

CSPC Pharmaceutical (1093 HK)

To further expand mRNA and ADC pipelines

CSPC reported 1Q23 revenue of RMB8.05bn (+2.3% YoY) and attributable net profit of RMB1.43bn (+1.7% YoY). The 1Q23 sales of finished drugs increased 1.9% YoY to RMB6.42bn, with the nervous system disease products recording +9.8% YoY sales growth, driven by the sales of NBP. Affected by COVID-19 and the lowered price of Keaili due to centralised procurement renewal, sales of oncology product weakened in 1Q23 (-33.1% YoY). Sales of vitamin C products decreased 21.3% YoY to RMB551mn, due to the downward trend in price since 3Q22. However, driven by sales volume growth, sales of antibiotic products increased by 27.3% YoY to RMB466mn. Mainly driven by the growth of caffeine products, revenue of the functional food and other business grew 21.7% YoY to RMB615mn. The gross profit margin decreased by 5.3% from 73.8% in 1Q22 to 68.5% in 1Q23, mainly due to the lowered price of Keaili and vitamin C. In 1Q23, CSPC recorded RMB1.01bn R&D expenses, +11.8% YoY, accounting for 15.7% of the revenue of the finished drug business.

■ New products to ramp up fast while existing products to remain stable.

The new NRDL price of NBP was implemented in Mar 2023, while the increase in accessibility will offset the impact of the price cut. Sales of NBP in 1Q23 increased 10.8% YoY driven by the steady sales growth of both NBP capsule and injection. We expect the sales of NBP to be stable over the next two years with limited competition from generics. In 2023, sales of some products will be impacted by price cuts, such as Keaili, Xuanning, and Duomeisu. However, we expect fast sales ramp-up of CSPC's new products including Mingfule, Duoenda, and Anfulike, with a sales target of around RMB300mn for each of the products in 2023.

■ Smooth R&D progress of ADC and mRNA pipelines. With 15 ADC assets in the pipeline, CSPC has developed a well-verified ADC platform with SYSA1801 (Claudin18.2 ADC) and SYS6002 (Nectin-4 ADC) already achieving successful out-licensing deals. DP303c (HER2 ADC) is in pivotal trial with NDA filing expected by end-2023/early-2024. SYSA1801 is expected to start a pivotal trial this year. CPO301 (EGFR ADC), as a potential blockbuster ADC asset with broad indications, has entered Ph1 trials in China and the US. For mRNA vaccines, Duentai (COVID-19 mRNA vaccine) received EUA approval in China in Mar 2023, and the first dose was administered in May. With the resurgence of COVID-19 infections and the advantage of CSPC's large-scale production capacity (1.5bn doses/ year), Duentai can timely meet the vaccine demand in China. Additionally, CSPC is developing new generation of COVID-19 mRNA vaccines against mutated strains, with the clinical study to be completed in the coming Jul. Additionally, CSPC is developing several vaccines based on its mRNA platform, including vaccines for rabies (pre-IND filed), RSV (to file IND by end-2023), Shingles (to file IND in 2024), etc.

■ Maintain BUY. With fast ramp-up of new products and stable sales of old products, we expect CSPC's revenue to grow 5.2%/ 7.2% YoY in FY23E/ 24E and attributable net profit to grow 2.6%/ 6.6% YoY in FY23E/ 24E. We revised our DCF-based TP to HK\$10.28 from HK\$12.11 (WACC 11.78%, terminal growth 2.0%).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	27,867	30,937	32,555	34,884	37,482
YoY growth (%)	11.7	11.0	5.2	7.2	7.4
Attributable net profit (RMB mn)	5,605	6,091	6,251	6,662	7,049
YoY growth (%)	8.8	9.6	2.6	6.6	5.8
EPS (Reported) (RMB)	0.47	0.51	0.53	0.56	0.59
P/E (x)	16.8	14.2	12.4	11.6	11.0
Net gearing (%)	(40.9)	(44.1)	(53.0)	(57.7)	(63.0)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$10.28
(Previous TP)	HK\$12.11
Up/Downside	42.2%
Current Price	HK\$7.23

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Stock Data

Mkt Cap (HK\$ mn)	86,161.4
Avg 3 mths t/o (HK\$ mn)	300.2
52w High/Low (HK\$)	10.18/7.00
Total Issued Shares (mn)	11,917.2
Source: FactSet	

Shareholding Structure

Massive Giant Group Ltd	10.2%
Cai Dongchen	9.9%

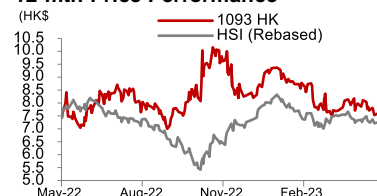
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-8.4%	-3.4%
3-mth	-18.1%	-12.6%
6-mth	-24.8%	-29.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: CMBIGM earnings revisions

