

WuXi Biologics (2269 HK)

Earnings beat driven by strong demand in COVID-19 related projects

- 1H21 earnings beat.** WuXi Bio reported 1H21 revenue/ attributable net profit of RMB4,407mn/ RMB1,842mn, increased by 127%/ 150% YoY and accounting for 52%/ 82% of our full-year estimates. Adjusted net profit grew 172% YoY to RMB1,812mn. Gross profit margin improved significantly by 11.6ppts to 52.1%, and net profit margin improved 5.1ppts to 42.7%.
- Unlock growth opportunities under the pandemic.** Since the beginning of the pandemic, WuXi Bio has involved in multiple COVID-19 related projects such as neutralizing antibodies and vaccines. The Company successfully enabled Vir/GSK's neutralization mAb to achieve EUA approval from the US FDA in 14 months and has been providing exclusive CMO service for the product. In addition, the Company is the largest CMO service provider for AstraZeneca's COVID-19 vaccine, Vaxzevria (AZD1222). In 1H21, the Company recorded RMB889mn CMO revenue, accounting for 20% of total revenue, which was mainly contributed by the above mentioned two COVID-19 projects, as well as GSK's Jemperli (PD-1 mAb). As of 30 Jun, the Company has secured US\$1.3bn in contracts for COVID-19 projects, including 3 COVID-19 vaccine projects (totaling around US\$300mn), as well as 15+ COVID-19 neutralizing mAbs. We expect the strong income from COVID related projects will extend till 2022.
- To grow into global top-tier biological CDMO platform.** Relying on its cutting-edge technology platforms and state-of-the-art manufacturing facilities, WuXi Bio will grow into a global leading biological CDMO platform. The Company consistently upgrades its novel technology platforms, including WuXiBody bispecific antibody platform, WuXia cell line development system, WuXiUP continuous manufacturing platform, etc. In addition, WuXi XDC joint venture has accumulated 48 ADC projects, to capture the large opportunity in ADC area. Meanwhile, WuXi Bio will become a first-mover in mRNA area given it is establishing an end-to-end mRNA technology platform and building a sizable mRNA manufacturing facility. WuXi Bio plans to expand its total manufacturing capacity from 54,000L in 2020 to 430,000L by 2024. Sufficient manufacturing capacity will support the Company's CDMO revenue growth.
- Maintain BUY.** We maintain positive on Wuxi Bio's long-term prospects. We raised FY21/22E net profit forecasts by 56.8%/ 49.2% to reflect its rapid capacity expansion and advanced technology platforms. We expect WuXi Biologics' revenue to increase 72%/ 43%/ 39% YoY in FY21E/22E/23E and adjusted net profit to grow by 121%/ 42%/ 37% YoY in FY21E/22E/23E, respectively. We revised up our 10-year DCF-based TP to HK\$155.19 (WACC: 9.71%, Terminal growth: 4.0%) Catalysts: Higher-than-expected earnings growth.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	3,984	5,612	9,646	13,757	19,143
Revenue YoY growth (%)	57.18	40.88	71.88	42.62	39.15
Net income (RMB mn)	1,014	1,689	3,519	4,610	6,285
Adjusted net income (RMB mn)	1,205	1,716	3,784	5,372	7,342
EPS (RMB)	0.27	0.43	0.83	1.09	1.48
EPS YoY growth (%)	-47.64	56.65	94.29	30.99	36.33
Consensus EPS (RMB)	N/A	N/A	0.66	0.95	1.36
P/E (x)	370.36	236.42	121.69	92.90	68.14
P/B (x)	29.12	19.11	17.48	14.66	12.02
ROE (%)	9.71	9.99	15.51	17.17	19.39
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$155.19**
 (Previous TP **HK\$99.37**)
 Up/Downside **+27.52%**
 Current Price **HK\$121.70**

China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	515,976
Avg. 3mths t/o (HK\$ mn)	2,437.37
52W High/Low (HK\$)	148.0/57.7
Total Issued Shares (mn)	4,240

Source: Bloomberg

Shareholding Structure

Management	29.38%
JPMorgan	12.42%
Citigroup	11.80%
The Capital Group	5.94%
Free float	40.44%

