

WuXi AppTec (603259 CH)

Non-COVID business to maintain solid growth

Strong earnings growth in 2022. WuXi AppTec reported 2022 revenue of RMB39.4bn, up 72% YoY, attributable recurring net income of RMB8.3bn, up 103% YoY, and attributable adjusted non-IFRS net income of RMB9.4bn, up 83% YoY. The Company delivered resilient growth despite COVID-19 impacts through 2022, with revenue increasing by 71%/ 66%/ 78%/ 72% YoY for 1Q/ 2Q/ 3Q/ 4Q, respectively. Considering the high revenue base of 2022, management guided positive revenue growth of 5-7% YoY for 2023E, and reiterated its revenue CAGR target of over 34% in 2021-24E. Specifically for 2023E, management expected revenue of WuXi Chemistry, excluding the commercial-stage COVID-19 project, to maintain a solid growth momentum at 36-38% YoY, the combined revenue of WuXi Testing, WuXi Biology, and WuXi ATU to increase by 20-23% YoY and revenue of DDSU to decline more than 20% due to proactive pipeline adjustment to meet the changing R&D needs of Chinese clients.

■ **Non-COVID projects to fuel sustainable growth.** WuXi Chemistry's revenue increased by 105% YoY in 2022, mainly driven by the 173% YoY revenue growth from its chemical CDMO services. Excluding commercial-stage COVID-19 projects, WuXi Chemistry segment delivered impressive growth of 40% YoY in 2022. Based on our rough estimates, revenue from the COVID-19 projects could account for ~20% of WuXi AppTec's total revenue in 2022. We think the solid growth of WuXi AppTec's business reflected the robust demand from the Company's extensive and balanced client base amid the temporarily challenging financing environment.

■ **Years' of investment turning new modalities services into new drivers.** Revenue of new modalities-related services (TIDES, mainly including oligo and peptides) jumped by 158% YoY in 2022 to RMB2.0bn, represented ~16% of chemical CDMO revenue (excluding the commercial-stage COVID-19 projects). Moreover, revenue from new modalities within WuXi Biology segment experienced strong YoY growth of 90%, contributing 22.5% of segment revenue in 2022 (vs 14.6% in 2021). The Company has built the largest drug discovery team in the world, functioning as a critical project source for its downstream services, such as CDMO and clinical CRO. More synergies among its various business segments are yet to be released.

■ **Consistent globalization efforts.** WuXi AppTec spent RMB10.0bn in Capex in 2022 and plans to invest RMB8-9bn in 2023E to further enhance its global network. In overseas market, the Company is constructing large-scale drug product manufacturing facilities in the US as well as full-suite R&D and manufacturing sites in Singapore with a total investment of US\$1.4bn in next 10 years. Its fast-growing global network will enable the Company to better meet the growing and diversified client demand in the ever-changing market.

■ **Maintain BUY.** Our TP of RMB121.52 is based on a 10-year DCF model with WACC of 11.57% and terminal growth of 3.0%. We forecast WuXi AppTec's revenue to grow by 6.9%/ 30.9%/ 26.6% YoY and adjusted non-IFRS net income to grow by 13.5%/ 31.2%/ 25.8% YoY in 2023E/ 24E/ 25E, respectively.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	22,902	39,355	42,083	55,097	69,723
YoY growth (%)	38.5	71.8	6.9	30.9	26.5
Adjusted net profit (RMB mn)	5,131	9,399	10,670	13,997	17,607
EPS (Adjusted) (RMB)	1.76	3.17	3.60	4.73	5.94
Consensus EPS (RMB)	na	na	3.29	4.12	5.18
Adjusted P/E (x)	45.6	25.3	22.3	17.0	13.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **RMB121.52**

(Previous TP **RMB142.20**)

Up/Downside **51.4%**

Current Price **RMB80.26**

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Stock Data

Mkt Cap (RMB mn)	237,737.2
Avg 3 mths t/o (RMB mn)	85.7
52w High/Low (RMB)	117.00/69.15
Total Issued Shares (mn)	2962.1

Source: FactSet

Shareholding Structure

HK investors	19.4%
Ge Li and concerted parties	17.9%

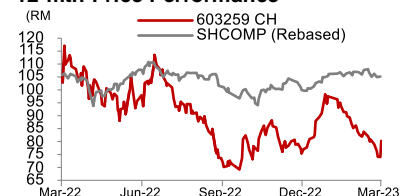
Source: Company

Share Performance

	Absolute	Relative
1-mth	-5.9%	-4.4%
3-mth	6.8%	0.6%
6-mth	11.6%	6.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	42,083	55,097	69,723	44,953	58,599	na	-6.38%	-5.98%	na
Gross Profit	16,713	21,514	26,503	16,550	21,460	na	0.99%	0.25%	na
Operating Profit	11,263	14,710	18,311	10,847	14,261	na	3.83%	3.14%	na
Non-IFRS net profit	10,670	13,997	17,607	10,471	13,711	na	1.89%	2.09%	na
Non-IFRS EPS (RMB)	3.60	4.73	5.94	3.54	4.63	na	1.84%	2.03%	na
Gross Margin	39.71%	39.05%	38.01%	36.82%	36.62%	na	+2.90ppt	+2.43ppt	na
Operating Margin	26.76%	26.70%	26.26%	24.13%	24.34%	na	+2.63ppt	+2.36ppt	na
Net Margin	25.35%	25.40%	25.25%	23.29%	23.40%	na	+2.06ppt	+2.01ppt	na

