

# WuXi Biologics (2269 HK)

## Non-COVID projects to see growth acceleration beyond 2022E

- Management's strong confidence on business growth.** WuXi Bio held a business update call on 9 Nov 2021 and management reiterated their guidance of more than 45% total revenue growth guidance for 2022E, expecting significant growth acceleration in non-COVID revenue (from 50%+ YoY in 2021E to above 75% YoY in 2022E). Management also announced that the Company has won its first mRNA project, which is a big milestone for the Company's mRNA technology platform. We view current share price as a good entry point given WuXi Bio's attractive relative valuation versus foreign peers.
- Non-COVID project to be the major revenue driver beyond 2022E.** We expect WuXi Bio's non-COVID revenue will grow by more than 50% YoY and above 75% YoY in 2021E / 22E, respectively, assuming COVID-19 related revenue would experience more than 30% YoY decline in 2022E following a 170%+ YoY increase in 2021E. We believe the growth acceleration of non-COVID revenue will be driven by mainly CMO projects. WuXi Bio is conducting 6 commercial stage projects, 5 of which were added during 9M21. In 1H21, the Company recorded RMB889mn CMO revenue, accounting for 20% of its total revenue. Given the Company's strong project pipeline, we expect WuXi Bio to add one new CMO project in 4Q21E, and to add 2-4 CMO projects every year during 2022E-23E and 4-6 projects every year during 2024E-25E.
- First mRNA service contract signed.** WuXi Bio has signed its first mRNA service contract with a domestic client. Although the contract size is not material, it marks a big milestone for the Company's mRNA technology platform. We expect WuXi Bio to win more mRNA projects in the future.
- Good bottom-fishing opportunity.** Valuation of China CXO sector has come to an attractive level after significant correction since Jun 2021. In the past four years, China CXO sector has always been trading at a valuation premium to foreign CXO sector. However, the current valuation premium is at the lowest level since the pandemic outbreak. WuXi Bio's relative valuation premium is even at the lowest level during past four years.
- Maintain BUY.** We 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 maintain our 10-year DCF-based TP at 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	0.74	1.05	1.50
P/E (x)	312.23	199.32	106.96	72.14	48.85
P/B (x)	24.55	16.11	14.83	12.26	9.78
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\$159.19)
Up/Downside	+55.16%
Current Price	HK\$102.6

### China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	435,576
Avg. 3mths t/o (HK\$ mn)	1,975.43
52W High/Low (HK\$)	148.0/72.00
Total Issued Shares (mn)	4,244

Source: Bloomberg

### Shareholding Structure

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

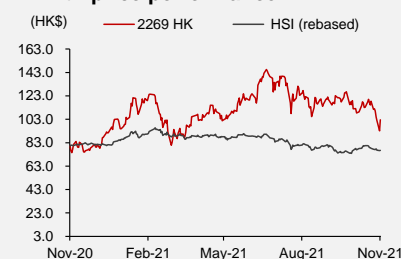
Source: HKEx

### Share performance

	Absolute	Relative
1-mth	-16.9%	-16.6%
3-mth	-24.6%	-20.3%
6-mth	-8.5%	5.7%

Source: Bloomberg

### 12-mth price performance



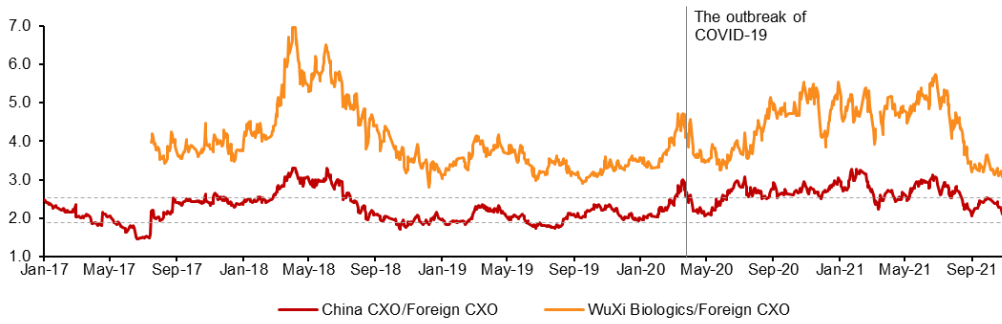
Source: Bloomberg

### Auditor: Deloitte Touche Tohmatsu

### Related Reports

- Raised full-year guidance on strong business growth momentum – 3 Nov 2021
- 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

