

# Sincere Pharmaceutical Group (2096 HK)

## Increasing contribution from innovative products

- **FY20 results were largely in line.** Sincere reported FY20 revenue/attributable net profit of RMB4,509mn/ RMB670mn, decreasing by 10.5% / 33.3% YoY, which was largely in line with our estimates. Innovative drugs, mainly Edostar, Sanbexin, Iremod and Orenica, were major growth drivers. Sales from innovative drugs grew 22.7% YoY to RMB2,033mn in 2020, accounting for 45.1% of the total revenue (vs 32.9% in 2019). We estimate sales of Bicun (edaravone injection) dropped by approximately 60% YoY in 2020, accounting for 8% of the total revenue, because the drug has been excluded from the NRDL from Jan 2020. Meanwhile, R&D expenses increased significantly by 59.4% YoY to RMB1,142mn in 2020 due to increased spending in innovative drug pipelines.
- **Building rich innovative drug pipelines.** Supported by strong R&D investment, Sincere has established a comprehensive innovative portfolio with nearly 50 candidates in different stages of development. In 2020, the Company has launched two innovative drugs, Orenica (abatacept injection) and Sanbexin (edaravone and dexborneol concentrated solution for injection). Sanbexin was added into the NRDL, effective from Mar 2021. In addition, KN035, a potentially first-to-market subcutaneously injectable anti-PD-L1 monoclonal antibody worldwide, filed NDA in China for MSI-H solid tumors in Dec 2020, and was granted priority review in Jan 2021. Furthermore, on 12 Feb 2021, Sincere's partner G1 Therapeutics (GTHX US) announced that the US FDA has approved COSELA (trilaciclib) for chemotherapy-induced myelosuppression in ES-SCLC patients who were prior treated by chemotherapy, which made trilaciclib the first and only therapy for chemotherapy-induced myelosuppression. In Jan 2021, Sincere has obtained the IND approval from the NMPA to conduct a Phase I clinical trial of trilaciclib in China. In the US, trilaciclib is also being studied in a phase II trial for metastatic TNBC in combination with chemotherapy.
- **Maintain BUY.** We revise down our FY21E/22E revenue forecasts by 3% / 4% respectively and trim our FY21E/22E attributable net profit forecasts by 10% / 7%. We roll over our price target to 2021E and trim our TP to HK\$13.73 based on a 10-year DCF valuation (WACC: 10.4%, terminal growth rate: 2.0%).
- **Risks:** Lower-than-expected sales from key products, slower-than-expected R&D progress of innovative drugs.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	5,037	4,509	6,252	7,800	9,371
YoY growth (%)	12	(10)	39	25	20
Net income (RMB mn)	1,004	670	1,040	1,359	1,725
YoY growth (%)	37	(33)	55	31	27
EPS (RMB)	N/A	N/A	0.40	0.52	0.66
Consensus EPS (RMB)	N/A	N/A	0.47	0.60	N/A
ROE (%)	67.8	12.4	18.0	21.5	24.5
Net gearing (%)	155	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price	HK\$13.73
(Previous TP)	HK\$13.84)
Up/Downside	+68.70%
Current Price	HK\$8.14

### China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	21,234
Avg. 3mths t/o (HK\$ mn)	12.32
52W High/Low (HK\$)	11.68/7.65
Total Issued Shares (mn)	2,609

Source: Bloomberg

### Shareholding Structure

Sincere Pharmaceutical Holding	45.85%
Artking Global	23.26%
Fortune Fountain Investment	4.64%
Premier Praise	4.41%
Excel Good Group	4.30%
King View Development International	2.25%
Excel Management	2.13%
Free float	13.16%

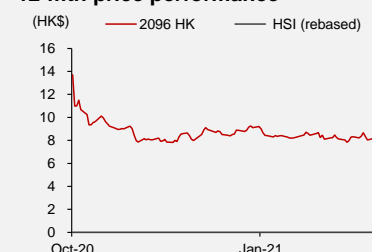
Source: HKEx, Bloomberg

### Share performance

	Absolute	Relative
1-mth	-8.8%	-1.6%
3-mth	-3.5%	-8.7%
6-mth	N/A	N/A

Source: Bloomberg

### 12-mth price performance



Source: Bloomberg

### Auditor: KPMG

Web-site: [www.sincere.com](http://www.sincere.com)