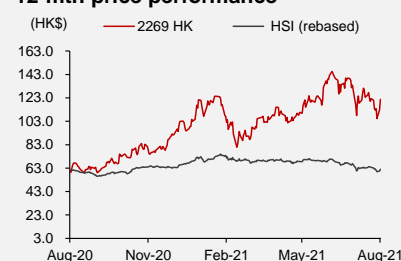
Source: HKEx

Share performance

	Absolute	Relative
1-mth	-12.9%	-5.2%
3-mth	2.1%	15.7%
6-mth	5.4%	28.6%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

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Figure 1: CMBIS earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	9,646	13,757	19,143	8,499	12,106	16,703	13.50%	13.64%	14.61%
Gross profit	4,812	6,604	8,997	3,739	5,266	7,266	28.68%	25.39%	23.83%
Operating profit	3,796	5,161	7,032	2,568	3,550	4,870	47.80%	45.38%	44.39%
Net profit	3,519	4,610	6,285	2,245	3,090	4,227	56.80%	49.20%	48.69%
EPS (RMB)	0.83	1.09	1.48	0.53	0.73	1.00	55.71%	48.16%	47.66%
Gross margin	49.88%	48.00%	47.00%	44.00%	43.50%	43.50%	+5.88ppt	+4.50ppt	+3.50ppt
Operating margin	39.35%	37.51%	36.74%	30.22%	29.32%	29.16%	+9.13ppt	+8.19ppt	+7.58ppt
Net Margin	36.48%	33.51%	32.83%	26.41%	25.52%	25.31%	+10.07ppt	+7.99ppt	+7.53ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

(RMB mn)	New			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	9,646	13,757	19,143	9,238	13,616	19,365	4.42%	1.04%	-1.15%
Gross profit	4,812	6,604	8,997	4,178	6,171	8,838	15.17%	7.01%	1.80%
Operating profit	3,796	5,161	7,032	2,774	4,135	6,174	36.83%	24.81%	13.90%
Net profit	3,519	4,610	6,285	2,787	4,036	5,767	26.28%	14.22%	8.98%
EPS (RMB)	0.83	1.09	1.48	0.66	0.95	1.36	26.73%	15.06%	9.40%
Gross margin	49.88%	48.00%	47.00%	45.23%	45.32%	45.64%	+4.66ppt	+2.68ppt	+1.36ppt
Operating margin	39.35%	37.51%	36.74%	30.03%	30.37%	31.88%	+9.32ppt	+7.14ppt	+4.85ppt
Net Margin	36.48%	33.51%	32.83%	30.17%	29.64%	29.78%	+6.32ppt	+3.87ppt	+3.05ppt

Source: Bloomberg, CMBIS estimates

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	3,921	5,211	7,082	10,057	14,180	19,852	27,594	38,080	52,170	70,951
Tax rate	8.52%	8.52%	8.52%	8.52%	8.52%	8.52%	8.52%	8.52%	8.52%	8.52%
EBIT*(1-tax rate)	3,587	4,767	6,479	9,199	12,971	18,160	25,242	34,834	47,723	64,903
+ D&A	846	1,125	1,293	1,746	2,340	3,112	4,107	5,381	6,995	9,023
- Change in working capital	-480	-956	-1,269	-1,713	-2,296	-3,054	-4,031	-5,280	-6,864	-8,855
- Capx	-8,000	-5,000	-4,000	-3,600	-3,240	-2,916	-2,624	-2,362	-2,126	-1,913
FCFF	-4,046	-63	2,503	5,632	9,775	15,302	22,694	32,573	45,727	63,158
Terminal value										1,150,340
Terminal growth rate	4.00%									
WACC	9.71%									
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	40.00%									
Effective Corporate Tax Rate	15.00%									
Terminal value	455,370									
Total PV	544,580									
Net debt	-1,528									
Equity value	546,109									
# of shares (mn)	4,239									
DCF per share (in RMB)	128.81									
DCF per share (in HK\$)	155.19									

