

# Shanghai Haohai Biological Technology (6826.HK)

## Front-Runner in All Specific Sectors

Hong Kong | Pharmaceutical | Company report

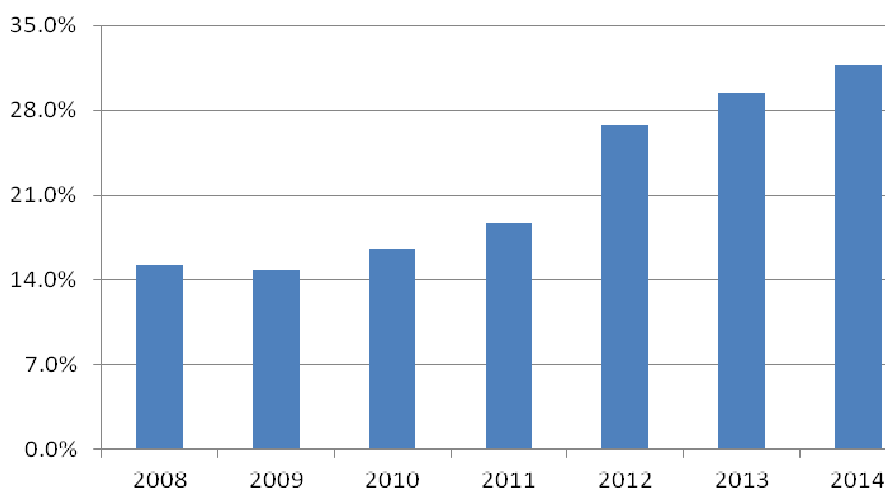
6 JUNE 2016

### Front-Runner in All Specific Sectors

Shanghai Haohai Biological Technology Co., Ltd. focuses on production and sales of absorbable biomedical materials, targeting at the four areas: orthopedics, medical aesthetics and wound care, ophthalmology, anti-adhesion and hemostasis, accounting for 43%, 18%, 11%, and 27% of the market share respectively in 2015.

At present, its products in all specific sectors have formed high degree of market concentration, and achieved a leading position in the market. Specifically, based on the revenues in 2014, as reported by Southern Medicine Economic Research Institute, the company is China's largest producer of intra-articular viscosupplement products, with a market share of 31.7%, and is China's second-largest producer of recombinant human epidermal growth factor (rhEGF), accounting for 15.3% of the market share. Meanwhile, the company is China's largest producer of OVD products and anti-adhesive products, accounting for, respectively, 41.8% and 48% of the market share.

### Increasing market share of Shanghai Haohai Biological Technology in the orthopedic intra-articular viscosupplement market



Source: SME Research, Company reports, Phillip Securities (HK) Research

With respect to the products of the company, medical chitosan for bone joint injection is the only protective agents in articular cartilage registered as class III medical devices in China, which is characterized by its unique water solubility, greatly reducing the probability of allergic reactions and improving product safety. Healin-branded rhEGF product is the first rhEGF product registered internationally, and was approved by the CFDA as a new class I drug in 2001.

### Buy (Maintain)

CMP: HKD 39.55

(Closing price as at 2 June 2016)

TARGET: HKD 48.18 (+21.8%)

#### COMPANY DATA

O/S SHARES (MN) :	160
MARKET CAP (HKDMN) :	6,328
52 - WK HI/LO (HKD):	57.05/35.05

#### SHARE HOLDING PATTERN, %

Jiang Wei:	47.23
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#### PRICE PERFORMANCE, %

	1M	3M	1Y
Haohai Biological	-12.47	-12.08	-31.23
HSI	-11.02	-15.87	-6.82

#### PRICE VS. HSI



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

CNY mn	FY14	FY15	FY16E	FY17E
Net Sales	516	664	842	998
Net Profit	184	273	321	375
EPS, CNY	1.53	1.86	2.01	2.34
PER, x	25.8	21.3	19.7	16.9
BVPS, CNY	4.95	16.63	18.26	20.16
P/BV, x	8.0	2.4	2.2	2.0
ROE, %	32.6	16.8	11.5	12.2
Debt/Equity (%)	26.6	5.9	8.7	8.7

Source: Company reports, Phillip Securities Est.

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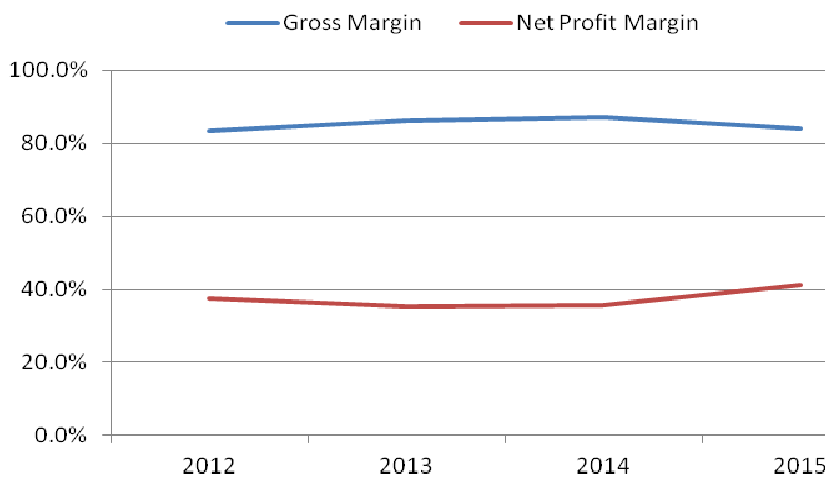
## Rapid Growth of Results

In 2015, despite the slowdown in the pharmaceutical industry, by virtue of competitive products and professional marketing network, the company achieved a revenue of RMB0.66 billion, a YoY growth of 29%. The net profit was RMB0.27 billion, an annual growth of 49%.

