

WuXi Biologics (2269 HK)

Robust performance in a challenging environment

WuXi Bio reported 1H24 revenue of RMB8.57bn, up 1.0% YoY, and adjusted attributable net income of RMB2.25bn, down 20.7% YoY. 1H24 revenue and adjusted attributable net income accounted for 47.9% and 44.5% of our full-year forecasts, moderately higher than the historical levels. If excluding COVID revenue, total revenue in 1H24 would increase by 7.7% YoY, while revenue from late-stage and CMO projects would grow by 11.7% YoY. The company added 61 integrated projects in 1H24, a figure only surpassed by that of 1H22 in its history. Total backlog was maintained stable at US\$20.11bn as of end-1H24 with backlog within three years growing by 4% YoY. Despite the geopolitical uncertainties and the bumpy recovery of global biotech funding, management has reaffirmed its full-year guidance for 2024, expecting high-single-digit growth in both revenue and adjusted attributable net income.

- **Robust demand from overseas customers.** In 1H24, WuXi Bio added 61 integrated projects, including 52 in preclinical and 5 in Ph1/2 stages, indicating a recovery in customer demand for early clinical and preclinical biologics development. Additionally, the company signed 3 Ph3 projects and 1 commercial stage project through its "win-the-molecule" strategy in 1H24, followed by additional 4 late-stage clinical and commercial projects with a MNC client in July. These project signings underscore the continued confidence global customers have in WuXi Bio's service capabilities and quality, despite the geopolitical uncertainties. Meanwhile, revenue from North America grew 27.5% YoY in 1H24, contributing 58.4% of the total revenue, with most of the growth driven by demand from the US customers.
- **The bioconjugate business emerged as a significant growth driver.** Thanks to the robust demand from global customers, revenue of WuXi XDC grew by 68% YoY in 1H24, with its adjusted net profit surging by 147% YoY. In 1H24, WuXi XDC added 26 integrated projects, bringing the total number of ongoing integrated projects in the pipeline to 167, which included 12 Ph3 projects and 9 PPQ projects. The backlog of XDC business increased by 105% to US\$842mn, with new orders growing at a similar pace. WuXi XDC is expanding facilities in both Singapore and WuXi city to accommodate the rising customer demand.
- **Geopolitical uncertainties persist, but so far have limited impact on operations.** Following the proposal of the Biosecure Act in early 2024, only one project indicated an intention to transfer out, underpinning the trust that global customers place in the company. We think WuXi Bio's expanding global CRDMO network will help to retain its customers.
- **Maintain BUY.** To reflect the lasting geopolitical uncertainties, we cut our TP from HK\$18.32 to HK\$13.58, based on a 10-year DCF model with WACC of 10.95% and terminal growth of 2.0%. We forecast WuXi Bio's revenue to grow by +4.9%/ +11.7%/ +12.7% YoY and attributable adj. net income to increase by -4.1%/ +11.4%/ +12.5% YoY in 2024E/ 25E/ 26E, respectively.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	15,269	17,034	17,863	19,958	22,486
YoY growth (%)	48.4	11.6	4.9	11.7	12.7
Adjusted net profit (RMB m)	4,925	4,699	4,508	5,020	5,647
YoY growth (%)	48.5	(4.6)	(4.1)	11.4	12.5
EPS (Adjusted) (RMB)	1.18	1.13	1.09	1.21	1.36
Consensus EPS (RMB)	na	na	0.92	1.07	1.27
P/E (Adjusted) (x)	8.1	8.5	8.8	7.9	7.0

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$13.58
(Previous TP)	HK\$18.32
Up/Downside	30.6%
Current Price	HK\$10.40

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Stock Data

Mkt Cap (HK\$ mn)	43,194.1
Avg 3 mths t/o (HK\$ mn)	516.0
52w High/Low (HK\$)	51.00/10.40
Total Issued Shares (mn)	4153.3

