

CR Double-Crane (600062.CH)

Sales from Major Products Will Grow Rapidly

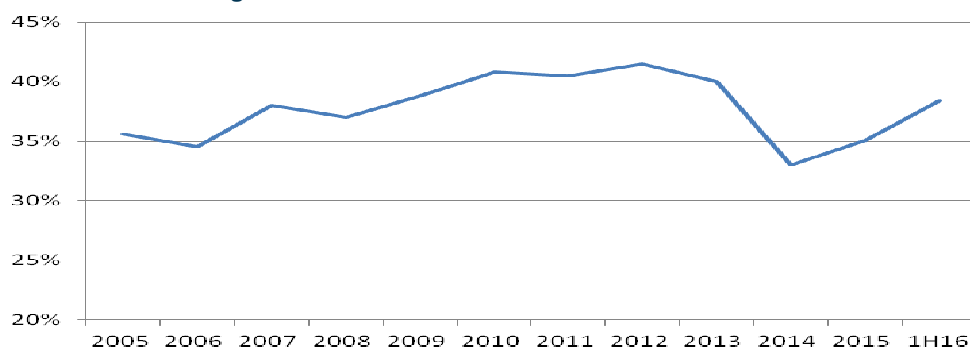
China | Pharmaceutical | Company report

23 November 2016

Steady Growth in the First Three Quarters

In the first three quarters, China Resources Double-Crane Pharmaceutical Co., Ltd. achieved a revenue of RMB4.15 billion, representing an increase of 9.3% YoY, a net profit of RMB600 million, increased by 7.8% YoY, and a net profit excluding non-recurring gains and losses of RMB570 million, soared by 43.3% YoY. The total gross margin amounted to 51.9% YoY, slightly increased by 0.4%. Specifically, the revenue from the Infusion businesses reached RMB1.58 billion, down 11.3% YoY. But thanks to structural optimization and the increased proportion of nutritional and therapeutic infusion business which has high gross margin rate, the gross margin rate of infusion businesses increased by 4% YoY.

Recovered Gross Margin of Infusion Business



Source: Company report, Phillip Securities (HK) Research

In addition, the revenue from non-infusion businesses reached RMB2.49 billion, soared by 29.5% YoY. Since the company merged and acquired China Resources Saikhe Pharmaceutical Co., Ltd. and Jinan Limin Pharmaceutical Co., Ltd. in 2015, the extensive growth has become one of the main growth engines. Specifically, the revenue from cardiovascular, endocrine, pediatric medication businesses increased by 25.3%, 6% and 12.7% YoY, respectively. The company's overall expense remained stable, while ratio of marketing expense ratio and administrative expense ratio were 22% and 11.8%, both increased by approximately 0.5% YoY.

Sales from Major Products Are Expected to Grow Rapidly

First, the company continues to carry out structural adjustment of infusion businesses. The proportion of nutritional and therapeutic infusion business has increased from 16.6% in 2011 to 25%. The proportion of plastic-bottle infusion has decreased from nearly 80% in 2011 to around 40%, but that of soft-bag infusion has increased to 20% and that of soft-bag (817) and other infusion was approaching 30%. And CR Double-Crane is the only company with BFS manufacturing technique (blow molding - filling - sealing). Though currently the production is subjected to insufficient bids, it is expected to gradually increase. And now the type of package material consists of more than 50% of the infusion package materials in Europe, so its future market demand will be huge. Structural adjustment will also contribute to the continuous improvement of profitability.

Accumulate (Initially)

CMP: CNY 23.08

(Closing price at 21 Nov 2016)

TARGET: CNY 27.52 (+19.2%)

COMPANY DATA

O/S SHARES (MN) :	724
MARKET CAP (CNYMN) :	16,721
52 - WK HI/LO (CNY):	24.24/ 15.50

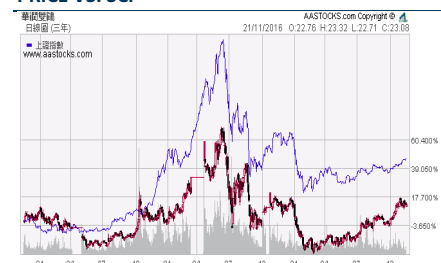
SHARE HOLDING PATTERN, %

Beijing Pharmaceutical Group :	59.99
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PRICE PERFORMANCE, %

