

China CRO/CDMO sector

Revenue growth accelerated in 1Q22 and valuation at historical-low

Leading China-based CXOs reported revenue growth acceleration in 1Q22 amid an unstable geopolitical situation. The impressive growth momentum in 1Q22 bodes well for the strong full-year growth of China CXO sector. We think it is a good timing to bottom fish leading Chinese CXO names, given their solid earnings growth and historical low forward PE valuation.

- Revenue growth accelerated in 1Q22. 1)** WuXi AppTec (603259 CH, BUY, TP: RMB167.4), the largest one-stop CXO in China, announced over 65% YoY growth in its top-line and backlogs during Jan-Feb 2022. WuXi AppTec further guided its revenue to grow 65-68% YoY in 1Q22 and 65-70% YoY in 2022 (vs 38.5% YoY in 2021). WuXi AppTec looks for a 100% YoY increase in its WuXi Chemistry segment in 2022, which includes chemical CDMO business, driven by record-high backlogs. **2)** Tigermed (300347 CH, BUY, TP: RMB212.6), the largest clinical CRO in China, announced over 65% YoY growth in backlogs and over 100% YoY growth in revenue in Jan-Feb 2022. The revenue growth significantly accelerated from 63.3% YoY in 2021. **3)** Asymchem (002821 CH/6821 HK, NR), the second largest chemical CDMO in China, recorded more than 130% YoY increase in revenue in Jan-Feb 2022 and expected over 150% YoY growth in revenue in 1Q22, indicating substantial growth acceleration from 43-48% YoY revenue growth in 2021. Asymchem has announced winning three CMO contracts totaling more than RMB9bn from a foreign client with fulfillment period targeted in 2022.
- Valuation of China-based CXO sector became very attractive.** Forward PE of Chinese CXO names has fell by significantly 58%, from over 87x in Jun 2021 to around 37x in Mar 2022. We also observed a rapidly narrowing forward PE valuation premium of China CXO sector over China pharma sector, dropping from over 250% in Sep 2021 to 120% in Mar 2022. Meanwhile, the relative forward PE valuation of China CXO sector over foreign CXO sector reached the lowest level since Jun 2017. Specifically, leading China-based CXO companies, such as WuXi AppTec, WuXi Bio and Tigermed, are trading at their lowest historical forward PE, indicating good bottom-fishing opportunities, in our view.
- Maintain positive on China CXO sector; Top picks are WuXi Bio and WuXi AppTec.** We expect WuXi Bio to benefit from the increasing demand in non-COVID CMO projects thanks to its rich project pipelines. We believe WuXi AppTec will further strengthen its leading position as an integrated one-stop CRO/CDMO service provider and will record accelerating earnings growth in 2022 thanks to significant contribution from CDMO orders.

Valuation Table

Name	Ticker	Rating	Mkt Cap (US\$m)	Price (LC)	TP (LC)	Upside	P/E (x) 2022E	P/B (x) 2022E	ROE 2022E
WuXi Bio	2269 HK	BUY	24,175	44.9	159.2	255%	30.8	5.2	18.6
WuXi AppTec	603259 CH	BUY	44,991	96.6	167.4	73%	43.3	7.0	16.1
Tigermed	300347 CH	BUY	12,190	88.7	212.6	140%	31.7	3.8	13.0

Source: WIND, CMBIGM estimates

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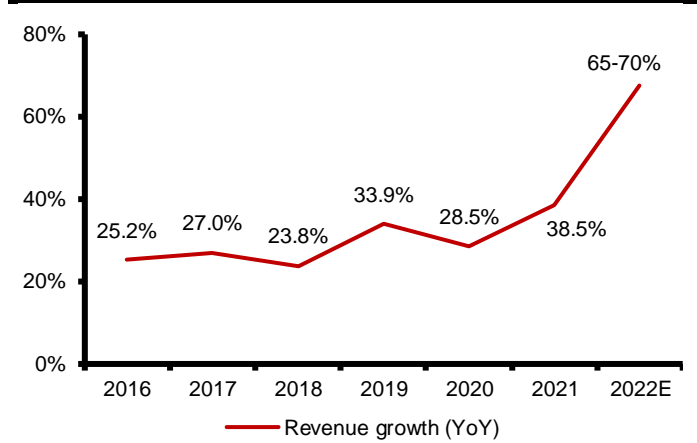
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Figure 1: Revenue growth guidance of CXOs