### Related report:

1. FDA approved trilaciclib for chemotherapy-induced myelosuppression - 1 Mar 2021
2. Transitioning from generic to innovative (Initiation) - 5 Jan 2021

## Valuation

Figure 1: Risk-adjusted DCF valuation (terminal growth rate: 2.0%)

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	1,340	1,666	2,077	2,520	2,983	3,281	3,577	3,863	4,133	4,381
Tax rate	17.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	1,112	1,416	1,765	2,142	2,536	2,789	3,040	3,283	3,513	3,724
+ D&A	209	210	210	211	212	233	254	274	293	311
- Change in working capital	(125)	(172)	(174)	(232)	(242)	(266)	(290)	(313)	(335)	(355)
- Capex	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(180)
FCFF	996	1,254	1,601	1,921	2,305	2,556	2,804	3,044	3,271	3,499
Terminal value										42,617

Terminal growth rate	2.0%
WACC	10.4%
Cost of Equity	13.0%
Cost of Debt	5.0%
Equity Beta	1.0
Risk Free Rate	3.0%
Market Risk Premium	10.0%
Target Debt to Asset ratio	30.0%
Effective Corporate Tax Rate	15.0%

Terminal value	15,881
Total PV	28,554
Net debt	(1,214)
Minority interest	34
Equity value (RMB mn)	29,733
Equity value (HK\$ mn)	35,823
No. of shares outstanding (mn)	2,609
DCF per share (HK\$)	13.73

Source: CMBIS estimates

Figure 2: Sensitivity analysis

		WACC				
		9.4%	9.9%	10.4%	10.9%	11.4%
Terminal growth rate	3.0%	17.37	16.00	14.81	13.78	12.87
	2.5%	16.55	15.31	14.24	13.29	12.46
	2.0%	15.84	14.72	13.73	12.86	12.09
	1.5%	15.22	14.19	13.29	12.48	11.76
	1.0%	14.67	13.73	12.89	12.13	11.46

Source: CMBIS estimates

Figure 3: FY20A results change

YE Dec 31 (RMB mn)	2019A	2020A	YoY Change	CMBIS 2020E	Diff (%)
<b>Revenue</b>	<b>5037</b>	<b>4509</b>	<b>-10.5%</b>	<b>4554</b>	<b>-1.0%</b>
Cost of sales	(888)	(900)	N/A	(820)	N/A
<b>Gross profit</b>	<b>4148</b>	<b>3609</b>	<b>-13.0%</b>	<b>3734</b>	<b>-3.4%</b>
Other income	92	115	25.6%	90	27.7%
Other net (loss)/gain	16	327	1950.8%	0	N/A
R&D expenses	(716)	(1142)	59.4%	(820)	39.3%
Selling and distribution expenses	(2016)	(1570)	-22.1%	(1844)	-14.9%
Administrative and Other Operating Expenses	(352)	(411)	17.0%	(319)	29.1%
Finance income	35	26	-24.4%	58	-54.8%
Finance cost	(116)	(134)	N/A	(106)	26.6%
<b>Profit before tax</b>	<b>1082</b>	<b>805</b>	<b>-25.6%</b>	<b>786</b>	<b>2.4%</b>
Income tax expense	(78)	(141)	80.1%	(102)	37.8%
<b>Total net profit</b>	<b>1004</b>	<b>664</b>	<b>-33.8%</b>	<b>684</b>	<b>-2.8%</b>
Minority Interests	0	5	N/A	0	N/A
<b>Profit attributable net profit</b>	<b>1004</b>	<b>670</b>	<b>-33.3%</b>	<b>684</b>	<b>-2.1%</b>

