

Yibai Pharmaceutical (600594.CH)

Proactive Transformation to Medical Service Business

Shanghai | Pharmaceutical | Company report

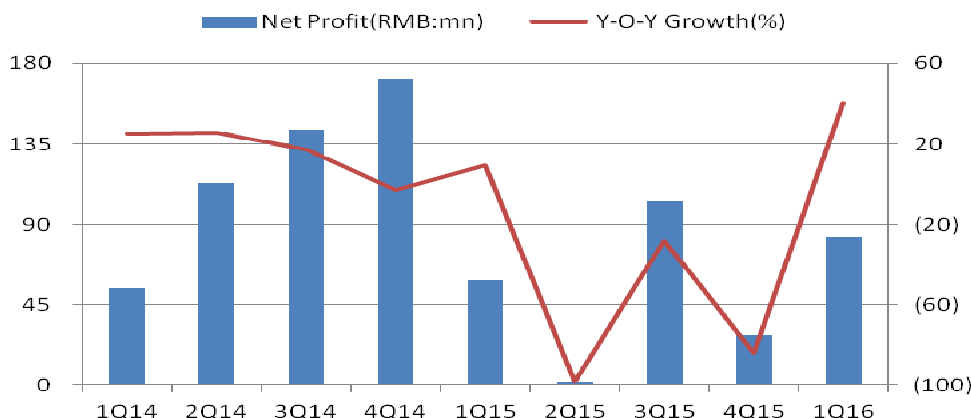
19 JULY 2016

Performance May Keep Rebounding after Hitting Bottom

Yibai Pharmaceutical bore great pressure in 2015 when its net profit kept diving from the second quarter through the fourth quarter compared with a year before, which was mainly attributable to a Y-o-Y decrease of 11% in the sales of Aidi Injection, a major product, as well as the slow sales growth of Condisi. What's more, the company adjusted its sales strategy and proactively developed the market of second-tier products. The total expenses to development and promotion increased by RMB620 million, leading to a Y-o-Y increase of 6.6 percentage points in sales expense ratio and 2.2 percentage points in administrative expense ratio. Consequently, its net profit recorded a Y-o-Y decrease of 60.4% to RMB189 million, representing a decrease of 9.4 percentage points in net profit margin.

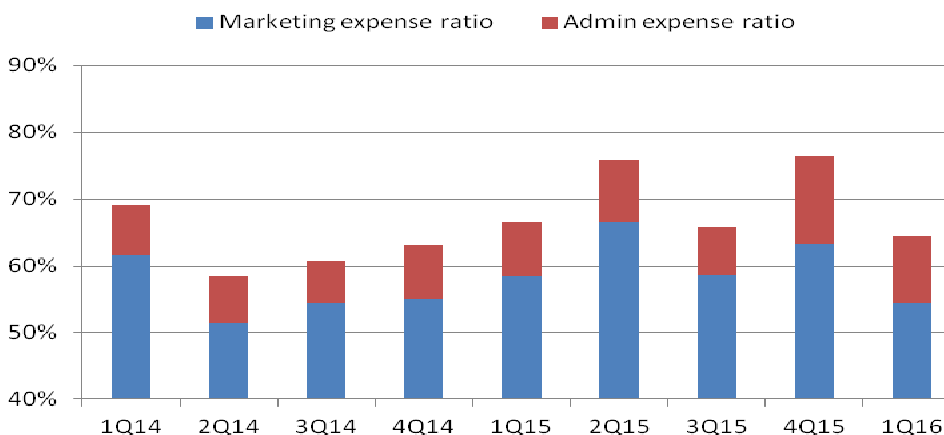
However, the company's performance improved significantly in 1Q16. The revenue yielded a Y-o-Y increase of 9.1% to RMB740 million while the net profit soared by 41.4% to RMB82.44 million. This was mainly attributable to the gross profit margin of a Y-o-Y increase of 1.4 percentage points to 80.8% as well as the elimination of short-term increase in expense. Expenses ratio of the first quarter fell back to 66.2%. We hold that the launch of second-tier products and normalizing expenses ratio will fuel the company's ongoing growth.

