

# 3SBio (1530 HK)

## Solid earnings performance in 1H24

3SBio reported 1H24 revenue of RMB4,389 mn, up 16% YoY and in line with our forecast, accounting for 49% of our full-year estimate. Attributable net profit increased by 11% YoY to RMB1,090mn, reaching 58% of our full-year estimate. Attributable net profit margin declined by 1.1 ppts to 24.8% due to higher R&D expense rate and effective income tax rate. In 1H24, 3SBio accelerated its R&D endeavors, including a significant upfront payment of RMB45mn to Hybio Pharmaceutical for the exclusive license of semaglutide Injection for obesity indication. Additionally, the Company allocated a total of HK\$860mn towards dividends and share repurchases. These cross-border transactions caused the heightened effective tax rate in 1H24.

■ **TPIAO delivered strong revenue growth.** In 1H24, TPIAO's sales grew 22.6% YoY to RMB2,476mn, accounting for 56% of 3SBio's total revenue. TPIAO has solidified its leadership in China's thrombocytopenia treatment market, expanding its market share from 65% in 2023 to 66% in 1H24. 3SBio continued to broaden the indications of TPIAO, with advancements including the NMPA's approval in Apr 2024 for its use in persistent or chronic primary ITP in children and adolescents. The Phase III study for TPIAO in CLDT patients awaiting invasive surgery met its primary endpoints in July 2024, underpinning TPIAO's potential for further indication expansion. In addition to TPIAO, other key products also showed solid performance in 1H24. The sales of rEPO products (including EPIAO and SEPO)/ Yisaipu/ Cipterbin, increased 11.3%/ 9.5%/ 48.9% YoY to RMB516mn/ RMB329mn/ RMB162mn in 1H24, respectively.

■ **Diversified product portfolio fuels Mandi's growth.** 3SBio continued to expand its hair growth product matrix. In Jan 2024, Mandi (5% minoxidil) Foam was approved as OTC drug, which is propylene glycol-free and tailored for skin sensitive population. Despite subdued consumer sentiment, Mandi's sales grew 10% YoY to RMB550mn in 1H24. Given the substantial untapped potential in China's hair loss market, we expect sustained growth for Mandi.

■ **Expect rich catalysts from innovative.** The long-acting EPO SSS06 for anemia in chronic renal failure may receive approval in 2025E (NDA accepted for review in July 2024). The Phase III studies of TPIAO for CLDT and 608 (IL-17) for moderate-to-severe PsO both reached the primary endpoints and may submit NDAs in 2024E. Clascoterone (WS204), the world's first marketed topical androgen receptor for acne treatment, is currently recruiting patients for the phase III bridging clinical trial. We expect Clascoterone to complete the clinical trial and submit NDA in 2025E. Phase III studies for 613 (IL-1 $\beta$ ) for acute gout arthritis and 611 (IL-4R) for adult AD are underway, with NDAs expected in 2025E and 2026E, respectively.

■ **Maintain BUY.** We maintain our earnings forecasts and expect its revenue to increase at a CAGR of 11.1% from 2023-2026E, and attributable net profit to grow at a CAGR of 13.3% from 2023-2026E. We derive our TP of HK\$9.46 based on a 9-year DCF model (WACC: 11.1%, terminal growth rate: 2.0%).

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	6,866	7,816	8,944	9,675	10,712
YoY growth (%)	7.6	13.8	14.4	8.2	10.7
Attributable net profit (RMB mn)	1,916	1,549	1,885	2,020	2,248
YoY growth (%)	16.0	(19.1)	21.7	7.2	11.3
EPS (Reported) (RMB)	0.78	0.64	0.78	0.83	0.93
P/E (x)	7.2	8.8	7.2	6.7	6.0
Dividend yield	1.6	4.0	4.2	4.5	5.0
Net gearing (%)	(18.3)	(0.4)	(12.5)	(10.1)	(15.6)

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

<b>Target Price</b>	<b>HK\$9.46</b>
(Previous TP)	HK\$9.56)
<b>Up/Downside</b>	<b>65.2%</b>
<b>Current Price</b>	<b>HK\$5.73</b>