**Figure 1: Relative PE of China CXO vs Foreign CXO and WuXi Bio vs Foreign CXO**



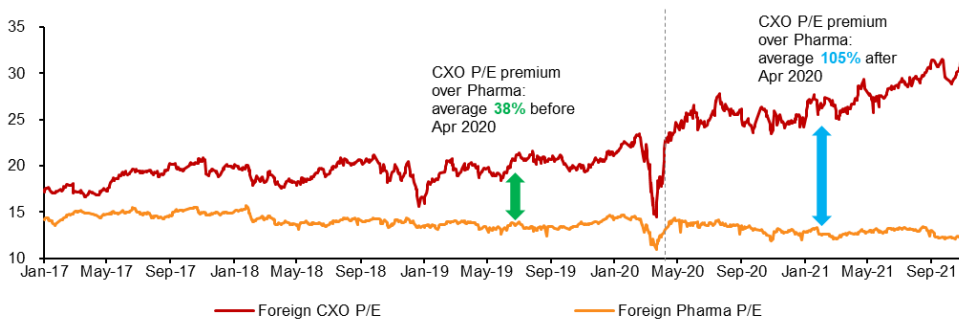
Source: Bloomberg, CMBIS

**Figure 2: Historical PE gap of China CXO vs China pharma**



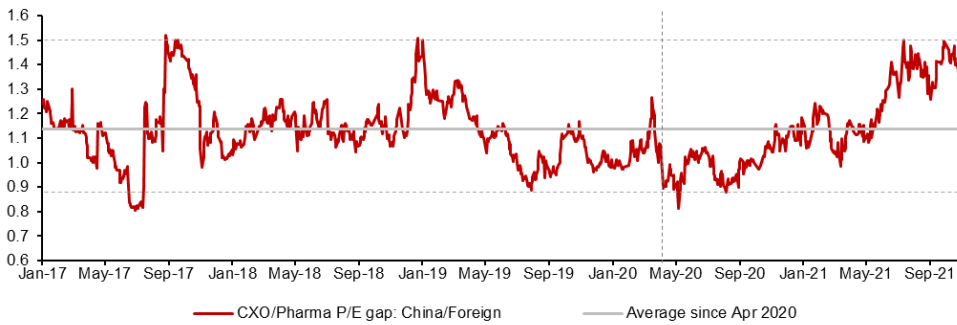
Source: Bloomberg, CMBIS

**Figure 3: Historical PE gap of Foreign CXO vs Foreign pharma**



Source: Bloomberg, CMBIS

Figure 4: China CXO/Pharma PE gap vs Foreign China CXO/Pharma PE gap



Source: Bloomberg, CMBIS

Figure 5: 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	9,752	14,441	20,437	2.80%	2.45%	1.90%
Gross profit	4,825	7,102	10,100	4,667	6,784	9,644	3.39%	4.68%	4.73%
Operating profit	3,653	5,597	8,178	3,159	4,693	6,783	15.62%	19.27%	20.56%
Net profit	3,378	5,009	7,397	3,229	4,638	6,638	4.61%	7.99%	11.43%
EPS (RMB)	0.80	1.18	1.74	0.74	1.05	1.50	7.59%	12.22%	16.62%
Gross margin	48.13%	48.00%	48.50%	47.86%	46.98%	47.19%	+0.27ppt	+1.02ppt	+1.31ppt
Operating margin	36.43%	37.83%	39.27%	32.39%	32.50%	33.19%	+4.04ppt	+5.33ppt	+6.08ppt
Net Margin	33.70%	33.85%	35.52%	33.11%	32.12%	32.48%	+0.58ppt	+1.74ppt	+3.04ppt

Source: Bloomberg, CMBIS estimates

Figure 6: 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%									
WACC	10.17%			35.00%	42.00%	41.00%	40.00%	39.00%	38.00%	37.00%
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	4,2425,3									
	77,033									
DCF per share (in RMB)	132.13									
DCF per share (in HK\$)	159.19									

