

CSPC Pharmaceutical (1093 HK)

New products to drive sales recovery

- **9M23 results in line with expectation.** CSPC reported 9M23 revenue of RMB23.87bn (+1.6% YoY) and attributable net profit of RMB4.49bn (+0.6% YoY), representing 75% and 74% of our previous FY estimates, respectively. The adjusted attributable net profit (excl. impact from fair value change of financial assets and share-based compensation) in 9M23 increased 2.0% YoY to RMB4.72bn. Due to the price erosion of Keaili and vitamin C, the GP margin in 9M23 decreased to 70.4% (vs 72.7% in 9M22), while in 3Q23, the GP margin was consistent as 2Q23. The selling expense ratio was 27.4% in 3Q23 (vs 30.1% in 2Q23). CSPC consistently invests in R&D, with R&D costs reaching RMB3.68bn (+25.9% YoY) in 9M23 (+6.0% QoQ in 3Q23).
- **Steady sales of finished drugs.** The sales of finished drugs in 9M23 increased 3.9% YoY to RMB19.34bn. In 3Q23, the sales of finished drugs decreased by 1.6% QoQ (+1.3% YoY), indicating mild impact from anti-corruption. The CNS products recorded +15.2% YoY sales growth in 9M23 to RMB6.93bn, driven by the strong growth of NBP, while in 3Q23, the sales of CNS products recorded a 2.3% QoQ decrease. Sales of oncology products weakened in 9M23 (-21.2% YoY), mainly affected by the lowered price of Keaili due to the renewal of centralised procurement, while the oncology products recorded a 6.0% QoQ sales increase in 3Q23. Besides finished drugs, the sales of vitamin C products decreased 23.5% YoY to RMB1.51bn, due to the price decline since 3Q22. Driven by sales volume growth, sales of antibiotic products increased by 17.9% YoY to RMB1.36bn. In addition, revenue of functional food and other business decreased 5.6% YoY to RMB1.65bn, due to the price decline of caffeine products.
- **New products to drive the growth recovery.** We expect CSPC's sales of new products to ramp up quickly, including Duoenda, Anfulike, Mingfule, JMT103 and irinotecan liposome. We expect CSPC to have multiple products launched in China in 2024, including Mingfule (rhTNK-tPA, for new indication of acute ischemic stroke), amphotericin B liposome (for invasive fungal infection), DBPR108 (DPP4, for diabetes), omalizumab biosimilar (for urticarial), batoclimab (FcRn, for MG), and SYSA1802(PD-1, for 2L+ CC), further expanding the Company's commercial product portfolio. Management forecasts the new products to deliver RMB3bn sales in 2024. Additionally, based on CSPC's cutting-edge mRNA platform, we expect the bivalent Covid-19 mRNA vaccine (SYS6006.32) to receive EUA in China before year-end. We also look forward to the data readout of the Company's ADC assets in 2024, including the Ph1 data of Claudin18.2 ADC, Nectin4 ADC and EGFR ADC and the pivotal data of HER2 ADC.
- **Maintain BUY.** We expect CSPC's revenue and attributable net profit to grow 10.8%/ 10.7% and 11.6%/ 12.1% YoY in FY24E/ 25E, respectively. We maintained our DCF-based TP unchanged at HK\$8.16 (WACC 11.85%, terminal growth 2.0%).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	27,867	30,937	31,550	34,969	38,718
YoY growth (%)	11.7	11.0	2.0	10.8	10.7
Net profit (RMB mn)	5,605	6,091	6,183	6,902	7,730
YoY growth (%)	8.8	9.6	1.9	11.6	12.1
EPS (Reported) (RMB)	0.47	0.51	0.52	0.58	0.65
P/E (x)	16.8	14.2	12.4	11.1	9.9
Net gearing (%)	(40.9)	(44.1)	(52.9)	(59.4)	(64.7)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$8.16
(Previous TP)	HK\$8.16)
Up/Downside	15.8%
Current Price	HK\$7.05

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Stock Data

Mkt Cap (HK\$ mn)	84,016.3
Avg 3 mths t/o (HK\$ mn)	298.5
52w High/Low (HK\$)	9.48/5.29
Total Issued Shares (mn)	11,917.2
Source: FactSet	

