

Humanwell Healthcare (600079.CH)

Export of Preparations may Support Future Soar in Results

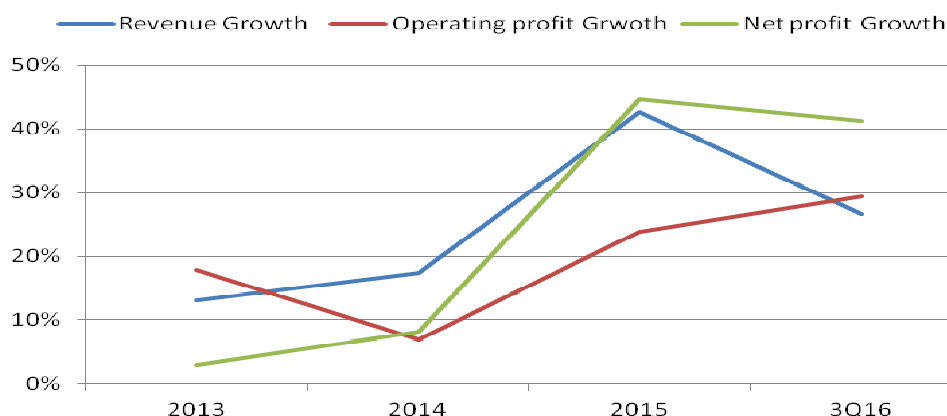
China | Pharmaceutical | Company report

30 November 2016

Rapid Growth in the First Three Quarters

Humanwell Healthcare realized revenues of RMB 8.78 billion in the first three quarters, a YoY increase of 26.6%. Net profit attributable to shareholders of parent company stood at RMB 620 million, up by 41.2% over the previous year, which was mainly attributed to the consolidation of EPIC Pharm. After EPIC net profit, acquisition costs and new financial expenses are excluded, the adjusted net profit attributable to shareholders of parent company reached RMB 470 million, increasing by 13.6% year-on-year and meeting the company's expectation of about 15% of endogenous growth rate.

High performance growth



Source: Company report, Phillip Securities (HK) Research

The company's pharmaceutical manufacturing business maintains a steady growth, and Yichang Humanwell Healthcare saw a YoY increase of over 12% in the first three quarters. The company has taken a lead in many market segments of the pharmaceutical industry, and currently covers anesthesia, birth control medicines, steroid hormones, blood products and Uyghur medicines. In respect of medical services, the company has acquired and established 12 hospitals, forming an industry scale.

Export of Preparations may Support Future Soar in Results

After successfully acquiring EPIC Pharmaceuticals, Inc. and obtaining the U.S. license for narcotics control and production lines, Humanwell Healthcare started to make major breakthroughs in overseas layout. In the meantime, thanks to the increased sales volume of patented dermatologic medicines and the rise in the profitability of soft capsule orders, the company's international outlook is optimistic.

Buy (Maintain)

CMP: CNY 20.19

(Closing price as at 28 Nov 2016)

TARGET: CNY 26.95 (+33.5%)

COMPANY DATA

O/S SHARES (MN)	1,286
MARKET CAP (CNYMN)	25,965
52 - WK HI/LO (CNY)	23.28/ 14.60

SHARE HOLDING PATTERN, %

Wuhan Modern Technology	24.49
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PRICE PERFORMANCE, %

	1M	3M	1Y
Humanwell Healthcare	-4.93	-5.42	1.83
SCI	-9.08	-11.73	12.41

PRICE VS. SCI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY14	FY15	FY16E	FY17E
Net Sales	7000	9991	12512	15399
Net Profit	452	654	881	1155
EPS, CNY	0.43	0.52	0.68	0.90
PER, x	47.51	38.83	29.48	22.48
BVPS, CNY	4.47	6.13	7.84	8.60
P/BV, x	4.52	3.29	2.58	2.35
ROE, %	9.97	10.38	9.22	11.08
Debt/Equity (%)	112.42	97.69	122.22	122.22

Source: Company reports, Phillip Securities Est.

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

Since 2014, the company has invested heavily in the export of preparations. Currently, it has set up production workshops in compliance with cGMP certification requirements in Yichang, Wuhan and Africa. Specifically, the production lines of Wuhan PuraCap soft capsules have passed the verification by the U.S. FDA without any defect. Furthermore, the company reserves more than 40 overseas ANDA/NDA project varieties, and coupled with Epic's excellent product line and overseas channels, such varieties are projected to provide support for the company's future soar in results.

