

BUY (Maintain)

Target Price HK\$14.79
(Previous TP) (HK\$11.03)
Up/Downside +27.95%
Current Price HK\$11.56

China Healthcare Sector

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Stock Data

Mkt Cap (HK\$ mn)	136,980
Avg 3 mths t/o (HK\$ mn)	581.27
52w High/Low (HK\$)	11.68/7.08
Total Issued Shares (mn)	11,974

Source: Bloomberg

Shareholding Structure

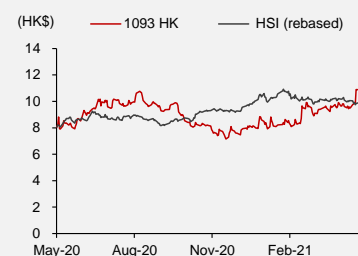
Management	29.94%
Citigroup Inc	5.87%
BlackRock	4.75%
Free float	59.44%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	12.5%	15.0%
3-mth	30.5%	40.5%
6-mth	37.1%	27.6%

Source: Bloomberg

12-mth Price Performance

Source: Bloomberg

Auditor: Deloitte**Related Reports**

- Multiple innovative drugs to receive approvals in 2021
- Earnings accelerated in Q3 - 24 Nov 2020
- Inline 1Q results amid COVID-19 outbreak - 28 May 2020
- Another solid quarter - 19 Nov 2019

CSPC Pharmaceutical (1093 HK)**Expect fruitful R&D and BD results**

CSPC reported 1Q21 sales and net profit of RMB6.73bn and RMB1.47bn, up 9.9% YoY and 26.9% YoY, respectively, accounting for 25% and 28% of our full year estimates. Recurring net profit (excluding gain on disposal of a subsidiary) was RMB1.47bn, up 63.3% YoY. Blended GPM was up by 3.1 ppts to 77.0%, thanks to i) increasing revenue contribution from high-margin oncology drug portfolio, and ii) enhanced GPM of vitamin C franchise due to increase in ASP boosted by strong overseas demand. OPM improved by 7.6 ppts to 26.6%, thanks to decrease in both administrative expense ratio (down 1.3 ppts YoY) and selling expense ratio (down 2.7ppts YoY). R&D expenses ratio was up 1.0 ppt to 10.3%.

- **NBP sales volume expansion beat expectation.** NBP registered RMB1.59bn sales in 1Q21, up 8.7% YoY, of which capsule/injection formulations grew by 22.1%/2.7% YoY respectively. CSPC recognized approximately RMB160mn sales provision for NBP in 1Q21, indicating c. 20% YoY actual end-sales growth. Following its price-cut with effect from 1 Mar 2021, NBP capsule sales volume has surged thanks to better affordability, release of sales restrictions in large hospitals and fast penetration into both grass-root medical institutions and online channels. Thanks to improved affordability, the treatment length of NBP capsule extended from 20 days to 40 days in certain online channels, which was driven by out-of-pocket payment.
- **Multiple key innovative products pending approvals.** CSPC expected to launch 60+ new products, not less than 15 of which have market potential exceeding RMB1bn by 2023E. We highlighted the following key pipeline product catalysts: i) expected market launches of Mitoxantrone Liposome/Amphotericin B Liposome/BPI-7711(3rd generation EGFR inhibitor) in 2H21E/2022E/2022E, respectively; and ii) expected NDA filing of Irinotecan Liposome to NMPA for pancreatic cancer and its potential approval in 2022E.
- **Accelerated BD progress.** The Company has been proactively seeking in-licensing opportunities with a focus on advanced-stage molecules of various modalities in oncology, cardiovascular and autoimmune domains that can forge synergies with internal pipeline. With over RMB10bn cash on hand as of end-2020, CSPC has sufficient capital to support its BD activities.
- **Maintain BUY.** We expect revenue to grow 7%/10% YoY in FY21/22E and attributable net profit to grow 3%/17% YoY in FY21/22E. Given better BD outlook, we lift DCF-based TP from HK\$11.03 to HK\$14.79 (WACC 10.61%, Terminal growth 3.0%), indicating 28x FY21E PE and 24x FY22E PE.
- **Catalysts:** 1) better-than-expected in-licensing deals, 2) stronger-than-expected product sales, and 3) successful listing on Sci-Tec Board.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	22,103	24,942	26,777	29,371	32,541
YoY growth (%)	25	13	7	10	13
Net profit (RMB mn)	3,714	5,160	5,299	6,189	7,142
EPS (RMB)	0.31	0.43	0.44	0.52	0.60
YoY growth (%)	-37.1	38.9	2.6	16.8	15.4
Consensus EPS (RMB)	0.31	0.37	0.43	0.51	0.64
P/E (x)	25.2	18.2	21.7	18.6	16.1
P/B (x)	4.8	4.1	4.3	3.7	3.2
Yield (%)	1.0	1.6	1.4	1.6	1.9
ROE (%)	20.1	23.1	22.0	22.0	21.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Figure 1: 1Q21 results review