The performance has bottomed out



Source: Company reports, Phillip Securities (HK) Research

Expense ratio of YIBAI



Source: Company reports, Phillip Securities (HK) Research

Accumulate (Downgrade)

CMP: CNY 17.79

(Closing price as at 15 July 2016)

TARGET: CNY 20.30 (+14.1%)

COMPANY DATA

O/S SHARES (MN) :	792
MARKET CAP (CNYMN) :	14,089
52 - WK HI/LO (CNY):	30.83/ 12.42

SHARE HOLDING PATTERN, %

Dou Quling :	23.15
--------------	-------

PRICE PERFORMANCE, %

	1M	3M	1Y
YIBAI	22.11	-4.83	-33.87
SCI	14.65	-3.91	-14.11

PRICE VS. SCI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY14	FY15	FY16E	FY17E
Net Sales	3103	3247	3987	4696
Net Profit	478	189	459	582
EPS, CNY	0.61	0.24	0.58	0.74
PER, x	29.2	74.1	30.7	24.2
BVPS, CNY	4.33	4.51	5.07	5.75
P/BV, x	4.1	3.9	3.5	3.1
ROE, %	11.0	3.5	7.6	8.3
Debt/Equity (%)	59.7	56.4	61.3	66.7

Source: Company reports, Phillip Securities Est.

Research Analyst
Fan Guohe
 (+ 86 21 51699400-110)
 fanguohe@phillip.com.cn

Proactive Transformation to Medical Service Business

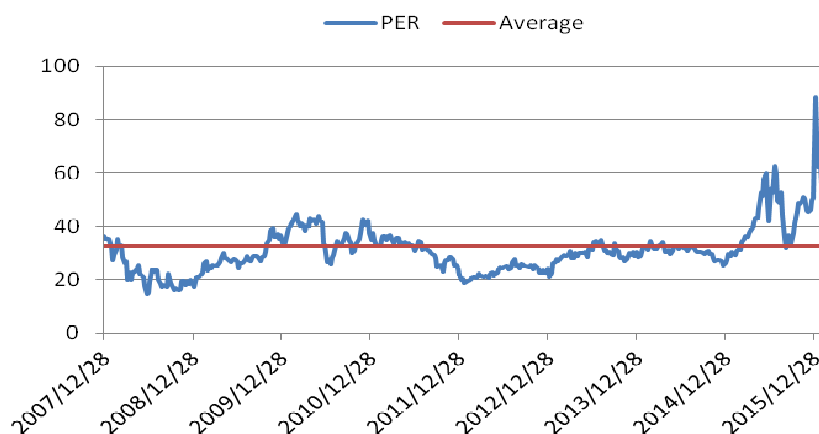
In June 2015, the company put forward the strategy of transforming to medical service, a double-track model in which pharmacy serves as the root and tumor medical ecosystem as priority. In the same year, the company successively established an industry M&A fund, a tumor medical investment management company and a tumor easy-medical-revisit big data company. Since 2016, apart from the building of Jinshazhou Tumor Center, the company has been pushing forward the development of other tumor medical centers. In April, its subordinate Anhui Oncologist Group was founded. The company has acquired one Grade-3 Level-B hospital and contracted with 11 tumor medical centers without equity ties and another 8 with equity ties. In addition, expansion in Heilongjiang Province and Sichuan Province is in progress. As it is planned, the company will establish 20 to 25 medical groups at the provincial level, invest in 300 tumor medical centers as well as develop and manage 1,200 tumor medical centers.

As it is expected, we are likely to develop China's biggest tumor medical platform. By virtue of abundant cash reserves (with approximately RMB800 million monetary resources in 1Q16) and well-performing cash flow of the pharmacy business, the company is expected to keep promoting multi-model acquisition and expansion of medical services, develop a tumor treatment system that integrates surgery, radiotherapy, chemotherapy, imaging, diagnosis, rehabilitation and precision medicine, and build a close-loop ecosystem of the tumor industry featuring "medicine + hospital + doctor". The model of medical group involves doctors in management and investment. It is also expected to address the issues of private capitals investing in hospitals. We believe the model embraces promising prospects.

