

CSPC Pharmaceutical (1093 HK)

Accelerating growth in finished drug sales

- **Strong double-digit growth in 1Q24.** CSPC reported 1Q24 revenue of RMB8.98bn (+11.5% YoY, +18.4% QoQ) and attributable net profit of RMB1.61bn (+12.9% YoY, +17.0% QoQ), regaining double-digit growth, and representing 26% and 20% of our previous full-year estimates, respectively. The GP margin in 1Q24 increased to 72.3% (vs 68.5% in 1Q23), mainly due to a higher proportion of revenue from finished drugs (84.2% in 1Q24 vs 79.7% in 1Q23). Selling expense ratio increased to 33.0% in 1Q24 (vs 30.9% in 1Q23), due to the higher proportion of revenue from finished drugs, in our view. Admin expenses ratio increased from 3.3% in 1Q23 to 3.7% in 1Q24. R&D expenses reached RMB3.68bn in 1Q24 (+16.0% YoY, +1.5% QoQ).
- **Accelerating growth in finished drug sales.** Sales of finished drugs in 1Q24 increased 17.7% YoY to RMB7.56bn, driven by the strong sales growth of CNS products (+27.4% YoY), oncology products (+11.6% YoY), anti-infection drugs (+9.8% YoY) and cardiovascular drugs (+22.3% YoY). We think NBP performed well in Q1 driven by the strong growth from retail pharmacy channels. CSPC has established a dedicated sales force focusing on retail pharmacy channels to promote the sales of NBP and several generics.
- **New products to drive growth.** We expect CSPC's sales of new products to ramp up quickly, including Mingfule (rhTNK-tPA), Duoenyi (irinotecan liposome), Duoenda (mitoxantrone), Ouyuxin (desvenlafaxine), Yiluoda (nintedanib), Anfulike (amphotericin B), duvelisib (PI3K), and glumetinib (MET). Mingfule was approved for acute ischemic stroke in Feb 2024, bringing additional sales potential in acute ischemic stroke. We expect the NRDL to add this new indication during the negotiation at end-2024. CSPC has seven new NDAs under review, including PD-1, omalizumab, DDP4, liposomal amphotericin B, and two NDAs under US FDA review (Anfulike and Duoenyi), further expanding the Company's commercial product portfolio. Management maintained the forecast of new products contributing RMB3.5-3.6bn of reported revenue in 2024. Additionally, TG103 (GLP-1RA) completed enrolment for Ph3 obesity study in China in Jan 2024 and is enrolling for the Ph3 diabetes trial since Apr 2024. The semaglutide injection is currently enrolling for Ph3 diabetes in China as well since Feb 2024. The EGFR ADC and Nectin-4 ADC are going through Ph1 studies, with data readout expected in 2H24.
- **Maintain BUY.** Based on the strong double-digit growth in 1Q24, we expect CSPC's revenue and attributable net profit to grow 11.5%/ 11.1% and 13.1%/ 9.5% YoY in FY24E/ 25E, respectively. We revise up our DCF-based TP from HK\$7.76 to HK\$8.51 (WACC 11.78%, terminal growth 2.0%).
- **Risks:** Sustainability of strong growth; Duomeisu's potential national centralised procurement

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	30,937	31,450	35,065	38,970	43,325
YoY growth (%)	11.0	1.7	11.5	11.1	11.2
Net profit (RMB mn)	6,232	6,073	6,867	7,516	8,650
YoY growth (%)	9.6	(2.6)	13.1	9.4	15.1
EPS (Reported) (RMB)	0.51	0.49	0.56	0.61	0.70
P/E (x)	12.8	13.2	11.7	10.7	9.3
Net gearing (%)	(44.1)	(37.3)	(41.8)	(47.1)	(51.2)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$8.51
(Previous TP)	HK\$7.76)
Up/Downside	21.0%
Current Price	HK\$7.03

China Healthcare

Jill WU, CFA

(852) 3900 0842

jillwu@cmbi.com.hk

Andy WANG

(852) 3657 6288

andywang@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	83,777.9
Avg 3 mths t/o (HK\$ mn)	273.1
52w High/Low (HK\$)	7.33/5.29
Total Issued Shares (mn)	11917.2

Source: FactSet

Shareholding Structure

Massive Giant Group Ltd	10.3%
Cai Dongchen	10.0%

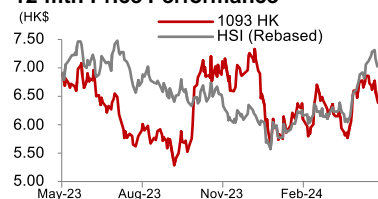
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	6.5%	-0.1%
3-mth	15.2%	1.3%
6-mth	-1.1%	-8.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	8,325	9,112	9,750	10,384	11,007	11,667	12,309	12,925	13,377
Tax rate	17.82%	17.82%	17.82%	17.82%	17.82%	17.82%	17.82%	17.82%	17.82%
EBIT*(1-tax rate)	6,841	7,489	8,013	8,534	9,046	9,588	10,116	10,622	10,993
+ D&A	1,114	1,114	1,192	1,270	1,346	1,427	1,505	1,580	1,636
- Change in working capital	(890)	(398)	(425)	(453)	(480)	(509)	(537)	(564)	(584)
- Capex	(1,624)	(1,624)	(1,624)	(1,624)	(1,624)	(1,624)	(1,624)	(1,624)	(1,624)
FCFF	5,442	6,581	7,156	7,727	8,288	8,882	9,460	10,014	10,422
Terminal value									108,663

