

WuXi AppTec (603259 CH)

Stronger growth momentum

- 2021 earnings in line.** WuXi AppTec reported 2021 revenue of RMB22,902 mn, up 38.5% YoY, attributable net income of RMB5,097mn, up 72.2% YoY, and attributable Non-IFRS net income of RMB5,131mn, up 41.1% YoY. Earnings were in line with our forecasts. Gross profit margin (GPM) declined to 36.3% in 2021 from 38.0% in 2020 due to RMB appreciation, while adjusted Non-IFRS GPM at constant exchange rate increased to 40.3% in 2021 from 38.0% in 2020. The Company has implemented effective hedging program to mitigate unfavorable foreign exchange fluctuations, considering that majority of its revenue is denominated in non-RMB currencies. By segment, revenue of WuXi Chemistry grew by 46.9% YoY in 2021, becoming the biggest revenue driver for the Company. WuXi AppTec maintains its overall revenue growth guidance of 65-70% YoY for 2022E based on a ~100% YoY expected revenue growth in WuXi Chemistry segment.
- Growth in chemical CDMO business to further accelerate in 2022E.** WuXi AppTec's CDMO pipeline contained 1,666 projects as of Dec 2021 (vs 1,314 as of Dec 2020), including 49 in phase 3 and 42 in commercial stage (vs 28 as of Dec 2020). The rich pipeline provides as a strong long-term growth driver for CDMO business. Revenue from oligo and peptide experienced a 145% YoY growth and accounted for about 9.4% of the total CDMO revenue in 2021. The Company expects faster growth from these new modalities in 2022. With multiple domestic and US manufacturing sites under construction, WuXi AppTec aims to invest RMB9-10bn in Capex in 2022E (vs RMB6.9bn in 2021), and ~60% of the Capex will go to chemical CDMO business. WuXi AppTec is well positioned to benefit from the surging global demand in manufacturing of small molecule anti-COVID drugs, in our view.
- Cell & gene therapy (CGT) CTDMO segment to rebound in 2022 with smooth project progress.** CGT CTDMO revenue slightly dropped by 2.8% YoY in 2021 due to clients' BLA delays and COVID-19 pandemic in US, which was partially offset by a strong 87% YoY growth in China. Management expects the US pipeline projects to advance smoothly in 2022 and sees newly-launched Shanghai Lingang site to offer better end-to-end services to global clients, which will significantly boost revenue growth of CGT CTDMO segment.
- Maintain BUY.** We raise our TP from RMB167.38 to RMB188.64, based on a 9-year DCF model (WACC: 9.74%, terminal growth rate: 3.0%). We forecast revenue to grow 69%/18%/31% YoY and attributable Non-IFRS net income to grow 63%/19%/32% YoY in FY22E/23E/24E.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	16,535	22,902	38,591	45,720	59,919
YoY growth (%)	28	39	69	18	31
Net income (RMB mn)	2,960	5,097	8,380	10,068	13,568
Adj. Non-IFRS net income (RMB mn)	3,637	5,131	8,369	9,979	13,131
EPS (RMB)	1.27	1.75	2.83	3.41	4.59
Consensus EPS (RMB)	N/A	N/A	2.43	3.09	4.08
P/E (x)	92.01	66.91	41.27	34.35	25.49
ROE (%)	9.13	13.25	18.89	19.58	22.26
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **RMB188.64**
 (Previous TP **RMB167.38**)
 Up/Downside **+61.23%**
 Current Price **RMB117.00**

China Healthcare Sector

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Stock Data

Mkt Cap (RMB mn)	341,481
Avg 3 mths t/o (RMB mn)	3,089
52w High/Low (RMB)	172.49/81.82
Total Issued A-shares (mn)	2,564
Total Issued H-shares (mn)	392

Source: Bloomberg

Shareholding Structure

Ge Li and concerted parties	17.71%
A-share public shareholders	62.73%
H-share public shareholders	19.56%

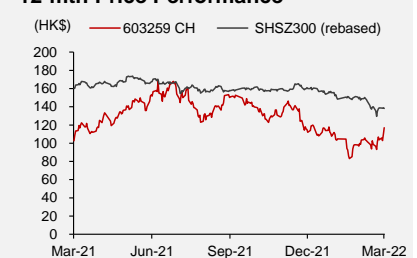
Source: Company

Share Performance

	Absolute	Relative
1-mth	10.8%	19.7%
3-mth	-4.0%	11.1%
6-mth	-26.6%	-16.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

