

Livzon Pharmaceutical (1513.HK)

Greatly increased performance in 1H16

Hong Kong | Pharmaceutical | Company report

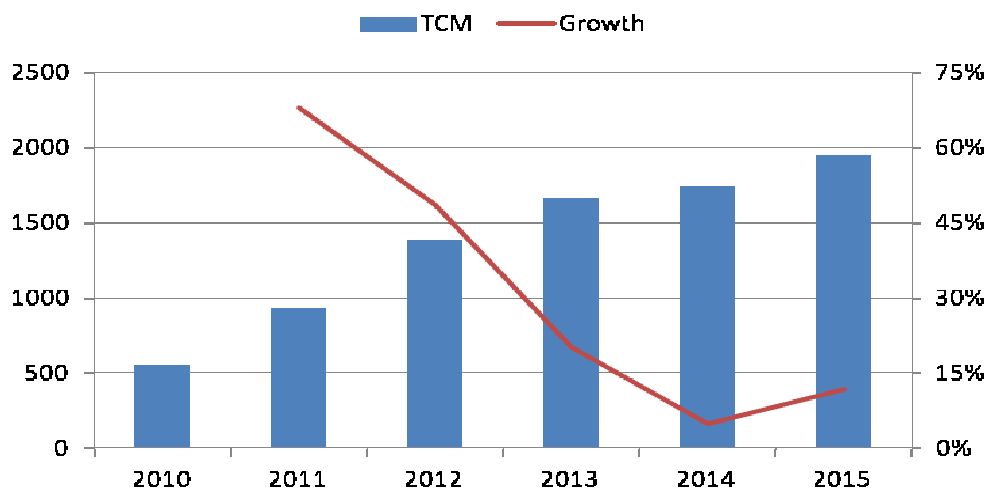
25 JULY 2015

Greatly increased performance in 1H16

Livzon Pharma has announced its satisfying operating result recently. Its net profit in the first half year reached RMB399 to 426 million with a year-on-year increase of 17% to 25%. We believe that this was mainly because of the nationwide implementation of contract sales mode of its sales teams in 2015, which effectively alleviated the negative impacts of two-invoice system reform and tender arrangements for drug price reductions. In addition, the company recorded a steady growth of the sales of Shengqi Fuzheng Injection which was a featured product and the surge of sales of specialist medicines.

Although TCM injections as a whole were restricted by policies, Livzon actively promoted the safety reassessment and pharmacoeconomics research of Shengqi Fuzheng Injection. A total of over 50,000 big samples had been reassessed. Moreover, compared with its counterpart adjuvant drugs for cancer, Shengqi Fuzheng did not have the restriction conditions of medical insurance reimbursement. With its reasonable price, it had significant advantages. Therefore, we are convinced that Shengqi Fuzheng is surviving despite of industrial restrictions with expanded market shares. In 2015, the sales of TCM injections kept at the same level as 2014, while the sales of Shengqi Fuzheng exceeded RMB1.5 billion with a year-on-year growth of 17.2%. In the first half of this year, it is expected to further increase by over 10%.

Revenue of TCM (CNY: mn)



Source: Company reports, Phillip Securities (HK) Research

Besides, after the downturn in 2015, the two-child policy might bring about an increase of over 20% of newborns. Assisted reproductive market is expected to continue to boom. In the first quarter, Urofollitropin and Menotrophin, two core products of the Company, increased by 35% and 29% respectively. The sales of other new drugs, such as mouse nerve growth factor (NGF), Leuprorelin Injectable Microspheres, and Ilaprazole, reached RMB200 to 300 million, maintaining a high growth rate of more than 50%. Thanks to the factors like expanding demands, price advantage, and good competition, the above-mentioned drugs are expected to continue to rise by 20% or 30%.

