

WuXi Biologics (2269 HK)

Growth on track

- FY19 earnings beat.** WuXi Biologics reported FY19 revenue of RMB3.98bn, up 57% YoY, 5% above our estimate. Adjusted net profit was up 60% YoY to RMB1.2bn, 4% above our estimate. Meanwhile, attributable net profit increased 61% YoY to RMB1.0bn, 4% above our estimate.
- “Follow the molecule” strategy proved successful.** As of end 2019, WuXi Biologics worked on a total of 250 integrated projects (+22% YoY), including 121 projects in pre-clinical development stage, 112 projects in early-phase (phase I and II) clinical development, 16 projects in late-phase (phase III) development and one project in commercial manufacturing. As each project progresses from early stage of development to late stage and even commercialization, revenue from single project also increases. According to our calculation, average revenue per project rose by 26% YoY to RMB18m in FY19 because of higher single project income from late-stage projects vs early-stage projects.
- Significant market share gain in past years.** Frost & Sullivan estimates that WuXi Biologics ranked third in global biologics outsourcing market with 5.1% market share in 2019 vs 3.2% market share in 2018. We expect the Company to continue to gain market share from global competitors thanks to the Company's advanced technology platforms in cell line development, bispecific antibody development, ADC development, OMT technology, perfusion manufacturing, etc. Benefiting from cheap labor costs and rich talent pool in China, WuXi Biologics provides high quality services with competitive costs to its customers. WuXi Biologics' fast expanding manufacturing facility enables the Company to meet the growing demand in biological CDMO worldwide.
- Milestone and royalty fees contribute additional high-margin income.** Milestone income reached US\$55m in FY19, up 84% YoY, contributing 10% of the total revenue. WuXi Biologics has US\$3.4bn milestone fee backlog as of end 2019, up 70% YoY. Nevertheless, due to the lengthy process for drug development, the milestone fee backlog may be realized in a prolonged time period. Meanwhile, total backlog surged from US\$3.6bn by Dec 2018 to US\$7.9bn by Mar 2020.
- We lift our DCF-based TP from HK\$106.18 to HK\$111.93 (WACC 10.17%, Terminal growth rate 5%).** To reflect the impact from COVID-19, we tuned down FY20E/21E net profit forecast by 8% and 11%, respectively while we think consensus numbers have not figured in COVID-19 impact. We expect WuXi Biologics' revenue to increase 32.5%/40.1%/32.6% YoY in FY20E/21E/22E and adjusted net profit to grow by 29.0%/40.6%/33.5% YoY in FY20E/21E/22E, respectively.
- Catalysts:** 1) Higher-than-expected earnings growth, 2) Good acquisitions.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	2,534	3,984	5,278	7,392	9,799
Revenue YoY growth (%)	56.56	57.18	32.48	40.06	32.56
Net income (RMB mn)	631	1,014	1,286	1,809	2,419
EPS (RMB)	0.52	0.82	0.99	1.40	1.87
EPS YoY growth (%)	121.48	57.07	21.54	40.73	33.70
Consensus EPS (RMB)	0.52	0.82	1.13	1.62	2.36
P/E (x)	170.85	108.77	89.50	63.59	47.56
P/B (x)	13.48	8.55	8.11	7.20	6.25
ROE (%)	10.49	9.71	9.50	11.99	14.06
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$111.93**
 (Previous TP **HK\$106.18**)
Up/Downside **+11.9%**
Current Price **HK\$100.00**

China Healthcare Sector

Jill Wu, CFA
 (852) 3900 0842
 jillwu@cmbi.com.hk

Sam HU, PhD
 Tel: (852) 3900 0882
 samhu@cmbi.com.hk

Amy Ge
 (852) 3761 8778
 amyge@cmbi.com.hk

Mkt. Cap. (HK\$ mn)	129,760
Avg. 3mths t/o (HK\$ mn)	737.68
52W High/Low (HK\$)	123.8/65
Total Issued Shares (mn)	1,298