Source: FactSet

Shareholding Structure

WuXi Biologics Holdings	14.3%
BlackRock	4.5%

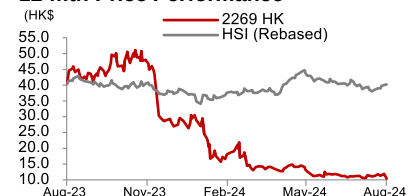
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.5%	-7.5%
3-mth	-21.0%	-14.0%
6-mth	-43.5%	-46.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	17,863	19,958	22,486	17,914	20,350	23,185	-0.29%	-1.93%	-3.01%
Gross Profit	7,065	7,934	9,052	7,079	8,193	9,390	-0.19%	-3.16%	-3.60%
Operating Profit	4,692	5,047	5,824	4,728	5,456	6,254	-0.76%	-7.49%	-6.88%
Adjusted net profit	4,508	5,020	5,647	5,052	5,784	6,588	-10.78%	-13.20%	-14.28%
Adjusted EPS (RMB)	1.09	1.21	1.36	1.19	1.36	1.55	-8.80%	-11.12%	-12.28%
Gross Margin	39.55%	39.75%	40.25%	39.52%	40.26%	40.50%	+0.03ppt	-0.51ppt	-0.25ppt
Operating Margin	26.27%	25.29%	25.90%	26.39%	26.81%	26.97%	-0.12ppt	-1.52ppt	-1.07ppt
Adjusted net margin	25.23%	25.15%	25.11%	28.20%	28.43%	28.41%	-2.97ppt	-3.28ppt	-3.30ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	17,863	19,958	22,486	18,097	20,616	23,710	-1.29%	-3.19%	-5.16%
Gross Profit	7,065	7,934	9,052	7,366	8,536	10,018	-4.08%	-7.05%	-9.65%
Operating Profit	4,692	5,047	5,824	4,645	5,406	6,326	1.01%	-6.63%	-7.94%
Adjusted net profit	4,508	5,020	5,647	4,094	4,783	5,686	10.10%	4.96%	-0.69%
Adjusted EPS (RMB)	1.09	1.21	1.36	0.92	1.07	1.27	17.97%	13.29%	6.81%
Gross Margin	39.55%	39.75%	40.25%	40.70%	41.40%	42.25%	-1.15ppt	-1.65ppt	-2.00ppt
Operating Margin	26.27%	25.29%	25.90%	25.67%	26.22%	26.68%	+0.60ppt	-0.93ppt	-0.78ppt
Adjusted net margin	25.23%	25.15%	25.11%	22.62%	23.20%	23.98%	+2.61ppt	+1.95ppt	+1.13ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
EBIT	3,844	4,941	5,695	6,321	6,953	7,579	8,185	8,758	9,284	9,748
Tax rate	11.36%	11.36%	11.36%	11.36%	11.36%	11.36%	11.36%	11.36%	11.36%	11.36%
EBIT*(1-tax rate)	3,408	4,379	5,048	5,603	6,164	6,718	7,256	7,764	8,229	8,641
+ D&A	1,259	1,393	1,525	1,692	1,862	2,029	2,192	2,345	2,486	2,610
- Change in working capital	184	(579)	(689)	(765)	(842)	(918)	(991)	(1,060)	(1,124)	(1,180)
- Capex	(4,800)	(5,000)	(5,000)	(4,500)	(4,050)	(3,645)	(3,281)	(2,952)	(2,657)	(2,391)
FCFF	51	193	883	2,031	3,134	4,185	5,176	6,096	6,934	7,679
Terminal value										87,569
Terminal growth rate	2.00%									
WACC	10.95%									
Cost of Equity	14.55%									
Cost of Debt	5.00%									
Equity Beta	1.10									
Risk Free Rate	3.00%									
Market Risk Premium	10.50%									
Target Debt to Asset ratio	35.00%									
Effective Corporate Tax Rate	15.00%									
Terminal value (RMB mn)	30,994									
Total PV (RMB mn)	47,890									
Net debt (RMB mn)	(3,997)									
Equity value (RMB mn)	51,887									
# of shares (mn)	4,153									
Price per share (RMB per share)	12.49									
Price per share (HK\$ per share)	13.58									

Source: CMBIGM estimates. HK\$/RMB=0.92

Figure 4: Sensitivity analysis of DCF model

		WACC				
		9.95%	10.45%	10.95%	11.45%	11.95%
Terminal growth rate	4.00%	19.39	17.62	16.12	14.83	13.71
	3.50%	18.27	16.70	15.36	14.19	13.16
	2.00%	15.76	14.60	13.58	12.67	11.86
	2.50%	16.49	15.21	14.10	13.12	12.25
	2.00%	15.76	14.60	13.58	12.67	11.86

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	10,290	15,269	17,034	17,863	19,958	22,486
Cost of goods sold	(5,461)	(8,545)	(10,206)	(10,797)	(12,024)	(13,435)
Gross profit	4,829	6,724	6,828	7,065	7,934	9,052
Operating expenses	(1,306)	(1,810)	(2,159)	(2,373)	(2,887)	(3,228)
Selling expense	(125)	(163)	(294)	(502)	(581)	(632)
Admin expense	(876)	(1,270)	(1,495)	(1,590)	(1,757)	(1,957)
R&D expense	(502)	(683)	(786)	(808)	(902)	(1,016)
Others	197	305	417	527	353	377
Operating profit	3,523	4,914	4,669	4,692	5,047	5,824
Share of (losses)/profits of associates/JV	0	0	0	0	0	0
Net interest income/(expense)	(39)	(64)	(158)	(136)	(143)	(134)
Others	509	508	(337)	(544)	100	100
Pre-tax profit	3,993	5,358	4,174	4,012	5,005	5,790
Income tax	(485)	(808)	(603)	(456)	(568)	(658)
After tax profit	3,509	4,550	3,571	3,556	4,436	5,133
Minority interest	(120)	(130)	(171)	(569)	(732)	(873)
Net profit	3,388	4,420	3,400	2,987	3,704	4,260
Adjusted net profit	3,316	4,925	4,699	4,508	5,020	5,647