Accumulate (Initially)

CMP: HKD 39.90

(Closing price as at 21 July 2016)

TARGET: HKD 44.85 (+12.4%)

COMPANY DATA

O/S SHARES (MN) :	397
MARKET CAP (HKDMN) :	20,250
52 - WK HI/LO (HKD):	42.45/ 31

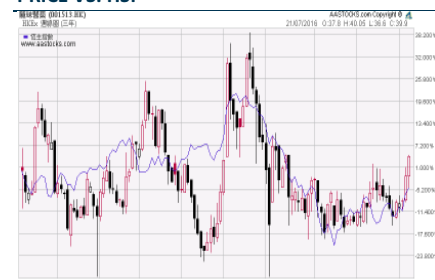
SHARE HOLDING PATTERN, %

Joincare Pharmaceutical Group:	25.39
--------------------------------	-------

PRICE PERFORMANCE, %

	1M	3M	1Y
Livzon Pharma	9.16	15.78	-5.57
HSI	3.28	14.58	8.74

PRICE VS. HSI



Source: Phillip Securities (HK) Research

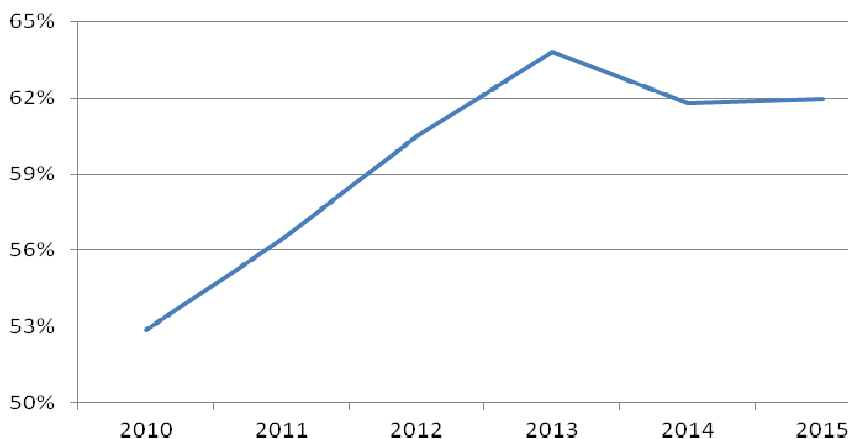
KEY FINANCIALS

CNY mn	FY14	FY15	FY16E	FY17E
Net Sales	5544	6621	7757	9081
Net Profit	516	623	752	933
EPS, CNY	1.34	1.62	1.93	2.40
PER, x	25.7	21.2	17.8	14.3
BVPS, CNY	9.62	11.23	12.66	14.46
P/BV, x	3.58	3.06	2.72	2.38
ROE, %	14.7	15.5	14.8	16.3
Debt/Equity (%)	78.9	67.9	61.3	61.3

Source: Company reports, Phillip Securities Est.

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

Gross margin of Livzon Pharma



Source: Company reports, Phillip Securities (HK) Research

Optimistic Outlook for Private Placement Fund-Raising Projects

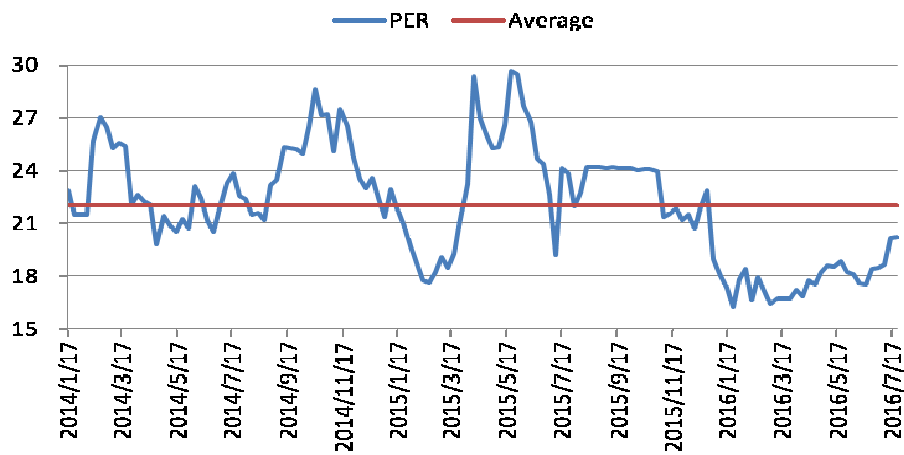
The size of the proposed private placement shall not be more than RMB1.46 billion, mainly for the R&D of Ilaprazole and McAb drugs. Through independent R&D and overseas investment, overall speaking, the Company is expected to form a complete and precise layout of medical treatment based on liquid biopsy, McAb, and so on. We think the layout will face an optimistic outlook.

