

CSPC Pharmaceutical (1093 HK)

Smooth progress in mRNA COVID-19 vaccine

- 1Q22 earnings in line.** CSPC reported 1Q22 revenue of RMB7.87bn, up 16.9% YoY, accounting for 26% of our full year estimate. By segment, revenue of finished drugs/ bulk products was RMB6.30bn/ RMB1.15bn, up 15.0%/ 25.6% YoY, respectively. Attributable net profit was RMB1.40bn, down 4.6% YoY, mainly due to the RMB132.60mn fair value loss on financial assets. Recurring profit grew 10.3% YoY to RMB1.54bn, accounting for 24% of our full-year estimate. R&D expense continued to rise by 30% YoY to RMB901.52mn in 1Q22, due to CSPC's strong commitment in innovation.
- Fast sales ramp up of new products.** In 1Q22, CSPC recorded solid sales growth in its finished drugs, especially in oncology products (+15.4% YoY) and anti-infective products (+28.4% YoY). In 1Q22, sales revenue of NBP grew c. 7.4% YoY thanks to the Company's consistent efforts in channel penetration. CSPC started to market a potential blockbuster product, Mingfule (rhTNK-tPA), since Feb 2022. As of Apr 2022, Mingfule has already entered into 620+ hospitals and will further expand its hospital coverage thanks to the strong synergies between sales channels of Mingfule and NBP. In addition, CSPC obtained NMPA's approvals for Duoenda (mitoxantrone hydrochloride liposome injection) and COPIKTRA (duvelisib capsule) in Jan and Mar 2022, respectively, and has filed NDA for irinotecan liposome in Apr 2022. We expect these new products to further drive CSPC's revenue growth.
- mRNA COVID-19 vaccine progressing smoothly.** In Apr 2022, CSPC's COVID-19 mRNA vaccine SYS6006 has obtained NMPA's IND approval. The Company has finished with two dose vaccination of SYS6006 in its Ph I study, and data is expected to be released in July. Meanwhile, CSPC aims to start the Ph 2 study of SYS6006 soon, and the FPI may be completed in June. Moreover, CSPC is conducting multiple IIT studies to further confirm the efficacy of SYS6006 as booster doses in various types of population. CSPC has already prepared sizable manufacturing facility for SYS6006, with the current capacity of 500mn dose which may be doubled by the end of 2022.
- Maintain BUY.** To be conservative, we currently do not factor in potential revenue contribution from SYS6006. We expect CSPC's revenue to grow 10.3% / 10.3% YoY in FY22E/ 23E and attributable net profit to grow 13.0% / 15.7% YoY in FY22E/ 23E. We maintain our DCF-based TP of HK\$13.20 (WACC 11.78%, terminal growth 3.0%), indicating 21x 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 | 7,333 | 8,420 |
| YoY growth (%) | 39 | 9 | 13 | 16 | 15 |
| EPS (RMB) | 0.43 | 0.47 | 0.53 | 0.61 | 0.71 |
| Consensus EPS (RMB) | N/A | N/A | 0.52 | 0.59 | 0.66 |
| P/E (x) | 15.3 | 14.0 | 12.4 | 10.7 | 9.3 |
| P/B (x) | 3.4 | 2.9 | 2.5 | 2.1 | 1.8 |
| Yield (%) | 1.9 | 2.1 | 2.4 | 2.8 | 3.2 |
| 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\$13.20) |
| Up/Downside | +68.37% |
| Current Price | HK\$7.84 |

China Healthcare Sector

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Stock Data

| | |
|--------------------------|------------|
| Mkt Cap (HK\$ mn) | 93,556 |
| Avg 3 mths t/o (HK\$ mn) | 301.15 |
| 52w High/Low (HK\$) | 12.68/7.28 |
| Total Issued Shares (mn) | 11,933 |

