

WuXi AppTec (603259 CH)

Strong recovery continued

- 1H21 earnings beat.** WuXi AppTec reported 1H21 revenue of RMB10.54bn (+46% YoY), accounting for 47% of our full-year estimate. Such a strong growth was underpinned by its unique end-to-end full-service platform. By segment, revenue from CDMO services surged 67% YoY, while China-based lab service and clinical research & other CRO services registered 45% YoY and 57% YoY growth, respectively. Due to sustained impact of COVID pandemic as well as delays and clinical failures in clients' products, revenue from US-based laboratory services decreased 16% YoY, accounting for 6% of total revenue. Attributable net profit and adjusted non-IFRS net profit grew by 88%/ 68% YoY to RMB2,127mn/ RMB2,448mn, respectively.
- CDMO services act as growth engine.** In 1H21, CDMO revenue rallied 67% YoY to RMB3,599mn, accounting for 34% of the total revenue. In 1H21, 341 out of 1,413 molecules were newly added into CDMO services pipeline, including 1/ 19 Ph III/ II stage project additions via "win the molecule" strategy. As at Jun 2021, the Company provided CDMO services for about 14% of the global innovative small molecule drug pipeline compared with 11.5% in 2019, indicating consistent market share gain. 4 pipeline molecules went commercial in 1H21, including 1 full CMC project (HutchMed's Savolitinib). The Company is rapidly scaling up the manufacturing of two novel small molecules for treating COVID-19 infections for big MNCs. After establishing a JV (WuXi XDC) with WuXi Biologics, the Company's ADC (antibody drug conjugate) CDMO client number increased 57% YoY in 1H21.
- Proposed new incentive scheme.** The Company proposed a HK\$2bn H share award and trust scheme with the target of above 34% YoY revenue growth in 2021. In addition, the Company initiated a Shareholder Alignment Incentive (SAI) scheme for senior management with the total incentive amount up to HK\$7.5bn. The incentive pools are HK\$1bn/ HK\$1.5bn/ HK\$2bn and HK\$3bn if the H-share price hits HK\$170/ HK\$187/ HK\$204/ HK\$238, respectively. We think the new incentive scheme will further help align the interests between management and shareholders.
- Maintain BUY.** We revised up adjusted Non-IFRS net profit of FY21/22/23E by 8%/3%/3%, and forecast the adjusted Non-IFRS net profit to grow 43%/29%/34% YoY in FY21E/22E/23E respectively. Moreover, WuXi AppTec's diversified investment portfolio will bring significant investment gains over the long term. Considering the increased outstanding shares, we revised our 10-year DCF-based TP to RMB168.06 (WACC: 9.74%, Terminal growth: 3.0%).

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	12,872	16,535	22,774	30,179	39,452
YoY growth (%)	34%	28%	38%	33%	31%
Net income (RMB mn)	1,855	2,960	5,221	6,584	8,832
YoY growth (%)	-18.0%	59.6%	76.4%	26.1%	34.1%
Adj Non-IFRS net income (RMB mn)	2,407	3,565	5,084	6,534	8,736
YoY growth (%)	38.2%	48.1%	42.6%	28.5%	33.7%
EPS (RMB)	0.81	1.27	1.77	2.23	2.99
Change (%)	-49%	56%	39%	13%	34%
Consensus EPS (RMB)	N/A	N/A	1.56	2.03	2.66
P/E (x)	170.65	109.10	78.47	62.22	46.38
P/B (x)	18.18	9.87	11.25	9.98	8.66
ROE (%)	10.98	9.13	14.43	16.14	18.79
Net gearing (%)	0.68	Net cash	Net cash	Net cash	Net cash

Source: Company data, Wind, CMBIS estimates

BUY (Maintain)

Target Price RMB167.38
 (Previous TP RMB224.01)
Up/Downside 20.64%
Current Price RMB138.74

China Healthcare Sector

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Mkt. Cap. (RMB mn)	407,557
Avg. 3mths t/o (RMB mn)	3,697.35
52W High/Low (RMB)	172.5/78.3
Total Issued Shares (mn)	2,564

Source: Bloomberg

Shareholding Structure

Management	26.63%
A-share public shareholders	60.47%
H-share public shareholders	12.90%

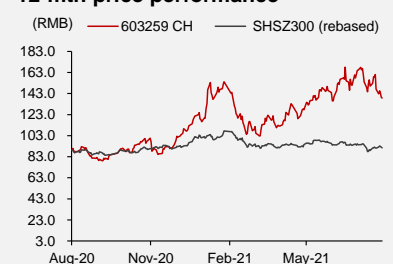
Source: Bloomberg

Share performance

	Absolute	Relative
1-mth	-13.9%	-11.6%
3-mth	8.7%	12.3%
6-mth	-10.0%	5.7%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