Valuation

The company's performance for 2016 will rebound after it hits bottom. Its deep-seated product line and powerful sales capacity will contribute to a steady growth in pharmacy. In the meanwhile, a medical platform with tumor hospitals at the core and ongoing launch of newly-acquired hospitals are expected to bring rapid growth in medical revenue. In other words, the revenue from medical service business may achieve double growth in 2016 and will enjoy an equal share with its original primary business in long and middle term. We give the company 35X EPS in 2016, and the target price is RMB20.3, with the "Accumulate" rating. (Closing price as at 15 July 2016)

Historical Valuation



Source: Bloomberg, Phillip Securities (HK) Research

Risks

Progress of transformation falling short of expectation;
Risk of price drop in drugs.

Financials

FYE	2013	2014	2015	2016F	2017F
Valuation Ratios					
Price Earnings	29.7x	29.2x	74.1x	30.7x	24.2x
Price to Book	6.7x	4.1x	3.9x	3.5x	3.1x
Dividend Yield	0.4%	0.3%	0.1%	0.3%	0.4%
Per share data(RMB)					
EPS Adjusted	0.60	0.61	0.24	0.58	0.74
Book Value Per Share	2.67	4.33	4.51	5.07	5.75
Dividends Per Share	0.07	0.06	0.02	0.06	0.07
Growth& Margin					
Revenue growth	-15.6%	13.2%	4.6%	22.8%	17.8%
Gross Profit growth	-14.2%	12.8%	3.3%	14.6%	12.6%
Net Profit growth	127.1%	11.4%	-60.5%	143.0%	26.8%
Profitability Ratios					
Gross Margin	81.9%	81.6%	80.5%	75.2%	71.9%
Net Profit Margin	15.7%	15.4%	5.8%	11.5%	12.4%
Dividend Payout Ratio %	9.9%	9.1%	8.4%	10.3%	9.5%
Key Ratios					
Return on Assets	15.7%	11.0%	3.5%	7.6%	8.3%
Return on Equity	24.8%	17.8%	5.4%	12.1%	13.6%
Effective Tax Rate	16.4%	13.5%	15.4%	15.0%	15.0%
Liability ratio	39.6%	37.4%	36.1%	38.0%	40.0%
Income Statement(RMB: mn)					
Revenue	2,741	3,103	3,247	3,987	4,696
- Cost of Goods Sold	497	571	632	989	1,322
Gross Income	2,245	2,532	2,615	2,998	3,374
- Selling, General & Admin Expenses	1,722	1,996	2,365	2,428	2,657
Operating Income	523	536	250	570	717
- Interest Expense	23	38	51	55	65
- Net Non-Operating Losses (Gains)	-16	-58	-28	-30	-40
Pretax Income	515	557	227	545	692
- Income Tax Expense	84	75	35	82	104
Income Before XO Items	431	481	192	463	588
- Minority Interests	2	3	3	4	6
Net Profit	429	478	189	459	582

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 15 July 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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2016 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)

SINGAPORE**Phillip Securities Pte Ltd**

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG**Phillip Securities (HK) Ltd**

Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA**PT Phillip Securities Indonesia**

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND**Phillip Securities (Thailand) Public Co. Ltd**

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website: www.phillip.co.th

UNITED KINGDOM**King & Shaxson Capital Limited**

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA**PhillipCapital Australia**

Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: www.phillipcapital.com.au

MALAYSIA**Phillip Capital Management Sdn Bhd**

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN**PhillipCapital Japan K.K.**

Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA**Phillip Financial Advisory (Shanghai) Co. Ltd**

No 436 Hengfeng Road,
Greentech Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 63532643
Website: www.phillip.com.cn

FRANCE**King & Shaxson Capital Limited**

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES**Phillip Futures Inc**

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005