

# WuXi Biologics (2269 HK)

## Impressive post-pandemic performance

**Impressive top-line growth in 1H23.** WuXi Bio reported 1H23 revenue of RMB8,492mn, up 17.8% YoY, attributable net income of RMB2,268mn, down 10.6% YoY, and attributable adjusted net income of RMB2,838mn, up 0.1% YoY. 1H23 revenue impressively beat its previous guidance of low-teens growth, mainly attributable to the strong 59.7% YoY growth of non-COVID revenue. Despite the sizable capacity additions in 2022 (i.e., MFG7 in Ireland and MFG8 in Shijiazhuang, each with a capacity of 48k L) and the challenging macro environment, WuXi Bio maintained an industry-leading gross profit margin (GPM) of 41.9% in 1H23 vs 47.4% in 1H22 (adjusted GPM of 47.0% in 1H23 vs 53.4% in 1H22). The Company continuously executes its WBS (WuXi Biologics Business System) which targets to improve operating margin by 300bps in 2023. As of Jun 2023, WuXi Bio's total backlog reached US\$20.1bn with service backlog unchanged compared with end-2022. WuXi Bio management maintained its guidance of 30% YoY growth for revenue and 25-26% YoY growth for adjusted net income in 2023E. As for longer term outlook, management reiterated that WuXi Bio will grow at twice the pace of the industry average.

■ **Globally-recognized CMO capability benefiting from accelerated progress of clinical projects.** In 1H23, the Company added 46 new projects into its pipeline, including 11 external projects under its "Win-the-Molecule" strategy, which was inline with its full-year target of 80 new projects. Among the 11 external projects, 4 were in phase III, 2 were commercial projects of blockbuster products, indicating that WuXi Bio enjoys increasing customer trust. The management forecasts its CMO project number to reach 32-38 in 2025E. In addition, the number of Phase I and II projects increased by 26 and 9, respectively, from end-2022, mainly driven by its successful "follow the molecule" strategy. The expedited progress of clinical projects indicated that delayed projects during COVID pandemic have been re-initiated. In addition, we think the Company is able to capture the growing MNC's demand in manufacturing outsourcing of biologics products.

■ **Established global network to support long-term growth.** During the pandemic, WuXi Bio successfully established a global network with DNA-to-BLA capability in both China and overseas market under its "Global Dual Sourcing" vision. WuXi Bio's largest overseas site in Ireland commenced GMP operation since 4Q22. With 7 contracts signed with MNC clients, the Ireland capacity is almost fully booked for 2025E. We believe WuXi Bio's global network will be able to better accommodate the diversified demand from global clients after the pandemic, which was clearly evidenced by the impressive Non-COVID revenue growth of 59.7% YoY in 1H23.

■ **Maintain BUY.** We revised our TP to HK\$69.39, based on a 10-year DCF model with WACC of 10.17% and terminal growth of 3.0%. We forecast WuXi Bio's revenue to grow by 29.0%/ 30.0%/ 31.3% YoY and attributable adjusted net income by 25.4%/ 26.3%/ 28.4% YoY in 2023E/ 24E/ 25E, respectively.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	10,290	15,269	19,696	25,614	33,619
YoY growth (%)	83.3	48.4	29.0	30.0	31.3
Adjusted net profit (RMB mn)	3,316	4,925	6,175	7,799	10,016
EPS (Adjusted) (RMB)	0.79	1.18	1.45	1.84	2.36
Consensus EPS (RMB)	na	na	1.30	1.66	2.16
P/E (x) (adjusted)	50.5	34.0	27.6	21.9	17.0

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price	HK\$69.39
(Previous TP)	HK\$75.00)
Up/Downside	55.6%
Current Price	HK\$44.60

### China Healthcare

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

**Benchun HUANG, CFA**  
 huangbenchen@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	189,549.2
Avg 3 mths t/o (HK\$ mn)	831.0
52w High/Low (HK\$)	73.90/35.50
Total Issued Shares (mn)	4250.0

Source: FactSet

### Shareholding Structure

WuXi Biologics Holdings	13.8%
JP Morgan	7.0%

Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	10.0%	12.7%
3-mth	0.6%	5.6%
6-mth	-16.3%	-8.1%