Source: Company data, CMBIS estimates

Figure 4: CMBIS estimates revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	6,252	7,800	9,371	6,458	8,164	9,501	-3%	-4%	-1%
Gross Profit	5,126	6,396	7,684	5,328	6,735	7,838	-4%	-5%	-2%
Operating Profit	1,253	1,598	2,030	1,321	1,690	1,995	-5%	-5%	2%
Net profit	1,040	1,359	1,725	1,150	1,453	1,696	-10%	-7%	2%
EPS (RMB cents)	40	52	66	44	56	65	-10%	-7%	2%
Gross Margin	82.00%	82.00%	82.00%	82.50%	82.50%	82.50%	-0.50 ppt	-0.50 ppt	-0.50 ppt
Operating Margin	20.05%	20.49%	21.66%	20.46%	20.70%	21.00%	-0.41 ppt	-0.21 ppt	+0.66 ppt
Net Margin	16.64%	17.42%	18.41%	17.80%	17.80%	17.85%	-1.16 ppt	-0.38 ppt	+0.56 ppt

Source: Company data, CMBIS estimates

Figure 5: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	6,252	7,800	9,371	6,524	8,726	N/A	-4%	-11%	N/A
Gross Profit	5,126	6,396	7,684	5,399	7,243	N/A	-5%	-12%	N/A
Operating Profit	1,253	1,598	2,030	1,484	1,774	N/A	-16%	-10%	N/A
Net profit	1,040	1,359	1,725	1,200	1,531	N/A	-13%	-11%	N/A
EPS (RMB cents)	40	52	66	47	60	N/A	-15%	-13%	N/A
Gross Margin	82.00%	82.00%	82.00%	82.75%	83.00%	N/A	-0.75 ppt	-1.00 ppt	-0.50 ppt
Operating Margin	20.05%	20.49%	21.66%	22.75%	20.33%	N/A	-2.70 ppt	+0.16 ppt	-0.74 ppt
Net Margin	16.64%	17.42%	18.41%	18.39%	17.55%	N/A	-1.75 ppt	-0.13 ppt	-0.70 ppt

