

CSPC Pharmaceutical (1093 HK)

Promising early data of COVID-19 mRNA vaccine

- 2021 earnings in line.** CSPC reported 2021 revenue/ attributable net profit of RMB27.9bn/ RMB5.6bn, up 11.7% / 8.6% YoY, respectively. Recurring profit grew 24.2% YoY to RMB5.4bn. Driven by significant sales volume growth, sales revenue of NBP remained flattish during 2021, after over 50% price cut in Mar 2021. CSPC has continued increasing R&D investment, with R&D expense increased 18.8% YoY to RMB3.4bn.
- Significant progress in innovative pipelines.** Anfulike (Amphotericin B Cholesteryl Sulfate Complex for Injection) was launched in Mar 21, and has been included in NRDL from Jan 2022. YTD, CSPC has obtained registration approvals of two potential blockbusters, including Duoenda (mitoxantrone hydrochloride liposome injection) and COPIKTRA (duvelisib capsule). With the acquisition of 51% stake in Recomgen Biotech in Feb 2022, CSPC obtained a 3rd-generation thrombolytic drug, Mingfule (rhTNK-tPA), which will have significant sales channel synergies with NBP. In 2021, CSPC has over 50 clinical-stage drug candidates, including 13 candidates in pivotal trials, 3 in NDA enabling stage and 2 completed NDA. We expect CSPC's innovative drug portfolio will grow rapidly in coming years.
- Early data shows good immunogenicity of SYS6006, the mRNA vaccine candidate.** CSPC has carried out preclinical studies and small-size clinical studies on its COVID-19 mRNA vaccine candidate, SYS6006. Preliminary data shows good and persistent immunogenicity, as well as good safety profile. Clinical study has shown that after 14 days of boost with SYS6006, the binding antibody titer was above 10^5 , which was over 10x higher than that of inactive vaccines. Safety performance of SYS6006 was similar to BioNTech's mRNA vaccine's PhI data in China. SYS6006 has good neutralizing activity for Omicron variant. Preclinical serum neutralizing test in mokey indicated that SY6006's neutralization ability against Omicron variant reduced only 50% compared with Delta variant. CSPC has already prepared approximately 500mn dose of manufacturing capacity of mRNA vaccines.
- Maintain BUY.** To be conservative, we currently do not factor in potential revenue contribution from SYS6006. We expect CSPC's revenue to grow 10% / 10% YoY in FY22E/ 23E and attributable net profit to grow 13% / 16% YoY in FY22E/ 23E. We revised up our DCF-based TP from HK\$12.33 to HK\$13.20 (WACC 11.78%, Terminal growth 3.0%), indicating 20x FY22E PE.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	24,942	27,867	30,735	33,899	37,175
YoY growth (%)	13	12	10	10	10
Net profit (RMB mn)	5,160	5,605	6,334	7,328	8,412
YoY growth (%)	39	9	13	16	15
EPS (RMB)	0.43	0.47	0.53	0.61	0.70
Consensus EPS (RMB)	N/A	N/A	0.53	0.60	N/A
P/E (x)	16.5	15.2	13.5	11.6	10.1
P/B (x)	3.7	3.2	2.7	2.3	2.0
Yield (%)	1.8	2.0	2.2	2.6	3.0
ROE (%)	23.1	21.6	20.8	20.6	20.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$13.20
(Previous TP)	(HK\$12.33)
Up/Downside	+51.55%
Current Price	HK\$8.71

China Healthcare Sector

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Stock Data

Mkt Cap (HK\$ mn)	103,938
Avg 3 mths t/o (HK\$ mn)	321.33
52w High/Low (HK\$)	12.68/7.28
Total Issued Shares (mn)	11,933

Source: Bloomberg

Shareholding Structure

Management	23.60%
UBS Group	7.56%
Common Success Intl	6.09%
Free float	62.75%

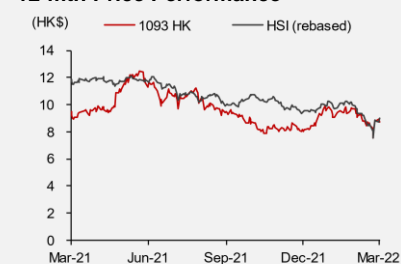
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.5%	5.3%
3-mth	9.7%	18.7%
6-mth	-5.8%	7.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