Specifically, although prices of sodium hyaluronate injection, the main orthopedic products, fell by 10%, its revenue still rose by 10% to RMB0.228 billion. In addition, market shares of newly launched chitosan for orthopedics use and plastic surgical products "Matrifill" rapidly expanded, revenues of which soared by 107% and 235% to RMB5600 million and RMB8700 million, respectively, becoming the main growth points.

Although the completion of upgrading and industrialization reform caused increase in depreciation, and the company gross profit margin fell by 3% to 84.2%, IPO financing raised interest revenue by RMB3400 million and raised the gain from currency exchange by RMB2800 million, which eventually led to performance significantly outperforming the revenue growth.

### Strong earning capability of Shanghai Haohai Biological Technology



Source: Bloomberg, Phillip Securities (HK) Research

## Product Serialization Continues to Strengthen Competitive Advantages

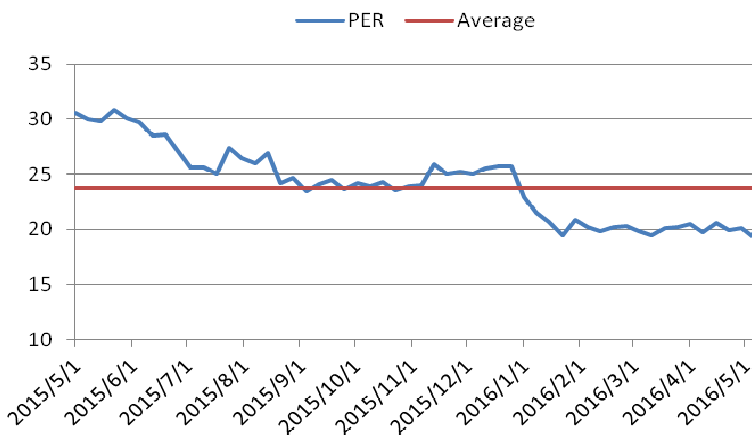
Shanghai Haohai Biological Technology is taking various measures to strengthen its competitive advantages. Firstly, the company strengthens research and development (R&D), with R&D expense to revenue ratio increasing by 0.2% to 5.3% in 2015. Matrifill is the first CFDA-approved sodium hyaluronate gel for single-phase cross-linking injection. Its second generation of cross-linking sodium hyaluronate gel has gone through clinical trials, and its medical device registration application has been accepted. The third generation of QST gel has entered clinical trials. Therefore, the company's products will achieve a combined effect of serialization and differentiation, and are expected to maintain rapid growth.

Besides, considering the prospect of the market of medical aesthetics, the company established independent and professional marketing team for Matrifill products, combining direct selling with franchising. Meanwhile, the company also built professional marketing team for ophthalmology, anti-

adhesion and hemostasis businesses. Marketing restructuring is expected to support the company in achieving better growth. Chitosan has been present on the health insurance directory in Beijing, Shanghai and other major cities, and its growth is expected to accelerate.

Overall, the company will maintain its competitive edge. Relying on the broad market of medical aesthetics and ophthalmology, the company is expected to maintain the rapid growth. We give an estimation of 20x EPS in 2016, and the target price is HKD48.18, with the "Buy" rating maintained. (Closing price as at 2 June 2016)

#### Historical P/E Valuation



Source: Bloomberg, Phillip Securities (HK) Research

#### Risks

Drop in prices of sodium hyaluronate injection exceeds expectation;  
Competition intensifies;

## Financials

FYE	2013	2014	2015	2016F	2017F
<b>Valuation Ratios</b>					
Price Earnings	33.5	25.8	21.3	19.7	16.9
Price to Book	8.9	8.0	2.4	2.2	2.0
Dividend Yield	0.0	0.0	1.01%	1.14%	1.26%
<b>Per share data(CNY)</b>					
EPS Adjusted	1.18	1.53	1.86	2.01	2.34
Book Value Per Share	4.42	4.95	16.63	18.26	20.16
Dividend Per Share	0.00	0.00	0.40	0.45	0.50
<b>Growth&amp; Margin</b>					
Revenue growth	-	28.6%	28.7%	26.8%	18.5%
Gross Profit growth	-	30.0%	24.2%	26.2%	18.5%
Net Profit growth	-	30.4%	48.9%	17.5%	16.8%
<b>Profitability Ratios</b>					
Gross Margin	86.3%	87.2%	84.2%	83.8%	83.8%
Net Profit Margin	35.3%	35.6%	41.2%	38.2%	37.6%
<b>Key Ratios</b>					
Return on Assets	26.5%	26.7%	15.3%	10.7%	11.2%
Return on Equity	30.8%	32.6%	16.8%	11.5%	12.2%
Effective Tax Rate	15.0%	14.9%	14.8%	14.8%	14.8%
Liability ratio	14.6%	21.0%	5.5%	8.0%	8.0%
<b>Income Statement(CNY: mn)</b>					
<b>Revenue</b>	401	516	664	842	998
- Cost of Goods Sold	55	66	105	136	162
<b>Gross Income</b>	346	450	559	705	836
- Selling, General & Admin E	203	265	337	429	509
<b>Operating Income</b>	163	212	253	327	392
- Foreign Exchange Losses	(0)	(0)	(29)	(15)	-8
- Net Non-Operating Losses	(4)	(4)	(39)	(35)	-40
<b>Pretax Income</b>	166	216	321	377	440
- Income Tax Expense	25	32	47	56	65
<b>Net Profit</b>	142	184	273	321	375

Source: Company, Phillip Securities (HK) Research Estimates  
(Financial figures as at 2 June 2016)

### PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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