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	19,696	25,614	33,619	19,473	25,112	32,727	1.15%	2.00%	2.73%
Gross Profit	8,266	10,886	14,456	8,179	10,296	13,255	1.07%	5.73%	9.07%
Operating Profit	5,844	7,301	9,448	5,330	6,493	8,437	9.65%	12.44%	11.98%
Adjusted net profit	6,175	7,799	10,016	6,173	7,785	9,879	0.03%	0.19%	1.39%
Adjusted EPS (RMB)	1.45	1.84	2.36	1.46	1.84	2.34	-0.43%	-0.28%	0.92%
Gross Margin	41.97%	42.50%	43.00%	42.00%	41.00%	40.50%	-0.03ppt	+1.50ppt	+2.50ppt
Operating Margin	29.67%	28.50%	28.10%	27.37%	25.86%	25.78%	+2.30ppt	+2.65ppt	+2.32ppt
Adjusted net margin	31.35%	30.45%	29.79%	31.70%	31.00%	30.19%	-0.35ppt	-0.55ppt	-0.39ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	19,696	25,614	33,619	19,763	25,333	32,435	-0.34%	1.11%	3.65%
Gross Profit	8,266	10,886	14,456	8,416	10,915	14,192	-1.77%	-0.26%	1.86%
Operating Profit	5,844	7,301	9,448	5,815	7,635	9,974	0.51%	-4.37%	-5.27%
Adjusted net profit	6,175	7,799	10,016	5,674	7,242	9,299	8.83%	7.69%	7.71%
Adjusted EPS (RMB)	1.45	1.84	2.36	1.30	1.66	2.16	11.85%	10.48%	9.21%
Gross Margin	41.97%	42.50%	43.00%	42.58%	43.09%	43.76%	-0.61ppt	-0.59ppt	-0.76ppt
Operating Margin	29.67%	28.50%	28.10%	29.42%	30.14%	30.75%	+0.25ppt	-1.63ppt	-2.65ppt
Adjusted net margin	31.35%	30.45%	29.79%	28.71%	28.59%	28.67%	+2.64ppt	+1.86ppt	+1.12ppt

Source: 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		5,785	7,951	10,098	12,926	16,415	20,683	25,854	32,059	39,433	48,108
Tax rate		11.74%	11.74%	11.74%	11.74%	11.74%	11.74%	11.74%	11.74%	11.74%	11.74%
EBIT*(1-tax rate)		5,106	7,017	8,912	11,408	14,488	18,255	22,819	28,295	34,803	42,459
+ D&A		1,057	1,206	1,358	1,738	2,208	2,782	3,477	4,312	5,303	6,470
- Change in working capital		(332)	(1,614)	(2,127)	(2,723)	(3,458)	(4,357)	(5,446)	(6,753)	(8,306)	(10,134)
- Capex		(5,000)	(5,500)	(5,500)	(4,950)	(4,455)	(4,010)	(3,609)	(3,248)	(2,923)	(2,631)
FCFF		830	1,109	2,643	5,474	8,783	12,670	17,241	22,606	28,877	36,165
Terminal value											519,890
Terminal growth rate		3.00%									
WACC		10.17%									
Cost of Equity		13.35%									
Cost of Debt		5.00%									
Equity Beta		0.90									
Risk Free Rate		3.00%									
Market Risk Premium		11.50%									
Target Debt to Asset ratio		35.00%									
Effective Corporate Tax Rate		15.00%									
Terminal value (RMB mn)		197,458									
Total PV (RMB mn)		262,313									
Net debt (RMB mn)		(3,101)									
Equity value (RMB mn)		265,415									
# of shares (mn)		4,250									
Price per share (RMB per share)		62.45									
Price per share (HK\$ per share)		69.39									

Source: CMBIGM estimates. HK\$/RMB=0.90

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	5,612	10,290	15,269	19,696	25,614	33,619
Cost of goods sold	(3,079)	(5,461)	(8,545)	(11,430)	(14,728)	(19,163)
Gross profit	2,533	4,829	6,724	8,266	10,886	14,456
Operating expenses	(689)	(1,306)	(1,810)	(2,422)	(3,585)	(5,008)
Selling expense	(94)	(125)	(163)	(352)	(474)	(639)
Admin expense	(511)	(876)	(1,270)	(1,632)	(2,177)	(2,958)
R&D expense	(304)	(502)	(683)	(823)	(1,204)	(1,681)
Others	220	197	305	385	270	270
Operating profit	1,844	3,523	4,914	5,844	7,301	9,448
Share of (losses)/profits of associates/JV	3	0	0	0	0	0
Net Interest income/(expense)	(43)	(39)	(64)	(158)	(65)	(65)
Others	162	509	508	91	800	800
Pre-tax profit	1,966	3,993	5,358	5,777	8,036	10,183
Income tax	(273)	(485)	(808)	(678)	(944)	(1,196)
After tax profit	1,693	3,509	4,550	5,099	7,092	8,987
Minority interest	(4)	(120)	(130)	(155)	(199)	(252)
Net profit	1,689	3,388	4,420	4,944	6,894	8,735
Adjusted net profit	1,722	3,316	4,925	6,175	7,799	10,016

  

