

BUY (Maintain)

Target Price	HK\$12.33
(Previous TP)	(HK\$15.20)
Up/Downside	+48.38%
Current Price	HK\$8.31

CSPC Pharmaceutical (1093 HK)

Q3 slightly miss while long-term growth prospects remain intact

CSPC reported 9M21 sales and attributable net profit of RMB20.6bn and RMB4.3bn, up 7.4% YoY and 23.2% YoY, respectively, accounting for 73% and 71% of our full year estimates. Revenue growth slowed down in 3Q21 to 2.9% YoY (vs 9.8% YoY in 1H21), mainly due to sales decline in NBP and growth deceleration in oncology drugs. CSPC has continued increasing investment in research and development with R&D expenses rose 10.7% YoY to RMB2.5bn. Blended GPM was up 0.6ppts to 75.8% while OPM improved 3.6ppts to 25.1%.

- NBP continued to deliver solid volume growth, offsetting impact from price cuts.** NBP registered RMB4.69bn sales in 9M21, down 11.2% YoY (RMB1.59bn in 3Q21, -16.4% YoY). Sales decline was mainly due to approximately RMB760mn sales provision in 9M21, indicating a robust 3.2% YoY actual end-sales growth during the same period. NBP experienced over 50% price cuts since Mar 2021 while the sales volume experienced significant growth within the year. Thanks to improved affordability, the DOT of NBP capsule extended from 10-20 days to 50-60 days in certain online channels. That said, we expect NBP to deliver largely stable sales revenue in 2021E.
- Constructive and fruitful BD deals.** In order to strengthen its product pipeline, CSPC has been proactively seeking in-licensing opportunities of advanced-stage innovative drugs. In aiming to forge synergies with internal pipeline, CSPC has paid special attention on oncology, cardiovascular, autoimmune, and nephropathy domains. As of 9M21, CSPC has already signed several impressive in-licensing agreements and secured three blockbuster candidates such as BPI-7711 (3rd generation irreversible EGFR-TKI), CM310 (anti-IL-4R α mAb) and KN026 (HER2 bispecific antibody).
- Smooth progress in mRNA vaccines.** Leveraging its cutting-edge nanotechnology platform, CSPC is able to self-produce cationic liposome. The pre-clinical development of its in-house multivalent mRNA vaccines against COVID-19 mutants has progressed smoothly. We expect this mRNA vaccine candidate to enter into clinical phase in coming months.
- Maintain BUY.** We revised down 2021E/ 2022E revenue forecasts by 3.3%/ 3.2% and 2021E/ 2022E attributable net profit forecasts by 3.4%/ 4.3%. We slightly cut our DCF-based TP from HK\$15.20 to HK\$12.33 (WACC 10.9%, Terminal growth 3.0%), indicating 21x FY21E PE and 20x FY22E PE.
- Catalysts:** 1) stronger-than-expected product sales, 2) faster-than-expected clinical development.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	22,103	24,942	27,262	30,199	33,008
YoY growth (%)	25	13	9	11	9
Net profit (RMB mn)	3,714	5,160	5,869	6,357	7,110
EPS (RMB)	0.31	0.43	0.49	0.53	0.59
YoY growth (%)	-37	39	14	8	12
Consensus EPS (RMB)	N/A	N/A	0.48	0.54	0.63
P/E (x)	22.2	16.0	14.1	13.0	11.6
P/B (x)	4.2	3.6	3.0	2.6	2.2
Yield (%)	1.2	1.9	2.1	2.3	2.6
ROE (%)	20.1	23.1	22.2	20.6	19.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

China Healthcare Sector

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Stock Data

Mkt Cap (HK\$ mn)	99,502
Avg 3 mths t/o (HK\$ mn)	336.72
52w High/Low (HK\$)	12.68/7.08
Total Issued Shares (mn)	11,974

Source: Bloomberg

Shareholding Structure

Management	23.53%
UBS Group	7.17%
Citi Group	4.99%
Free float	64.31%

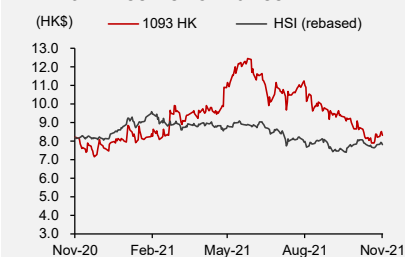
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.6%	-2.8%
3-mth	-24.3%	-24.0%
6-mth	-21.8%	-14.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

