

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

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)	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

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

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 CMBIGM

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 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 CMBIGM 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.