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Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	38,591	45,720	59,919	30,179	39,452	NA	27.87%	15.89%	NA
Gross Profit	14,588	17,204	22,591	11,800	15,744	NA	23.63%	9.27%	NA
Operating Profit	8,284	9,919	13,283	6,450	8,790	NA	28.43%	12.83%	NA
Net profit	8,380	10,068	13,568	6,584	8,832	NA	27.27%	14.00%	NA
EPS (US\$ cents)	2.83	3.41	4.59	2.23	2.99	NA	27.14%	13.88%	NA
Gross Margin	37.80%	37.63%	37.70%	38.12%	39.10%	NA	-0.32ppt	-1.47ppt	NA
Operating Margin	21.47%	21.69%	22.17%	20.41%	21.37%	NA	+1.06ppt	+0.32ppt	NA
Net Margin	21.71%	22.02%	22.64%	22.93%	21.82%	NA	-1.21ppt	+0.21ppt	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	38,591	45,720	59,919	34,077	42,931	53,805	13.25%	6.50%	11.36%
Gross Profit	14,588	17,204	22,591	13,399	16,979	21,365	8.87%	1.32%	5.74%
Operating Profit	8,284	9,919	13,283	8,850	10,877	13,985	-6.39%	-8.81%	-5.02%
Net profit	8,380	10,068	13,568	7,143	8,984	12,284	17.31%	12.07%	10.45%
EPS (US\$ cents)	2.83	3.41	4.59	2.43	3.09	4.08	16.47%	10.27%	12.40%
Gross Margin	37.80%	37.63%	37.70%	39.32%	39.55%	39.71%	-1.52ppt	-1.92ppt	-2.01ppt
Operating Margin	21.47%	21.69%	22.17%	25.97%	25.34%	25.99%	-4.50ppt	-3.64ppt	-3.82ppt
Net Margin	21.71%	22.02%	22.64%	20.96%	20.93%	22.83%	+0.75ppt	+1.09ppt	-0.19ppt

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	9,907	11,922	16,057	21,677	29,047	38,633	50,995	66,804	86,845
Tax rate	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
EBIT*(1-tax rate)	8,421	10,134	13,648	18,425	24,690	32,838	43,346	56,783	73,818
+ D&A	1,243	1,791	2,097	2,831	3,794	5,045	6,660	8,725	11,342
- Change in working capital	(1,816)	(1,074)	(2,560)	(3,456)	(4,631)	(6,159)	(8,130)	(10,650)	(13,845)
- Capex	(11,000)	(7,000)	(7,000)	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)
FCFF	(3,152)	3,852	6,186	13,301	19,353	27,224	37,376	50,358	66,815
Terminal value									1,021,06
Terminal growth rate		3.00%							
WACC		9.74%							
Cost of Equity		12.28%							
Cost of Debt		4.50%							
Equity Beta		0.85							
Risk Free Rate		2.50%							
Market Risk Premium		11.50%							
Target Debt to Asset ratio		30.00%							
Effective Corporate Tax Rate		15.00%							
Terminal value (RMB mn)		442,352							
Total PV (RMB mn)		556,664							
Net debt (RMB mn)		(906)							
Equity value (RMB mn)		557,569							
# of shares (mn)		2,955							
Price per share (RMB per share)		188.64							

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	16,535	22,902	38,591	45,720	59,919
WuXi Chemistry	9,588	14,087	27,246	30,767	39,997
WuXi Testing	3,278	4,525	6,109	8,247	11,133
WuXi Biooav	1,526	1,985	2,640	3,432	4,634
WuXi ATU	1,056	1,026	1,437	1,940	2,619
WuXi DDSU	1,065	1,251	1,126	1,295	1,489
Others	22	28	33	40	48
Cost of sales	(10,253)	(14,592)	(24,003)	(28,517)	(37,328)
Gross profit	6,282	8,310	14,588	17,204	22,591
Business taxes	(35)	(54)	(90)	(107)	(140)
Selling & distribution exp.	(588)	(699)	(1,003)	(1,097)	(1,318)
Administrative expenses	(1,839)	(2,203)	(3,473)	(4,023)	(5,153)
R&D expenses	(693)	(942)	(1,737)	(2,057)	(2,696)
Operating profit	3,127	4,412	8,284	9,919	13,283
Finance costs, net	(520)	(84)	26	13	26
Investment gains	606	1,356	800	800	1,400
Net gain from fair value changes	52	(93)	523	904	1,074
Other gains	104	425	300	300	300
Pre-tax profit	3,369	6,016	9,933	11,935	16,083
Income tax	(383)	(880)	(1,490)	(1,790)	(2,413)
Minority interests	(26)	(39)	(64)	(77)	(103)
Net profit	2,960	5,097	8,380	10,068	13,568