Source: Bloomberg

Shareholding Structure

Management	40.46%
JPMorgan	5.65%
Citigroup	5.01%
Free float	48.88%

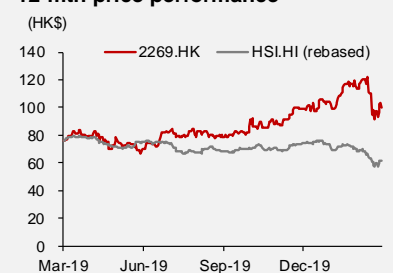
Source: HKEx

Share performance

	Absolute	Relative
1-mth	-12.8%	-0.6%
3-mth	0.8%	21.2%
6-mth	26.9%	40.3%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

Related Reports

Fast growing demand in biologicals outsourcing – 13 Dec 2019

Figure 1: CMBIS earnings revisions

(RMB mn)	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	5,278	7,392	5,576	8,157	-5.35%	-9.38%
Gross profit	2,217	3,142	2,398	3,548	-7.55%	-11.47%
Operating profit	1,484	2,058	1,667	2,472	-11.01%	-16.75%
Net profit	1,286	1,809	1,390	2,041	-7.52%	-11.35%
EPS (RMB)	0.99	1.40	1.08	1.58	-7.52%	-11.35%
Gross margin	42.00%	42.50%	43.00%	43.50%	-1.00ppt	-1.00ppt
Operating margin	28.11%	27.84%	29.90%	30.30%	-1.79ppt	-2.46ppt
Net Margin	24.36%	24.48%	24.93%	25.02%	-0.57ppt	-0.54ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

(RMB mn)	CMBIS		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	5,278	7,392	5,528	7,778	-4.53%	-4.96%
Gross profit	2,217	3,142	2,321	3,327	-4.52%	-5.59%
Operating profit	1,484	2,058	1,453	2,158	2.10%	-4.66%
Net profit	1,286	1,809	1,553	2,171	-17.21%	-16.66%
EPS (RMB)	0.99	1.40	1.13	1.62	-12.39%	-13.58%
Gross margin	42.00%	42.50%	41.99%	42.78%	+0.01ppt	-0.28ppt
Operating margin	28.11%	27.84%	26.28%	27.74%	+1.83ppt	+0.09ppt
Net Margin	24.36%	24.48%	28.09%	27.91%	-3.73ppt	-3.43ppt

Source: Company data, CMBIS estimates

Figure 3: Peers' valuation

Company	Ticker	LP (LC)	TP (LC)	Rating	Mkt Cap (US\$ mn)	Net profit YoY			P/E (x)		P/B (x)		ROE (%)	
						FY20E	FY21E	FY22 E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
H-share														
WuXi Biologics	2269 HK	100.0	111.9	Buy	16,739	26.8%	40.7%	33.7%	89.5	63.6	8.1	7.2	9.5	12.0
WuXi AppTec	2359 CH	98.7	NA	NR	21,637	54.2%	31.5%	30.7%	57.0	43.3	8.2	7.1	14.7	16.7
Pharmaron	3759 HK	48.0	NA	NR	6,252	44.6%	40.4%	27.8%	51.2	37.2	4.4	4.0	8.8	11.3
Frontage	1521 HK	3.62	NA	NR	942	29.8%	34.8%	35.9%	28.7	23.0	2.7	2.5	10.2	11.7
VIVA Biotech	1873 HK	4.05	NA	NR	816	109.4%	50.4%	N/A	17.2	10.7	2.6	2.2	13.9	17.7
Average						53.0%	39.6%	32.0%	48.7	35.6	5.2	4.6	11.4	13.9
A-share														
WuXi AppTec	603259 CH	93.3	118.3	Buy	21,637	54.2%	31.5%	30.7%	53.9	41.0	7.8	6.7	14.7	16.7
Tigermid	300347 CH	68.1	91.8	Buy	7,250	19.5%	30.7%	N/A	50.4	38.6	10.6	9.1	18.4	20.9
Pharmaron	300759 CH	57.8	NA	NR	6,252	36.8%	30.9%	25.2%	60.6	47.3	9.1	7.8	18.2	20.1
Joinn Lab	603127 CH	72.3	NA	NR	1,660	41.5%	37.3%	N/A	50.6	36.9	12.2	9.8	23.7	26.3
Asymchem Lab	002821 CH	170.8	NA	NR	5,612	31.3%	32.0%	N/A	53.7	40.7	10.9	8.8	18.4	19.5
Average						36.6%	32.5%	27.9%	53.8	40.9	10.1	8.4	18.7	20.7

Source: Bloomberg, CMBIS estimates, as at 27 Mar 2020.