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- 1H21 results beat; accelerating BD pace – 27 Aug 2021
- Expect fruitful R&D and BD results – 25 May 2021

Figure 1: CMBIGM earnings revisions

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	30,735	33,899	37,175	30,199	33,008	N/A	1.8%	2.7%	N/A
Gross Profit	23,358	25,763	28,253	22,951	25,086	N/A	1.8%	2.7%	N/A
Operating Profit	7,687	8,902	10,227	7,553	8,453	N/A	1.8%	5.3%	N/A
Net profit	6,334	7,328	8,412	6,357	7,110	N/A	-0.4%	3.1%	N/A
EPS (RMB)	0.53	0.61	0.70	0.53	0.59	N/A	0.0%	3.4%	N/A
Gross Margin	76.00%	76.00%	76.00%	76.00%	76.00%	N/A	-0.00 ppt	-0.00 ppt	N/A
Operating Margin	25.01%	26.26%	27.51%	25.01%	25.61%	N/A	-0.00 ppt	-0.65 ppt	N/A
Net Margin	20.61%	21.62%	22.63%	21.05%	21.54%	N/A	-0.44 ppt	-0.08 ppt	N/A

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	30,735	33,899	37,175	32,031	36,328	35,925	-4.0%	-6.7%	3.5%
Gross Profit	23,358	25,763	28,253	24,153	27,436	26,510	-3.3%	-6.1%	6.6%
Operating Profit	7,687	8,902	10,227	7,622	8,731	N/A	0.9%	2.0%	N/A
Attributable net profit	6,334	7,328	8,412	6,287	7,148	N/A	0.7%	2.5%	N/A
EPS (RMB)	0.53	0.61	0.70	0.53	0.60	N/A	0.9%	2.2%	N/A
Gross Margin	76.00%	76.00%	76.00%	75.40%	75.52%	73.79%	+0.6 ppt	+0.5ppt	+2.2 ppt
Operating Margin	25.01%	26.26%	27.51%	23.80%	24.03%	N/A	+1.2 ppt	+2.2 ppt	N/A
Net Margin	20.61%	21.62%	22.63%	19.63%	19.68%	N/A	+1.0 ppt	+1.9 ppt	N/A

Source: Company data, Bloomberg, CMBIGM estimates

Figure 3: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
EBIT	7,687	8,902	10,227	11,455	12,715	13,986	15,245	16,465	17,617	18,674
Tax rate	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%
EBIT*(1-tax rate)	6,380	7,389	8,489	9,507	10,553	11,609	12,653	13,666	14,622	15,500
+ D&A	864	864	864	967	1,074	1,181	1,288	1,391	1,488	1,577
- Change in working capital	-208	-338	-349	-391	-434	-478	-521	-563	-602	-638
- Capex	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000	-1,000
FCFF	6,036	6,915	8,003	9,083	10,193	11,312	12,420	13,494	14,508	15,439
Terminal value										181,217
Terminal growth rate										3.00%
WACC										11.78%
Cost of Equity										15.00%
Cost of Debt										5.00%
Equity Beta										1.00
Risk Free Rate										3.00%
Market Risk Premium										12.00%
Target Debt to Asset ratio										30.00%
Effective Corporate Tax Rate										15.00%
Terminal value										59,532
Total PV										115,296
Net debt										-14,808
Minority interests										927
Equity value										129,177
# of shares										11,933,219,732
DCF per share (in HK\$)										13.20

Source: CMBIGM estimates

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	24,942	27,867	30,735	33,899	37,175
Finished drug	20,405	22,681	25,099	27,772	30,510
Bulk medicines	4,538	5,185	5,636	6,127	6,665
Cost of sales	(6,257)	(6,732)	(7,376)	(8,136)	(8,922)
Gross profit	18,685	21,135	23,358	25,763	28,253
Other income and gains	642	654	615	678	743
Distribution expenses	(9,378)	(10,443)	(11,372)	(12,475)	(13,606)
Administrative expenses	(946)	(1,010)	(1,106)	(1,203)	(1,301)
R&D expenses	(2,890)	(3,433)	(3,688)	(3,729)	(3,717)
Other expenses	(57)	(108)	(119)	(132)	(144)
Operating profit	6,057	6,795	7,687	8,902	10,227
Share of profit of	14	22	60	60	60
Finance income /	(12)	(8)	(4)	(4)	(4)
Exceptional	333	37	-	-	-
Pre-tax profit	6,391	6,847	7,744	8,959	10,284
Profits tax	(1,162)	(1,159)	(1,316)	(1,523)	(1,748)
Minority interest	(69)	(83)	(93)	(108)	(124)
Net profit	5,160	5,605	6,334	7,328	8,412

