

BUY (Maintain)

Target Price	HK\$15.20
(Previous TP)	(HK\$14.79)
Up/Downside	+51.35%
Current Price	HK\$10.04

China Healthcare Sector

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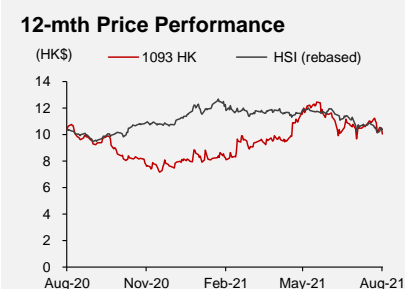
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Stock Data	
Mkt Cap (HK\$ mn)	120,217
Avg 3 mths t/o (HK\$ mn)	526.81
52w High/Low (HK\$)	11.68/7.08
Total Issued Shares (mn)	11,974
Source: Bloomberg	

Shareholding Structure	
Management	29.94%
Citigroup Inc	5.87%
BlackRock	4.75%
Free float	59.44%
Source: HKEx	

Share Performance		
	Absolute	Relative
1-mth	-3.0%	3.2%
3-mth	-9.4%	2.0%
6-mth	26.5%	48.0%
Source: Bloomberg		



Source: Bloomberg

Auditor: Deloitte**Related Reports**

- Expect fruitful R&D and BD results – 25 May 2021
- Multiple innovative drugs to receive approvals in 2021 – 16 Mar 2020
- Earnings accelerated in Q3 - 24 Nov 2020

CSPC Pharmaceutical (1093 HK)

1H21 results beat; accelerating BD pace

CSPC reported 1H21 sales and attributable net profit of RMB13.8bn and RMB3.1bn, up 9.8% YoY and 32.3% YoY, respectively, accounting for 52% and 58% of our full year estimates. Blended GPM was up by 1.1ppts to 76.1%. OPM improved by 5.6ppts to 26.4% thanks to effective control of expenses, with administrative expense ratio down by 0.86ppts, coupled with stable selling expense ratio of 38.5% (vs 38.7% in 1H20) and R&D expense ratio of 11.7% (vs.11.5% in 1H20). NPM increased by 3.8ppts to 22.5%. NBP sales dropped by 8.3% YoY to RMB3.1bn in 1H21. Benefiting from deeper market penetration, better affordability, and extended NBP capsule treatment duration, the Company expects the impact of NBP's price-cut to be alleviated and aims to achieve positive sales revenue growth in full-year of 2021.