(RMB mn)	1Q20	1Q21	YoY Change
Finished drugs	5,022	5,480	9.1%
Antibiotics and others	297	389	31.0%
Vitamin C	426	524	22.9%
Functional food and others	380	341	-10.4%
Total revenue	6,125	6,734	9.9%
COGS	(1,596)	(1,549)	2.9%
Gross profit	4,529	5,184	14.5%
Other income and gains	70	149	112.3%
Selling expenses	(2,551)	(2,620)	2.7%
Administrative expenses	(278)	(217)	-22.0%
R&D expenses	(568)	(691)	21.7%
Other expenses	(40)	(14)	-65.2%
Operating profit	1,163	1,791	54.0%
Net finance costs	(2)	(3)	30.1%
Share of results of associates	8	10	19.9%
Profit before tax	1,455	1,784	22.6%
Income tax	(286)	(286)	0.0%
Minority interest	13	26	105.6%
Net profit	1,159	1,472	26.9%
Adj.net profit	901	1,472	63.3%
Gross margin	73.9%	77.0%	3.0%
Operating margin	19.0%	26.6%	7.6%
Net margin	18.9%	21.9%	2.9%
Adj.net margin	14.7%	21.9%	7.1%

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: CMBIS earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	26,777	29,371	32,541	29,312	37,039	N/A	-8.6%	-20.7%	N/A
Gross profit	20,350	22,616	25,219	22,277	28,520	N/A	-8.6%	-20.7%	N/A
Operating profit	6,499	7,599	8,777	6,991	9,464	N/A	-7.0%	-19.7%	N/A
Net profit	5,299	6,189	7,142	5,582	7,541	N/A	-5.1%	-17.9%	N/A
EPS (RMB)	0.44	0.52	0.60	0.47	0.63	N/A	-5.1%	-17.9%	N/A
Gross margin	76.00%	77.00%	77.50%	76.00%	77.00%	N/A	-0.00 ppt	-0.00 ppt	N/A
Operating margin	24.27%	25.87%	26.97%	23.85%	25.55%	N/A	+0.42 ppt	+0.32 ppt	N/A
Net Margin	19.79%	21.07%	21.95%	19.04%	20.36%	N/A	+0.75 ppt	+0.71 ppt	N/A

Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	26,777	29,371	32,541	28,186	32,863	38,475	-5.0%	-10.6%	-15.4%
Gross profit	20,350	22,616	25,219	20,961	24,658	28,959	-2.9%	-8.3%	-12.9%
Operating profit	6,499	7,599	8,777	6,427	7,592	9,000	1.1%	0.1%	-2.5%
Net profit	5,299	6,189	7,142	5,153	6,054	7,253	2.8%	2.2%	-1.5%
EPS (RMB)	0.44	0.52	0.60	0.43	0.51	0.64	2.9%	1.4%	-6.8%
Gross margin	76.00%	77.00%	77.50%	74.37%	75.03%	75.27%	+1.6 ppt	+2.0 ppt	+2.2 ppt
Operating margin	24.27%	25.87%	26.97%	22.80%	23.10%	23.39%	+1.5 ppt	+2.8 ppt	+3.6 ppt
Net Margin	19.79%	21.07%	21.95%	18.28%	18.42%	18.85%	+1.5 ppt	+2.7 ppt	+3.1 ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: Peers' valuation

Company	Ticker	Rating	Mkt cap LC mn	PER (x)		PBR (x)		EV/EBITDA (x)		ROE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
CSPC Pharma	1093 HK	BUY	136,980	21.7	18.6	4.3	3.7	14.3	12.0	22.0	22.0
Sino Biopharma	1177 HK	N/A	165,981	32.9	28.3	6.1	5.2	19.5	15.9	20.4	20.1
Hansoh Pharma	3692 HK	N/A	193,365	48.5	39.1	8.1	6.8	39.0	31.0	16.5	17.6
Jiangsu Hengrui	600276 CH	N/A	451,596	58.6	48.2	12.0	9.9	49.5	40.2	21.5	21.5
Betta Pharma	300558 CH	N/A	44,105	93.9	69.1	9.8	8.7	N/A	N/A	8.9	11.0
Fosun Pharma	2196 HK	N/A	191,604	29.5	24.7	3.3	3.0	40.4	36.2	10.8	11.8
Average				47.5	38.0	7.3	6.2	32.6	27.1	16.7	17.3

