

WuXi AppTec (603259 CH)

Successful business model drives sustainable earnings growth

- 1Q22 earnings in line.** WuXi AppTec reported 1Q22 revenue of RMB8,474 mn, up 71% YoY, attributable recurring net income of RMB1,714mn, up 107% YoY, and attributable Non-IFRS net income of RMB2,053mn, up 86% YoY. Unfavorable exchange rate changes continued to adversely impact the Company's earnings in 1Q22. Revenue growth in 1Q22 would have further accelerated by 7.3 ppts to 79% YoY under constant currency. Gross profit margin (GPM) declined to 35.8% in 1Q22 from 37.1% in 1Q21 due to RMB appreciation, while adjusted Non-IFRS GPM at constant exchange rate improved 1.1 ppts YoY to 37.8% in 1Q22. The management maintained its revenue growth guidance of 65-70% YoY for 2022E and 63-65% YoY for 2Q22E, assuming that the Omicron outbreak in Shanghai could be largely under control by the end of April.
- Resilient growth in both COVID-19 projects and non-COVID-19 projects, a further proof of the Company's successful business model.** Revenue of WuXi Chemistry soared by 102% YoY in 1Q22, mainly driven by the 139% YoY revenue growth of chemical CDMO services. We estimate that WuXi AppTec booked approximately RMB1.5bn revenue from commercial COVID-19 projects in 1Q22 and the management expected the revenue from commercial COVID-19 projects to further ramp up QoQ for the rest of 2022. It's worth noting that revenue from non-COVID chemical CDMO services delivered an impressive revenue growth of 56% YoY, which was attributable to WuXi AppTec's unique CRDMO business model. The Company's CDMO pipeline contained 1,808 projects as of Mar 2022 (vs 1,666 as of Dec 2021), including 49 projects in Phase III and 42 in commercial stage. To accommodate growing demand, 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.
- Cell & gene therapy (CGT) CTDMO segment rebounded in 1Q22.** CGT CTDMO business turned around from 3% YoY revenue decline in 2021 to 37% YoY revenue growth in 1Q22 thanks to the expanding project pipeline and the launch of TESSA services, a revolutionary novel process to manufacture AAV. As of Mar 2022, the Company had 14 TESSA evaluation projects, indicating good customer demand. We expect the GPM of WuXi ATU segment to improve with the ramp-up in utilization of the newly-built Shanghai Lingang site and Philadelphia site.
- Maintain BUY.** We revised our TP from RMB188.64 to RMB185.04, based on a 9-year DCF model (WACC: 9.74%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	16,535	22,902	38,370	45,369	59,456
YoY growth (%)	28%	39%	68%	18%	31%
Net income (RMB mn)	2,960	5,097	7,692	9,338	12,267
Adj. Non-IFRS net income (RMB mn)	3,637	5,131	8,429	9,955	13,148
EPS (RMB)	1.27	1.75	2.60	3.16	4.15
Consensus EPS (RMB)	N/A	N/A	2.78	3.40	4.29
P/E (x)	81.75	59.45	39.95	32.91	25.05
ROE (%)	9.13	13.25	17.53	18.52	20.78
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **RMB185.04**
 (Previous TP **RMB188.64**)
 Up/Downside **+80.62%**
 Current Price **RMB102.45**

China Healthcare Sector

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Stock Data

Mkt Cap (RMB mn)	296,865
Avg 3 mths t/o (RMB mn)	2,825
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	63.08%
H-share public shareholders	19.21%

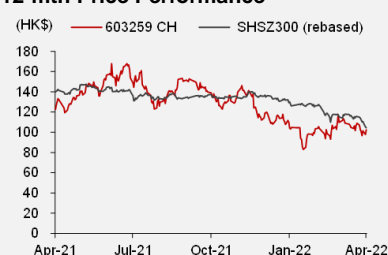
Source: Company

Share Performance

	Absolute	Relative
1-mth	-10.9%	-2.5%
3-mth	-10.8%	9.4%
6-mth	-29.7%	-8.3%

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	38,370	45,369	59,456	38,591	45,720	59,919	-0.57%	-0.77%	-0.77%
Gross Profit	14,231	16,747	22,021	14,588	17,204	22,591	-2.45%	-2.65%	-2.52%
Operating Profit	8,232	9,790	13,082	8,284	9,919	13,283	-0.63%	-1.29%	-1.51%
Net profit	7,692	9,338	12,267	8,380	10,068	13,568	-8.21%	-7.25%	-9.59%
EPS (RMB)	2.60	3.16	4.15	2.83	3.41	4.59	-8.21%	-7.25%	-9.59%
Gross Margin	37.09%	36.91%	37.04%	38.12%	39.10%	37.70%	-1.03ppt	-2.19ppt	-0.66ppt
Operating Margin	21.45%	21.58%	22.00%	20.41%	21.37%	22.17%	+1.05ppt	+0.21ppt	-0.16ppt
Net Margin	20.05%	20.58%	20.63%	22.93%	21.82%	22.64%	-2.88ppt	-1.23ppt	-2.01ppt