- Abundant BD breakthroughs.** The Company entered into four strategic collaborations in 1H21, under which CPSC 1) obtained China product license and commercialization rights of BPI-7711 (3rd-gen EGFR-TKI) from Beta Pharma in Mar 2021, 2) obtained China product license and commercialization rights of CM310 (anti-IL4R α mAb) from Keymed in Mar 2021; 3) obtained China development and commercialization rights of KN026 (HER2-targeted BsAb) from Alphamab for breast cancer and gastric cancer in Aug 2021; and 4) out-licensed ex-China development, manufacturing and commercial rights of NBL-015 (anti-Claudin18.2 mAb) to Flame Biosciences and two new bispecific molecules to be developed on NovaRock (CSPC's subsidiary)'s NovaTE BsAb platform. The Company expects to land in more in-licensing deals in 2H21 and 2022, primary focusing on CNS, autoimmune diseases, ophthalmology and oncology areas, With RMB11bn net cash on hand as of 1H21, we think CPSC has sufficient capital for deal execution.
- Accelerating R&D pace with fast progress in the build-up of in-house mRNA platform.** Leveraging its core delivery technologies such as nanoliposome, LNP, albumin nano-formulation, the Company is gearing up to build its own mRNA platform for the development of antiviral vaccines such as COVID vaccine and cancer vaccines as the second wave of innovation. The Company is also committed to establishing other innovative platforms for other drug modalities such as siRNA, ADC, PROTAC, cell therapy across broad disease spectrum.
- Maintain BUY.** We revised up our 2021E/2022E revenue forecast by 5%/6% and 2021E/2022E attributable net profit forecast by 15%/7% given strong results in 1H21. We lifted our DCF-based TP from HK\$14.79 to HK\$15.20 (WACC 10.9%, Terminal growth 3.0%), indicating 25x FY21E PE and 23x FY22E PE.
- Catalysts:** 1) better-than-expected in-licensing deals, 2) stronger-than-expected product sales.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	22,103	24,942	28,185	31,197	34,641
YoY growth (%)	25	13	13	11	11
Net profit (RMB mn)	3,714	5,160	6,075	6,646	7,694
EPS (RMB)	0.31	0.43	0.51	0.56	0.64
YoY growth (%)	-37.1	38.9	17.6	9.4	15.8
Consensus EPS (RMB)	0.31	0.37	0.44	0.53	0.61
P/E (x)	26.8	19.3	16.4	15.0	13.0
P/B (x)	5.1	4.3	3.6	3.1	2.6
Yield (%)	1.0	1.5	1.8	2.0	2.3
ROE (%)	20.1	23.1	22.9	21.3	21.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Figure 1: CMBIS earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	28,185	31,197	34,641	26,777	29,371	32,541	5.3%	6.2%	6.5%
Gross profit	21,440	24,022	26,847	20,350	22,616	25,219	5.4%	6.2%	6.5%
Operating profit	7,250	7,900	9,153	6,499	7,599	8,777	11.6%	4.0%	4.3%
Net profit	6,075	6,646	7,694	5,299	6,189	7,142	14.6%	7.4%	7.7%
EPS (RMB)	0.51	0.56	0.64	0.44	0.52	0.60	14.6%	7.4%	7.7%
Gross margin	76.07%	77.00%	77.50%	76.00%	77.00%	77.50%	0.07ppt	0.00 ppt	0.00 ppt
Operating margin	25.72%	25.32%	26.42%	24.27%	25.87%	26.97%	+1.45 ppt	-0.55 ppt	-0.55 ppt
Net Margin	21.56%	21.30%	22.21%	19.79%	21.07%	21.95%	+1.76 ppt	+0.23 ppt	+0.26 ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	28,185	31,197	34,641	28,276	33,086	38,267	-0.3%	-5.7%	-9.5%
Gross profit	21,440	24,022	26,847	21,383	25,128	29,076	0.3%	-4.4%	-7.7%
Operating profit	7,250	7,900	9,153	6,601	7,733	8,998	9.8%	2.2%	1.7%
Net profit	6,075	6,646	7,694	5,226	5,473	6,260	16.3%	21.4%	22.9%
EPS (RMB)	0.51	0.56	0.64	0.47	0.56	0.63	7.3%	-0.2%	2.0%
Gross margin	76.07%	77.00%	77.50%	75.62%	75.95%	75.98%	+0.4 ppt	+1.1ppt	+1.5 ppt
Operating margin	25.72%	25.32%	26.42%	23.34%	23.37%	23.51%	+2.4 ppt	+2.0 ppt	+2.9 ppt
Net Margin	21.56%	21.30%	22.21%	18.48%	16.54%	16.36%	+3.1 ppt	+4.8 ppt	+5.9 ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 3: Peers valuation

Company	Ticker	Rating	Mkt cap LC mn	PER (x)		PBR (x)		EV/EBITDA (x)		ROE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
CSPC	1093HK	BUY	120,217	16.4	15.0	3.6	3.1	11.0	9.7	24.8	23.0
HENGRU-A	600276CH	N/A	289,870	38.9	32.7	7.7	6.4	32.8	27.1	20.4	20.4
FOSUN-H	2196HK	N/A	188,076	23.5	19.3	2.8	2.5	34.5	27.2	11.0	12.5
HANSOH	3692 HK	N/A	131,476	33.0	26.9	5.9	4.9	26.3	20.9	17.0	18.8
SINO BIOPHARM	1177HK	N/A	117,997	18.1	18.6	4.4	3.5	12.6	10.6	27.3	21.9
BETTA	300558CH	N/A	32,643	65.5	45.2	7.3	6.5	N/A	N/A	10.7	12.5
Average :				32.9	26.4	5.3	4.5	23.7	19.2	18.0	17.9

