

WuXi AppTec (603259 CH)

Raised full-year guidance post strong quarterly results

- 3Q21 earnings in line.** WuXi AppTec reported 3Q21 revenue/attributable net profit of RMB5,985mn/RMB887mn (up 31%/36% YoY), adding up 9M21 revenue /attributable net profit to RMB16,521mn/RMB3,562mn (up 40%/50% YoY), which accounted for 73%/68% of our full-year estimate. Attributable recurring net profit of 3Q21 grew 87% YoY to RMB979mn while that of 9M21 increased by 88% YoY to RMB3,106mn. The Company booked RMB548mn fair value losses in 9M21 (vs RMB312mn in 9M20) and RMB1,374mn investment gains in 9M21 (vs RMB411mn in 9M20), totaling 19% of its pre-tax profit during the same period. With its growing business scale, WuXi AppTec's staff number grew by 29.4% YoY to 33,305 as of Sep 2021, including 1,666 US-based employees and 308 EU-based staff.
- CDMO and clinical CRO maintained strong momentum.** CDMO revenue grew by 32% YoY to RMB2,035mn in 3Q21 (up 52% YoY in 9M21). CDMO project number reached 1,548 (+36% YoY), including 47 in Phase 3 projects (+12% YoY) and 37 in commercial stage projects (+42% YoY). We highlight that the Company now has 77 oligo & peptide drug CDMO projects (+97% YoY). Management expect the CDMO segment to deliver 50%+ YoY growth in 2021. For clinical CRO, revenue increased by 33% YoY to RMB419mn in 3Q21 (up 47% YoY in 9M21). Clinical CRO business has experienced a continuous recovery from the negative impact of COVID-19 in China in 2020.
- Rapid development of new capabilities.** Cell & gene therapy (WuXi ATU) revenue was up by 15% YoY to RMB283mn in 3Q21 (5% YoY decline in 9M21) driven by 223% YoY growth in China market. WuXi ATU is now providing CDMO services for 61 CGT projects, including 10 projects in Phase 3 stage. In addition, revenue from new modalities (including oligo, cancer vaccine, PROTAC, etc.) increased by 56% YoY in 9M21, which will provide new revenue growth drivers, in our view.
- Management raised 2021 full-year top-line growth guidance to 36-38% YoY,** which is backed by the solid growth in 9M21 as well as the foreseeable solid customer demand. In addition, Management indicated that COVID-19 projects contributed a limited portion of its total revenue in 9M21, implying high-quality earnings growth during 2021.
- Maintain BUY.** We expect WuXi AppTec to book revenue growth of 37%/33%/31% YoY in FY21E/22E/23E, respectively, and the adjusted Non-IFRS net profit growth of 43%/29%/34% YoY in the same periods. We maintain our 10-year DCF-based TP at RMB167.38 (WACC:9.74%, Terminal growth: 3%).

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%	60%	76%	26%	34%
Adj Non-IFRS net income (RMB mn)	2,407	3,565	5,084	6,534	8,736
YoY growth (%)	38%	48%	43%	29%	34%
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	2.01	2.68
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	RMB167.38)
Up/Downside	+28.57%
Current Price	RMB130.18

China Healthcare Sector

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Mkt. Cap. (RMB mn)	383,376
Avg. 3mths t/o (RMB mn)	3,549.41
52W High/Low (RMB)	172.5/83.44
Issued Shares-A (mn)	2,563
Issued Shares-H (mn)	392

Source: Bloomberg

Shareholding Structure

Management	25.07%
A-share public shareholders	61.38%
H-share public shareholders	13.55%

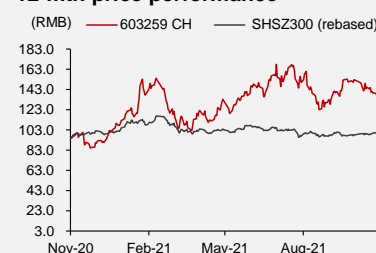
Source: Bloomberg

Share performance

	Absolute	Relative
1-mth	-9.7%	-10.5%
3-mth	-8.0%	-9.8%
6-mth	4.3%	8.9%
12-mth	46.9%	40.5%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

Related Reports

- Strong recovery continued – 16 Aug 2021
- 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 vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	22,774	30,179	39,452	22,476	29,878	39,134	1.32%	1.01%	0.81%
Gross profit	8,681	11,800	15,744	8,653	11,714	15,516	0.32%	0.74%	1.47%
Operating profit	4,647	6,450	8,790	5,127	6,815	8,977	-9.36%	-5.35%	-2.08%
Net profit	5,221	6,584	8,832	4,539	5,926	7,882	15.02%	11.10%	12.05%
EPS (RMB)	1.77	2.23	2.99	1.56	2.01	2.68	13.05%	10.88%	11.78%
Gross margin	38.12%	39.10%	39.91%	38.50%	39.21%	39.65%	-0.38ppt	-0.11ppt	+0.26ppt
Operating margin	20.41%	21.37%	22.28%	22.81%	22.81%	22.94%	-2.41ppt	-1.44ppt	-0.66ppt
Net Margin	22.93%	21.82%	22.39%	20.19%	19.83%	20.14%	+2.73ppt	+1.98ppt	+2.25ppt

Source: Bloomberg, CMBIS estimates

Figure 2: 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 31 Dec (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 services	6,473	8,546	11,778	15,547	20,212	Depreciation and amortization	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 services	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 expenses	(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 issued	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 cash	Net cash	Net cash	Net cash
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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