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
<b>Revenue</b>	<b>3,984</b>	<b>5,612</b>	<b>10,025</b>	<b>14,795</b>	<b>20,826</b>	<b>Profit before tax</b>	<b>1,127</b>	<b>1,966</b>	<b>3,789</b>	<b>5,587</b>	<b>8,168</b>
Pre-IND services	1,808	2,800	3,469	4,857	6,557	Depreciation & amortization	196	270	812	1,091	1,259
Post-IND services	2,152	2,665	4,198	6,297	9,131	Change in working capital	(219)	(367)	(511)	(1,183)	(1,540)
Cost of sales	(2,325)	(3,079)	(5,200)	(7,693)	(10,725)	Share-based payment expense	204	276	0	0	0
Gross profit	<b>1,659</b>	<b>2,533</b>	<b>4,825</b>	<b>7,102</b>	<b>10,100</b>	Other operating activities	(100)	(264)	(265)	(342)	(562)
Other income	180	220	194	160	160	<b>Net cash from operating</b>	<b>1,208</b>	<b>1,881</b>	<b>3,825</b>	<b>5,154</b>	<b>7,325</b>
Selling & distribution expenses	(77)	(94)	(161)	(185)	(208)	Capex	(3,211)	(6,025)	(8,000)	(5,000)	(4,000)
Administrative expenses	(367)	(511)	(865)	(1,110)	(1,458)	Acquisition of subsidiaries	(1)	0	0	0	0
R&D expenses	(260)	(304)	(340)	(370)	(417)	Other investing activities	(1,282)	(1,192)	18	0	0
<b>Operating profit</b>	<b>1,135</b>	<b>1,844</b>	<b>3,653</b>	<b>5,597</b>	<b>8,178</b>	<b>Net cash from investing</b>	<b>(4,494)</b>	<b>(7,216)</b>	<b>(7,982)</b>	<b>(5,000)</b>	<b>(4,000)</b>
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					
<b>Pre-tax profit</b>	<b>1,127</b>	<b>1,966</b>	<b>3,789</b>	<b>5,587</b>	<b>8,168</b>	Dividends and interests paid	(50)	(83)	(42)	(100)	(100)
Income tax	(116)	(273)	(323)	(476)	(696)	Other financing activities	19	193	0	0	0
Minority interests	3	(4)	(88)	(102)	(75)	<b>Net cash from financing</b>	<b>5,413</b>	<b>6,566</b>	<b>(42)</b>	<b>(100)</b>	<b>(100)</b>
<b>Net profit</b>	<b>1,014</b>	<b>1,689</b>	<b>3,378</b>	<b>5,009</b>	<b>7,397</b>	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
						<b>Cash at the end of the year</b>	<b>6,205</b>	<b>7,096</b>	<b>2,897</b>	<b>2,951</b>	<b>6,175</b>

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>7,930</b>	<b>14,759</b>	<b>21,913</b>	<b>25,787</b>	<b>28,494</b>	<b>Sales mix (%)</b>					
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	42	43	44
Equity instruments at fair value	139	127	127	127	127	Total	99	98	76	75	75
Financial assets at fair value	282	759	759	759	759	<b>Profit &amp; loss ratios (%)</b>					
Other non-current assets	755	1,485	1,451	1,417	1,383	Gross margin	42	45	48	48	49
<b>Current assets</b>	<b>9,672</b>	<b>14,204</b>	<b>11,649</b>	<b>14,736</b>	<b>21,752</b>	EBITDA margin	33	40	46	46	46
Cash	6,205	7,096	2,897	2,951	6,175	Pre-tax margin	28	35	38	38	39
Inventories	399	1,084	1,253	1,853	2,584	Net margin	25	30	35	35	36
Trade and bills receivables	1,737	3,242	4,446	6,562	9,237	Effective tax rate	10	14	9	9	9
Contract costs	284	392	662	980	1,366	<b>Balance sheet ratios</b>					
Other current assets	1,046	2,390	2,390	2,390	2,390	Current ratio (x)	3	3	2	2	2
<b>Current liabilities</b>	<b>2,871</b>	<b>4,498</b>	<b>5,630</b>	<b>7,481</b>	<b>9,732</b>	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	3,860	5,711	7,962	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	<b>Returns (%)</b>					
<b>Non-current liabilities</b>	<b>1,835</b>	<b>3,566</b>	<b>3,566</b>	<b>3,566</b>	<b>3,566</b>	ROE	10	10	15	19	22
Borrowings	1,395	1,838	1,838	1,838	1,838	ROA	8	7	11	14	16
Other non-current liabilities	440	1,728	1,728	1,728	1,728	<b>Per share</b>					
<b>Total net assets</b>	<b>12,896</b>	<b>20,899</b>	<b>24,366</b>	<b>29,477</b>	<b>36,948</b>	EPS (RMB)	0.27	0.43	0.80	1.18	1.74
<b>Minority interest</b>	<b>112</b>	<b>335</b>	<b>423</b>	<b>525</b>	<b>600</b>	DPS (RMB)	0.00	0.00	0.00	0.00	0.00
<b>Shareholders' equity</b>	<b>12,784</b>	<b>20,564</b>	<b>23,942</b>	<b>28,951</b>	<b>36,348</b>	BVPS (RMB)	3.47	5.29	5.75	6.95	8.71

Source: Company data, CMBIS estimates

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