Source: Bloomberg

Shareholding Structure

| | |
|---------------------|--------|
| Management | 23.68% |
| UBS Group | 7.34% |
| Common Success Intl | 6.09% |
| Free float | 62.89% |

Source: HKEX

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -2.2% | -3.7% |
| 3-mth | -15.2% | -4.2% |
| 6-mth | -4.9% | 16.7% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

- Promising early data of COVID-19 mRNA vaccine – 23 Mar 2022
- Q3 slightly miss while long-term growth prospects remain intact – 19 Nov 2021
- 1H21 results beat; accelerating BD pace – 27 Aug 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 | 30,735 | 33,899 | 37,175 | 0.0% | 0.0% | 0.0% |
| Gross profit | 23,051 | 25,424 | 27,881 | 23,358 | 25,763 | 28,253 | -1.3% | -1.3% | -1.3% |
| Operating profit | 7,687 | 8,902 | 10,227 | 7,687 | 8,902 | 10,227 | 0.0% | 0.0% | 0.0% |
| Net profit | 6,336 | 7,333 | 8,420 | 6,334 | 7,328 | 8,412 | 0.0% | 0.1% | 0.1% |
| EPS (RMB) | 0.53 | 0.61 | 0.71 | 0.53 | 0.61 | 0.70 | 0.0% | 0.1% | 0.1% |
| Gross margin | 75.00% | 75.00% | 75.00% | 76.00% | 76.00% | 76.00% | -1.00 ppt | -1.00 ppt | -1.00 ppt |
| Operating margin | 25.01% | 26.26% | 27.51% | 25.01% | 26.26% | 27.51% | 0.00 ppt | 0.00 ppt | 0.00 ppt |
| Net margin | 20.61% | 21.63% | 22.65% | 20.61% | 21.62% | 22.63% | 0.01 ppt | 0.01 ppt | 0.02 ppt |

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 | 31,390 | 35,218 | 38,795 | -2.1% | -3.7% | -4.2% |
| Gross profit | 23,051 | 25,424 | 27,881 | 23,719 | 26,474 | 28,193 | -2.8% | -4.0% | -1.1% |
| Operating profit | 7,687 | 8,902 | 10,227 | 7,463 | 8,399 | 9,408 | 3.0% | 6.0% | 8.7% |
| Attributable net profit | 6,336 | 7,333 | 8,420 | 6,086 | 6,896 | 7,671 | 4.1% | 6.3% | 9.8% |
| EPS (RMB) | 0.53 | 0.61 | 0.71 | 0.52 | 0.59 | 0.66 | 2.7% | 4.7% | 7.6% |
| Gross margin | 75.00% | 75.00% | 75.00% | 75.56% | 75.17% | 72.67% | -0.6 ppt | -0.2 ppt | +2.3 ppt |
| Operating margin | 25.01% | 26.26% | 27.51% | 23.78% | 23.85% | 24.25% | +1.2 ppt | +2.4 ppt | +3.3 ppt |
| Net margin | 20.61% | 21.63% | 22.65% | 19.39% | 19.58% | 19.77% | +1.2 ppt | +2.1 ppt | +2.9 ppt |

