

WuXi Biologics (2269 HK)

Raised full-year guidance on strong business growth momentum

- 3Q21 business update.** WuXi Bio held a 3Q21 business update meeting on 1 Nov 2021 to refresh investors about its latest business development progress. Pipeline project number has reached 441 as of Sep 2021, including and 31 projects in Phase 3 stage and 6 in commercial stage (compared with 334 / 28 / 2, respectively, as of Dec 2020). Backlog amounted to US\$13.3bn, up by 30% YoY and representing 15x of the Company's 2020 revenue. Management expected to reach cash flow breakeven in 2022E and raised revenue growth guidance to 75% YoY (from 65%) in 2021E and 45% YoY (from 40%) in 2022E. In addition, WuXi Bio announced its global partner reward plan of up to RMB5bn worth of RSU, which will be vested if the Company can achieve significant market cap growth or 5-year profit CAGR of 40% during 2021 and 2025, which provides a longer-term indicator to gauge WuXi Bio's growth potential.
- CMO business on track to explode.** WuXi Bio now has 6 commercial stage projects, 5 of which were added during 9M21. Key CMO projects include Vir/GSK's neutralizing mAb, AstraZeneca's COVID-19 vaccine, and GSK's Jemperi (PD-1 mAb). More importantly, 3 out of the 5 newly-added CMO projects were internally incubated by WuXi Bio, demonstrating the success and vast potential of its "Follow-the-Molecule" strategy. In 1H21, the Company recorded RMB889mn CMO revenue, accounting for 20% of the total revenue. Management also expected to add another one CMO project in 4Q21E, and additional 2 - 4 CMO projects in 2022E/ 23E and 4 - 6 in 2024E / 25E.
- COVID-19 related demand remained solid and sustainable.** WuXi Bio is among the most active biologics CDMOs in the world fighting against the pandemic. The Company has signed COVID-19 vaccine contracts worth over US\$1bn in 9M21 and is in negotiation to seal an mRNA vaccine deal. COVID-19 projects (vaccine + neutralizing mAb) are expected to contribute approximately 30% of the total revenue or c. RMB3bn in 2021E and at least RMB2bn revenue in 2022E, as per management. We believe that the possible fade-away of COVID-19 revenue after 2022 will have limited impact to the Company given its much larger revenue size by then (RMB21bn based on our forecasts).
- Maintain BUY.** We now forecast WuXi Bio' revenue to increase 79%/48%/41% YoY in FY21E/22E/23E and adjusted net profit to grow by 103%/63%/53% YoY during the same period, to reflect its growing CMO projects and solid backlogs. We raise our 10-year DCF-based TP to HK\$159.19 (WACC: 10.17%, Terminal growth: 4.0%).

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	3,984	5,612	10,025	14,795	20,826
Revenue YoY growth (%)	57	41	79	48	41
Net income (RMB mn)	1,014	1,689	3,378	5,009	7,397
Adjusted net income (RMB mn)	1,205	1,716	3,478	5,663	8,637
EPS (RMB)	0.27	0.43	0.80	1.18	1.74
EPS YoY growth (%)	-48	57	86	48	48
Consensus EPS (RMB)	N/A	N/A	0.75	1.06	1.48
P/E (x)	340.84	217.58	116.76	78.74	53.32
P/B (x)	26.79	17.58	16.19	13.38	10.67
ROE (%)	9.71	9.99	14.93	18.61	22.27
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$159.19
(Previous TP)	HK\$155.19)
Up/Downside	+42.13%
Current Price	HK\$112.00

China Healthcare Sector

Jill Wu, CFA
 (852) 3900 0842
 jillwu@cmbi.com.hk

Mkt. Cap. (HK\$ mn)	475,193
Avg. 3mths t/o (HK\$ mn)	1,812.05
52W High/Low (HK\$)	148.0/70.13
Total Issued Shares (mn)	4,243

Source: Bloomberg

Shareholding Structure

Management	18.52%
JPMorgan	9.17%
The Capital Group	6.92%
BlackRock	5.98%
Free float	59.41%

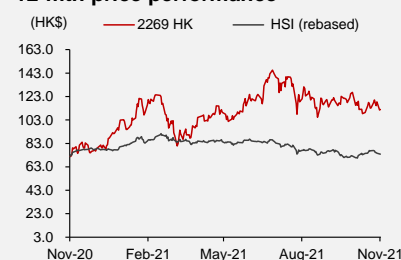
Source: HKEx

Share performance

	Absolute	Relative
1-mth	-11.9%	-13.9%
3-mth	-5.9%	-2.9%
6-mth	1.8%	16.3%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