Source: Company data, CMBIS estimates

## Financial Statements

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>5,037</b>	<b>4,509</b>	<b>6,252</b>	<b>7,800</b>	<b>9,371</b>
Sales of pharmaceutical products	4,800	4,230	5,959	7,493	9,048
Promotion service income	236	279	293	308	323
Cost of sales	(888)	(900)	(1,125)	(1,404)	(1,687)
<b>Gross profit</b>	<b>4,148</b>	<b>3,609</b>	<b>5,126</b>	<b>6,396</b>	<b>7,684</b>
Other income	92	115	100	100	100
Other expenses	16	327	0	0	0
Other net (loss)/gain	(716)	(1,142)	(1,000)	(1,248)	(1,406)
R&D expenses	(716)	(1,142)	(1,000)	(1,248)	(1,406)
Administrative expenses	(352)	(411)	(438)	(530)	(637)
Listing expenses	0	0	0	0	0
Finance cost	(116)	(134)	(112)	(92)	(72)
<b>Profit before tax</b>	<b>1,082</b>	<b>805</b>	<b>1,253</b>	<b>1,598</b>	<b>2,030</b>
Income tax expense	(78)	(141)	(213)	(240)	(304)
<b>Total net profit</b>	<b>1,004</b>	<b>664</b>	<b>1,040</b>	<b>1,359</b>	<b>1,725</b>
Minority Interests	0	5	0	0	0
<b>Profit attributable to shareholders</b>	<b>1,004</b>	<b>670</b>	<b>1,040</b>	<b>1,359</b>	<b>1,725</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Profit before tax</b>	<b>1,082</b>	<b>805</b>	<b>1,253</b>	<b>1,598</b>	<b>2,030</b>
Depreciation for plant and equipment	147	205	192	192	193
Change in working capital	(556)	(798)	(338)	(412)	(479)
Others	365	280	327	334	379
Tax paid	(265)	(141)	(213)	(240)	(304)
<b>Net cash from operating</b>	<b>773</b>	<b>351</b>	<b>1,221</b>	<b>1,474</b>	<b>1,818</b>
Capex	(508)	(200)	(200)	(200)	(200)
Acquisition of subsidiaries	0	0	0	0	0
Other investing activities	(85)	26	25	25	25
<b>Net cash from investing</b>	<b>(593)</b>	<b>(174)</b>	<b>(175)</b>	<b>(175)</b>	<b>(175)</b>
Net proceeds from shares	0	2,986	0	0	0
Bank borrowing	722	0	(500)	(500)	(500)
New loans from related parties	12	0	0	0	0
Other financing activities	(1,747)	(525)	(720)	(886)	(1,080)
<b>Net cash from financing</b>	<b>(1,013)</b>	<b>2,461</b>	<b>(1,220)</b>	<b>(1,386)</b>	<b>(1,580)</b>
<b>activities</b>					
Net change in cash	(833)	2,639	(174)	(88)	63
Cash at the beginning of the year	1,188	355	3,270	3,096	3,009
<b>Cash at the end of the year</b>	<b>355</b>	<b>3,270</b>	<b>3,096</b>	<b>3,009</b>	<b>3,072</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>3,869</b>	<b>4,477</b>	<b>4,458</b>	<b>4,438</b>	<b>4,418</b>
Plant and equipment	1,870	2,128	2,136	2,144	2,151
Goodwill	142	173	173	173	173
Intangible assets	34	77	60	42	25
Prepayments and deposits	325	114	114	114	114
Financial assets at FV through profit	902	1,232	1,232	1,232	1,232
Others	596	754	744	734	724
<b>Current assets</b>	<b>2,898</b>	<b>6,467</b>	<b>6,702</b>	<b>7,245</b>	<b>7,947</b>
Inventories	248	263	319	399	479
Accounts and other receivables	1,456	1,992	2,345	2,895	3,454
Amounts due from related parties	0	0	0	0	0
Bank balances and cash	355	3,270	3,096	3,009	3,072
Others	838	942	942	942	942
<b>Current liabilities</b>	<b>3,429</b>	<b>3,497</b>	<b>3,282</b>	<b>3,240</b>	<b>3,205</b>
Accounts and other payables	1,673	1,565	1,850	2,308	2,773
Bank Loans & Lease liabilities	1,670	1,831	1,331	831	331
Amounts due to related parties	0	0	0	0	0
Tax payables	86	0	0	0	0
<b>Non-current liabilities</b>	<b>1,858</b>	<b>2,111</b>	<b>2,111</b>	<b>2,111</b>	<b>2,111</b>
Deferred income	471	448	448	448	448
Deferred tax liabilities	117	194	194	194	194
<b>Total net assets</b>	<b>1,480</b>	<b>5,336</b>	<b>5,768</b>	<b>6,333</b>	<b>7,050</b>
<b>Minority interest</b>	<b>0</b>	<b>34</b>	<b>34</b>	<b>34</b>	<b>34</b>
<b>Shareholders' equity</b>	<b>1,480</b>	<b>5,302</b>	<b>5,734</b>	<b>6,299</b>	<b>7,016</b>

### Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Sales of pharmaceutical	95.3	93.8	95.3	96.1	96.6
Promotion service income	4.7	6.2	4.7	3.9	3.4
Total	100	100	100	100	100
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	82	80	82	82	82
EBITDA margin	26	25	25	24	24
Pre-tax margin	21	18	20	20	22
Net margin	20	15	17	17	18
Effective tax rate	7	17	17	15	15
<b>Balance sheet ratios</b>					
Current ratio (x)	0.8	1.8	2.0	2.2	2.5
Trade receivables turnover days	83	130	130	130	130
Trade payables turnover days	116	101	100	100	100
Net debt to equity ratio (%)	155	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	67.8	12.4	18.0	21.5	24.5
ROA	14.8	6.1	9.3	11.6	14.0

Source: Company data, CMBIS estimates

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