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	14,204	19,530	18,470	21,016	25,158	31,811
Cash & equivalents	7,096	9,003	6,395	7,219	8,402	11,121
Account receivables	3,242	4,857	5,610	6,590	8,359	10,695
Inventories	1,084	1,687	2,281	2,654	3,420	4,450
ST bank deposits	1,272	1,148	304	304	304	304
Financial assets at FVTPL	112	976	2,015	2,015	2,015	2,015
Other current assets	1,398	1,859	1,864	2,235	2,658	3,227
Non-current assets	14,759	24,503	31,095	35,038	39,332	43,474
PP&E	11,996	18,065	24,171	28,253	32,687	36,968
Deferred income tax	80	221	223	223	223	223
Investment in JVs & assos	188	752	1,582	1,582	1,582	1,582
Intangibles	392	601	549	492	435	378
Goodwill	185	1,530	1,530	1,530	1,530	1,530
Financial assets at FVTPL	759	1,356	1,086	1,086	1,086	1,086
Other non-current assets	1,159	1,978	1,955	1,873	1,791	1,709
Total assets	28,964	44,033	49,564	56,054	64,491	75,286
Current liabilities	4,498	8,256	9,319	10,709	12,054	13,862
Short-term borrowings	767	2,122	1,321	1,321	1,321	1,321
Account payables	2,729	3,698	3,269	4,660	6,004	7,812
Tax payable	251	558	774	774	774	774
Other current liabilities	691	1,775	3,805	3,805	3,805	3,805
Lease liabilities	61	104	149	149	149	149
Non-current liabilities	3,566	3,071	4,033	4,033	4,033	4,033
Long-term borrowings	1,838	641	1,462	1,462	1,462	1,462
Obligations under finance leases	667	1,429	1,490	1,490	1,490	1,490
Deferred income	214	224	238	238	238	238
Other non-current liabilities	848	777	844	844	844	844
Total liabilities	8,064	11,326	13,351	14,742	16,086	17,895
Share capital	0	0	0	0	0	0
Capital surplus	20,564	32,278	35,047	39,991	46,884	55,620
Total shareholders equity	20,564	32,279	35,047	39,991	46,885	55,620
Minority interest	335	428	1,166	1,321	1,520	1,771
Total equity and liabilities	20,899	32,706	36,213	41,312	48,404	57,391

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
<b>Operating</b>						
Profit before taxation	1,966	3,993	5,358	5,777	8,036	10,183
Depreciation & amortization	304	482	801	1,057	1,206	1,358
Tax paid	(94)	(350)	(586)	(678)	(944)	(1,196)
Change in working capital	(367)	(963)	(974)	(332)	(1,614)	(2,127)
Others	73	270	943	147	65	65
<b>Net cash from operations</b>	<b>1,881</b>	<b>3,431</b>	<b>5,542</b>	<b>5,970</b>	<b>6,749</b>	<b>8,283</b>
<b>Investing</b>						
Capital expenditure	(6,025)	(6,508)	(5,868)	(5,000)	(5,500)	(5,500)
Acquisition of subsidiaries/ investments	(6)	(2,535)	(281)	0	0	0
Others	(1,186)	(559)	241	11	0	0
<b>Net cash from investing</b>	<b>(7,216)</b>	<b>(9,602)</b>	<b>(5,908)</b>	<b>(4,989)</b>	<b>(5,500)</b>	<b>(5,500)</b>
<b>Financing</b>						
Net borrowings	870	(53)	(174)	0	0	0
Proceeds from share issues	5,585	10,978	0	0	0	0
Others	110	(2,715)	(2,418)	(158)	(65)	(65)
<b>Net cash from financing</b>	<b>6,566</b>	<b>8,209</b>	<b>(2,592)</b>	<b>(158)</b>	<b>(65)</b>	<b>(65)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	6,205	7,096	9,003	6,395	7,219	8,402
Exchange difference	(340)	(132)	350	0	0	0
<b>Cash at the end of the year</b>	<b>7,096</b>	<b>9,003</b>	<b>6,395</b>	<b>7,219</b>	<b>8,402</b>	<b>11,121</b>
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	40.9%	83.3%	48.4%	29.0%	30.0%	31.3%
Gross profit	52.7%	90.6%	39.2%	22.9%	31.7%	32.8%
Operating profit	62.5%	91.1%	39.5%	18.9%	24.9%	29.4%
Net profit	66.6%	100.6%	30.5%	11.8%	39.4%	26.7%
Adj. net profit	42.5%	92.6%	48.5%	25.4%	26.3%	28.4%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	45.1%	46.9%	44.0%	42.0%	42.5%	43.0%
Operating margin	32.8%	34.2%	32.2%	29.7%	28.5%	28.1%
Adj. net profit margin	30.7%	32.2%	32.3%	31.4%	30.4%	29.8%
Return on equity (ROE)	10.1%	12.8%	13.1%	13.2%	15.9%	17.0%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Current ratio (x)	3.2	2.4	2.0	2.0	2.1	2.3
Receivable turnover days	161.9	143.6	125.1	122.1	119.1	116.1
Inventory turnover days	87.9	92.6	84.8	84.8	84.8	84.8
Payable turnover days	271.0	214.8	148.8	148.8	148.8	148.8
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E (adjusted)	92.1	50.5	34.0	27.6	21.9	17.0
P/B	7.6	5.1	4.6	4.1	3.5	3.0

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

# 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.

## CMBIGM Ratings

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

## CMB International Global Markets Limited

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

**CMB International Global Markets Limited ("CMBIGM") 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. CMBIGM 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. CMBIGM 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 CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM 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 CMBIGM 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. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM 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. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM 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 CMBIGM 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 CMBIGM 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 CMBIGM.

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 CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

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.