		1M	3M	1Y
CR Double-Crane		6.69	9.66	-0.09
SCI		3.15	6.80	10.44

PRICE VS. SCI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

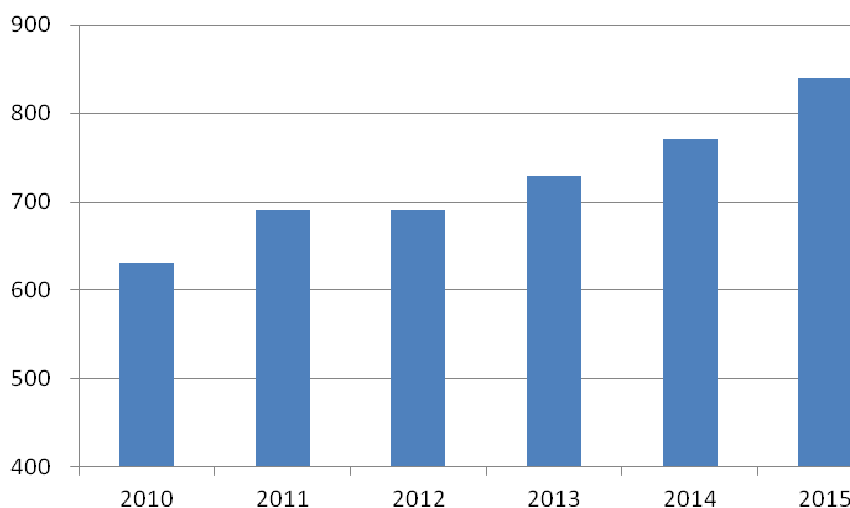
CNY mn	FY14	FY15	FY16E	FY17E
Net Sales	5091	5067	5934	6530
Net Profit	2577	2594	3092	3445
EPS, CNY	0.95	0.91	1.06	1.22
PER, x	24.3	25.3	21.8	18.9
BVPS, CNY	10.76	8.43	9.30	10.31
P/BV, x	2.1	2.7	2.5	2.2
ROE, %	12.8	10.8	11.4	11.9
Debt/Equity (%)	19.85	20.66	21.95	21.95

Source: Company reports, Phillip Securities Est.

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Second, since China cancelled the price ceiling for low-cost drugs and included their prescription in the hospital performance assessment in 2014, the price of No. 0 Antihypertensive, one of the company's core low-cost preparations, not only remained stable, but increased slightly as well with an annual average price increasing by 6-10%. There is still a substantial increase in the price space, which will help contribute to its 10-15% annual revenue growth.

Steadily Grown sales of No. 0 Antihypertensive (RMB: mn)



Source: Company report, Phillip Securities (HK) Research

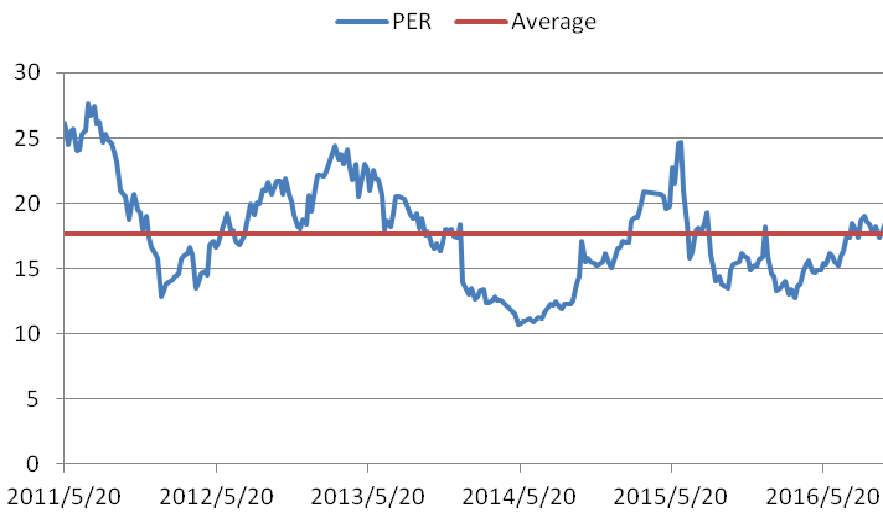
Third, National Reimbursement Drug List (NRDL) adjustment is just around the corner with focuses on local supplementary lists and children's medicines, and the company's pitvastatin and calsurf may be put on the NRDL. Pitavastatin, which has been included in the extended reimbursement drug lists of 11 provinces such as Beijing, Gansu and Guangdong, reached a sales volume of 26.56 million in 2015, rocketed by 124% YoY, and a sales revenue of over RMB100 million. In 1H 2016, the growth rate reached 74.1%. If the drug is included in NRDL, then its sales scale is expected to maintain rapid growth for the next two years, hopefully exceeding RMB500 million. Also, calsurf, as a children's medicine benefiting from market expansion and policy support, is expected to enter NRDL and the growth rate may be above 30%.