Source: Bloomberg, CMBIS estimates

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	22,103	24,942	26,777	29,371	32,541
Finished drug	17,937	20,405	21,617	24,146	27,248
Bulk medicines	4,166	4,538	5,160	5,225	5,293
Cost of sales	(6,192)	(6,257)	(6,426)	(6,755)	(7,322)
Gross profit	15,911	18,685	20,350	22,616	25,219
Other income and gains	292	642	321	352	390
Distribution expenses	(8,712)	(9,378)	(10,175)	(11,161)	(12,366)
Administrative expenses	(749)	(946)	(991)	(1,057)	(1,139)
R&D expenses	(2,000)	(2,890)	(2,945)	(3,084)	(3,254)
Other expenses	(142)	(57)	(61)	(67)	(74)
Operating profit	4,600	6,057	6,499	7,599	8,777
Share of profit of associate / JV	58	14	60	60	60
Net finance cost	(32)	(12)	(10)	(10)	(10)
Exceptional	-	333	-	-	-
Pre-tax profit	4,626	6,391	6,550	7,649	8,827
Profits tax	(893)	(1,162)	(1,179)	(1,377)	(1,589)
Minority interest	(19)	(69)	(71)	(83)	(96)
Net profit	3,714	5,160	5,299	6,189	7,142

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT	4,600	6,057	6,499	7,599	8,777
Depreciation and amortization	692	809	785	785	785
Change in working capital	(485)	1,680	(283)	(354)	(349)
Income tax paid	(867)	(1,061)	(1,179)	(1,377)	(1,589)
Others	(156)	(745)	50	50	50
Net cash from operating activities	3,784	6,740	5,873	6,703	7,674
Capex	(1,883)	(1,356)	(1,000)	(1,000)	(1,000)
Placement of restricted bank deposits	(1,054)	(3,595)	-	-	-
Other	479	2,822	-	-	-
Net cash from investing activities	(2,457)	(2,130)	(1,000)	(1,000)	(1,000)
Change of Debts	(48)	169	-	-	-
Dividend paid	(965)	(1,528)	(1,590)	(1,857)	(2,143)
Other	(533)	(112)	(8)	(8)	(8)
Net cash from financing activities	(1,546)	(1,471)	(1,598)	(1,864)	(2,150)
Net change in cash	(219)	3,139	3,276	3,839	4,524
Cash at the beginning of the year	4,336	4,118	7,259	10,535	14,374
Exchange difference	1	2	-	-	-
Bank deposits with more than 3 months to maturity upon placement	-	-	-	-	-
Cash at the end of the year	4,118	7,259	10,535	14,374	18,898

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	12,621	14,149	14,364	14,579	14,793
Fixed asset	8,459	7,770	8,120	8,470	8,820
Goodwill	823	1,164	1,044	924	804
Intangible assets	1,136	509	494	479	463
Other non-current assets	2,203	4,706	4,706	4,706	4,706
Current assets	13,697	15,921	19,616	24,075	29,405
Cash	4,118	7,259	10,535	14,374	18,898
Account receivable	2,826	2,883	3,095	3,395	3,762
Inventories	2,536	1,861	1,912	2,009	2,178
Other current assets	4,217	3,918	4,075	4,297	4,568
Current liabilities	6,237	6,302	6,439	6,704	7,161
Borrowings	23	99	99	99	99
Trade and other payables	4,803	4,759	4,888	5,139	5,569
Other current liabilities	1,411	1,444	1,451	1,467	1,493
Non-current liabilities	563	667	667	667	667
Borrowings	-	-	-	-	-
Other non-current	563	667	667	667	667
Total net assets	19,518	23,101	26,874	31,282	36,370
Minority interest	1,056	769	832	908	996
Shareholders' equity	18,462	22,332	26,042	30,374	35,374

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Finished drugs	81.2	81.8	80.7	82.2	83.7
Bulk medicines	18.8	18.2	19.3	17.8	16.3
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	72.0	74.9	76.0	77.0	77.5
EBITDA margin	23.9	27.5	27.2	28.5	29.4
Pre-tax margin	20.9	25.6	24.5	26.0	27.1
Net margin	16.8	20.7	19.8	21.1	21.9
Effective tax rate	19.3	18.2	18.0	18.0	18.0
Balance sheet ratios					
Current ratio (x)	2.2	2.5	3.0	3.6	4.1
Trade receivables turnover	82	73	73	73	73
Trade payables turnover	316	295	295	295	295
Inventory turnover days	149	109	109	109	109
Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	20.1	23.1	20.3	20.4	20.2
ROA	14.1	17.2	15.6	16.0	16.2
Per share data					
EPS (RMB)	0.31	0.43	0.44	0.52	0.60
DPS (RMB)	0.08	0.13	0.13	0.16	0.18
BVPS (RMB)	1.6	1.9	2.2	2.6	3.0

Source: Company data, CMBIS estimates

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