Related Reports

- Earnings beat driven by strong demand in COVID-19 related projects – 25 Aug 2021
- Continue strong growth momentum – 25 Mar 2021
- Strong backlogs to drive future growth - 19 Aug 2020
- Growth on track – 29 Mar 2020

Figure 1: CMBIS earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	10,025	14,795	20,826	9,646	13,757	19,143	3.93%	7.54%	8.79%
Gross profit	4,825	7,102	10,100	4,812	6,604	8,997	0.28%	7.54%	12.26%
Operating profit	3,653	5,597	8,178	3,796	5,161	7,032	-3.77%	8.46%	16.29%
Net profit	3,378	5,009	7,397	3,519	4,610	6,285	-4.02%	8.65%	17.69%
EPS (RMB)	0.80	1.18	1.74	0.83	1.09	1.48	-4.09%	8.57%	17.61%
Gross margin	48.13%	48.00%	48.50%	49.88%	48.00%	47.00%	-1.75ppt	+0.00ppt	+1.50ppt
Operating margin	36.43%	37.83%	39.27%	39.35%	37.51%	36.74%	-2.91ppt	+0.32ppt	+2.53ppt
Net Margin	33.70%	33.85%	35.52%	36.48%	33.51%	32.83%	-2.79ppt	+0.34ppt	+2.69ppt

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	10,025	14,795	20,826	9,690	14,397	20,376	3.46%	2.77%	2.21%
Gross profit	4,825	7,102	10,100	4,662	6,784	9,594	3.51%	4.68%	5.28%
Operating profit	3,653	5,597	8,178	3,167	4,744	6,854	15.33%	17.99%	19.31%
Net profit	3,378	5,009	7,397	3,237	4,625	6,590	4.36%	8.30%	12.24%
EPS (RMB)	0.80	1.18	1.74	0.75	1.06	1.48	6.87%	11.90%	17.48%
Gross margin	48.13%	48.00%	48.50%	48.11%	47.12%	47.08%	+0.02ppt	+0.88ppt	+1.42ppt
Operating margin	36.43%	37.83%	39.27%	32.68%	32.95%	33.64%	+3.75ppt	+4.88ppt	+5.63ppt
Net Margin	33.70%	33.85%	35.52%	33.41%	32.12%	32.34%	+0.29ppt	+1.73ppt	+3.18ppt

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	3,778	5,647	8,228	11,684	16,474	23,063	32,058	44,240	60,609	82,428
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)	3,456	5,166	7,526	10,688	15,069	21,097	29,325	40,469	55,442	75,401
+ 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	(511)	(1,183)	(1,540)	(2,079)	(2,786)	(3,706)	(4,892)	(6,408)	(8,331)	(10,747)
- Capx	(8,000)	(5,000)	(4,000)	(3,600)	(3,240)	(2,916)	(2,624)	(2,362)	(2,126)	(1,913)
FCFF	(4,209)	109	3,279	6,754	11,383	17,587	25,916	37,079	51,980	71,765
Terminal value										1,210,627
	-4.96%	-102.58%	2920.52%	105.95%	68.53%	54.51%	47.36%	43.07%	40.19%	38.06%
Terminal growth rate	4.00%			42.00%	41.00%	40.00%	39.00%	38.00%	37.00%	36.00%
WACC	10.17%			35.00%	34.00%	33.00%	32.00%	31.00%	30.00%	29.00%
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	35.00%									
Effective Corporate Tax Rate	15.00%									
Terminal value	459,805									
Total PV	559,224									
Net debt	(1,366)									
Equity value	560,590									
# of shares	4,242,79									
	6,153									
DCF per share (in RMB)	132.13									
DCF per share (in HK\$)	159.19									