External Merger & Acquisition to Expand Business

CR Double-Crane is the only chemical drug + bio-drug platform affiliated to China Resources Pharmaceutical Group Limited, so it is highly probable that it will expand external business. After listed in HKEX, CR Pharmaceutical plans to allocate HKD3.35 billion to buy manufacturers of Chinese biological drug, traditional Chinese medicine and chemical medicine, and the target transaction scale will not be less than RMB50 million, which may increase medicine varieties and business performance for its affiliates like CR Double-Crane.

In short, the company will maintain a double-digit growth in revenue, and the profitability may see an improvement, together with the expected new profits brought by external M&A, we expect the company's performance to grow at an annual rate of 15-20%. We grant it 20x EPS in 2017 and the target price is RMB27.52, with the "Accumulate" initially. (Closing price at 21 Nov 2016)

Historical P/E Valuation



Source: Bloomberg, Phillip Securities (HK) Research

Risks

Decrease in infusion businesses exceeds expectation;
 Extensive acquisition fails to meet the expectation.

Financials

FYE	2013	2014	2015	2016F	2017F
Valuation Ratios					
Price Earnings	15.2x	24.3x	25.3x	21.8x	18.9x
Price to Book	2.5x	2.1x	2.7x	2.5x	2.2x
Dividend Yield	1.5%	0.0%	0.8%	0.9%	1.1%
Per share data(RMB)					
EPS Adjusted	1.52	0.95	0.91	1.06	1.22
Book Value Per Share	9.33	10.76	8.43	9.30	10.31
Dividends Per Share	0.34	0.00	0.19	0.22	0.25
Growth & Margin					
Revenue growth	-2.3%	-24.9%	-0.5%	17.1%	10.1%
Gross Profit growth	1.5%	11.6%	0.7%	19.2%	11.4%
Net Profit growth	41.9%	-37.8%	22.0%	16.0%	15.5%
Profitability Ratios					
Gross Margin	34.1%	50.6%	51.2%	52.1%	52.8%
Net Profit Margin	12.8%	10.6%	13.0%	12.9%	13.6%
Dividend Payout Ratio %					
Key Ratios					
Return on Assets	13.4%	10.6%	8.7%	9.4%	9.8%
Return on Equity	17.4%	12.8%	10.8%	11.4%	11.9%
Effective Tax Rate	18.1%	16.1%	17.6%	17.0%	17.0%
Liability ratio	17.7%	16.6%	17.1%	18.0%	18.0%
Income Statement(RMB: mn)					
Revenue	6,779	5,091	5,067	5,934	6,530
- Cost of Goods Sold	4,470	2,514	2,473	2,842	3,086
Gross Income	2,309	2,577	2,594	3,092	3,445
- Selling, General & Admin Expenses	1,534	1,757	1,874	2,243	2,462
Operating Income	775	820	720	849	983
- Net Non-Operating Losses (Gains)	-315	-72	-92	-90	-102
Pretax Income	1,067	881	807	930	1,075
- Income Tax Expense	193	142	142	158	183
Income Before XO Items	873	739	665	772	892
- Minority Interests	3	2	4	5	6
Net Profit	871	542	661	767	886

Source: Company, Phillip Securities (HK) Research Estimates
 (Financial figures as at 21 Nov 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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