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	32,555	34,884	37,482	33,895	37,210	40,913	-4.0%	-6.3%	-8.4%
Gross profit	22,462	24,768	26,237	24,235	26,419	28,639	-7.3%	-6.3%	-8.4%
Operating profit	7,731	8,233	8,696	8,013	8,834	10,286	-3.5%	-6.8%	-15.5%
Net profit	6,251	6,662	7,049	6,455	7,120	8,300	-3.1%	-6.4%	-15.1%
EPS (RMB)	0.53	0.56	0.59	0.54	0.60	0.70	-3.1%	-6.4%	-15.1%
Gross margin	69.00%	71.00%	70.00%	71.50%	71.00%	70.00%	-2.5ppt	0ppt	0ppt
Operating margin	23.75%	23.60%	23.20%	23.64%	23.74%	25.14%	+0.11ppt	-0.14ppt	-1.94ppt
Net margin	19.20%	19.10%	18.81%	19.04%	19.13%	20.29%	+0.16ppt	-0.04ppt	-1.48ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	32,555	34,884	37,482	33,715	36,796	40,381	-3.4%	-5.2%	-7.2%
Gross profit	22,462	24,768	26,237	24,244	26,663	29,450	-7.4%	-7.1%	-10.9%
Operating profit	7,731	8,233	8,696	7,967	8,910	9,902	-3.0%	-7.6%	-12.2%
Attributable net profit	6,251	6,662	7,049	6,471	7,220	7,966	-3.4%	-7.7%	-11.5%
EPS (RMB)	0.53	0.56	0.59	0.54	0.61	0.67	-2.7%	-7.5%	-11.9%
Gross margin	69.00%	71.00%	70.00%	71.91%	72.46%	72.93%	-2.91ppt	-1.46ppt	-2.93ppt
Operating margin	23.75%	23.60%	23.20%	23.63%	24.21%	24.52%	+0.12ppt	-0.61ppt	-1.32ppt
Net margin	19.20%	19.10%	18.81%	19.19%	19.62%	19.73%	+0.01ppt	-0.52ppt	-0.92ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 3: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)		2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT		7,731	8,233	9,056	9,916	10,809	11,727	12,666	13,615	14,569	15,515
Tax rate		17.50%	17.50%	17.50%	17.50%	17.50%	17.50%	17.50%	17.50%	17.50%	17.50%
EBIT*(1-tax rate)		6,378	6,792	7,471	8,181	8,917	9,675	10,449	11,233	12,019	12,800
+ D&A		864	864	933	998	1,058	1,111	1,155	1,190	1,214	1,226
- Change in working capital		433	-546	-590	-631	-669	-702	-730	-752	-767	-775
- Capex		-800	-800	-800	-800	-800	-800	-800	-800	-800	-800
FCFF		6,875	6,310	7,014	7,748	8,506	9,284	10,074	10,871	11,666	12,451
Terminal value											129,928
Terminal growth rate		2.00%									
WACC		11.78%									
Cost of Equity		15.00%									
Cost of Debt		5.00%									
Equity Beta		1.00									
Risk Free Rate		3.00%									
Market Risk Premium		12.00%									
Target Debt to Asset ratio		30.00%									
Effective Corporate Tax Rate		15.00%									
Terminal value (RMB mn)		42,683									
Total PV (RMB mn)		90,965									
Net debt (RMB mn)		-18,324									
Minority interests (RMB mn)		1,576									
Equity value (RMB mn)		107,712									
# of shares (mn)		11,903									
DCF per share (in HK\$)		10.28									

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	24,942	27,867	30,937	32,555	34,884	37,482
Cost of goods sold	(6,257)	(6,732)	(8,680)	(10,093)	(10,116)	(11,244)
Gross profit	18,685	21,135	22,256	22,462	24,768	26,237
Selling expense	(9,378)	(10,443)	(10,337)	(10,173)	(11,686)	(12,481)
Admin expense	(946)	(1,010)	(1,173)	(1,074)	(1,221)	(1,237)
R&D expense	(2,890)	(3,433)	(3,987)	(4,069)	(4,256)	(4,498)
Others	585	546	815	586	628	675
Operating profit	6,057	6,795	7,574	7,731	8,233	8,696
Gain/loss on financial assets at FVTPL	0	0	0	0	0	0
Share of (losses)/profits of associates/JV	347	60	33	60	60	60
Net Interest income/(expense)	(12)	(8)	(25)	(39)	(31)	(14)
Pre-tax profit	6,391	6,847	7,582	7,752	8,261	8,742
Income tax	(1,162)	(1,159)	(1,350)	(1,357)	(1,446)	(1,530)
Minority interest	69	83	141	144	154	163
Net profit	5,229	5,688	6,232	6,396	6,816	7,212
Gross dividends	1,528	1,691	1,827	1,875	1,999	2,115
Net dividends	39	9	9	3	7	6