### China Healthcare

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

**Cathy WANG**  
 (852) 3916 1729  
 cathywang@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	13,848.3
Avg 3 mths t/o (HK\$ mn)	32.6
52w High/Low (HK\$)	7.56/4.94
Total Issued Shares (mn)	2416.8
Source: FactSet	

### Shareholding Structure

TMF (Cayman) Ltd.	23.7%
Mighty Decade	1.7%
Source: Bloomberg	

### Share Performance

	Absolute	Relative
1-mth	-10.5%	-11.2%
3-mth	-7.9%	-1.3%
6-mth	6.5%	1.1%

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	8,944	9,675	10,712	8,938	9,622	10,667	0.1%	0.5%	0.4%
Gross profit	7,692	8,175	8,998	7,615	8,131	8,960	1.0%	0.5%	0.4%
Operating profit	2,754	2,831	3,082	2,645	2,755	3,028	4.1%	2.8%	1.8%
Net profit	1,885	2,020	2,248	1,884	2,030	2,261	0.1%	-0.5%	-0.6%
EPS (RMB)	0.78	0.83	0.93	0.78	0.84	0.93	0.1%	-0.5%	-0.6%
Gross margin	86.00%	84.50%	84.00%	85.20%	84.50%	84.00%	+0.8ppt	0ppt	0ppt
Operating margin	30.79%	29.26%	28.77%	29.59%	28.63%	28.39%	+1.2ppt	+0.64ppt	+0.38ppt
Net margin	21.08%	20.88%	20.99%	21.08%	21.10%	21.20%	0ppt	-0.21ppt	-0.21ppt

Source: Company data, CMBIGM estimates

Figure 2: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	2,372	2,561	2,853	3,115	3,271	3,418	3,555	3,679	3,790
Tax rate	23.00%	22.00%	21.50%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%
EBIT*(1-tax rate)	1,826	1,998	2,240	2,461	2,584	2,700	2,808	2,907	2,994
+ D&A	366	382	397	412	433	452	470	487	501
- Change in working capital	-487	-221	-248	-242	-254	-265	-276	-285	-294
- Capex	-680	-680	-680	-680	-680	-680	-680	-680	-680
FCFF	1,024	1,479	1,709	1,951	2,083	2,207	2,323	2,428	2,521
Terminal value									28,337

Terminal growth rate	2.00%
WACC	11.08%
Cost of Equity	14.00%
Cost of Debt	5.00%
Equity Beta	1.10
Risk Free Rate	3.00%
Market Risk Premium	10.00%
Target Debt to Asset ratio	30.00%
Effective Corporate Tax Rate	15.00%

Terminal value (RMB mn)	11,010
Total PV (RMB mn)	21,209
Net debt (RMB mn)	-1,913
Minority interests (RMB mn)	2,536
Equity value (RMB mn)	20,585
Equity value (HK\$ mn)	22,873
# of shares (mn)	2,417
Price per share (HK\$ per share)	9.46

Source: CMBIGM estimates

Figure 3: Sensitivity analysis

		WACC				
		10.08%	10.58%	11.08%	11.58%	12.08%
Terminal growth rate	3.00%	11.73	10.89	10.15	9.49	8.92
	2.50%	11.23	10.46	9.79	9.18	8.65
	2.00%	10.79	10.09	9.46	8.91	8.41
	1.50%	10.40	9.75	9.18	8.66	8.19
	1.00%	10.05	9.46	8.92	8.43	7.99

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	8,944	9,675	10,712	8,815	9,627	10,541	1.5%	0.5%	1.6%
Gross Profit	7,692	8,175	8,998	7,506	8,164	8,928	2.5%	0.1%	0.8%
Operating Profit	2,754	2,831	3,082	2,633	2,858	3,091	4.6%	-0.9%	-0.3%
Attributable net profit	1,885	2,020	2,248	1,964	2,225	2,406	-4.0%	-9.2%	-6.6%
EPS (RMB)	0.78	0.83	0.93	0.81	0.91	0.98	-4.0%	-7.7%	-5.4%
Gross Margin	86.00%	84.50%	84.00%	85.15%	84.80%	84.70%	+0.85ppt	-0.3ppt	-0.7ppt
Operating Margin	30.79%	29.26%	28.77%	29.87%	29.69%	29.32%	+0.92ppt	-0.42ppt	-0.55ppt
Net Margin	21.08%	20.88%	20.99%	22.28%	23.11%	22.83%	-1.2ppt	-2.23ppt	-1.84ppt