Company	2021 (YoY)	2022E (YoY)			
	Revenue	Revenue (Jan-Feb)	Revenue (1Q)	Revenue (full year)	Backlog (Jan-Feb)
WuXi AppTec	38.5%	>65%	65-68%	65-70%	>65%
Tigermid	63.3%	>100%			>65%
Asymchem	43-48%	>130%	>150%		

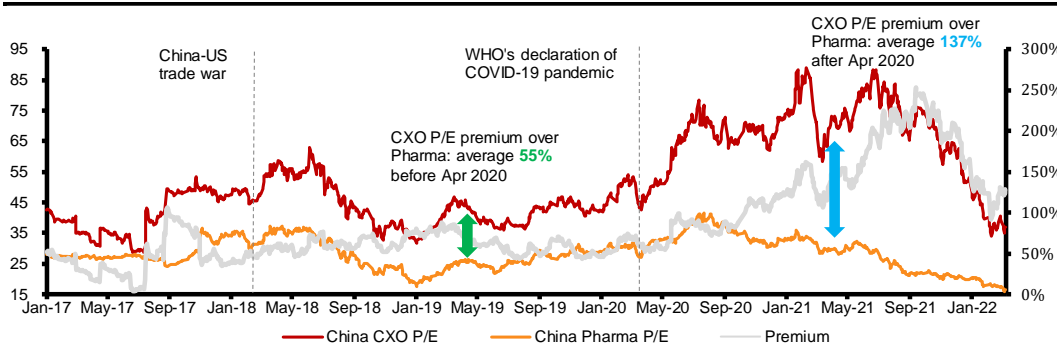
Source: Company data, CMBIGM

Figure 2: Revenue growth of WuXi AppTec



Source: Company data, CMBIGM

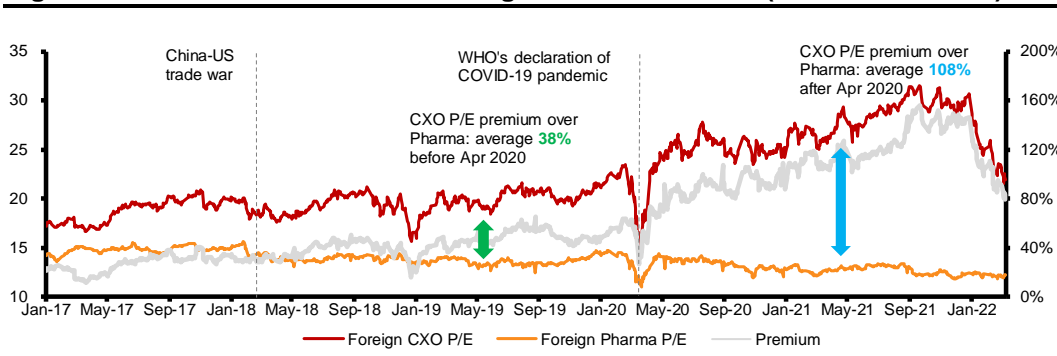
Figure 3: 12-month forward P/E of China CXO and Pharma (as of 11 Mar 2022)



Source: Bloomberg, CMBIGM

Note: China CXO names include: Asymchem (002821 CH), ChemPartners (300149 CH), Frontage (1521 HK), Hitgen (688222 CH), Jiuzhou Pharma (603456 CH), Joynn Lab (603127 CH/6127 HK), Medicilon (688202 CH), PharmaBlock (300725 CH), Pharmaron (300759 CH/3759 HK), Porton (300363 CH), Tigermid (300347 CH/ 3347 HK), Viva (1873 HK), WuXi AppTec (603259 CH/2359 HK), and WuXi Bio (2269 HK). China Pharma names include: Betta (300558 CH), CSPC (1093 HK), Fosun (600196 CH/2196 HK), Hansoh (3692 HK), Hengrui (600276 CH), Kanghong (002773 CH), Kelun (002422 CH), Livzon (000513 CH/1513 HK), Sino Bio (1177 HK), and Shanghai Pharma (601607 CH/2607 HK).