Source: CMBIS estimates

Financial Statements

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	3,984	5,612	9,646	13,757	19,143	Profit before tax	1,127	1,966	3,932	5,151	7,022
Pre-IND services	1,808	2,800	3,377	4,560	5,927	Depreciation & amortization	196	270	812	1,091	1,259
Post-IND services	2,152	2,665	4,111	5,961	8,644	Change in working capital	(219)	(367)	(480)	(956)	(1,269)
Cost of sales	(2,325)	(3,079)	(4,834)	(7,154)	(10,146)	Share-based payment expense	204	276	0	0	0
Gross profit	1,659	2,533	4,812	6,604	8,997	Other operating activities	(100)	(264)	(277)	(305)	(465)
Other income	180	220	194	160	160	Net cash from operating	1,208	1,881	3,988	4,982	6,548
Selling & distribution expenses	(77)	(94)	(134)	(186)	(249)	Capex	(3,211)	(6,025)	(8,000)	(5,000)	(4,000)
Administrative expenses	(367)	(511)	(777)	(1,073)	(1,436)	Acquisition of subsidiaries	(1)	0	0	0	0
R&D expenses	(260)	(304)	(299)	(344)	(440)	Other investing activities	(1,282)	(1,192)	18	0	0
Operating profit	1,135	1,844	3,796	5,161	7,032	Net cash from investing	(4,494)	(7,216)	(7,982)	(5,000)	(4,000)
Finance costs, net	(20)	(43)	(42)	(100)	(100)	Net proceeds from shares issued	3,534	5,585	0	0	0
Other gains and losses	22	283	312	100	100	Bank borrowing	1,910	870	0	0	0
Impairment losses, net of reversal	(7)	(121)	(133)	(10)	(10)	Acquisition of non-controlling interests					
Pre-tax profit	1,127	1,966	3,932	5,151	7,022	Dividends and interests paid	(50)	(83)	(42)	(100)	(100)
Income tax	(116)	(273)	(335)	(439)	(599)	Other financing activities	19	193	0	0	0
Minority interests	3	(4)	(78)	(102)	(139)	Net cash from financing	5,413	6,566	(42)	(100)	(100)
Net profit	1,014	1,689	3,519	4,610	6,285	FX changes	(6)	(340)	0	0	0
						Net change in cash	2,121	890	(4,036)	(118)	2,448
						Cash at the beginning of the year	4,084	6,205	7,096	3,059	2,941
						Cash at the end of the year	6,205	7,096	3,059	2,941	5,389

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	7,930	14,759	21,913	25,787	28,494	Sales mix (%)					
Fixed asset	6,338	11,996	19,216	23,157	25,929	Pre-IND services	45	50	35	33	31
Intangible assets	416	392	360	328	296	Post-IND services	54	48	43	43	45
Equity instruments at fair value	139	127	127	127	127	Total	99	98	78	76	76
Financial assets at fair value	282	759	759	759	759	Profit & loss ratios (%)					
Other non-current assets	755	1,485	1,451	1,417	1,383	Gross margin	42	45	50	48	47
Current assets	9,672	14,204	11,508	14,067	20,005	EBITDA margin	33	40	49	46	44
Cash	6,205	7,096	3,059	2,941	5,389	Pre-tax margin	28	35	41	37	37
Inventories	399	1,084	1,165	1,723	2,444	Net margin	25	30	37	34	34
Trade and bills receivables	1,737	3,242	4,278	6,102	8,490	Effective tax rate	10	14	9	9	9
Contract costs	284	392	616	911	1,292	Balance sheet ratios					
Other current assets	1,046	2,390	2,390	2,390	2,390	Current ratio (x)	3	3	2	2	2
Current liabilities	2,871	4,498	5,359	7,081	9,302	Trade receivables turnover days	128	162	162	162	162
Borrowings	506	767	767	767	767	Trade payables turnover days	201	271	271	271	271
Trade and other payables	1,844	2,729	3,589	5,311	7,532	Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Other current liabilities	521	1,003	1,003	1,003	1,003	Returns (%)					
Non-current liabilities	1,835	3,566	3,566	3,566	3,566	ROE	10	10	16	17	19
Borrowings	1,395	1,838	1,838	1,838	1,838	ROA	8	7	11	13	14
Other non-current liabilities	440	1,728	1,728	1,728	1,728	Per share					
Total net assets	12,896	20,899	24,496	29,208	35,632	EPS (RMB)	0.27	0.43	0.83	1.09	1.48
Minority interest	112	335	413	514	653	DPS (RMB)	0.00	0.00	0.00	0.00	0.00
Shareholders' equity	12,784	20,564	24,084	28,694	34,979	BVPS (RMB)	3.47	5.29	5.78	6.89	8.40

Source: Company data, CMBIS estimates

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