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	42,083	55,097	69,723	44,398	56,173	68,510	-5.21%	-1.92%	1.77%
Gross Profit	16,713	21,514	26,503	16,776	21,361	26,383	-0.38%	0.71%	0.46%
Operating Profit	11,263	14,710	18,311	11,472	14,629	18,184	-1.82%	0.55%	0.70%
Non-IFRS net profit	10,670	13,997	17,607	9,787	12,328	15,336	9.02%	13.53%	14.81%
Non-IFRS EPS (RMB)	3.60	4.73	5.94	3.29	4.12	5.18	9.65%	14.75%	14.71%
Gross Margin	39.71%	39.05%	38.01%	37.79%	38.03%	38.51%	+1.93ppt	+1.02ppt	-0.50ppt
Operating Margin	26.76%	26.70%	26.26%	25.84%	26.04%	26.54%	+0.93ppt	+0.66ppt	-0.28ppt
Net Margin	25.35%	25.40%	25.25%	22.04%	21.95%	22.39%	+3.31ppt	+3.46ppt	+2.87ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	12,071	15,688	19,323	24,830	31,410	39,106	47,904	57,725	68,404	79,691
Tax rate	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
EBIT*(1-tax rate)	10,260	13,335	16,425	21,106	26,699	33,240	40,719	49,066	58,143	67,737
+ D&A	1,754	2,397	2,978	3,782	4,784	5,957	7,297	8,793	10,419	12,139
- Change in working capital	296	(1,998)	(2,257)	(2,867)	(3,626)	(4,515)	(5,531)	(6,665)	(7,897)	(9,201)
- Capex	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
FCFF	2,311	3,733	7,145	12,021	17,857	24,682	32,485	41,194	50,665	60,675
Terminal value										729,659
Terminal growth rate	3.00%									
WACC	11.57%									
Cost of Equity	14.70%									
Cost of Debt	5.00%									
Equity Beta	0.90									
Risk Free Rate	3.00%									
Market Risk Premium	13.00%									
Target Debt to Asset ratio	30.00%									
Effective Corporate Tax Rate	15.00%									
Terminal value (RMB mn)	244,253									
Total PV (RMB mn)	356,857									
Net debt (RMB mn)	(3,107)									
Equity value (RMB mn)	359,965									
# of shares (mn)	2,962									
Price per share (RMB per share)	121.52									