- 1H21 results beat; accelerating BD pace – 27 Aug 2021
- Expect fruitful R&D and BD results – 25 May 2021
- Multiple innovative drugs to receive approvals in 2021 – 16 Mar 2020

Figure 1: CMBIS earnings revisions

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	27,262	30,199	33,008	28,185	31,197	34,641	-3.3%	-3.2%	-4.7%
Gross Profit	20,672	22,951	25,086	21,440	24,022	26,847	-3.6%	-4.5%	-6.6%
Operating Profit	7,002	7,553	8,453	7,250	7,900	9,153	-3.4%	-4.4%	-7.7%
Net profit	5,869	6,357	7,110	6,075	6,646	7,694	-3.4%	-4.3%	-7.6%
EPS (RMB)	0.49	0.53	0.59	0.51	0.56	0.64	-3.4%	-4.3%	-7.6%
Gross Margin	75.83%	76.00%	76.00%	76.07%	77.00%	77.50%	-0.24 ppt	-1.00 ppt	-1.50 ppt
Operating Margin	25.68%	25.01%	25.61%	25.72%	25.32%	26.42%	-0.04 ppt	-0.31 ppt	-0.81 ppt
Net Margin	21.53%	21.05%	21.54%	21.56%	21.30%	22.21%	-0.03 ppt	-0.25 ppt	-0.67 ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY21E	FY22E	FY21E	FY22E	FY23E	FY23E	FY21E	FY22E	FY23E
Revenue	27,262	30,199	33,008	28,361	32,937	37,872	-3.9%	-8.3%	-12.8%
Gross Profit	20,672	22,951	25,086	21,237	24,821	28,639	-2.7%	-7.5%	-12.4%
Operating Profit	7,002	7,553	8,453	6,939	7,901	9,229	0.9%	-4.4%	-8.4%
Attributable net profit	5,869	6,357	7,110	5,729	6,488	7,618	2.4%	-2.0%	-6.7%
EPS (RMB)	0.49	0.53	0.59	0.48	0.54	0.63	2.1%	-1.7%	-5.7%
Gross Margin	75.83%	76.00%	76.00%	74.88%	75.36%	75.62%	+0.9 ppt	+0.6ppt	+0.4 ppt
Operating Margin	25.68%	25.01%	25.61%	24.47%	23.99%	24.37%	+1.2 ppt	+1.0 ppt	+1.2 ppt
Net Margin	21.53%	21.05%	21.54%	20.20%	19.70%	20.12%	+1.3 ppt	+1.4 ppt	+1.4 ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 3: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2019	2,020	2021E	2022E	2023E	2024E	2025E	2025E	2025E	2026E
EBIT	4,600	6,057	7,002	7,553	8,453	9,552	10,698	11,875	13,063	14,238
Tax rate	19.30%	18.18%	15.12%	15.12%	15.12%	15.12%	15.12%	15.12%	15.12%	15.12%
EBIT*(1-tax rate)	3,712	4,955	5,943	6,411	7,175	8,108	9,081	10,080	11,088	12,086
+ D&A	692	809	785	785	785	887	994	1,103	1,213	1,322
- Change in working capital	-485	1,680	-297	-256	-222	-250	-280	-311	-342	-373
- Capex	-2,302	-1,688	-1,000	-1,000	-1,000	-800	-800	-800	-800	-800
FCFF	1,617	5,757	5,432	5,940	6,739	7,945	8,994	10,072	11,159	12,235
Terminal value										159,476
Terminal growth rate										3.00%
WACC										10.90%
Cost of Equity										14.48%
Cost of Debt										5.00%
Equity Beta										0.99
Risk Free Rate										3.00%
Market Risk Premium										11.60%
Target Debt to Asset ratio										35.00%
Effective Corporate Tax Rate										15.00%
Terminal value										69,691
Total PV										111,140
Net debt										-12,286
Minority interests										850
Equity value										122,575
# of shares										11,973,769,732
DCF per share (in HK\$)										12.33