Related Reports

- Stronger-than-expected growth in Q1 – 30 Apr 2021
- Building cutting-edge expertise to secure long-term growth – 1 Apr 2021
- Strong growth outlook in 2021 and beyond – 25 Jan 2021
- Accelerated growth in 3Q20 driven by strong performance in CDMO and China-base lab service – 30 Oct 2020

Figure 1: CMBIS earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	22,774	30,179	39,452	22,376	29,632	38,714	1.77%	1.85%	1.91%
Gross profit	8,681	11,800	15,744	8,768	11,850	15,710	-0.99%	-0.43%	0.22%
Operating profit	4,647	6,450	8,790	4,514	6,262	8,467	2.94%	3.00%	3.82%
Net profit	5,221	6,584	8,832	4,669	6,268	8,383	11.81%	5.04%	5.36%
EPS (RMB)	1.77	2.23	2.99	1.91	2.56	3.42	-7.20%	-12.82%	-12.56%
Gross margin	38.12%	39.10%	39.91%	39.18%	39.99%	40.58%	-1.06ppt	-0.89ppt	-0.67ppt
Operating margin	20.41%	21.37%	22.28%	20.17%	21.13%	21.87%	+0.23ppt	+0.24ppt	+0.41ppt
Net Margin	22.93%	21.82%	22.39%	20.87%	21.15%	21.65%	+2.06ppt	+0.66ppt	+0.73ppt

Source: CMBIS estimates

Figure 2: CMBIS vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	22,774	30,179	39,452	22,457	29,836	38,943	1.41%	1.15%	1.31%
Gross profit	8,681	11,800	15,744	8,714	11,766	15,469	-0.38%	0.29%	1.78%
Operating profit	4,647	6,450	8,790	4,991	6,604	8,772	-6.89%	-2.33%	0.21%
Net profit	5,221	6,584	8,832	4,406	5,776	7,623	18.49%	13.99%	15.86%
EPS (RMB)	1.77	2.23	2.99	1.56	2.03	2.66	13.71%	9.90%	12.62%
Gross margin	38.12%	39.10%	39.91%	38.81%	39.44%	39.72%	-0.69ppt	-0.34ppt	+0.18ppt
Operating margin	20.41%	21.37%	22.28%	22.22%	22.13%	22.53%	-1.82ppt	-0.76ppt	-0.24ppt
Net Margin	22.93%	21.82%	22.39%	19.62%	19.36%	19.57%	+3.31ppt	+2.46ppt	+2.81ppt

Source: Bloomberg, CMBIS estimates

Figure 3: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	6,280	7,867	10,529	14,214	19,047	25,333	33,439	43,805	56,947	73,461
Tax rate	15.34%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
EBIT*(1-tax rate)	5,317	6,687	8,950	12,082	16,190	21,533	28,423	37,234	48,405	62,442
+ D&A	1,145	1,543	1,747	2,358	3,160	4,202	5,547	7,267	9,446	12,186
- Change in working capital	-307	-919	-1,094	-1,477	-1,979	-2,633	-3,475	-4,552	-5,918	-7,634
- Capx	-7,000	-5,000	-5,000	-3,500	-3,500	-3,500	-3,500	-3,500	-3,500	-3,500
FCFF	-845	2,311	4,602	9,463	13,870	19,602	26,995	36,449	48,433	63,494
Terminal value										970,306
	-85.62%	-373.62%	99.12%	105.62%	46.58%	41.33%	37.71%	35.02%	32.88%	31.10%
Terminal growth rate	3.00%			35.00%	34.00%	33.00%	32.00%	31.00%	30.00%	29.00%
WACC	9.74%			35.00%	34.00%	33.00%	32.00%	31.00%	30.00%	29.00%
Cost of Equity	12.28%									
Cost of Debt	4.50%									
Equity Beta	0.85									
Risk Free Rate	2.50%									
Market Risk Premium	11.50%									
Target Debt to Asset ratio	30.00%									
Effective Corporate Tax Rate	15.00%									
Terminal value	383,053									
Total PV	491,609									
Net debt	-2,606									
Equity value	494,215									
# of shares	2,952,72									
	6,521									
DCF per share (in RMB)	167.38									