In 2015, among the world's top ten best-selling drugs, McAb took up 60% of all, highlighting its leading position internationally. Domestic McAb market experienced a drastic growth of nearly 50% since 2005. The market share of domestic McAb surged from 0% to 13%. However, it is still in its early stage of development and is expected to maintain a sustainable and rapid growth. As early as 2010, Livzon started to establish a company centered on McAb to implement its strategic transformation. Among the eight McAb under research currently, TNF- α had gone through phase Ib/IIa clinical trials, while another three were accepted for the application of clinical trials. TNF- α is expected to be launched in 2018. Based on the complete preparation of hospital channels, it may bring about annual revenue of hundreds of millions. In the long run, McAb is promising to become the company's pillar product.

Valuation

TCM business had steady growth in face of adverse factors in the market. And specialist medicines had dramatic growth which might be continued. Meanwhile, the precision medical strategy progressed smoothly. Hence, we are optimistic about the future of the Company, its annual growth may reach about 20% in middle term. We give an estimation of 20x EPS in 2016 and the target price is HKD44.85, with the "Accumulate" rating initially. (Closing price as at 21 July 2016)

Historical P/E Valuation



Source: Bloomberg, Phillip Securities (HK) Research

Risks

Risk of substantial price drop in drugs;
Risk of R&D of new drugs.

Financials

FYE	2013	2014	2015	2016F	2017F
Valuation Ratios					
Price Earnings	27.10	25.70	21.23	17.79	14.34
Price to Book	3.95	3.58	3.06	2.72	2.38
Dividend Yield	1.1%	0.2%	1.5%	1.7%	2.1%
Per share data(RMB)					
EPS Adjusted	1.27	1.34	1.62	1.93	2.40
Book Value Per Share	8.70	9.62	11.23	12.66	14.46
Dividends Per Share	0.38	0.08	0.50	0.60	0.72
Growth& Margin					
Revenue growth	-	21.6%	19.4%	17.1%	17.1%
Gross Profit growth	-	18.7%	19.0%	16.6%	17.5%
Net Profit growth	-	5.8%	20.7%	20.8%	24.1%
Profitability Ratios					
Gross Margin	62.8%	61.3%	61.1%	60.8%	61.0%
Net Profit Margin	10.7%	9.3%	9.4%	9.7%	10.3%
Dividend Payout Ratio %	30.3%	5.7%	30.9%	31.0%	30.0%
Key Ratios					
Return on Assets	8.0%	7.4%	8.1%	9.0%	10.1%
Return on Equity	15.3%	14.7%	15.5%	14.8%	16.3%
Effective Tax Rate	16.7%	15.1%	18.4%	16.0%	16.0%
Liability ratio	45.1%	44.1%	40.5%	38.0%	38.0%
Income Statement(RMB: mn)					
Revenue	4,560	5,544	6,621	7,757	9,081
- Cost of Goods Sold	1,695	2,143	2,575	3,041	3,541
Gross Income	2,866	3,401	4,046	4,716	5,539
- Selling, General & Admin Expen	2,293	2,729	3,186	3,723	4,313
Operating Income	573	603	778	898	1,118
- Interest Expense	9	27	31	25	30
- Net Non-Operating Losses (Gain)	-59	-77	-64	-75	-85
Pretax Income	629	652	808	947	1,172
- Income Tax Expense	105	98	148	151	188
Income Before XO Items	524	554	660	795	984
- Minority Interests	36	38	37	43	51
Net Profit	488	516	623	752	933

Source: Company, Phillip Securities (HK) Research Estimates

(Financial figures as at 21 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