

WuXi Biologics (2269 HK)

Growth momentum intact

- 2021 earnings in line.** WuXi Bio reported 2021 revenue of RMB10,290mn, up 83.3% YoY, attributable net income of RMB3,389mn, up 100.6% YoY, and attributable Non-IFRS net income of RMB3,316mn, up 92.6% YoY. Earnings were in line with our forecasts. Gross profit margin (GPM) increased to 46.9% in 2021 from 45.1% in 2020, thanks to the improving capacity utilization and better-than-expected gross margin from CMO projects. That said, GPM shrank from 52.1% in 1H21 to 43.0% in 2H21 due to commence of operation of new facilities. WuXi Bio's pipeline contained 480 integrated projects as of Dec 2021 (vs 334 as of Dec 2020), including 32 in phase 3 and 9 in commercial stage. Driven by the expanding pipeline base, total backlogs reached US\$13.6bn as of Dec 2021, increased by 20.1% YoY, which was an impressive growth considering the very high base in 2020. WuXi Bio maintains its revenue and net income growth guidance of 45% for 2022E.
- Commercial projects become the biggest growth engine.** The Company added 7 CMO projects in 2021, and its total CMO project number reached 9 as of end-2021. As a result, revenue from late stage and CMO project surged 293% YoY in 2021, contributing 48% of the total revenue. Non-COVID CMO projects will become major growth driver going forward. WuXi Bio's pipeline contains 20 late-stage blockbuster projects (projects with potential to generate annual revenue of US\$50-200mn) which can bring above US\$2bn CMO revenue in 3-5 years. To further accommodate the growing CMO demand, the Company plans to add 100k liter capacity in Shijiazhuang, China and Ireland in 2022. WuXi Bio maintains its future capacity target at 430k liters by 2024E, representing a 179% increase over its current capacity of 154k liters.
- UVL had no disruption on WuXi Bio's operations and the UVL-removing process is underway.** US Department of Commerce's Bureau of Industry and Security (BIS) added two legal entities of WuXi Bio in the Unverified List (UVL) on 8 Feb 2022. However, WuXi Bio's business operation was not disrupted. The Company added 3 integrated projects in the week of 8 Feb 2022 and inked 11 projects with clients from US, EU, Japan and China during 8 Feb - 7 Mar 2022, implying a normal business pace. Imports of materials from overseas clients and suppliers also went well. As per management, US BIS agreed to send its Beijing-based officials to conduct the on-site inspection while the date of inspection is to be decided by China and US government.
- Maintain BUY.** We cut our TP from HK\$159.19 to HK\$146.12, based on a 9-year DCF model (WACC: 10.17%, terminal growth rate: 4.0%). We forecast revenue to grow 46%/39%/36% YoY and attributable Non-IFRS net income to grow 45%/41%/39% YoY in FY22E/23E/24E.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	5,612	10,290	14,991	20,771	28,180
YoY growth (%)	41	83	46	39	36
Net income (RMB mn)	1,689	3,388	4,448	6,095	8,296
Adj. net income (RMB mn)	1,716	3,436	4,984	7,041	9,772
EPS (RMB)	0.43	0.81	1.06	1.45	1.97
Consensus EPS (RMB)	N/A	N/A	1.11	1.48	1.75
P/E (x)	125.3	66.0	50.7	37.0	27.2
ROE (%)	10.0	12.6	12.7	15.1	17.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$146.12**
 (Previous TP **HK\$159.19**)
 Up/Downside **+123.77%**
 Current Price **HK\$65.30**

China Healthcare Sector

Jill Wu, CFA

(852) 3900 0842

jillwu@cmbi.com.hk

Benchen Huang, CFA

(852) 3657 6288

huangbenchen@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	275,268
Avg 3 mths t/o (HK\$ mn)	2,069
52w High/Low (HK\$)	148.00/40.30
Total Issued Shares (mn)	4,215

Source: Bloomberg

Shareholding Structure

WuXi Biologics Holdings	15.34%
JP Morgan	10.04%
The Capital Group	7.01%
BlackRock	6.01%
Zhisheng Chen	2.80%
Other shareholders	58.80%

