

WuXi Biologics (2269 HK)

Stronger competency for a brighter future

WuXi Bio reported 2022 revenue of RMB15.3bn, up 48.4% YoY, and attributable adjusted net income of RMB4.9bn, up 48.5% YoY. Non-COVID revenue grew by 62.8% YoY to RMB12.0bn, accounting for 78.5% of total revenue in 2022. Adjusted gross profit margin was maintained at a stable level of 50.0% in 2022, vs 50.6% in 2021, despite the newly-operational capacity during 2022, indicating a high utilization of existing facilities, successful integration of acquired facilities, efficient ramp-up of new capacities and efficiency improvement from the deployment of WBS (WuXi Biologics Business System). Driven by the continuously growing pipeline, total backlogs reached US\$20.6bn as of Dec 2022, increasing by 51.3% YoY. It was quite an impressive growth considering the very high base in 2021. WuXi Bio management expected a 30% YoY growth for revenue and 26% YoY growth for adjusted net income in 2023E. Looking into a longer term, management anticipated revenue to grow at a CAGR of 30% and adjusted net income at 26-27% over 2022-25E, indicating their confidence in WuXi Bio's growth visibility.

■ **Strong pipeline expansion demonstrating stronger competency in global biologics CRDMO market.** WuXi Bio's pipeline contained 588 integrated projects as of Dec 2022 (vs 480 as of Dec 2021), including 37 in phase 3 and 17 in commercial stage (of which 11 were non-COVID projects). The Company added 136 new integrated projects in 2022, compared with 138 in 2021 and less than 60 each year in 2017/18/19. Among the 136 new projects, 50% were from North America market. We think the solid increase of integrated projects well showcased WuXi Bio's high market recognition and client trust amid the temporary financing shortage and uncertain geopolitical environment. According to data provided by the Company, WuXi Bio ranked No.2 in global biologics outsourcing market by revenue in 2022, with a market share of 12.8%, while Top 6 players aggregately took 65.6% market share. We see those leading biologics CDMOs to further gain market share in the future given the nature of market competition.

■ **New production sites online to support sustainable growth.** 2022 marked a big leap in manufacturing capacity for WuXi Bio. MFG7 in Ireland and MFG8 in Shijiazhuang, each with a capacity of 48k L, were GMP release in Dec and Oct 2022 respectively. This led to a total capacity to 262k L as of end-2022, vs 154k L as of end-2021. In terms of globalization, WuXi Bio announced plan to build CRDMO facilities in Singapore, bringing another 120k L capacity by 2026. To support capacity expansion, the Company invested RMB5.4bn in Capex in 2022 and expected to maintain Capex at RMB6.0bn in next two years. A well-established global network will enable WuXi Bio to better meet the diversified demand of global clients and mitigate potential geopolitical risks.

■ **Maintain BUY.** We revised our TP from HK\$96.55 to HK\$81.93, based on a 10-year DCF model (WACC: 10.17%, terminal growth rate: 3.0%). We forecast WuXi Bio to grow revenue by 30.3%/29.9%/30.4% YoY and adjusted net income by 25.3%/27.2%/27.0% YoY in 2023E/24E/25E, respectively.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	10,290	15,269	19,890	25,844	33,693
YoY growth (%)	83.3	48.4	30.3	29.9	30.4
Adjusted net profit (RMB mn)	3,316	4,925	6,173	7,850	9,970
EPS (Adjusted) (RMB)	0.79	1.18	1.46	1.86	2.36
Consensus EPS (RMB)	na	na	1.49	1.98	3.09
Adjusted P/E (x)	54.2	36.5	29.5	23.2	18.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$81.93
(Previous TP)	HK\$96.55
Up/Downside	61.6%
Current Price	HK\$50.70

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Stock Data

Mkt Cap (HK\$ mn)	208,219.5
Avg 3 mths t/o (HK\$ mn)	60.6
52w High/Low (HK\$)	83.25/35.50
Total Issued Shares (mn)	4172.7

Source: FactSet

Shareholding Structure

WuXi Biologics Holdings	13.8%
JP Morgan	7.0%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.1%	-5.2%
3-mth	-4.7%	-4.3%
6-mth	4.7%	-3.0%