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	38,370	45,369	59,456	38,270	46,445	59,295	0.26%	-2.32%	0.27%
Gross Profit	14,231	16,747	22,021	14,694	17,910	22,950	-3.15%	-6.49%	-4.05%
Operating Profit	8,232	9,790	13,082	9,293	11,369	14,645	-11.42%	-13.89%	-10.67%
Net profit	7,692	9,338	12,267	8,168	9,943	12,783	-5.83%	-6.08%	-4.04%
EPS (RMB)	2.60	3.16	4.15	2.78	3.40	4.29	-6.26%	-6.97%	-3.33%
Gross Margin	37.09%	36.91%	37.04%	38.40%	38.56%	38.71%	-1.31ppt	-1.65ppt	-1.67ppt
Operating Margin	21.45%	21.58%	22.00%	24.28%	24.48%	24.70%	-2.83ppt	-2.90ppt	-2.70ppt
Net Margin	20.05%	20.58%	20.63%	21.34%	21.41%	21.56%	-1.30ppt	-0.83ppt	-0.93ppt

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	9,106	11,088	14,540	20,065	27,488	37,384	50,469	67,628	89,946
Tax rate	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
EBIT*(1-tax rate)	7,740	9,425	12,359	17,055	23,365	31,777	42,899	57,484	76,454
+ D&A	1,243	1,791	2,097	2,894	3,965	5,392	7,279	9,754	12,973
- Change in working capital	(2,680)	(1,466)	(2,949)	(4,069)	(5,575)	(7,582)	(10,236)	(13,716)	(18,242)
- Capex	(11,000)	(7,000)	(7,000)	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)	(4,500)
FCFF	(4,697)	2,750	4,507	11,380	17,255	25,087	35,442	49,023	66,685
Terminal value									1,019,07
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)		441,490							
Total PV (RMB mn)		546,643							
Net debt (RMB mn)		(304)							
Equity value (RMB mn)		546,947							
# of shares (mn)		2,956							
Price per share (RMB per share)		185.04							

Source: CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	16,535	22,902	38,370	45,369	59,456
WuXi Chemistry	9,588	14,087	27,246	30,767	39,997
WuXi Testing	3,278	4,525	5,948	8,030	10,840
WuXi Biology	1,526	1,985	2,581	3,355	4,529
WuXi ATU	1,056	1,026	1,437	1,940	2,619
WuXi DDSU	1,065	1,251	1,126	1,239	1,424
Others	22	28	33	40	48
Cost of sales	(10,253)	(14,592)	(24,139)	(28,622)	(37,435)
Gross profit	6,282	8,310	14,231	16,747	22,021
Business taxes	(35)	(54)	(90)	(106)	(139)
Selling expenses	(588)	(699)	(998)	(1,134)	(1,427)
Administrative exp.	(1,839)	(2,203)	(3,453)	(3,992)	(5,113)
R&D expenses	(693)	(942)	(1,458)	(1,724)	(2,259)
Operating profit	3,127	4,412	8,232	9,790	13,082
Finance costs, net	(520)	(84)	12	(18)	2
Investment gains	606	1,356	400	500	600
Net gain from fair value changes	52	(93)	174	497	557
Other gains	104	425	300	300	300
Pre-tax profit	3,369	6,016	9,118	11,070	14,542
Income tax	(383)	(880)	(1,368)	(1,660)	(2,181)
Minority interests	(26)	(39)	(59)	(71)	(93)
Net profit	2,960	5,097	7,692	9,338	12,267

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total net profit	2,986	5,136	7,750	9,409	12,360
D&A	959	1,363	1,647	2,195	2,501
Change in working capital	(494)	(1,151)	(2,680)	(1,466)	(2,949)
Investment loss (gain)	(631)	(1,502)	(574)	(997)	(1,157)
Other operating activities	1,154	744	106	135	115
Net cash fr. operating act.	3,974	4,589	6,249	9,277	10,871
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	-	(1,000)
Net cash fr. investing act.	(8,776)	(4,839)	(8,000)	(5,000)	(6,000)
Net proceeds from shares issued	13,162	104	-	-	-
Net borrowings	(1,284)	1,071	2,000	-	-
Dividends and interests paid	(638)	(916)	(2,296)	(2,819)	(3,678)
Other financing activities	(1,352)	(1,983)	-	-	-
Net cash fr. financing act.	9,888	(1,724)	(296)	(2,819)	(3,678)
FX changes	(81)	(79)	-	-	-
Net change in cash	5,086	(1,974)	(2,047)	1,457	1,192
Cash at beginning of the year	5,223	10,228	8,239	6,191	7,649
Cash at the end of the year	10,228	8,175	6,191	7,649	8,841

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	23,232	33,142	39,952	43,636	48,175
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	8,288	9,286	11,443
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	24,525	28,771	35,515
Cash	10,237	8,239	6,191	7,649	8,841
Inventories	2,686	5,905	7,275	8,626	11,282
Trade and bills	3,667	4,668	7,884	9,322	12,217
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	16,891	18,214	20,816
Borrowings	1,230	2,261	4,261	4,261	4,261
Trade and other payables	941	1,931	3,837	5,161	7,763
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	5,652	3,385	3,385	3,385	3,385
Total net assets	32,718	38,757	44,200	50,808	59,488
Minority interest	225	266	324	396	489
Shareholders' equity	32,494	38,492	43,876	50,412	58,999

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
WuXi Chemistry	58	62	71	68	67
WuXi Testing	20	20	16	18	18
WuXi Biology	9	9	7	7	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	37	37	37
EBITDA margin	29	33	28	29	29
Pre-tax margin	20	26	24	24	24
Net margin	18	22	20	21	21
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	75	75	75
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	18	19	21
ROA	6	9	12	13	15
Per share					
EPS (RMB)	1.27	1.75	2.60	3.16	4.15
DPS (RMB)	0.38	0.52	0.78	0.95	1.25
BVPS (RMB)	14.06	13.30	14.95	17.19	20.13

Source: Company data, CMBIGM estimates

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