Source: HKEx, Company

Share Performance

	Absolute	Relative
1-mth	-1.4%	5.9%
3-mth	-33.7%	-30.0%
6-mth	-52.0%	-46.9%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

- Non-COVID projects to see growth acceleration beyond 2023E - 11 Nov 2021
- 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

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	14,991	20,771	28,180	14,795	20,826	NA	1.32%	-0.26%	NA
Gross Profit	6,596	9,035	12,258	7,102	10,100	NA	-7.12%	-10.54%	NA
Operating Profit	4,897	6,826	9,405	5,597	8,178	NA	-12.51%	-16.53%	NA
Net profit	4,448	6,095	8,296	4,999	7,387	NA	-11.02%	-17.49%	NA
EPS (US\$ cents)	1.06	1.45	1.97	1.18	1.74	NA	-10.44%	-16.96%	NA
Gross Margin	44.00%	43.50%	43.50%	48.00%	48.50%	NA	-4.00ppt	-5.00ppt	NA
Operating Margin	32.67%	32.86%	33.37%	37.83%	39.27%	NA	-5.16ppt	-6.40ppt	NA
Net Margin	29.67%	29.34%	29.44%	33.79%	35.47%	NA	-4.12ppt	-6.13ppt	NA

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	14,991	20,771	28,180	14,608	20,255	26,818	2.62%	2.55%	5.08%
Gross Profit	6,596	9,035	12,258	6,842	9,516	12,529	-3.60%	-5.05%	-2.16%
Operating Profit	4,897	6,826	9,405	4,760	6,740	9,258	2.88%	1.28%	1.59%
Net profit	4,448	6,095	8,296	4,255	6,062	8,323	4.54%	0.55%	-0.32%
EPS (US\$ cents)	1.06	1.45	1.97	1.11	1.48	1.75	-4.67%	-2.37%	12.78%
Gross Margin	44.00%	43.50%	43.50%	46.84%	46.98%	46.72%	-2.84ppt	-3.48ppt	-3.22ppt
Operating Margin	32.67%	32.86%	33.37%	32.58%	33.28%	34.52%	+0.08ppt	-0.41ppt	-1.15ppt
Net Margin	29.67%	29.34%	29.44%	29.13%	29.93%	31.04%	+0.55ppt	-0.58ppt	-1.60ppt

Source: Company data, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	5,227	7,156	9,735	13,921	19,767	27,872	39,021	54,239	74,850
Tax rate	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%
EBIT*(1-tax rate)	4,600	6,298	8,567	12,250	17,395	24,527	34,338	47,730	65,868
+ D&A	891	1,029	1,138	1,536	2,058	2,737	3,613	4,732	6,152
- Change in working capital	(373)	(1,608)	(2,081)	(2,809)	(3,764)	(5,006)	(6,608)	(8,657)	(11,254)
- Capex	(5,500)	(4,000)	(4,000)	(3,600)	(3,240)	(2,916)	(2,624)	(2,362)	(2,126)
FCFF	(382)	1,719	3,623	7,377	12,449	19,342	28,718	41,444	58,641
Terminal value									989,234
Terminal growth rate	4.00%								
WACC	10.17%								
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 (RMB mn)	413,910								
Total PV (RMB mn)	499,413								
Net debt (RMB mn)	(5,677)								
Equity value (RMB mn)	505,090								
# of shares (mn)	4,215								
Price per share (RMB per share)	119.82								
Price per share (HK\$ per share)	146.12								

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	5,612	10,290	14,991	20,771	28,180
Pre-IND services	2,800	3,392	4,410	5,644	7,168
Early-phase services	1,470	1,603	2,164	2,921	3,885
Late-phase and commercial services	1,255	4,931	7,889	11,439	16,014
Others	87	365	529	767	1,112
Cost of sales	(3,079)	(5,461)	(8,395)	(11,736)	(15,922)
Gross profit	2,533	4,829	6,596	9,035	12,258
Other income	220	197	190	190	190
Selling & marketing exp.	(94)	(125)	(165)	(218)	(282)
Administrative expenses	(511)	(876)	(1,124)	(1,454)	(1,916)
R&D expenses	(304)	(502)	(600)	(727)	(845)
Operating profit	1,844	3,523	4,897	6,826	9,405
Finance costs, net	(43)	(39)	(86)	(86)	(86)
Other gains and losses	283	666	400	400	400
Impairment losses, net of	(121)	(157)	0	0	0
Pre-tax profit	1,966	3,993	5,211	7,140	9,719
Income tax	(273)	(485)	(625)	(857)	(1,166)
Minority interests	(4)	(120)	(138)	(189)	(257)
Net profit	1,689	3,388	4,448	6,095	8,296