Source: Company data, Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>6,382</b>	<b>6,866</b>	<b>7,816</b>	<b>8,944</b>	<b>9,675</b>	<b>10,712</b>
Cost of goods sold	(1,106)	(1,194)	(1,174)	(1,252)	(1,500)	(1,714)
<b>Gross profit</b>	<b>5,276</b>	<b>5,672</b>	<b>6,642</b>	<b>7,692</b>	<b>8,175</b>	<b>8,998</b>
Selling expense	(2,324)	(2,581)	(3,006)	(3,457)	(3,725)	(4,124)
Admin expense	(371)	(393)	(481)	(492)	(522)	(568)
R&D expense	(754)	(694)	(795)	(1,145)	(1,209)	(1,328)
Others	146	413	(139)	156	113	104
<b>Operating profit</b>	<b>1,972</b>	<b>2,417</b>	<b>2,221</b>	<b>2,754</b>	<b>2,831</b>	<b>3,082</b>
Share of (losses)/profits of associates/JV	(37)	(34)	(30)	(45)	(45)	(45)
<b>Net Interest income/(expense)</b>	<b>(67)</b>	<b>(103)</b>	<b>(212)</b>	<b>(187)</b>	<b>(118)</b>	<b>(84)</b>
<b>Pre-tax profit</b>	<b>1,869</b>	<b>2,280</b>	<b>1,978</b>	<b>2,522</b>	<b>2,669</b>	<b>2,953</b>
Income tax	(241)	(371)	(392)	(580)	(587)	(635)
Minority interest	(24)	(7)	37	57	61	70
<b>Attributable net profit</b>	<b>1,651</b>	<b>1,916</b>	<b>1,549</b>	<b>1,885</b>	<b>2,020</b>	<b>2,248</b>

  