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	16,535	22,902	39,355	42,083	55,097	69,723
Cost of goods sold	(10,253)	(14,592)	(24,677)	(25,370)	(33,583)	(43,220)
Gross profit	6,282	8,310	14,678	16,713	21,514	26,503
Operating expenses	(3,155)	(3,898)	(5,372)	(5,449)	(6,804)	(8,192)
Selling expense	(588)	(699)	(732)	(740)	(914)	(1,087)
Admin expense	(1,839)	(2,203)	(2,826)	(2,853)	(3,570)	(4,309)
R&D expense	(693)	(942)	(1,614)	(1,642)	(2,039)	(2,441)
Others	(35)	(54)	(200)	(214)	(281)	(355)
Operating profit	3,127	4,412	9,306	11,263	14,710	18,311
Gain/loss on financial assets at FVTPL	52	(93)	770	448	478	512
Investment gain/loss	606	1,356	188	160	200	200
Net Interest income/(expense)	(520)	(84)	248	65	90	147
Other income/expense	104	425	106	200	300	300
Pre-tax profit	3,369	6,016	10,618	12,136	15,777	19,471
Income tax	(383)	(880)	(1,716)	(1,820)	(2,367)	(2,921)
After tax profit	2,986	5,136	8,903	10,316	13,411	16,550
Minority interest	(26)	(39)	(89)	(103)	(134)	(165)
Net profit	2,960	5,097	8,814	10,213	13,277	16,385
Adjusted net profit	3,637	5,131	9,399	10,670	13,997	17,607
Gross dividends	890	1,529	2,644	3,064	3,983	4,915
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	23,059	21,986	23,997	24,218	29,130	37,090
Cash & equivalents	10,237	8,239	7,986	8,244	9,459	13,168
Account receivables	3,667	4,668	6,047	5,729	7,500	9,492
Inventories	2,686	5,905	5,669	5,949	7,875	10,135
Prepayment	176	303	291	291	291	291
Financial assets at FVTPL	4,618	527	2	2	2	2
Other current assets	1,676	2,344	4,003	4,003	4,003	4,003
Non-current assets	23,232	33,142	40,693	47,480	53,696	59,363
PP&E	5,710	8,554	14,171	20,917	27,020	32,542
Deferred income tax	301	390	492	492	492	492
Investment in JVs & assos	765	678	1,203	1,203	1,203	1,203
Intangibles	998	1,600	1,785	1,641	1,497	1,353
Goodwill	1,392	1,926	1,822	1,822	1,822	1,822
Financial assets at FVTPL	6,717	8,714	8,954	9,562	10,240	10,952
Other non-current assets	7,349	11,280	12,265	11,843	11,421	10,999
Total assets	46,291	55,127	64,690	71,699	82,825	96,454
Current liabilities	7,920	12,985	14,499	14,758	16,457	18,450
Short-term borrowings	1,230	2,261	3,874	3,874	3,874	3,874
Account payables	941	1,931	1,659	1,918	3,617	5,610
Tax payable	379	536	882	882	882	882
Other current liabilities	5,370	8,256	8,084	8,084	8,084	8,084
Non-current liabilities	5,652	3,385	3,264	2,762	2,762	2,762
Long-term borrowings	0	0	279	279	279	279
Bond payables	1,819	607	502	0	0	0
Obligations under finance leases	1,067	1,019	984	984	984	984
Other non-current liabilities	2,766	1,759	1,499	1,499	1,499	1,499
Total liabilities	13,573	16,370	17,764	17,520	19,219	21,213
Share capital	2,442	2,956	2,961	2,961	2,961	2,961
Capital surplus	22,678	25,732	26,512	33,660	42,954	54,424
Other reserves	7,374	9,804	17,118	17,118	17,118	17,118
Total shareholders equity	32,494	38,492	46,590	53,739	63,033	74,502
Minority interest	225	266	337	440	574	739
Total equity and liabilities	46,291	55,127	64,690	71,699	82,825	96,454
CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	3,369	6,016	10,618	12,136	15,777	19,471
Depreciation & amortization	959	1,363	1,718	2,121	2,764	3,345
Tax paid	(383)	(880)	(1,716)	(1,820)	(2,367)	(2,921)
Change in working capital	(494)	(1,151)	(298)	296	(1,998)	(2,257)

Others	523	(759)	294	(474)	(569)	(660)
Net cash from operations	3,974	4,589	10,616	12,259	13,608	16,977
Investing						
Capital expenditure	(3,031)	(6,936)	(9,966)	(8,500)	(8,500)	(8,500)
Acquisition of subsidiaries/ investments	(186)	(858)	(161)	0	0	0
Net proceeds from disposal of short-term investments	(5,638)	2,766	82	0	0	0
Others	79	189	355	0	0	0
Net cash from investing	(8,776)	(4,839)	(9,690)	(8,500)	(8,500)	(8,500)
Financing						
Dividend paid	(638)	(916)	(1,598)	(2,999)	(3,894)	(4,768)
Net borrowings	(1,284)	1,071	1,668	0	0	0
Proceeds from share issues	13,162	104	150	0	0	0
Others	(1,352)	(1,983)	(1,497)	(502)	0	0
Net cash from financing	9,888	(1,724)	(1,278)	(3,501)	(3,894)	(4,768)
Net change in cash						
Cash at the beginning of the year	5,223	10,228	8,175	7,986	8,244	9,459
Exchange difference	(81)	(79)	161	0	0	0
Cash at the end of the year	10,228	8,175	7,984	8,244	9,459	13,168
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	28.5%	38.5%	71.8%	6.9%	30.9%	26.5%
Gross profit	25.3%	32.3%	76.6%	13.9%	28.7%	23.2%
Operating profit	26.4%	41.1%	110.9%	21.0%	30.6%	24.5%
Net profit	59.6%	72.2%	72.9%	15.9%	30.0%	23.4%
Adj. net profit	51.1%	41.1%	83.2%	13.5%	31.2%	25.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	38.0%	36.3%	37.3%	39.7%	39.0%	38.0%
Operating margin	18.9%	19.3%	23.6%	26.8%	26.7%	26.3%
Adj. net profit margin	22.0%	22.4%	23.9%	25.4%	25.4%	25.3%
Return on equity (ROE)	11.9%	14.4%	20.7%	20.4%	22.7%	23.8%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Current ratio (x)	2.9	1.7	1.7	1.6	1.8	2.0
Receivable turnover days	73.2	66.4	49.7	49.7	49.7	49.7
Inventory turnover days	78.8	107.4	85.6	85.6	85.6	85.6
Payable turnover days	107.4	107.8	75.5	75.5	75.5	75.5
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	63.1	45.9	27.0	23.3	17.9	14.5
P/E (adjusted)	51.4	45.6	25.3	23.3	17.9	14.5
P/B	5.7	6.0	5.1	4.4	3.7	3.2
Div yield (%)	0.5	0.4	1.0	1.3	1.7	2.1

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

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