Tasly Pharmaceutical Group (600535.CH)
Positive Results for DSP FDA Phase III Trials

China | Pharmaceutical | Company report

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Positive Results for DSP FDA Phase III Trials

At the end of December, Tasly announced the results of the Phase III FDA randomized, double-blinded, international multi-center clinical trials of compound Danshen dripping pills (DSP): DSP has, at the primary clinical endpoint, a significant dose-effect relationship and can increase the effect of TED; the secondary endpoint of observation on curative effect supports the primary clinical endpoint, and an evidence-effect chain is formed. In the trial, a clinical study of DSP was carried out to interpret its formula basis, and its clinical safety is proved once again. No serious adverse events associated with the protocol or with DSP were observed throughout the trial period. Other general adverse events were infrequent, minor, and self-healing, and there was no difference in the incidence rate of adverse events among study groups.

The results showed that DSP can be proved to be effective under the FDA standard, and it is feasible to produce Chinese patent medicines approved by FDA under the strict GMP/GAP in the modern TCM production system. This is China`s first Chinese patent medicine that completed the phase III clinical trial of FDA, marking TCM`s major step toward internationalization and modernization. We expect the company will begin its listing application, and DSP to pass FDA certification and be listed in 2018.

The United States has a vast market for chronic angina pectoris, and the FDA has only certified two new drugs over the past 20 years. The latest is ranolazine (market size over USD600 million), but the side effects are great. DSP, as a botanical drug causing minor side effects, can be used for a long time and is more affordable, and is expected to take its share in the US angina pectoris market. Meanwhile, phase III results are expected to further promote DSP sales in the domestic market, since the FDA phase II trial data in 2010 has caused the revenue from DSP to increase by more than 20% in 2011 and 2012. In addition, the company will become China`s international TCM platform, through which many products, such as Qilin pill, are expected to enter markets of developed countries.

Channel Adjustment Basically Completed

In the past two years, the growth rate of the company slowed down obviously. In the first three quarters of 2016, the revenue from the pharmaceutical industry decreased by 14.5% YoY, and so did the profit, mainly due to the company`s channel structure adjustment and the strengthening of accounts receivable management. However, the company`s sales volume of principal products in the hospital market has maintained growth. We expect that the company`s channel adjustment has been basically completed through channel destocking in 2016. Moreover, since 2008 the tender price cut of principal products has not been not significant, indicating a slight impact on the company by the controlled medical insurance fee. It is highly probable that the pharmaceutical industry will resume its growth in 2017. Also worth mentioning is that the company`s Puyouke (recombinant human prourokinase for injection), Yiqi Fumai, Salvianolic acid and other varieties are expected to enter the National Drug Reimbursement List and to achieve rapid sales growth.

Accumulate (Downgrade)

CMP: CNY 40.04
(Closing price as at 11 Jan 2017)
TARGET: CNY 46.00 (+15%)

COMPANY DATA

O/S SHARES (MN) :	1,080
MARKET CAP (CNYMN) :	43,262
52 - WK HI/LO (CNY):	56.00/ 31.28

SHARE HOLDING PATTERN， %

Tasly Holdings Group :	45.18

PRICE PERFORMANCE， %

	1M	3M	1Y
Tasly	-4.79	-6.65	12.28
SCI	-2.58	-10.37	13.06

PRICE VS. SCI

Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY14	FY15	FY16E	FY17E
Net Sales	12476	13228	13620	15326
Net Profit	1368	1479	1355	1657
EPS, CNY	1.32	1.38	125	1.53
PER, x	30.33	29.01	31.92	26.10
BVPS, CNY	4.68	6.91	7.74	8.90
P/BV, x	8.55	5.79	5.17	4.50
ROE, %	31.44	23.15	16.61	17.95
Debt/Equity (%)	154.94	99.99	92.31	92.31

Source: Company reports, Phillip Securities Est.

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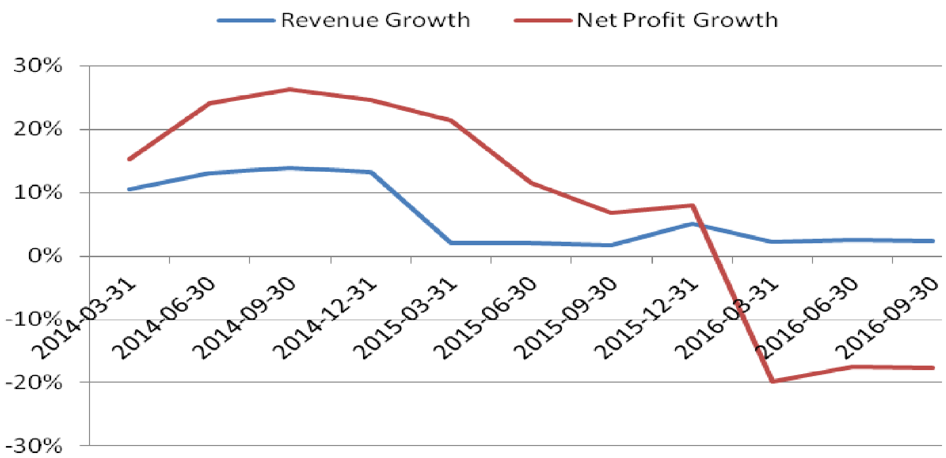
Worse performance of Tasly