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	6,057	6,795	7,687	8,902	10,227
Depreciation and amortization	809	865	864	864	864
Change in working capital	1,680	(1,439)	(208)	(338)	(349)
Income tax paid	(1,061)	(1,159)	(1,316)	(1,523)	(1,748)
Others	(745)	(425)	56	56	56
Net cash from operating activities	6,740	4,637	7,083	7,962	9,050
Capex	(1,356)	(1,557)	(1,000)	(1,000)	(1,000)
Placement of restricted bank deposits	(3,595)	-	-	-	-
Other	2,822	-	-	-	-
Net cash from investing activities	(2,130)	(1,557)	(1,000)	(1,000)	(1,000)
Change of debts	169	-	-	-	-
Dividend paid	(1,528)	(1,691)	(1,900)	(2,198)	(2,524)
Other	(112)	(8)	(8)	(8)	(8)
Net cash from financing activities	(1,471)	(1,698)	(1,908)	(2,206)	(2,531)
Net change in cash	3,139	1,382	4,175	4,756	5,519
Cash at the beginning of the year	4,118	7,259	9,284	13,459	18,215
Exchange difference	2	-	-	-	-
Bank deposits with more than 3 months to maturity upon placement	-	-	-	-	-
Cash at the end of the year	7,259	8,641	13,459	18,215	23,733

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	14,149	14,405	14,541	14,678	14,814
Fixed asset	7,770	8,529	8,829	9,129	9,428
Goodwill	1,164	1,035	897	759	621
Intangible assets	509	468	442	417	392
Other non-current assets	4,706	4,373	4,373	4,373	4,373
Current assets	15,921	20,337	25,258	31,076	37,694
Cash	7,259	9,284	13,459	18,215	23,733
Account receivable	2,883	3,890	4,210	4,644	5,092
Inventories	1,861	2,480	2,627	2,898	3,178
Other current assets	3,918	4,683	4,962	5,320	5,691
Current liabilities	6,302	7,226	7,765	8,490	9,240
Borrowings	99	-	-	-	-
Trade and other payables	4,759	6,162	6,669	7,356	8,066
Other current liabilities	1,444	1,064	1,096	1,134	1,173
Non-current liabilities	667	687	687	687	687
Borrowings	-	-	-	-	-
Other non-current liabilities	667	687	687	687	687
Total net assets	23,101	26,828	31,347	36,577	42,581
Minority interest	769	842	927	1,027	1,143
Shareholders' equity	22,332	25,987	30,420	35,550	41,438

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Finished drugs	81.8	81.4	81.7	81.9	82.1
Bulk medicines	18.2	18.6	18.3	18.1	17.9
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	74.9	75.8	76.0	76.0	76.0
EBITDA margin	27.5	27.5	27.8	28.8	29.8
Pre-tax margin	25.6	24.6	25.2	26.4	27.7
Net margin	20.7	20.1	20.6	21.6	22.6
Effective tax rate	18.2	16.9	17.0	17.0	17.0
Balance sheet ratios					
Current ratio (x)	2.5	2.8	3.3	3.7	4.1
Trade receivables turnover days	73	93	91	91	91
Trade payables turnover days	295	352	348	348	348
Inventory turnover days	109	134	130	130	130
Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	23.1	21.6	20.8	20.6	20.3
ROA	17.2	16.1	15.9	16.0	16.0
Per share data					
EPS (RMB)	0.43	0.47	0.53	0.61	0.70
DPS (RMB)	0.13	0.14	0.16	0.18	0.21
BVPS (RMB)	1.9	2.2	2.6	3.1	3.6

Source: Company data, CMBIGM estimates

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