Source: CMBIS estimates

Financial Statements

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE Dec 31 (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	12,872	16,535	22,774	30,179	39,452	Total net profit	1,911	2,986	5,254	6,626	8,889
China-based laboratory	6,473	8,546	11,778	15,547	20,212	Depreciation and	814	959	1,366	1,764	1,967
CMO/CDMO services	3,752	5,282	7,905	10,672	14,193	Change in working capital	(497)	(494)	(307)	(919)	(1,094)
US-based laboratory	1,563	1,517	1,394	1,673	2,007	Investment loss (gain)	219	(631)	(1,457)	(1,217)	(1,539)
Clinical research and other CRO services	1,063	1,169	1,672	2,257	3,002	Other operating activities	469	1,154	269	258	258
Others	21	22	24	30	38	Net cash from operating	2,916	3,974	5,125	6,511	8,480
Cost of sales	(7,858)	(10,253)	(14,092)	(18,380)	(23,708)	Capex	(2,532)	(3,031)	(5,000)	(3,000)	(3,000)
Gross profit	5,014	6,282	8,681	11,800	15,744	Acquisition of subsidiaries	(785)	(186)	-	-	-
Business taxes	(28)	(35)	(51)	(68)	(89)	Other investing activities	(1,658)	(5,559)	(2,000)	(2,000)	(2,000)
Selling & distribution	(439)	(588)	(771)	(1,026)	(1,341)	Net cash from investing	(4,975)	(8,776)	(7,000)	(5,000)	(5,000)
Administrative expenses	(1,482)	(1,839)	(2,318)	(3,048)	(3,945)	Net proceeds from shares	769	13,162	-	-	-
R&D expenses	(590)	(693)	(894)	(1,207)	(1,578)	Net borrowings	4,510	(1,284)	-	-	-
Operating profit	2,474	3,127	4,647	6,450	8,790	Acquisition of non-controlling interests	-	-	-	-	-
Finance costs, net	(24)	(520)	(74)	(72)	(72)	Dividends and interests paid	(730)	(638)	(1,640)	(2,047)	(2,722)
Investment gains	48	606	1,152	200	200	Other financing activities	(2,991)	(1,352)	-	-	-
Net gain from fair value	(259)	52	309	1,017	1,339	Net cash from financing	1,558	9,888	(1,640)	(2,047)	(2,722)
Other gains	98	104	172	200	200	FX changes	(33)	(81)	-	-	-
Pre-tax profit	2,337	3,369	6,206	7,795	10,457	Net change in cash	(501)	5,086	(3,515)	(536)	759
Income tax	(426)	(383)	(952)	(1,169)	(1,569)	Cash at the beginning of the year	5,758	5,223	10,237	6,722	6,186
Minority interests	(57)	(26)	(33)	(42)	(56)	Cash at the end of the year	5,223	10,228	6,722	6,186	6,945
Net profit	1,855	2,960	5,221	6,584	8,832						
Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	16,576	23,232	30,128	34,396	38,782	Sales mix (%)					
Fixed asset	4,333	5,710	9,561	11,017	12,271	China-based laboratory	50	52	52	52	51
Intangible assets	918	998	919	840	761	CMO/CDMO services	29	32	35	35	36
Financial assets	4,009	6,717	10,169	13,386	16,924	US-based laboratory services	12	9	6	6	5
Goodwill	1,362	1,392	1,392	1,392	1,392	Clinical research and other CRO services	8	7	7	7	8
Other non-current assets	5,954	8,415	8,088	7,761	7,434	Others	0	0	0	0	0
Current assets	12,663	23,059	20,602	22,246	25,667	Profit & loss ratios (%)					
Cash	5,227	10,237	6,722	6,186	6,945	Gross margin	39	38	38	39	40
Inventories	1,742	2,686	3,043	3,969	5,120	EBITDA margin	25	29	34	32	32
Trade and bills receivables	2,961	3,667	4,368	5,622	7,134	Pre-tax margin	18	20	27	26	27
Prepayments, deposits and other receivables	123	210	210	210	210	Net margin	14	18	23	22	22
Other current assets	2,609	6,259	6,259	6,259	6,259	Effective tax rate	18	11	15	15	15
Current liabilities	6,634	7,920	8,671	9,932	11,500	Balance sheet ratios					
Borrowings	1,604	1,230	1,230	1,230	1,230	Current ratio (x)	2	3	2	2	2
Trade and other payables	592	941	1,692	2,953	4,521	Trade receivables turnover	70	73	70	68	66
Other current liabilities	4,438	5,749	5,749	5,749	5,749	Trade payables turnover	103	107	107	107	107
Non-current liabilities	5,195	5,652	5,652	5,652	5,652	Net debt to total equity ratio (%)	1	Net	Net	Net	Net
Borrowings	762	-	-	-	-	Returns (%)					
Other non-current liabilities	4,433	5,652	5,652	5,652	5,652	ROE	11	9	14	16	19
Total net assets	17,410	32,718	36,406	41,057	47,296	ROA	7	6	10	12	14
Minority interest	97	225	258	300	357	Per share					
Shareholders' equity	17,312	32,494	36,148	40,757	46,940	EPS (RMB)	0.81	1.27	1.77	2.23	2.99
						DPS (RMB)	0.24	0.38	0.53	0.67	0.90
						BVPS (RMB)	7.63	14.06	12.33	13.90	16.02

Source: Company data, CMBIS estimates

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