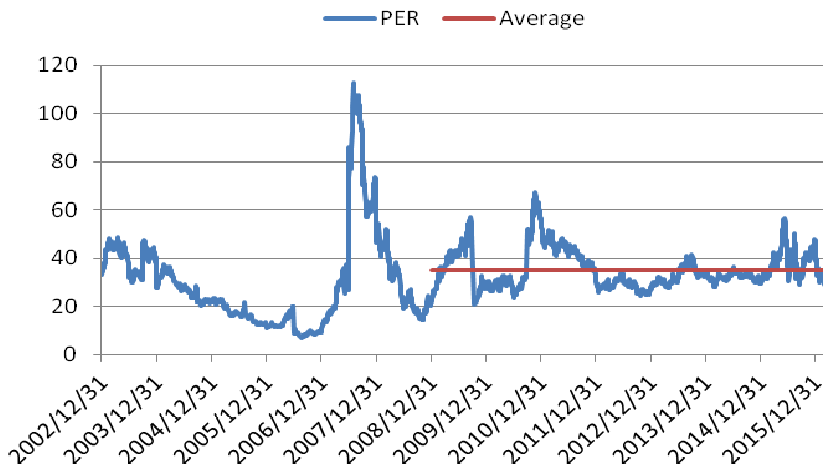
Private Placement Highlighted the Confidence of Major Shareholders

The company announced that it intends to make a non-public offering of stocks to its major shareholder Wuhan Modern Technology with an issue price of RMB 17.76/share. The raised funds will not exceed RMB 2.8 billion with a lock-up period of three years, and will be used to repay bank loans and ultra-short-term commercial papers. In case of successful offering, the shareholding proportion of major shareholders will rise from 24.49% to 32.74%.

Earlier, the acquisition of EPIC and investment in mergers and acquisitions of hospitals contributed to the company's increased liabilities. As of September 30, the total liabilities amounted to RMB 13.81 billion, a RMB 4.84 billion increase compared to that at the beginning of the year, hence causing the financial expenses in the first three quarters to surge by RMB 84 million. By then, the fund-raising will improve the company's financial structure, reducing the liability/asset ratio to about 55% and easing financial pressures with the financial costs expected to reduce by more than RMB 100 million.

Overall, the existing pharmaceutical industry of Humanwell Healthcare is expected to maintain a healthy growth. The company continues to advance international strategy and medical services with rich product line reserves. Thus, its performance is projected to continue surging. Full participation of major shareholders' in the non-public offering of stocks demonstrates their confidence. Therefore, we give the company an estimation equivalent to 30x EPS in 2017 and the target price is RMB 26.95, with the "Buy" rating maintained. (Closing price as at 28 Nov 2016)

Historical P/E Valuation



Source: Bloomberg, Phillip Securities (HK) Research

Risks

Medical services development fell short of expectations;
 Adverse impact by medical insurance containment beat estimates.

Financials

Valuation Ratios					
Price Earnings	48.65	47.51	38.83	29.48	22.48
Price to Book	4.92	4.52	3.29	2.58	2.35
Dividend Yield	0.30%	0.00%	0.50%	0.69%	0.89%
Per share data(CNY)					
EPS Adjusted	0.42	0.43	0.52	0.68	0.90
Book Value Per Share	4.11	4.47	6.13	7.84	8.60
Dividends Per Share	0.06	0.00	0.10	0.14	0.18
Growth & Margin					
Revenue growth	-	17.32%	42.73%	25.23%	23.07%
Gross profit growth	-	16.75%	25.47%	25.07%	23.42%
Net profit growth	-	8.14%	44.72%	34.73%	31.13%
Gross Margin	41.09%	40.89%	35.95%	35.90%	36.00%
Operating Margin	14.96%	13.40%	10.85%	10.80%	11.00%
Net Profit Margin	7.00%	6.45%	6.54%	7.04%	7.50%
Dividend Payout Ratio %	15.19%	0.00%	19.67%	20.44%	20.04%
Key ratios					
Return on Assets	4.76%	4.13%	4.31%	4.38%	4.99%
Return on Equity	11.35%	9.97%	10.38%	9.22%	11.08%
Liability ratio	47.66%	52.92%	49.42%	55.00%	55.00%
Effective Tax Rate	21.91%	22.61%	20.41%	20.41%	20.41%
Income Statement(CNY: mn)					
Revenue	5,967	7,000	9,991	12,512	15,399
- Cost of Goods Sold	3,515	4,138	6,400	8,020	9,855
Gross Income	2,452	2,862	3,591	4,492	5,544
- Selling, General & Admin Expenses	1,559	1,924	2,507	3,140	3,850
Operating Income	893	938	1,084	1,351	1,694
- Interest Expense	168	197	242	342	250
- Net Non-Operating Losses (Gains)	-50	-80	-227	-435	-450
Pretax Income	770	821	1,072	1,444	1,894
- Income Tax Expense	169	186	219	295	386
Income Before XO Items	601	636	853	1,150	1,507
- Minority Interests	183	184	199	269	352
Net Profit	418	452	654	881	1,155

Source: Company, Phillip Securities (HK) Research Estimates
 (Financial figures as at 28 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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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