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	1,127	1,966	3,993	5,211	7,140
D&A	196	270	576	764	902
Change in working capital	(219)	(367)	(902)	(373)	(1,608)
Other operating activities	104	13	(237)	(413)	(644)
Net cash fr. operating act.	1,208	1,881	3,430	5,189	5,790
Capex	(3,211)	(6,025)	(6,500)	(5,500)	(4,000)
Acquisition of subsidiaries	(1)	0	0	0	0
Other investing activities	(1,282)	(1,192)	(2,762)	0	0
Net cash fr. investing act.	(4,494)	(7,216)	(9,262)	(5,500)	(4,000)
Net proceeds from shares issued	3,534	5,585	7,778	0	0
Bank borrowing	1,910	870	0	0	0
Dividends and interests paid	(50)	(83)	(39)	(86)	(86)
Other financing activities	19	193	0	0	0
Net cash fr. financing act.	5,413	6,566	7,739	(86)	(86)
FX changes	(6)	(340)	0	0	0
Net change in cash	2,121	890	1,907	(396)	1,705
Cash at beginning of the year	4,084	6,205	7,096	9,003	8,607
Cash at the end of the year	6,205	7,096	9,003	8,607	10,311

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	14,759	24,503	29,112	32,083	34,946
Fixed asset	11,996	18,065	22,849	25,995	29,032
Intangible assets	392	601	553	505	458
Equity instruments at fair value through OCI	127	94	94	94	94
Financial assets at FVTPL	759	1,356	1,356	1,356	1,356
Other non-current assets	1,485	4,386	4,259	4,132	4,006
Current assets	14,204	19,530	21,098	26,516	34,844
Cash	7,096	9,003	8,607	10,311	13,921
Inventories	1,084	1,687	2,070	2,894	3,926
Trade and bills receivables	3,242	4,857	5,900	8,174	11,090
Contract costs	392	1,005	1,546	2,161	2,931
Other current assets	2,390	2,976	2,976	2,976	2,976
Current liabilities	4,498	8,256	9,848	11,953	14,591
Borrowings	767	2,122	2,122	2,122	2,122
Trade and other payables	2,729	3,698	5,290	7,395	10,033
Other current liabilities	1,003	2,436	2,436	2,436	2,436
Non-current liabilities	3,566	3,071	3,071	3,071	3,071
Borrowings	1,838	641	641	641	641
Other non-current liabilities	1,728	2,430	2,430	2,430	2,430
Total net assets	20,899	32,706	37,292	43,576	52,128
Minority interest	335	428	565	754	1,010
Shareholders' equity	20,564	32,279	36,727	42,822	51,118

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Pre-IND services	50	33	29	27	25
Early-phase services	26	16	14	14	14
Late-phase and commercial services	22	48	53	55	57
Others	2	4	4	4	4
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	45	47	44	44	44
EBITDA margin	40	45	41	39	39
Pre-tax margin	35	39	35	34	34
Net margin	30	34	31	30	30
Effective tax rate	14	12	12	12	12
Balance sheet ratios					
Current ratio (x)	3	2	2	2	2
Trade receivables turnover days	162	144	144	144	144
Trade payables turnover days	271	215	230	230	230
Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	10	13	13	15	17
ROA	7	9	9	11	13
Per share					
EPS (RMB)	0.43	0.81	1.06	1.45	1.97
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	5.29	7.84	8.85	10.34	12.37

Source: Company data, CMBIGM 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.

CMBIGM 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 CMBIGM

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 Global Markets Limited

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

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

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

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 CMBIGM.

For recipients of this document in the United States

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