Terminal growth rate	2.00%
WACC	11.78%
Cost of equity	15.08%
Cost of debt	5.00%
Equity beta	1.15
Risk free rate	3.00%
Market risk premium	10.50%
Target debt to asset ratio	30.00%
Effective corporate tax rate	18.00%

Terminal value (RMB mn)	35,673
Total PV (RMB mn)	77,452
Net debt (RMB mn)	(15,835)
Minority interests (RMB mn)	2,014
Equity value (RMB mn)	91,273
# of shares (mn)	11,923

DCF per share (in HK\$)	8.51
--------------------------------	-------------

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

		WACC				
		10.78%	11.28%	11.78%	12.28%	12.78%
Terminal growth rate	3.00%	9.97	9.41	8.92	8.48	8.09
	2.50%	9.67	9.16	8.70	8.29	7.93
	2.00%	9.40	8.93	8.51	8.12	7.78
	1.50%	9.17	8.73	8.33	7.97	7.64
	1.00%	8.95	8.54	8.17	7.83	7.52

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	NEW			OLD			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	35,065	38,970	43,325	34,797	38,188	41,619	0.8%	2.0%	4.1%
Gross profit	25,301	27,764	31,194	24,462	26,770	29,133	3.4%	3.7%	7.1%
Operating profit	8,325	9,112	10,479	8,359	9,193	10,081	-0.4%	-0.9%	3.9%
Attributable net profit	6,642	7,269	8,366	6,677	7,364	8,065	-0.5%	-1.3%	3.7%
EPS (RMB)	0.56	0.61	0.70	0.56	0.62	0.68	-0.7%	-1.4%	3.6%
Gross margin	72.15%	71.25%	72.00%	70.30%	70.10%	70.00%	+1.85ppt	+1.15ppt	+2ppt
Operating margin	23.74%	23.38%	24.19%	24.02%	24.07%	24.22%	-0.28ppt	-0.69ppt	-0.04ppt
Net margin	18.94%	18.65%	19.31%	19.19%	19.28%	19.38%	-0.25ppt	-0.63ppt	-0.07ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	35,065	38,970	43,325	34,833	37,617	40,830	0.7%	3.6%	6.1%
Gross profit	25,301	27,764	31,194	25,048	27,133	29,643	1.0%	2.3%	5.2%
Operating profit	8,325	9,112	10,479	8,182	8,765	9,610	1.7%	4.0%	9.0%
Attributable net profit	6,642	7,269	8,366	6,673	7,280	7,972	-0.5%	-0.1%	4.9%
EPS (RMB)	0.56	0.61	0.70	0.56	0.62	0.67	-0.5%	-1.5%	4.7%
Gross margin	72.15%	71.25%	72.00%	71.91%	72.13%	72.60%	+0.24ppt	-0.88ppt	-0.6ppt
Operating margin	23.74%	23.38%	24.19%	23.49%	23.30%	23.54%	+0.25ppt	+0.08ppt	+0.65ppt
Net margin	18.94%	18.65%	19.31%	19.16%	19.35%	19.52%	-0.22ppt	-0.7ppt	-0.21ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	27,867	30,937	31,450	35,065	38,970	43,325
Cost of goods sold	(6,732)	(8,680)	(9,273)	(9,765)	(11,206)	(12,131)
Gross profit	21,135	22,256	22,177	25,301	27,764	31,194
Selling expense	(10,443)	(10,337)	(9,141)	(11,399)	(12,081)	(13,214)
Admin expense	(1,010)	(1,173)	(1,190)	(1,315)	(1,442)	(1,581)
R&D expense	(3,433)	(3,987)	(4,830)	(4,731)	(5,651)	(6,499)
Others	546	815	421	469	521	579
Operating profit	6,795	7,574	7,437	8,325	9,112	10,479
Gain/loss on financial assets at FVTPL	0	0	0	0	0	0
Share of (losses)/profits of associates/JV	60	33	(21)	60	60	60
Net interest income/(expense)	(8)	(25)	(26)	(28)	(27)	(13)
Pre-tax profit	6,847	7,582	7,389	8,356	9,146	10,526
Income tax	(1,159)	(1,350)	(1,317)	(1,489)	(1,630)	(1,876)
Minority interest	83	141	199	225	247	284
Net profit	5,688	6,232	6,073	6,867	7,516	8,650
Gross dividends	1,691	2,097	2,726	1,993	2,181	2,510
Net dividends	9	9	(4)	13	9	15