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total net profit	2,986	5,136	8,443	10,145	13,671
D&A	959	1,363	1,647	2,195	2,501
Change in working capital	(494)	(1,151)	(1,816)	(1,074)	(2,560)
Investment loss (gain)	(631)	(1,502)	(1,323)	(1,704)	(2,474)
Other operating activities	1,154	744	91	105	91
Net cash fr. operating act.	3,974	4,589	7,042	9,667	11,229
Capex	(3,031)	(6,936)	(9,000)	(5,000)	(5,000)
Acquisition of subsidiaries	(186)	(858)	-	-	-
Other investing activities	(5,559)	2,955	1,000	-	(2,000)
Net cash fr. investing act.	(8,776)	(4,839)	(8,000)	(5,000)	(7,000)
Net proceeds from shares issued	13,162	104	-	-	-
Net borrowings	(1,284)	1,071	-	-	-
Acquisition of non-controlling interests	-	-	-	-	-
Dividends and interests paid	(638)	(916)	(2,488)	(3,008)	(4,044)
Other financing activities	(1,352)	(1,983)	-	-	-
Net cash fr. financing act.	9,888	(1,724)	(2,488)	(3,008)	(4,044)
FX changes	(81)	(79)	-	-	-
Net change in cash	5,086	(1,974)	(3,445)	1,659	185
Cash at beginning of the year	5,223	10,228	8,239	4,793	6,453
Cash at the end of the year	10,228	8,175	4,793	6,453	6,638

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	23,232	33,142	40,700	45,091	51,947
Fixed asset	5,710	8,554	16,311	19,519	22,422
Intangible assets	998	1,600	1,390	1,181	971
Financial assets	6,717	8,714	9,037	10,741	15,215
Goodwill	1,392	1,926	1,926	1,926	1,926
Other non-current assets	8,415	12,348	12,037	11,725	11,414
Current assets	23,059	21,986	22,223	26,289	31,635
Cash	10,237	8,239	4,793	6,453	6,638
Inventories	2,686	5,905	7,066	8,394	10,988
Trade and bills receivables	3,667	4,668	7,190	8,267	10,835
Prepayments, deposits and other receivables	210	642	642	642	642
Other current assets	6,259	2,532	2,532	2,532	2,532
Current liabilities	7,920	12,985	14,851	16,183	18,785
Borrowings	1,230	2,261	2,261	2,261	2,261
Trade and other payables	941	1,931	3,797	5,130	7,731
Other current liabilities	5,749	8,792	8,792	8,792	8,792
Non-current liabilities	5,652	3,385	3,385	3,385	3,385
Borrowings	-	-	-	-	-
Other non-current liabilities	5,652	3,385	3,385	3,385	3,385
Total net assets	32,718	38,757	44,687	51,811	61,412
Minority interest	225	266	330	406	510
Shareholders' equity	32,494	38,492	44,357	51,405	60,902

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
WuXi Chemistry	58	62	71	67	67
WuXi Testing	20	20	16	18	19
WuXi Biology	9	9	7	8	8
WuXi ATU	6	4	4	4	4
WuXi DDSU	6	5	3	3	2
Others	0	0	0	0	0
Profit & loss ratios (%)					
Gross margin	38	36	38	38	38
EBITDA margin	29	33	30	31	31
Pre-tax margin	20	26	26	26	27
Net margin	18	22	22	22	23
Effective tax rate	11	15	15	15	15
Balance sheet ratios					
Current ratio (x)	3	2	1	2	2
Trade receivables turnover days	73	66	68	66	66
Trade payables turnover days	107	108	108	108	108
Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	9	13	19	20	22
ROA	6	9	13	14	16
Per share					
EPS (RMB)	1.27	1.75	2.83	3.41	4.59
DPS (RMB)	0.38	0.52	0.85	1.02	1.38
BVPS (RMB)	14.06	13.30	15.12	17.53	20.78

Source: Company data, CMBIGM estimates

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