7,096	2,211	2,578
						Cash at the end of the year	6,205	7,096	2,211	2,578	3,935

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	7,930	14,759	21,890	23,790	25,594	Sales mix (%)					
Fixed asset	6,338	11,996	19,216	21,205	23,098	Pre-IND services	45	50	47	45	42
Intangible assets	416	392	371	350	329	Post-IND services	54	49	52	54	57
Equity instruments at fair value	139	127	127	127	127	Total	99	98	99	99	99
Financial assets at fair value	282	759	759	759	759	Profit & loss ratios (%)					
Other non-current assets	755	1,485	1,417	1,349	1,281	Gross margin	42	45	44	44	44
Current assets	9,672	14,204	10,123	12,857	17,209	EBITDA margin	33	42	41	39	37
Cash	6,205	7,096	2,211	2,578	3,935	Pre-tax margin	28	35	31	30	29
Inventories	399	1,084	1,146	1,648	2,273	Net margin	25	30	26	26	25
Trade and bills receivables	1,737	3,242	3,769	5,370	7,408	Effective tax rate	10	14	14	14	14
Contract costs	284	392	606	871	1,202	Balance sheet ratios					
Other current assets	1,046	2,390	2,390	2,390	2,390	Current ratio (x)	3	3	2	2	2
Current liabilities	2,871	4,498	5,303	6,848	8,776	Trade receivables turnover days	128	162	162	162	162
Borrowings	506	767	767	767	767	Trade payables turnover days	201	271	271	271	271
Trade and other payables	1,844	2,729	3,533	5,078	7,006	Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Other current liabilities	521	1,003	1,003	1,003	1,003						
Non-current liabilities	1,835	3,566	3,566	3,566	3,566	Returns (%)					
Borrowings	1,395	1,838	1,838	1,838	1,838	ROE	10	10	10	13	15
Other non-current liabilities	440	1,728	1,728	1,728	1,728	ROA	8	7	7	9	11
Total net assets	12,896	20,899	23,144	26,234	30,461	Per share					
Minority interest	112	335	335	335	335	EPS (RMB)	0.27	0.43	0.53	0.73	1.00
Shareholders' equity	12,784	20,564	22,809	25,899	30,126	DPS (RMB)	0.00	0.00	0.00	0.00	0.00
						BVPS (RMB)	3.47	5.29	5.50	6.23	7.24

Source: Company data, CMBIS estimates

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