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 | 11,501 | 12,818 | 14,157 | 15,495 | 16,804 | 18,056 | 19,221 |
| 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 | 9,546 | 10,639 | 11,750 | 12,861 | 13,947 | 14,987 | 15,953 |
| + D&A | 864 | 864 | 864 | 971 | 1,083 | 1,196 | 1,309 | 1,419 | 1,525 | 1,623 |
| - Change in working capital | -24 | -319 | -330 | -371 | -413 | -457 | -500 | -542 | -582 | -620 |
| - Capex | -1,000 | -1,000 | -1,000 | -1,000 | -1,000 | -1,000 | -1,000 | -1,000 | -1,000 | -1,000 |
| FCFF | 6,220 | 6,934 | 8,023 | 9,146 | 10,308 | 11,489 | 12,670 | 13,825 | 14,929 | 15,957 |
| Terminal value | | | | | | | | | | 187,297 |
| 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 | | | | | | | | | | 61,529 |
| Total PV | | | | | | | | | | 118,259 |
| Net debt | | | | | | | | | | -14,988 |
| Minority interests | | | | | | | | | | 922 |
| Equity value | | | | | | | | | | 132,325 |
| # 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) | (7,684) | (8,475) | (9,294) |
| Gross profit | 18,685 | 21,135 | 23,051 | 25,424 | 27,881 |
| Other income and gains | 642 | 654 | 615 | 678 | 743 |
| Distribution expenses | (9,378) | (10,443) | (11,064) | (12,136) | (13,234) |
| 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) | (2) | 2 | 6 |
| Exceptional | 333 | 37 | - | - | - |
| Pre-tax profit | 6,391 | 6,847 | 7,745 | 8,965 | 10,294 |
| Profits tax | (1,162) | (1,159) | (1,317) | (1,524) | (1,750) |
| Minority interest | (69) | (83) | (93) | (108) | (124) |
| Net profit | 5,160 | 5,605 | 6,336 | 7,333 | 8,420 |

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 | (1,388) | (24) | (319) | (330) |
| Income tax paid | (1,061) | (1,141) | (1,317) | (1,524) | (1,750) |
| Others | (745) | (495) | 58 | 62 | 66 |
| Net cash from operating activities | 6,740 | 4,637 | 7,269 | 7,986 | 9,078 |
| Capex | (1,356) | (1,410) | (1,000) | (1,000) | (1,000) |
| Placement of restricted bank deposits | (3,595) | (3,374) | - | - | - |
| Other | 2,822 | 4,146 | - | - | - |
| Net cash from investing activities | (2,130) | (637) | (1,000) | (1,000) | (1,000) |
| Change of debts | 169 | (99) | (99) | (99) | (99) |
| Dividend paid | (1,528) | (1,691) | (1,901) | (2,200) | (2,526) |
| Other | (112) | (407) | (13) | (13) | (13) |
| Net cash from financing activities | (1,471) | (2,197) | (2,012) | (2,311) | (2,637) |
| Net change in cash | 3,139 | 1,803 | 4,256 | 4,674 | 5,440 |
| Cash at the beginning of the year | 4,118 | 7,259 | 9,284 | 13,540 | 18,214 |
| Exchange difference | 2 | (2) | - | - | - |
| Bank deposits with more than 3 months to maturity upon placement | - | - | - | - | - |
| Cash at the end of the year | 7,259 | 9,060 | 13,540 | 18,214 | 23,655 |

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 | 25,449 | 31,197 | 37,748 |
| Cash | 7,259 | 9,284 | 13,540 | 18,214 | 23,655 |
| Account receivable | 2,883 | 3,890 | 4,210 | 4,644 | 5,092 |
| Inventories | 1,861 | 2,480 | 2,737 | 3,018 | 3,310 |
| Other current assets | 3,918 | 4,683 | 4,962 | 5,320 | 5,691 |
| Current liabilities | 6,302 | 7,226 | 7,959 | 8,615 | 9,297 |
| Borrowings | 99 | - | (99) | (198) | (297) |
| Trade and other payables | 4,759 | 6,162 | 6,947 | 7,662 | 8,403 |
| Other current liabilities | 1,444 | 1,064 | 1,111 | 1,151 | 1,192 |
| 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 | 31,344 | 36,572 | 42,577 |
| Minority interest | 769 | 842 | 922 | 1,018 | 1,129 |
| Shareholders' equity | 22,332 | 25,987 | 30,422 | 35,554 | 41,448 |

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 | 75.0 | 75.0 | 75.0 |
| 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 | 3.2 | 3.6 | 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 | 15.8 | 16.0 | 16.0 |
| Per share data | | | | | |
| EPS (RMB) | 0.43 | 0.47 | 0.53 | 0.61 | 0.71 |
| 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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