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>7,791</b>	<b>9,751</b>	<b>9,193</b>	<b>9,581</b>	<b>9,302</b>	<b>10,386</b>
Cash & equivalents	2,868	2,152	2,611	2,736	2,017	2,679
Account receivables	1,379	1,312	1,095	1,348	1,458	1,614
Inventories	691	713	778	789	937	1,061
Prepayment	769	505	1,132	1,132	1,315	1,456
Financial assets at FVTPL	1,900	4,861	3,303	3,303	3,303	3,303
Other current assets	185	208	274	274	274	274
<b>Non-current assets</b>	<b>11,422</b>	<b>12,258</b>	<b>14,432</b>	<b>14,697</b>	<b>14,945</b>	<b>15,178</b>
PP&E	3,440	4,114	4,692	5,044	5,378	5,696
Intangibles	1,849	1,578	1,554	1,531	1,507	1,483
Goodwill	3,844	4,140	4,199	4,199	4,199	4,199
Other non-current assets	2,289	2,426	3,986	3,923	3,861	3,799
<b>Total assets</b>	<b>19,213</b>	<b>22,009</b>	<b>23,625</b>	<b>24,278</b>	<b>24,247</b>	<b>25,564</b>
<b>Current liabilities</b>	<b>1,420</b>	<b>1,844</b>	<b>3,728</b>	<b>4,230</b>	<b>2,724</b>	<b>2,397</b>
Short-term borrowings	150	413	2,112	1,612	1,112	612
Account payables	230	250	212	189	226	258
Tax payable	74	112	33	33	33	33
Other current liabilities	966	1,069	1,371	2,397	1,354	1,495
<b>Non-current liabilities</b>	<b>3,135</b>	<b>4,801</b>	<b>3,384</b>	<b>2,158</b>	<b>2,158</b>	<b>2,158</b>
Long-term borrowings	164	1,902	1,463	1,463	1,463	1,463
Bond payables	0	0	1,226	0	0	0
Deferred income	397	423	412	412	412	412
Other non-current liabilities	2,574	2,477	283	283	283	283
<b>Total liabilities</b>	<b>4,555</b>	<b>6,645</b>	<b>7,111</b>	<b>6,388</b>	<b>4,882</b>	<b>4,555</b>
Share capital	0	0	0	0	0	0
Other reserves	8,075	9,468	10,752	12,072	13,486	15,060
<b>Total shareholders equity</b>	<b>12,227</b>	<b>12,926</b>	<b>14,034</b>	<b>15,354</b>	<b>16,768</b>	<b>18,342</b>
Minority interest	2,430	2,438	2,480	2,536	2,598	2,667
<b>Total equity and liabilities</b>	<b>19,213</b>	<b>22,009</b>	<b>23,625</b>	<b>24,278</b>	<b>24,247</b>	<b>25,564</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	1,869	2,280	1,978	2,522	2,669	2,953
Depreciation & amortization	338	398	351	366	382	397
Tax paid	(287)	(346)	(471)	(580)	(587)	(635)
Change in working capital	(332)	31	(162)	(487)	(221)	(248)
Others	(9)	(228)	386	86	60	35
<b>Net cash from operations</b>	<b>1,578</b>	<b>2,134</b>	<b>2,083</b>	<b>1,906</b>	<b>2,303</b>	<b>2,502</b>
<b>Investing</b>						
Capital expenditure	(1,109)	(975)	(704)	(680)	(680)	(680)
Others	(178)	(2,748)	(641)	151	108	99
<b>Net cash from investing</b>	<b>(1,287)</b>	<b>(3,723)</b>	<b>(1,345)</b>	<b>(529)</b>	<b>(572)</b>	<b>(581)</b>
<b>Financing</b>						
Dividend paid	0	(417)	(225)	(566)	(606)	(674)
Net borrowings	(94)	1,928	1,188	(500)	(500)	(500)
Others	(387)	(748)	(1,316)	(187)	(1,343)	(84)
<b>Net cash from financing</b>	<b>(481)</b>	<b>763</b>	<b>(353)</b>	<b>(1,252)</b>	<b>(2,450)</b>	<b>(1,259)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	3,091	2,868	2,152	2,611	2,736	2,017
Exchange difference	(33)	109	75	0	0	0
<b>Cash at the end of the year</b>	<b>2,868</b>	<b>2,152</b>	<b>2,611</b>	<b>2,736</b>	<b>2,017</b>	<b>2,679</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	14.2%	7.6%	13.8%	14.4%	8.2%	10.7%
Gross profit	16.6%	7.5%	17.1%	15.8%	6.3%	10.1%
Operating profit	80.9%	22.5%	(8.1%)	24.0%	2.8%	8.9%
Net profit	111.1%	17.3%	(16.9%)	22.4%	7.2%	11.4%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	82.7%	82.6%	85.0%	86.0%	84.5%	84.0%
Operating margin	30.9%	35.2%	28.4%	30.8%	29.3%	28.8%
Return on equity (ROE)	14.2%	15.2%	11.8%	13.2%	13.0%	13.2%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.4)	(0.2)	(0.0)	(0.1)	(0.1)	(0.2)
Current ratio (x)	5.5	5.3	2.5	2.3	3.4	4.3
Receivable turnover days	67.5	71.5	56.2	55.0	55.0	55.0
Inventory turnover days	216.1	214.5	231.6	230.0	228.0	226.0
Payable turnover days	71.5	73.3	71.7	71.7	71.7	71.7
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	8.6	7.2	8.8	7.2	6.7	6.0
P/B	1.0	0.9	0.8	0.8	0.7	0.6
EV/sales	2.0	1.9	1.7	1.4	1.3	1.2
EV/EBIT	6.9	5.7	6.3	5.5	5.1	4.5
EV/EBITDA	5.9	4.9	5.4	4.7	4.4	4.0
Div yield (%)	2.9	1.6	4.0	4.2	4.5	5.0

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

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**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
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## CMB International Global Markets Limited

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

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