Source: Bloomberg, CMBIS estimates

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	22,103	24,942	28,185	31,197	34,641
Finished drug	17,937	20,405	23,119	26,066	29,442
Bulk medicines	4,166	4,538	5,066	5,131	5,199
Cost of sales	(6,192)	(6,257)	(6,745)	(7,175)	(7,794)
Gross profit	15,911	18,685	21,440	24,022	26,847
Other income and gains	292	642	842	468	520
Distribution expenses	(8,712)	(9,378)	(10,562)	(11,699)	(12,990)
Administrative expenses	(749)	(946)	(1,014)	(1,123)	(1,212)
R&D expenses	(2,000)	(2,890)	(3,293)	(3,588)	(3,810)
Other expenses	(142)	(57)	(162)	(180)	(200)
Operating profit	4,600	6,057	7,250	7,900	9,153
Share of profit of associate / JV	58	14	3	60	60
Net finance cost	(32)	(12)	(12)	(12)	(12)
Exceptional	-	333	24	-	-
Pre-tax profit	4,626	6,391	7,266	7,949	9,202
Profits tax	(893)	(1,162)	(1,099)	(1,202)	(1,391)
Minority interest	(19)	(69)	(92)	(101)	(117)
Net profit	3,714	5,160	6,075	6,646	7,694

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT	4,600	6,057	7,250	7,900	9,153
Depreciation and amortization	692	809	785	785	785
Change in working capital	(485)	1,680	(404)	(386)	(377)
Income tax paid	(867)	(1,061)	(1,099)	(1,202)	(1,391)
Others	(156)	(745)	16	48	48
Net cash from operating activities	3,784	6,740	6,549	7,146	8,218
Capex	(1,883)	(1,356)	(1,000)	(1,000)	(1,000)
Placement of restricted bank deposits	(1,054)	(3,595)	-	-	-
Other	479	2,822	-	-	-
Net cash from investing activities	(2,457)	(2,130)	(1,000)	(1,000)	(1,000)
Change of Debts	(48)	169	-	-	-
Dividend paid	(965)	(1,528)	(1,823)	(1,994)	(2,308)
Other	(533)	(112)	(8)	(8)	(8)
Net cash from financing activities	(1,546)	(1,471)	(1,830)	(2,002)	(2,316)
Net change in cash	(219)	3,139	3,719	4,144	4,903
Cash at the beginning of the year	4,336	4,118	7,259	10,978	15,122
Exchange difference	1	2	-	-	-
Bank deposits with more than 3 months to maturity upon placement	-	-	-	-	-
Cash at the end of the year	4,118	7,259	10,978	15,122	20,025

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	12,621	14,149	14,364	14,579	14,793
Fixed asset	8,459	7,770	8,120	8,470	8,820
Goodwill	823	1,164	1,044	924	804
Intangible assets	1,136	509	494	479	463
Other non-current assets	2,203	4,706	4,706	4,706	4,706
Current assets	13,697	15,921	20,437	25,315	31,095
Cash	4,118	7,259	10,978	15,122	20,025
Account receivable	2,826	2,883	3,258	3,606	4,004
Inventories	2,536	1,861	2,006	2,134	2,318
Other current assets	4,217	3,918	4,195	4,453	4,747
Current liabilities	6,237	6,302	6,695	7,043	7,542
Borrowings	23	99	99	99	99
Trade and other payables	4,803	4,759	5,130	5,458	5,929
Other current liabilities	1,411	1,444	1,466	1,486	1,515
Non-current liabilities	563	667	667	667	667
Borrowings	-	-	-	-	-
Other non-current	563	667	667	667	667
Total net assets	19,518	23,101	27,438	32,184	37,679
Minority interest	1,056	769	853	947	1,056
Shareholders' equity	18,462	22,332	26,585	31,237	36,623

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Finished drugs	81.2	81.8	82.0	83.6	85.0
Bulk medicines	18.8	18.2	18.0	16.4	15.0
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	72.0	74.9	76.1	77.0	77.5
EBITDA margin	23.9	27.5	28.5	27.8	28.7
Pre-tax margin	20.9	25.6	25.8	25.5	26.6
Net margin	16.8	20.7	21.6	21.3	22.2
Effective tax rate	19.3	18.2	15.1	15.1	15.1
Balance sheet ratios					
Current ratio (x)	2.2	2.5	3.1	3.6	4.1
Trade receivables turnover	82	73	73	73	73
Trade payables turnover	316	295	295	295	295
Inventory turnover days	149	109	109	109	109
Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	20.1	23.1	22.9	21.3	21.0
ROA	14.1	17.2	17.5	16.7	16.8
Per share data					
EPS (RMB)	0.31	0.43	0.51	0.56	0.64
DPS (RMB)	0.08	0.13	0.15	0.17	0.19
BVPS (RMB)	1.6	1.9	2.3	2.7	3.1

Source: Company data, CMBIS estimates

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