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	19,890	25,844	33,693	20,086	25,970	na	-0.98%	-0.49%	na
Gross Profit	8,354	10,596	13,646	8,637	10,908	na	-3.28%	-2.85%	na
Operating Profit	5,372	6,625	8,613	6,176	7,760	na	-13.02%	-14.63%	na
Adjusted net profit	6,173	7,850	9,970	6,353	8,191	na	-2.83%	-4.16%	na
Adjusted EPS (RMB)	1.46	1.86	2.36	1.50	1.94	na	-2.83%	-4.16%	na
Gross Margin	42.00%	41.00%	40.50%	43.00%	42.00%	na	-1.00ppt	-1.00ppt	na
Operating Margin	27.01%	25.64%	25.56%	30.75%	29.88%	na	-3.74ppt	-4.25ppt	na
Adjusted net margin	31.04%	30.38%	29.59%	31.63%	31.54%	na	-0.59ppt	-1.16ppt	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	19,890	25,844	33,693	20,703	27,575	35,626	-3.93%	-6.28%	-5.43%
Gross Profit	8,354	10,596	13,646	9,350	12,485	15,944	-10.66%	-15.13%	-14.42%
Operating Profit	5,372	6,625	8,613	6,742	9,104	11,921	-20.32%	-27.23%	-27.75%
Adjusted net profit	6,173	7,850	9,970	6,477	8,584	10,661	-4.69%	-8.55%	-6.48%
Adjusted EPS (RMB)	1.46	1.86	2.36	1.49	1.98	3.09	-2.16%	-6.43%	-23.57%
Gross Margin	42.00%	41.00%	40.50%	45.16%	45.28%	44.76%	-3.16ppt	-4.28ppt	-4.25ppt
Operating Margin	27.01%	25.64%	25.56%	32.57%	33.02%	33.46%	-5.56ppt	-7.38ppt	-7.90ppt
Adjusted net margin	31.04%	30.38%	29.59%	31.29%	31.13%	29.92%	-0.25ppt	-0.75ppt	-0.33ppt

Source: Company data, 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	6,072	8,155	10,143	13,237	17,142	22,027	28,084	35,527	44,586	55,510
Tax rate	15.08%	15.08%	15.08%	15.08%	15.08%	15.08%	15.08%	15.08%	15.08%	15.08%
EBIT*(1-tax rate)	5,156	6,926	8,614	11,241	14,557	18,706	23,850	30,170	37,863	47,140
+ D&A	1,172	1,363	1,548	1,997	2,556	3,246	4,089	5,112	6,339	7,797
- Change in working capital	(392)	(1,605)	(2,058)	(2,655)	(3,398)	(4,316)	(5,438)	(6,798)	(8,429)	(10,368)
- Capex	(6,500)	(6,500)	(6,500)	(5,850)	(5,265)	(4,739)	(4,265)	(3,838)	(3,454)	(3,109)
FCFF	(564)	184	1,603	4,733	8,449	12,897	18,237	24,646	32,319	41,460
Terminal value										596,004
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)		226,367								
Total PV (RMB mn)		292,732								
Net debt (RMB mn)		(1,744)								
Equity value (RMB mn)		294,476								
# of shares (mn)		4,229								
Price per share (RMB per share)		69.64								
Price per share (HK\$ per share)		81.93								