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	20,337	23,957	26,745	31,527	37,678	44,141
Cash & equivalents	9,284	10,298	12,015	15,437	19,811	24,523
Account receivables	3,890	4,631	6,542	7,294	8,106	9,012
Inventories	2,480	2,555	3,139	3,305	3,793	4,106
Prepayment	0	0	0	0	0	0
ST bank deposits	1,443	3,575	1,077	1,077	1,077	1,077
Other current assets	3,240	2,898	3,972	4,414	4,891	5,423
Non-current assets	14,405	17,813	19,537	20,047	20,556	21,066
PP&E	8,529	9,582	10,417	11,173	11,929	12,686
Deferred income tax	43	113	187	187	187	187
Intangibles	468	1,908	2,199	2,116	2,033	1,950
Goodwill	1,035	1,395	1,226	1,062	898	734
Financial assets at FVTPL	1,979	2,126	2,387	2,387	2,387	2,387
Other non-current assets	2,351	2,689	3,122	3,122	3,122	3,122
Total assets	34,742	41,770	46,282	51,573	58,234	65,206
Current liabilities	7,226	8,958	10,183	10,625	11,977	12,835
Short-term borrowings	0	153	450	422	395	367
Account payables	6,162	6,864	8,404	8,850	10,156	10,994
Tax payable	261	262	379	379	379	379
Other current liabilities	803	1,679	948	974	1,047	1,094
Non-current liabilities	687	1,170	1,082	1,082	1,082	1,082
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	687	1,170	1,082	1,082	1,082	1,082
Total liabilities	7,913	10,128	11,264	11,707	13,058	13,916
Share capital	10,899	10,899	10,899	10,899	10,899	10,899
Other reserves	15,087	19,298	22,304	26,953	32,041	37,898
Total shareholders equity	25,987	30,198	33,203	37,852	42,941	48,797
Minority interest	842	1,444	1,815	2,014	2,235	2,493
Total equity and liabilities	34,742	41,770	46,282	51,573	58,234	65,206

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	6,847	7,582	7,389	8,356	9,146	10,526
Depreciation & amortization	865	1,048	1,114	1,114	1,114	1,114
Tax paid	(1,141)	(1,335)	(1,309)	(1,489)	(1,630)	(1,876)
Change in working capital	(1,388)	798	(3,032)	(890)	(398)	(865)
Others	(547)	(467)	16	0	0	0
Net cash from operations	4,637	7,627	4,179	7,092	8,232	8,899
Investing						
Capital expenditure	(1,410)	(2,220)	(1,624)	(1,624)	(1,624)	(1,624)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	773	(4,576)	2,231	0	0	0
Net cash from investing	(637)	(6,796)	607	(1,624)	(1,624)	(1,624)
Financing						
Dividend paid	(1,691)	(2,097)	(2,726)	(1,993)	(2,181)	(2,510)
Net borrowings	0	486	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(264)	(14)	(200)	0	0	0
Others	(242)	(279)	626	(54)	(54)	(54)
Net cash from financing	(2,197)	(1,904)	(2,301)	(2,046)	(2,235)	(2,564)
Net change in cash						
Cash at the beginning of the year	7,259	9,060	10,298	12,015	15,437	19,811
Exchange difference	(2)	14	5	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	9,060	8,001	12,015	15,437	19,811	24,523
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	11.7%	11.0%	1.7%	11.5%	11.1%	11.2%
Gross profit	13.1%	5.3%	(0.4%)	14.1%	9.7%	12.4%
Operating profit	12.2%	11.5%	(1.8%)	11.9%	9.5%	15.0%
Net profit	8.8%	9.6%	(2.6%)	13.1%	9.4%	15.1%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	75.8%	71.9%	70.5%	72.2%	71.2%	72.0%
Operating margin	24.4%	24.5%	23.6%	23.7%	23.4%	24.2%
Return on equity (ROE)	23.5%	22.2%	19.2%	19.3%	18.6%	18.9%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)
Current ratio (x)	2.8	2.7	2.6	3.0	3.1	3.4
Receivable turnover days	92.9	87.7	120.5	120.5	120.5	120.5
Inventory turnover days	134.5	107.4	123.5	123.5	123.5	123.5
Payable turnover days	352.4	319.6	349.4	349.4	349.4	349.4
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	13.9	12.8	13.2	11.7	10.7	9.3
P/E (diluted)	13.9	12.8	13.2	11.7	10.7	9.3
P/B	2.9	2.5	2.2	2.0	1.7	1.5
P/CFPS	16.8	10.2	18.5	11.0	9.4	8.7
Div yield (%)	2.2	2.7	3.5	2.6	2.8	3.2

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

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.