

Fosun Pharma (2196.HK)

Overseas Acquisitions to Expand International Business

Hong Kong | Pharmaceutical | Company report

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Overseas Acquisitions to Expand International Business

Fosun Pharma is going to acquire approximately 86.08% stake in Gland Pharma Limited of India for no more than \$ 1.26 billion through its subsidiaries, including the no more than \$50 million as the most likely amount that the acquirer has paid in accordance with the sales of Enoxaparin on the American market.

The company plans to forge Gland into an international pharmaceutical manufacturing and registration platform. Gland is the first injectables manufacturer in India that has got approval from the FDA of America and from GMP in Europe and America. Its revenue comes therefore mainly from America and Europe. Currently, it is providing manufacturing services of injectable drugs to large pharmaceutical companies around the world through joint development and import licensing. The business advantages and experience of Gland will therefore be conducive to Fosun in its way forward to the international market. Indian market has the advantage of conformance with international standards in drug development, clinical tests and manufacturing process, among which Gland is a leading company.

Synergy Effect Seems Significant

Firstly, in terms of product, Gland has a very diversified product line with a total of approximately 120 products different in type and form, involving mainly sterile injectables like heparin sodium and Enoxaparin sodium. With its whole industry chain of heparin, Fosun Wanbang, once granted approval from the international market, will be able to supply Gland with superior heparin raw materials. The FDA approved production line of Yaopharma in Chongqing could also complement the production capacities of Gland effectively. The total sales of Enoxaparin injection around the world has amounted to \$3 billion (1 billion of which achieved in America). As Gland Pharma Limited Enoxaparin has been launched in Europe and the chances for it to be approved in America are also high, it is expected to have a huge space for growth.

Sales of major drugs of Gland

Drug	Sales Volume(mn)		Revenue(US\$ mn)	
	2015	2016	2015	2016
Heparin Sodium	48.31	51.87	44.90	50.79
Enoxaparin Sodium	11.80	14.30	25.53	31.33
Rocuronium Bromide	3.63	6.13	9.41	15.22
Vancomycin	1.57	9.87	3.71	14.50
Huminsulin	3.86	10.37	6.48	14.05
Acetylcysteine	2.90	2.16	8.39	9.05
Cisatracurium	0.97	0.79	7.43	7.08

Source: Company reports, Phillip Securities (HK) Research

Buy (Upgrade)

CMP: HKD 19.00

(Closing price as at 11 Aug 2016)

TARGET: HKD 23.60 (+24.2%)

COMPANY DATA

O/S SHARES (MN) :	2,314
MARKET CAP (HKDMN) :	54,393
52 - WK HI/LO (HKD):	27.05/ 16.32

SHARE HOLDING PATTERN, %

Shanghai Fosun high tech (Group) Co. Ltd:	41.09
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PRICE PERFORMANCE, %

	1M	3M	1Y
Fosun Pharma	-2.99	-4.56	-20.59
HSI	-10.71	-16.72	-12.40

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY14	FY15	FY16E	FY17E
Net Sales	11938	12502	14837	17557
Net Profit	2113	2460	2937	3394
EPS, CNY	0.92	1.07	1.27	1.47
PER, x	17.8	15.3	12.9	11.2
BVPS, CNY	7.19	7.85	8.80	9.89
P/BV, x	2.28	2.09	1.86	1.66
ROE, %	13.2	14.2	13.5	14.1
Debt/Equity (%)	85.2	85.1	92.3	92.3

Source: Company reports, Phillip Securities Est.

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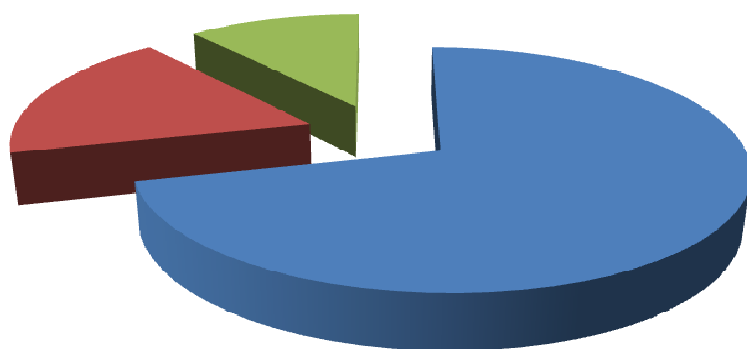
In addition, the registration team of Gland Pharma Limited has 300 to 400 employees and has obtained the authorization to produce and sell products in over 70 countries and regions beyond India. This will support the registration of Fosun drugs (like biological drugs, insulin and mAb) in the world, which are therefore expected to speed up the entry into American and Indian markets. In terms of generic drugs, if the products could obtain approval from the FDA of America, they will not have to go through consistency evaluation in mainland China. That means the company is expected to enter the market earlier, thus seizing more market shares. Meanwhile, the drugs of Gland Pharma are also expected to enter the domestic market via Fosun.