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	5,612	10,290	15,269	19,890	25,844	33,693
Cost of goods sold	(3,079)	(5,461)	(8,545)	(11,536)	(15,248)	(20,047)
Gross profit	2,533	4,829	6,724	8,354	10,596	13,646
Operating expenses	(689)	(1,306)	(1,810)	(2,982)	(3,971)	(5,032)
Selling expense	(94)	(125)	(163)	(398)	(491)	(606)
Admin expense	(511)	(876)	(1,270)	(1,790)	(2,300)	(2,898)
R&D expense	(304)	(502)	(683)	(1,094)	(1,370)	(1,718)
Others	220	197	305	300	190	190
Operating profit	1,844	3,523	4,914	5,372	6,625	8,613
Share of (losses)/profits of associates/JV	3	0	0	0	0	0
Net Interest income/(expense)	(43)	(39)	(64)	(65)	(65)	(65)
Others	162	509	508	400	800	800
Pre-tax profit	1,966	3,993	5,358	5,707	7,360	9,348
Income tax	(273)	(485)	(808)	(921)	(1,230)	(1,530)
After tax profit	1,693	3,509	4,550	4,786	6,129	7,818
Minority interest	(4)	(120)	(130)	(156)	(208)	(259)
Net profit	1,689	3,388	4,420	4,630	5,922	7,559
Adjusted net profit	1,722	3,316	4,925	6,173	7,850	9,970
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	14,204	19,530	18,470	19,761	23,067	28,689
Cash & equivalents	7,096	9,003	6,395	5,861	6,049	7,656
Account receivables	3,242	4,857	5,610	6,654	8,434	10,718
Inventories	1,084	1,687	2,281	2,679	3,541	4,655
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	2,248	2,724	3,340
Non-current assets	14,759	24,503	31,095	36,423	41,559	46,512
PP&E	11,996	18,065	24,171	29,728	35,093	40,274
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	490	432	374
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	1,784	1,614	1,444
Total assets	28,964	44,033	49,564	56,184	64,627	75,201
Current liabilities	4,498	8,256	9,319	10,752	12,266	14,222
Short-term borrowings	767	2,122	1,321	1,321	1,321	1,321
Account payables	2,729	3,698	3,269	4,703	6,216	8,173
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	14,785	16,298	18,255
Share capital	0	0	0	0	0	0
Capital surplus	20,564	32,278	35,047	40,077	46,799	55,158
Total shareholders equity	20,564	32,279	35,047	40,078	46,799	55,158
Minority interest	335	428	1,166	1,321	1,529	1,788
Total equity and liabilities	20,899	32,706	36,213	41,399	48,328	56,946
CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,966	3,993	5,358	6,107	8,160	10,148
Depreciation & amortization	304	482	1,043	1,172	1,363	1,548
Tax paid	(94)	(350)	(808)	(921)	(1,230)	(1,530)
Change in working capital	(367)	(963)	(582)	(392)	(1,605)	(2,058)
Others	73	270	35	65	65	65

Net cash from operations	1,881	3,431	5,046	6,031	6,753	8,173
Investing						
Capital expenditure	(6,025)	(6,508)	(5,400)	(6,500)	(6,500)	(6,500)
Acquisition of subsidiaries/ investments	(6)	(2,535)	0	0	0	0
Others	(1,186)	(559)	30	0	0	0
Net cash from investing	(7,216)	(9,602)	(5,370)	(6,500)	(6,500)	(6,500)
Financing						
Net borrowings	870	(53)	3,301	0	0	0
Proceeds from share issues	5,585	10,978	0	0	0	0
Others	110	(2,715)	(5,584)	(65)	(65)	(65)
Net cash from financing	6,566	8,209	(2,284)	(65)	(65)	(65)
Net change in cash						
Cash at the beginning of the year	6,205	7,096	9,003	6,395	5,861	6,049
Exchange difference	(340)	(132)	0	0	0	0
Cash at the end of the year	7,096	9,003	6,395	5,861	6,049	7,656
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	40.9%	83.3%	48.4%	30.3%	29.9%	30.4%
Gross profit	52.7%	90.6%	39.2%	24.2%	26.8%	28.8%
Operating profit	62.5%	91.1%	39.5%	9.3%	23.3%	30.0%
Net profit	66.6%	100.6%	30.5%	4.7%	27.9%	27.7%
Adj. net profit	42.5%	92.6%	48.5%	25.3%	27.2%	27.0%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	45.1%	46.9%	44.0%	42.0%	41.0%	40.5%
Operating margin	32.8%	34.2%	32.2%	27.0%	25.6%	25.6%
Adj. net profit margin	30.7%	32.2%	32.3%	31.0%	30.4%	29.6%
Return on equity (ROE)	10.1%	12.8%	13.1%	12.3%	13.6%	14.8%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.2)	(0.1)	(0.0)	(0.0)	(0.1)
Current ratio (x)	3.2	2.4	2.0	1.8	1.9	2.0
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	100.9	53.1	40.7	36.2	27.1	21.8
P/E(adjusted)	98.9	54.2	36.5	29.5	23.2	18.3
P/B	8.2	5.5	5.0	4.4	3.8	3.2
P/CFPS	98.4	113.0	43.7	30.7	27.4	22.7

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

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