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	15,921	20,337	23,957	29,667	34,456	40,494
Cash & equivalents	7,259	9,284	10,298	15,203	19,427	24,509
Account receivables	2,883	3,890	4,631	4,873	5,222	5,611
Inventories	1,861	2,480	2,555	2,971	2,977	3,309
Prepayment	0	0	0	0	0	0
ST bank deposits	1,535	1,443	3,575	3,575	3,575	3,575
Other current assets	2,382	3,240	2,898	3,045	3,255	3,490
Non-current assets	14,149	14,405	17,813	17,749	17,685	17,621
PP&E	7,770	8,529	9,582	9,682	9,781	9,881
Deferred income tax	117	43	113	113	113	113
Intangibles	509	468	1,908	1,883	1,857	1,832
Goodwill	1,164	1,035	1,395	1,257	1,119	981
Financial assets at FVTPL	1,877	1,979	2,126	2,126	2,126	2,126
Other non-current assets	2,711	2,351	2,689	2,689	2,689	2,689
Total assets	30,070	34,742	41,770	47,416	52,142	58,115
Current liabilities	6,302	7,226	8,958	10,096	10,017	10,906
Short-term borrowings	99	0	153	54	(45)	(144)
Account payables	4,759	6,162	6,864	7,981	7,999	8,891
Tax payable	379	261	262	262	262	262
Other current liabilities	1,065	803	1,679	1,799	1,801	1,897
Non-current liabilities	667	687	1,170	1,170	1,170	1,170
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	667	687	1,170	1,170	1,170	1,170
Total liabilities	6,969	7,913	10,128	11,266	11,187	12,076
Share capital	10,899	10,899	10,899	10,899	10,899	10,899
Other reserves	11,433	15,087	19,298	23,674	28,337	33,272
Total shareholders equity	22,332	25,987	30,198	34,574	39,237	44,171
Minority interest	769	842	1,444	1,576	1,718	1,868
Total equity and liabilities	30,070	34,742	41,770	47,416	52,142	58,115

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	6,391	6,847	7,582	7,752	8,261	8,742
Depreciation & amortization	809	865	864	864	864	864
Tax paid	(1,061)	(1,141)	(1,350)	(1,357)	(1,446)	(1,530)
Change in working capital	1,680	(1,388)	1,059	433	(546)	32
Others	(1,079)	(547)	0	0	0	0
Net cash from operations	6,740	4,637	8,155	7,692	7,134	8,108
Investing						
Capital expenditure	(1,356)	(1,410)	(5,200)	(800)	(800)	(800)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(773)	773	0	0	0	0
Net cash from investing	(2,130)	(637)	(5,200)	(800)	(800)	(800)
Financing						
Dividend paid	(1,528)	(1,691)	(1,827)	(1,875)	(1,999)	(2,115)
Net borrowings	169	0	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	0	(264)	0	0	0	0
Others	(112)	(242)	(112)	(112)	(112)	(112)
Net cash from financing	(1,471)	(2,197)	(1,939)	(1,987)	(2,110)	(2,226)
Net change in cash						
Cash at the beginning of the year	4,118	7,259	9,284	10,298	15,203	19,427
Exchange difference	2	(2)	0	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	7,259	9,060	10,299	15,203	19,427	24,509
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	12.8%	11.7%	11.0%	5.2%	7.2%	7.4%
Gross profit	17.4%	13.1%	5.3%	0.9%	10.3%	5.9%
Operating profit	31.7%	12.2%	11.5%	2.1%	6.5%	5.6%
Net profit	40.1%	8.8%	9.6%	2.6%	6.6%	5.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	74.9%	75.8%	71.9%	69.0%	71.0%	70.0%
Operating margin	24.3%	24.4%	24.5%	23.7%	23.6%	23.2%
Return on equity (ROE)	25.6%	23.5%	22.2%	19.7%	18.5%	17.3%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.4)	(0.4)	(0.5)	(0.6)	(0.6)
Current ratio (x)	2.5	2.8	2.7	2.9	3.4	3.7
Receivable turnover days	73.4	92.9	87.7	87.7	87.7	87.7
Inventory turnover days	108.6	134.5	107.4	107.4	107.4	107.4
Payable turnover days	294.5	352.4	319.6	319.6	319.6	319.6
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	18.4	16.8	14.2	12.4	11.6	11.0
P/E (diluted)	18.4	16.8	14.2	12.4	11.6	11.0
P/B	4.1	3.5	2.7	2.1	1.9	1.7
P/CFPS	14.1	20.3	10.6	10.1	10.9	9.6
Div yield (%)	1.6	1.8	2.1	2.4	2.6	2.7

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

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