Steady Growth Supported by a Whole Industrial Chain and a Global Layout

This acquisition will further enhance the competitive advantages of Fosun Pharma in drug development and production, besides enriching its product line. Combined with the layout in such sectors as medical services, medical devices and pharmaceutical distribution, the company has become one of the few companies in the industry with a whole industry chain. Meanwhile, the company has expanded its layout to such trans-regional markets known for the space for growth as China, America and India, thus making a steady growth more anticipated in the future. We give an estimation of 16x EPS in 2016, and a target price of HKD 23.6, with the "Buy" rating upgraded. (Closing price as at 11 Aug 2016)

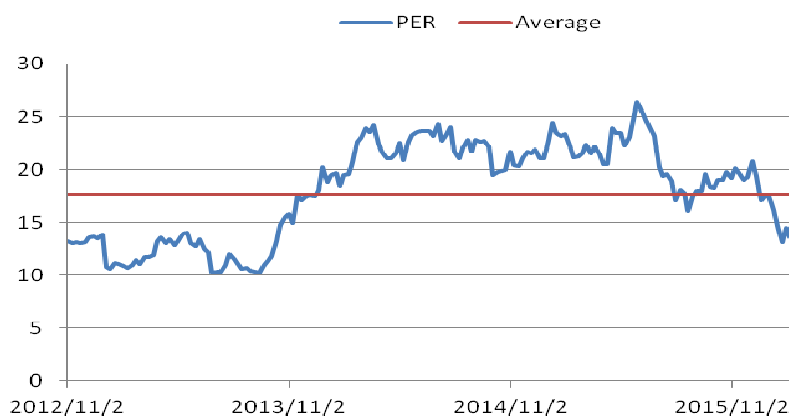
Revenue breakdown of Fosun Pharma in 2015

■ Pharmaceutical manufacturing ■ Medical instruments ■ Medical services



Source: Company reports, Phillip Securities (HK) Research

Historical P/E Valuation



Source: Bloomberg, Phillip Securities (HK) Research

Risks

Price drop;
Acquisition and integration falls short expectation;
Geopolitical risks in the expansion of overseas business.

Financials

FYE	2013	2014	2015	2016F	2017F
Valuation Ratios					
Price Earnings	18.20	17.80	15.31	12.89	11.16
Price to Book	2.40	2.28	2.09	1.86	1.66
Dividend Yield	1.6%	1.7%	2.0%	2.3%	2.7%
Per share data(RMB))					
EPS Adjusted	0.90	0.92	1.07	1.27	1.47
Book Value Per Share	6.82	7.19	7.85	8.80	9.89
Dividends Per Share	0.27	0.28	0.32	0.38	0.44
Growth& Margin					
Revenue growth	-	20.3%	4.7%	18.7%	18.3%
Gross Profit growth	-	19.2%	18.7%	19.8%	18.3%
Net Profit growth	-	4.2%	16.4%	19.4%	15.6%
Profitability Ratios					
Gross Margin	44.1%	43.7%	49.5%	50.0%	50.0%
Net Profit Margin	20.4%	17.7%	19.7%	19.8%	19.3%
Dividend Payout Ratio %	30.0%	30.4%	30.0%	29.9%	30.0%
Key Ratios					
Return on Assets	5.8%	6.5%	6.7%	7.2%	7.3%
Return on Equity	11.0%	13.2%	14.2%	13.5%	14.1%
Effective Tax Rate	15.5%	12.8%	14.9%	15.0%	15.0%
Liability ratio	40.1%	46.0%	46.0%	48.0%	48.0%
Income Statement(RMB: mn)					
Revenue	9,921	11,938	12,502	14,837	17,557
- Cost of Goods Sold	5,543	6,719	6,308	7,418	8,778
Gross Income	4,378	5,220	6,194	7,418	8,778
- Selling, General & Admin Expenses	3,385	4,143	4,846	5,757	6,812
Operating Income	1,128	1,170	1,454	1,779	2,098
- Interest Expense	350	415	470	480	500
- Net Non-Operating Losses (Gains)	-1,585	-1,952	-2,385	-2,742	-3,072
Pretax Income	2,314	2,718	3,372	4,041	4,670
- Income Tax Expense	358	348	501	606	700
Income Before XO Items	1,955	2,370	2,871	3,435	3,969
- Minority Interests	373	257	411	498	576
Net Profit	2,027	2,113	2,460	2,937	3,394

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 11 Aug 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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