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	22,103	24,942	27,262	30,199	33,008	EBIT	4,600	6,057	7,002	7,553	8,453
Finished drug	17,937	20,405	22,301	25,173	27,915	Depreciation and amortization	692	809	785	785	785
Bulk medicines	4,166	4,538	4,961	5,026	5,093	Change in working capital	(485)	1,680	(297)	(256)	(222)
Cost of sales	(6,192)	(6,257)	(6,590)	(7,248)	(7,922)	Income tax paid	(867)	(1,061)	(1,061)	(1,149)	(1,286)
Gross profit	15,911	18,685	20,672	22,951	25,086	Others	(156)	(745)	18	50	50
Other income and gains	292	642	829	453	495	Net cash from operating activities	3,784	6,740	6,447	6,983	7,782
Distribution expenses	(8,712)	(9,378)	(10,158)	(11,174)	(12,213)	Capex	(1,883)	(1,356)	(1,000)	(1,000)	(1,000)
Administrative expenses	(749)	(946)	(1,008)	(1,087)	(1,155)	Placement of restricted bank deposits	(1,054)	(3,595)	-	-	-
R&D expenses	(2,000)	(2,890)	(3,226)	(3,473)	(3,631)	Other	479	2,822	-	-	-
Other expenses	(142)	(57)	(107)	(118)	(129)	Net cash from investing activities	(2,457)	(2,130)	(1,000)	(1,000)	(1,000)
Operating profit	4,600	6,057	7,002	7,553	8,453	Change of debts	(48)	169	-	-	-
Share of profit of	58	14	3	60	60	Dividend paid	(965)	(1,528)	(1,761)	(1,907)	(2,133)
Finance income /	(32)	(12)	(10)	(10)	(10)	Other	(533)	(112)	(8)	(8)	(8)
Exceptional	-	333	24	-	-	Net cash from financing activities	(1,546)	(1,471)	(1,768)	(1,915)	(2,141)
Pre-tax profit	4,626	6,391	7,020	7,603	8,504	Net change in cash	(219)	3,139	3,678	4,068	4,641
Profits tax	(893)	(1,162)	(1,061)	(1,149)	(1,286)	Cash at the beginning of the year	4,336	4,118	7,259	10,938	15,006
Minority interest	(19)	(69)	(89)	(97)	(108)	Exchange difference	1	2	-	-	-
Net profit	3,714	5,160	5,869	6,357	7,110	Bank deposits with more than 3 months to maturity upon placement	-	-	-	-	-
						Cash at the end of the year	4,118	7,259	10,938	15,006	19,647

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	12,621	14,149	14,364	14,579	14,793	Sales mix (%)					
Fixed asset	8,459	7,770	8,120	8,470	8,820	Finished drugs	81.2	81.8	81.8	83.4	84.6
Goodwill	823	1,164	1,044	924	804	Bulk medicines	18.8	18.2	18.2	16.6	15.4
Intangible assets	1,136	509	494	479	463	Total	100.0	100.0	100.0	100.0	100.0
Other non-current assets	2,203	4,706	4,706	4,706	4,706	Profit & loss ratios (%)					
Current assets	13,697	15,921	20,165	25,020	30,426	Gross margin	72.0	74.9	75.8	76.0	76.0
Cash	4,118	7,259	10,938	15,006	19,647	EBITDA margin	23.9	27.5	28.6	27.6	28.0
Account receivable	2,826	2,883	3,151	3,491	3,816	Pre-tax margin	20.9	25.6	25.7	25.2	25.8
Inventories	2,536	1,861	1,960	2,156	2,356	Net margin	16.8	20.7	21.5	21.1	21.5
Other current assets	4,217	3,918	4,116	4,367	4,608	Effective tax rate	19.3	18.2	15.1	15.1	15.1
Current liabilities	6,237	6,302	6,571	7,101	7,645	Balance sheet ratios					
Borrowings	23	99	99	99	99	Current ratio (x)	2.2	2.5	3.1	3.5	4.0
Trade and other payables	4,803	4,759	5,013	5,513	6,026	Trade receivables turnover days	82	73	73	73	73
Other current liabilities	1,411	1,444	1,459	1,489	1,521	Trade payables turnover days	316	295	295	295	295
Non-current liabilities	563	667	667	667	667	Inventory turnover days	149	109	109	109	109
Borrowings	-	-	-	-	-	Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Other non-current liabilities	563	667	667	667	667	Returns (%)					
Total net assets	19,518	23,101	27,291	31,830	36,907	ROE	20.1	23.1	22.2	20.6	19.8
Minority interest	1,056	769	850	939	1,039	ROA	14.1	17.2	17.0	16.1	15.7
Shareholders' equity	18,462	22,332	26,441	30,890	35,867	Per share data					
						EPS (RMB)	0.31	0.43	0.49	0.53	0.59
						DPS (RMB)	0.08	0.13	0.15	0.16	0.18
						BVPS (RMB)	1.6	1.9	2.3	2.7	3.1

Source: Company data, CMBIS estimates

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