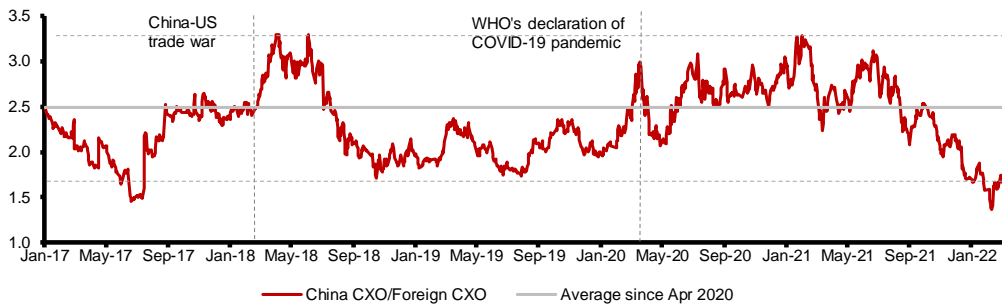
Figure 4: 12-month forward P/E of foreign CXO and Pharma (as of 11 Mar 2022)



Source: Bloomberg, CMBIGM

Note: Foreign CXO names include: Catalent (CTLT US), Charles River (CRL US), ICON (ICLR US), IQVIA (IQV US), LabCorp (LH US), Lonza (LONN SW), Medpace (MEDP US), Syneos (SYNH US), and Thermo Fisher (TMO US). Foreign Pharma names include: AbbVie (ABBV US), Amgen (AMGN US), AstraZeneca (AZN LN), Bayer (BAYN GR), BMS (BMY US), GSK (GSK LN), J&J (JNJ US), Merck (MRK US), Novartis (NOVN SW), Pfizer (PFE US), Roche (ROG SW), and Sanofi (SAN FP).

Figure 5: Relative P/E: China CXO vs Foreign CXO (as of 11 Mar 2022)



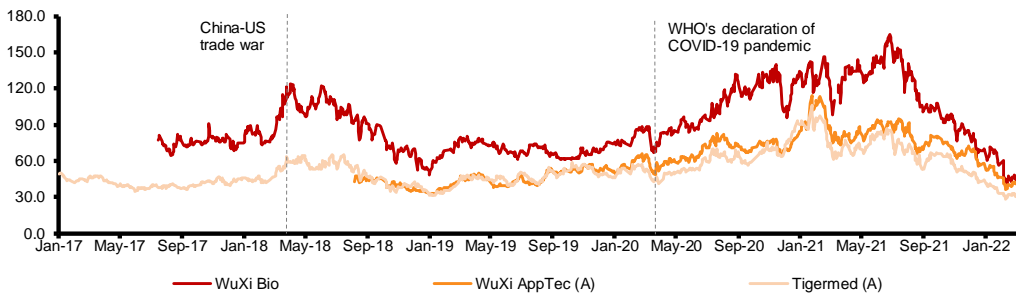
Source: Bloomberg, CMBIGM

Figure 6: Relative P/E premium: China CXO/Pharma vs Foreign CXO/Pharma (as of 11 Mar 2022)



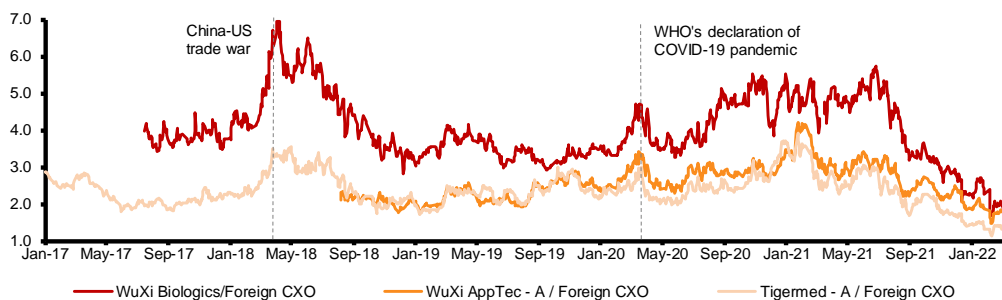
Source: Bloomberg, CMBIGM

Figure 7: 12-month forward P/E: leading China CXOs (as of 11 Mar 2022)



Source: Bloomberg, CMBIGM

Figure 8: Relative P/E: leading China CXO vs foreign CXO (as of 11 Mar 2022)



Source: Bloomberg, CMBIGM

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