Shareholding Structure

Massive Giant Group Ltd	10.2%
Cai Dongchen	9.9%

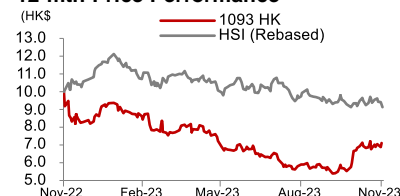
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	3.2%	3.6%
3-mth	19.5%	28.9%
6-mth	3.4%	10.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	7,738	8,510	9,539	9,634	9,682	9,682	9,682	9,682	9,682	9,682
Tax rate	17.39%	17.39%	17.39%	17.39%	17.39%	17.39%	17.39%	17.39%	17.39%	17.39%
EBIT*(1-tax rate)	6,393	7,030	7,880	7,959	7,999	7,999	7,999	7,999	7,999	7,999
+ D&A	1,048	1,048	1,048	1,058	1,058	1,058	1,058	1,058	1,058	1,058
- Change in working capital	230	-146	-246	-249	-249	-249	-249	-249	-249	-249
- Capx	-800	-800	-800	-800	-800	-800	-800	-800	-800	-800
FCFF	6,871	7,132	7,882	7,968	8,008	8,008	8,008	8,008	8,008	8,008
Terminal value										82,970

Terminal growth rate	2.00%
WACC	11.85%
Cost of Equity	15.10%
Cost of Debt	5.00%
Equity Beta	1.10
Risk Free Rate	3.00%
Market Risk Premium	11.00%
Target Debt to Asset ratio	30.00%
Effective Corporate Tax Rate	15.00%

Terminal value (RMB mn)	27,087
Total PV (RMB mn)	70,790
Net debt (RMB mn)	-18,271
Minority interests (RMB mn)	1,591
Equity value (RMB mn)	87,471
# of shares (mn)	11,903

DCF per share (in HK\$) 8.16

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

		WACC				
		10.85%	11.35%	11.85%	12.35%	12.85%
Terminal growth rate	3.00%	9.32	8.87	8.48	8.12	7.81
	2.50%	9.09	8.68	8.31	7.98	7.68
	2.00%	8.89	8.51	8.16	7.85	7.57
	1.50%	8.71	8.36	8.03	7.74	7.47
	1.00%	8.55	8.22	7.91	7.63	7.37

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	31,550	34,969	38,718	32,246	35,016	37,719	-2.2%	-0.1%	2.6%
Gross profit	22,221	24,478	27,103	22,771	24,896	26,961	-2.4%	-1.7%	0.5%
Operating profit	7,738	8,510	9,539	7,594	8,308	8,911	1.9%	2.4%	7.0%
Attributable net profit	6,183	6,902	7,730	6,220	6,768	7,269	-0.6%	2.0%	6.3%
EPS (RMB)	0.52	0.58	0.65	0.52	0.57	0.61	-0.1%	2.1%	6.8%
Gross margin	70.43%	70.00%	70.00%	70.62%	71.10%	71.48%	-0.19ppt	-1.1ppt	-1.48ppt
Operating margin	24.53%	24.34%	24.64%	23.55%	23.73%	23.62%	+0.98ppt	+0.61ppt	+1.01ppt
Net margin	19.60%	19.74%	19.97%	19.29%	19.33%	19.27%	+0.31ppt	+0.41ppt	+0.69ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	24,942	27,867	30,937	31,550	34,969	38,718
Cost of goods sold	(6,257)	(6,732)	(8,680)	(9,329)	(10,491)	(11,615)
Gross profit	18,685	21,135	22,256	22,221	24,478	27,103
Selling expense	(9,378)	(10,443)	(10,337)	(9,234)	(10,351)	(11,383)
Admin expense	(946)	(1,010)	(1,173)	(1,046)	(1,189)	(1,278)
R&D expense	(2,890)	(3,433)	(3,987)	(4,624)	(4,896)	(5,421)
Others	585	546	815	421	467	517
Operating profit	6,057	6,795	7,574	7,738	8,510	9,539
Gain/loss on financial assets at FVTPL	0	0	0	0	0	0
Share of (losses)/profits of associates/JV	347	60	33	(37)	60	60
Net Interest income/(expense)	(12)	(8)	(25)	(15)	9	11
Pre-tax profit	6,391	6,847	7,582	7,686	8,579	9,609
Income tax	(1,162)	(1,159)	(1,350)	(1,336)	(1,492)	(1,671)
Minority interest	69	83	141	167	186	208
Net profit	5,229	5,688	6,232	6,350	7,088	7,939
Gross dividends	1,528	1,691	2,097	1,855	2,070	2,319
Net dividends	39	9	9	2	12	12