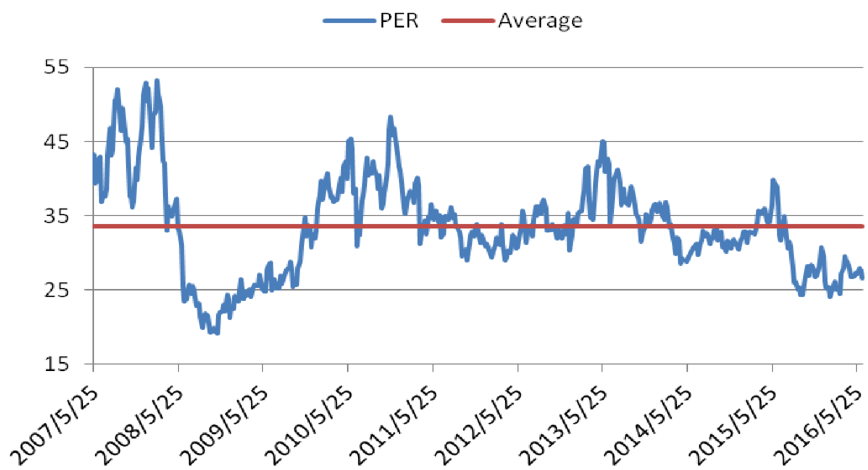


Source: Wind, Phillip Securities (HK) Research

Bright Prospects for Leader in TCM Modernization

Tasly may well be the first TCM enterprise going abroad and become a leading enterprise in TCM modernization. The significantly increased brand influence, coupled with the end of channel adjustment, the company will resume its upward trend on results. In light of comparable companies, we give Tasly an estimation of 30x PE in 2017 and a 12-month target price of RMB46, with the "Accumulate" rating. (Closing price as at 11 Jan 2017)

Historical P/E Valuation



Source: Bloomberg, Phillip Securities (HK) Research

Historical P/E Valuation

Stock Code	Company	MV(CNY mn)	PE(TTM)	PE-2016F	PE-2017F	PB
600518.SH	Kangmei Pharmaceutical	85,587	26.41	25.13	20.32	3.00
000538.SZ	Yunnan Baiyao	76,751	25.68	24.79	22.03	5.06
600085.SH	Tongrentang	42,036	43.32	41.63	36.57	5.54
002603.SZ	Buchang Pharmaceutical	19,568	36.58	34.68	28.40	3.80
000423.SZ	Dong-E E-Jiao	34,833	20.24	18.96	16.28	4.52
600557.SH	Kangyuan Pharmaceutical	10,652	29.02	27.47	23.51	3.48
Average			30.21	28.78	24.52	4.23
600535.SH	Tasly	43,262	34.25	29.86	25.43	5.42

Source: Wind, Phillip Securities (HK) Research

Risks

Tender price limit;
Progress in FDA certification below expectations;

Financials

Periodicity:	2013	2014	2015	2016F	2017F
Valuation Ratios					
Price Earnings	37.42	30.33	29.01	31.92	26.10
Price to Book	10.69	8.55	5.79	5.17	4.50
Dividend Yield	0.87%	0.97%	1.05%	0.95%	1.15%
Per share data(CNY)					
EPS Adjusted	1.07	1.32	1.38	1.25	1.53
Book Value Per Share	3.74	4.68	6.91	7.74	8.90
Dividends Per Share	0.35	0.39	0.42	0.38	0.46
Growth & Margin					
Revenue growth	18.79%	13.23%	5.17%	2.97%	12.52%
Gross profit growth	27.69%	16.35%	8.35%	-8.84%	15.88%
Net profit growth	43.04%	24.36%	8.09%	-8.39%	22.27%
Gross Margin	35.74%	36.72%	37.84%	33.50%	34.50%
Operating Margin	13.89%	16.05%	15.18%	13.50%	14.50%
Net Profit Margin	9.91%	10.88%	11.18%	9.95%	10.81%
Dividend Payout Ratio %	32.71%	29.55%	30.43%	30.29%	29.99%
Key ratios					
Return on Assets	11.85%	11.73%	10.44%	8.48%	9.33%
Return on Equity	27.07%	31.44%	23.15%	16.61%	17.95%
Liability ratio	59.82%	60.77%	50.00%	48.00%	48.00%
Effective Tax Rate	17.77%	16.31%	15.15%	15.20%	15.20%
Income Statement(CNY: mn)					
Revenue	**11,108**	**12,578**	**13,228**	**13,620**	**15,326**
- Cost of Goods Sold	7,043	7,857	8,102	9,057	10,039
Gross Income	**3,970**	**4,619**	**5,005**	**4,563**	**5,288**
- Selling, General & Admin Expe	2,427	2,600	2,996	2,724	3,065
Operating Income	**1,543**	**2,019**	**2,008**	**1,839**	**2,222**
- Interest Expense	163	305	267	260	280
- Net Non-Operating Losses (Gai	-35	-19	-59	-65	-75
Pretax Income	1,416	1,733	1,795	1,644	2,017
- Income Tax Expense	252	283	272	250	307
Income Before XO Items	1,164	1,450	1,524	1,394	1,711
- Minority Interests	66	82	45	39	54
Net Profit	**1,100**	**1,368**	**1,479**	**1,355**	**1,657**

Source: Company, Phillip Securities (HK) Research Estimates

(Financial figures as at 11 Jan 2017)

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 ± 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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