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	2,534	3,984	5,278	7,392	9,799
Pre-IND services	1,451	1,808	2,369	3,303	4,294
Post-IND services	1,084	2,152	2,866	4,045	5,461
Cost of sales	(1,517)	(2,325)	(3,061)	(4,250)	(5,585)
Gross profit	1,018	1,659	2,217	3,142	4,213
Other income	194	180	180	180	180
Selling & distribution expenses	(42)	(77)	(100)	(140)	(186)
Administrative expenses	(228)	(367)	(475)	(658)	(862)
R&D expenses	(169)	(260)	(338)	(466)	(608)
Operating profit	773	1,135	1,484	2,058	2,737
Finance costs, net	0	(20)	(34)	(24)	(24)
Other gains and losses	21	22	0	0	0
Impairment losses, net of reversal	(56)	(7)	(10)	(10)	(10)
Pre-tax profit	738	1,127	1,434	2,018	2,698
Income tax	(107)	(116)	(148)	(208)	(278)
Minority interests	0	3	0	0	0
Net profit	631	1,014	1,286	1,809	2,419

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	738	1,127	1,434	2,018	2,698
Depreciation & amortization	146	272	464	614	690
Change in working capital	(246)	297	(335)	(376)	(434)
Share-based payment expense	128	0	0	0	0
Other operating activities	(5)	(485)	(90)	(160)	(231)
Net cash from operating	762	1,210	1,473	2,096	2,723
Capex	(1,341)	(3,200)	(4,000)	(2,500)	(1,500)
Acquisition of subsidiaries	(333)	0	0	0	0
Other investing activities	1,258	10	0	0	0
Net cash from investing	(416)	(3,190)	(4,000)	(2,500)	(1,500)
Net proceeds from shares issued	3,206	3,512	0	0	0
Bank borrowing	0	608	(1,000)	0	0
Acquisition of non-controlling interests	0	0	0	0	0
Dividends and interests paid	0	(20)	(34)	(24)	(24)
Other financing activities	1	0	0	0	0
Net cash from financing	3,207	4,100	(1,034)	(24)	(24)
FX changes	28	0	0	0	0
Net change in cash	3,581	2,121	(3,561)	(428)	1,199
Cash at the beginning of the year	504	4,084	6,205	2,644	2,216
Cash at the end of the year	4,084	6,205	2,644	2,216	3,415

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	3,648	7,930	11,442	13,304	14,090
Fixed asset	2,904	6,338	9,892	11,796	12,624
Intangible assets	332	416	398	380	362
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	731	707	683
Current assets	5,745	9,672	6,285	6,886	9,252
Cash	4,084	6,205	2,644	2,216	3,415
Inventories	227	399	412	573	753
Trade and bills receivables	1,067	1,737	1,807	2,531	3,356
Contract costs	295	284	374	520	683
Other current assets	72	1,046	1,046	1,046	1,046
Current liabilities	1,319	2,871	2,710	3,363	4,097
Borrowings	0	506	506	506	506
Trade and other payables	712	1,844	1,682	2,336	3,070
Other current liabilities	607	521	521	521	521
Non-current liabilities	80	1,835	835	835	835
Borrowings	0	1,395	395	395	395
Other non-current liabilities	80	440	440	440	440
Total net assets	7,994	12,896	14,182	15,991	18,410
Minority interest	0	112	112	112	112
Shareholders' equity	7,994	12,784	14,070	15,879	18,299

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Pre-IND services	57	45	45	45	44
Post-IND services	43	54	54	55	56
Total	100	99	99	99	100
Profit & loss ratios (%)					
Gross margin	40	42	42	43	43
EBITDA margin	38	35	36	35	34
Pre-tax margin	29	28	27	27	28
Net margin	25	25	24	24	25
Effective tax rate	15	10	10	10	10
Balance sheet ratios					
Current ratio (x)	4	3	2	2	2
Trade receivables turnover days	121	128	125	125	125
Trade payables turnover days	180	201	201	201	201
Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	10	10	9	12	14
ROA	9	8	7	10	11
Per share					
EPS (RMB)	0.52	0.82	0.99	1.40	1.87
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	6.60	10.41	10.97	12.37	14.24

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

Disclosures

CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.