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	19,530	18,470	21,198	19,993	22,600	26,161
Cash & equivalents	9,003	6,395	9,670	8,218	9,884	12,339
Account receivables	4,857	5,610	6,293	6,094	6,645	7,302
Inventories	1,687	2,281	1,766	2,141	2,384	2,663
ST bank deposits	1,148	304	340	340	340	340
Financial assets at FVTPL	976	2,015	1,234	1,234	1,234	1,234
Other current assets	1,859	1,864	1,896	1,967	2,114	2,283
Non-current assets	24,503	31,095	35,377	38,918	42,526	46,001
PP&E	18,065	24,171	27,378	31,153	34,996	38,706
Deferred income tax	221	223	236	236	236	236
Investment in JVs & assos	752	1,582	1,394	1,394	1,394	1,394
Intangibles	601	549	512	451	390	329
Goodwill	1,530	1,530	1,530	1,530	1,530	1,530
Financial assets at FVTPL	1,356	1,086	1,519	1,519	1,519	1,519
Other non-current assets	1,978	1,955	2,809	2,636	2,462	2,288
Total assets	44,033	49,564	56,576	58,912	65,126	72,162
Current liabilities	8,256	9,319	7,636	8,067	8,429	8,846
Short-term borrowings	2,122	1,321	576	576	576	576
Account payables	3,698	3,269	2,756	3,187	3,549	3,965
Tax payable	558	774	619	619	619	619
Other current liabilities	1,775	3,805	3,530	3,530	3,530	3,530
Lease liabilities	104	149	155	155	155	155
Non-current liabilities	3,071	4,033	4,922	4,922	4,922	4,922
Long-term borrowings	641	1,462	1,571	1,571	1,571	1,571
Obligations under finance leases	1,429	1,490	2,259	2,259	2,259	2,259
Deferred income	224	238	258	258	258	258
Other non-current liabilities	777	844	834	834	834	834
Total liabilities	11,326	13,351	12,558	12,989	13,351	13,767
Share capital	0	0	0	0	0	0
Capital surplus	32,278	35,047	40,331	41,667	46,788	52,535
Total shareholders equity	32,279	35,047	40,332	41,667	46,788	52,535
Minority interest	428	1,166	3,686	4,255	4,987	5,860
Total equity and liabilities	32,706	36,213	44,018	45,923	51,775	58,395

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	3,993	5,358	4,174	4,012	5,005	5,790
Depreciation & amortization	482	801	1,169	1,259	1,393	1,525
Tax paid	(350)	(586)	(783)	(456)	(568)	(658)
Change in working capital	(963)	(974)	(896)	184	(579)	(689)
Others	270	943	1,003	1,157	1,326	1,363
Net cash from operations	3,431	5,542	4,668	6,157	6,576	7,331
Investing						
Capital expenditure	(6,508)	(5,868)	(4,046)	(4,800)	(5,000)	(5,000)
Acquisition of subsidiaries/ investments	(2,535)	(281)	0	0	0	0
Others	(559)	241	817	304	207	229
Net cash from investing	(9,602)	(5,908)	(3,228)	(4,496)	(4,793)	(4,771)
Financing						
Net borrowings	(53)	(174)	(705)	0	0	0
Proceeds from share issues	10,978	0	0	0	0	0
Others	(2,715)	(2,418)	2,666	(3,112)	(117)	(106)
Net cash from financing	8,209	(2,592)	1,961	(3,112)	(117)	(106)
Net change in cash						
Cash at the beginning of the year	7,096	9,003	6,395	9,670	8,218	9,884
Exchange difference	(132)	350	(126)	0	0	0
Cash at the end of the year	9,003	6,395	9,670	8,218	9,884	12,339
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	83.3%	48.4%	11.6%	4.9%	11.7%	12.7%
Gross profit	90.6%	39.2%	1.5%	3.5%	12.3%	14.1%
Operating profit	91.1%	39.5%	(5.0%)	0.5%	7.6%	15.4%
Net profit	100.6%	30.5%	(23.1%)	(12.1%)	24.0%	15.0%
Adj. net profit	92.6%	48.5%	(4.6%)	(4.1%)	11.4%	12.5%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	46.9%	44.0%	40.1%	39.6%	39.8%	40.3%
Operating margin	34.2%	32.2%	27.4%	26.3%	25.3%	25.9%
Adj. net profit margin	32.2%	32.3%	27.6%	25.2%	25.2%	25.1%
Return on equity (ROE)	12.8%	13.1%	9.0%	7.3%	8.4%	8.6%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
Current ratio (x)	2.4	2.0	2.8	2.5	2.7	3.0
Receivable turnover days	143.6	125.1	127.5	124.5	121.5	118.5
Inventory turnover days	92.6	84.8	72.4	72.4	72.4	72.4
Payable turnover days	214.8	148.8	107.7	107.7	107.7	107.7
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E (adjusted)	12.0	8.1	8.5	8.8	7.9	7.0
P/B	1.2	1.1	0.9	0.9	0.8	0.7
P/CFPS	11.6	7.2	8.5	6.4	6.0	5.4

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

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