Source: CMBIS estimates

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	3,984	5,612	10,025	14,795	20,826
Pre-IND services	1,808	2,800	3,469	4,857	6,557
Post-IND services	2,152	2,665	4,198	6,297	9,131
Cost of sales	(2,325)	(3,079)	(5,200)	(7,693)	(10,725)
Gross profit	1,659	2,533	4,825	7,102	10,100
Other income	180	220	194	160	160
Selling & distribution expenses	(77)	(94)	(161)	(185)	(208)
Administrative expenses	(367)	(511)	(865)	(1,110)	(1,458)
R&D expenses	(260)	(304)	(340)	(370)	(417)
Operating profit	1,135	1,844	3,653	5,597	8,178
Finance costs, net	(20)	(43)	(42)	(100)	(100)
Other gains and losses	22	283	312	100	100
Impairment losses, net of reversal	(7)	(121)	(133)	(10)	(10)
Pre-tax profit	1,127	1,966	3,789	5,587	8,168
Income tax	(116)	(273)	(323)	(476)	(696)
Minority interests	3	(4)	(88)	(102)	(75)
Net profit	1,014	1,689	3,378	5,009	7,397

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	1,127	1,966	3,789	5,587	8,168
Depreciation & amortization	196	270	812	1,091	1,259
Change in working capital	(219)	(367)	(511)	(1,183)	(1,540)
Share-based payment expense	204	276	0	0	0
Other operating activities	(100)	(264)	(265)	(342)	(562)
Net cash from operating	1,208	1,881	3,825	5,154	7,325
Capex	(3,211)	(6,025)	(8,000)	(5,000)	(4,000)
Acquisition of subsidiaries	(1)	0	0	0	0
Other investing activities	(1,282)	(1,192)	18	0	0
Net cash from investing	(4,494)	(7,216)	(7,982)	(5,000)	(4,000)
Net proceeds from shares issued	3,534	5,585	0	0	0
Bank borrowing	1,910	870	0	0	0
Acquisition of non-controlling interests					
Dividends and interests paid	(50)	(83)	(42)	(100)	(100)
Other financing activities	19	193	0	0	0
Net cash from financing	5,413	6,566	(42)	(100)	(100)
FX changes	(6)	(340)	0	0	0
Net change in cash	2,121	890	(4,199)	54	3,225
Cash at the beginning of the year	4,084	6,205	7,096	2,897	2,951
Cash at the end of the year	6,205	7,096	2,897	2,951	6,175

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	7,930	14,759	21,913	25,787	28,494
Fixed asset	6,338	11,996	19,216	23,157	25,929
Intangible assets	416	392	360	328	296
Equity instruments at fair value	139	127	127	127	127
Financial assets at fair value	282	759	759	759	759
Other non-current assets	755	1,485	1,451	1,417	1,383
Current assets	9,672	14,204	11,649	14,736	21,752
Cash	6,205	7,096	2,897	2,951	6,175
Inventories	399	1,084	1,253	1,853	2,584
Trade and bills receivables	1,737	3,242	4,446	6,562	9,237
Contract costs	284	392	662	980	1,366
Other current assets	1,046	2,390	2,390	2,390	2,390
Current liabilities	2,871	4,498	5,630	7,481	9,732
Borrowings	506	767	767	767	767
Trade and other payables	1,844	2,729	3,860	5,711	7,962
Other current liabilities	521	1,003	1,003	1,003	1,003
Non-current liabilities	1,835	3,566	3,566	3,566	3,566
Borrowings	1,395	1,838	1,838	1,838	1,838
Other non-current liabilities	440	1,728	1,728	1,728	1,728
Total net assets	12,896	20,899	24,366	29,477	36,948
Minority interest	112	335	423	525	600
Shareholders' equity	12,784	20,564	23,942	28,951	36,348

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Pre-IND services	45	50	35	33	31
Post-IND services	54	48	42	43	44
Total	99	98	76	75	75
Profit & loss ratios (%)					
Gross margin	42	45	48	48	49
EBITDA margin	33	40	46	46	46
Pre-tax margin	28	35	38	38	39
Net margin	25	30	35	35	36
Effective tax rate	10	14	9	9	9
Balance sheet ratios					
Current ratio (x)	3	3	2	2	2
Trade receivables turnover days	128	162	162	162	162
Trade payables turnover days	201	271	271	271	271
Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	10	10	15	19	22
ROA	8	7	11	14	16
Per share					
EPS (RMB)	0.27	0.43	0.80	1.18	1.74
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	3.47	5.29	5.75	6.95	8.71

Source: Company data, CMBIS estimates

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.

CMBIS 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 CMBIS

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 Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") 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. CMBIS 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. CMBIS 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 CMBIS, solely for the purpose of supplying information to the clients of CMBIS 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 CMBIS 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. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS 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. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS 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 CMBIS 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 CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS 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 CMBIS.

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 CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS 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.