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	15,921	20,337	23,957	28,752	34,518	40,854
Cash & equivalents	7,259	9,284	10,298	14,754	19,358	24,463
Account receivables	2,883	3,890	4,631	4,723	5,235	5,796
Inventories	1,861	2,480	2,555	2,746	3,088	3,419
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	2,954	3,263	3,602
Non-current assets	14,149	14,405	17,813	17,565	17,317	17,069
PP&E	7,770	8,529	9,582	9,579	9,577	9,574
Deferred income tax	117	43	113	113	113	113
Intangibles	509	468	1,908	1,818	1,727	1,637
Goodwill	1,164	1,035	1,395	1,240	1,085	930
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	46,316	51,835	57,923
Current liabilities	6,302	7,226	8,958	9,030	9,552	10,041
Short-term borrowings	99	0	153	(342)	(838)	(1,334)
Account payables	4,759	6,162	6,864	7,376	8,295	9,184
Tax payable	379	261	262	262	262	262
Other current liabilities	1,065	803	1,679	1,735	1,833	1,929
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	10,200	10,722	11,211
Share capital	10,899	10,899	10,899	10,899	10,899	10,899
Other reserves	11,433	15,087	19,298	23,626	28,457	33,868
Total shareholders equity	22,332	25,987	30,198	34,526	39,357	44,768
Minority interest	769	842	1,444	1,591	1,756	1,944
Total equity and liabilities	30,070	34,742	41,770	46,316	51,835	57,923

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	6,391	6,847	7,582	7,686	8,579	9,609
Depreciation & amortization	809	865	1,048	1,048	1,048	1,048
Tax paid	(1,061)	(1,141)	(1,335)	(1,336)	(1,492)	(1,671)
Change in working capital	1,680	(1,388)	798	230	(146)	(246)
Others	(1,079)	(547)	(467)	0	0	0
Net cash from operations	6,740	4,637	7,627	7,627	7,990	8,740
Investing						
Capital expenditure	(1,356)	(1,410)	(2,220)	(800)	(800)	(800)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(773)	773	(4,576)	0	0	0
Net cash from investing	(2,130)	(637)	(6,796)	(800)	(800)	(800)
Financing						
Dividend paid	(1,528)	(1,691)	(2,097)	(1,855)	(2,070)	(2,319)
Net borrowings	169	0	486	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	0	(264)	(14)	0	0	0
Others	(112)	(242)	(279)	(516)	(516)	(516)
Net cash from financing	(1,471)	(2,197)	(1,904)	(2,371)	(2,587)	(2,835)
Net change in cash						
Cash at the beginning of the year	4,118	7,259	9,060	10,298	14,754	19,358
Exchange difference	2	(2)	14	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	7,259	9,060	8,001	14,754	19,358	24,463
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	12.8%	11.7%	11.0%	2.0%	10.8%	10.7%
Gross profit	17.4%	13.1%	5.3%	(0.2%)	10.2%	10.7%
Operating profit	31.7%	12.2%	11.5%	2.2%	10.0%	12.1%
Net profit	40.1%	8.8%	9.6%	1.9%	11.6%	12.0%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	74.9%	75.8%	71.9%	70.4%	70.0%	70.0%
Operating margin	24.3%	24.4%	24.5%	24.5%	24.3%	24.6%
Return on equity (ROE)	25.6%	23.5%	22.2%	19.6%	19.2%	18.9%
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	3.2	3.6	4.1
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	11.1	9.9
P/E (diluted)	18.4	16.8	14.2	12.4	11.1	9.9
P/B	4.1	3.5	2.7	2.1	1.9	1.6
P/CFPS	14.1	20.3	11.4	10.0	9.6	8.8
Div yield (%)	1.6	1.8	2.4	2.4	2.7	3.0

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

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