

# Salubris (002294.CH)

## Growth Expected to Be Accelerated in 2017

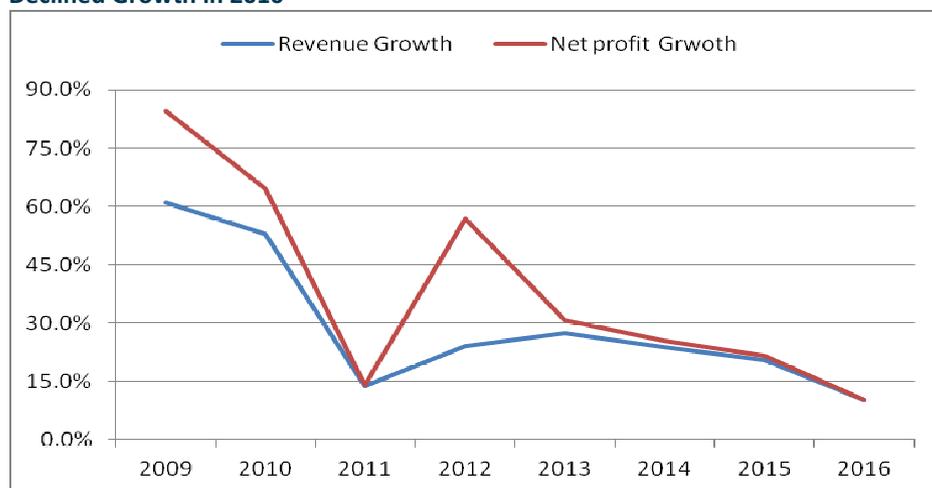
China | Pharmaceutical | Company report

10 February 2017

### Growth Slowed Down in 2016

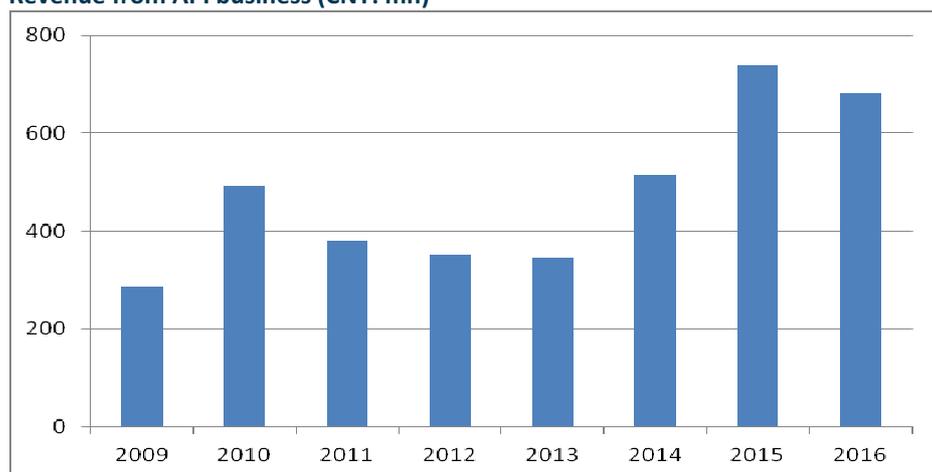
In 2016, Salubris recorded RMB3.83 billion in revenue, up 10.2% yoy; the net profit attributable to the parent company stood at RMB1.39 billion, up 10.2% yoy, with an EPS of RMB1.33. Overall speaking, the company experienced steady growth in 2016, but the growth rate slowed down, touching the lowest level since Salubris' IPO. As the main factor, the capacity was affected to a certain extent because the API business had been in the process of adjustment to production planning under the pressure from environmental protection. We expect that the API revenue in 2016 is less than RMB700 million, down to some extent compared to the previous year.

### Declined Growth in 2016



Source: Company reports, Phillip Securities (HK) Research

### Revenue from API business (CNY: mn)



Source: Company reports, Phillip Securities (HK) Research

However, the company's preparations business is still expected to achieve rapid growth, with the sales volume of competitive products Clopidogrel (Tajjia) rising by around 15% to approximately RMB2.6 billion, and the revenue from second-line products, such as Bivalirudin, achieving rapid y-o-y growth at RMB120 million to RMB150 million.

### BUY (Initially)

CMP: CNY 29.04

(Closing price as at 8 Feb 2017)

TARGET: CNY 36.70 (+26.4%)

### COMPANY DATA

O/S SHARES (MN) :	1,046
MARKET CAP (CNYMN) :	30,376
52 - WK HI/LO (CNY):	31.13/24.81

### SHARE HOLDING PATTERN, %

Salubris Pharmaceutical Co. Ltd. :	67.73
------------------------------------	-------

### PRICE PERFORMANCE, %

	1M	3M	1Y
Salubris	-1.39	-2.96	13.71
HS300	-1.35	-3.59	0.33

### PRICE VS. HS300



Source: Phillip Securities (HK) Research

### KEY FINANCIALS

CNY mn	FY14	FY15	FY16E	FY17E
Net Sales	2840	3427	3833	4363
Net Profit	1042	1266	1395	1600
EPS, CNY	0.99	1.21	1.33	1.53
PER, x	29.22	24.00	21.83	18.98
BVPS, CNY	3.61	4.39	5.12	5.99
P/BV, x	8.04	6.62	5.67	4.85
ROE, %	30.17	30.25	27.17	26.18
Debt/Equity (%)	21.86	14.72	14.29	14.29

Source: Company reports, Phillip Securities Est.

Research Analyst

Fan Guohe

(+ 86 21 51699400-110)

fanguohe@phillip.com.cn

## Growth Expected to Be Accelerated in 2017

First, the company is one of the few local enterprises which has successfully operated high-end generic varieties, and its core variety, Taijia, has obtained the EU certification and becomes a typical example of high-quality homegrown generic drugs. Due to too many potential competitors, the market generally was not optimistic about the prospects of Taijia. But after the introduction of the consistency evaluation policy on generic drugs, medical policies have valued "improvement of quality standards, emphasis on cost performance", which will benefit high-quality generics in approval process, bidding and purchasing and other processes. Therefore, we expect Taijia's oligopoly to maintain. Furthermore, Interim Measures for Drug Trade of Medical Institutions in Guangdong Province took effect in September 2016, which means Taijia may participate in the tender through the non-base drug list and return to the Guangdong market in 2017. Therefore, we anticipate that Taijia will report more rapid growth.

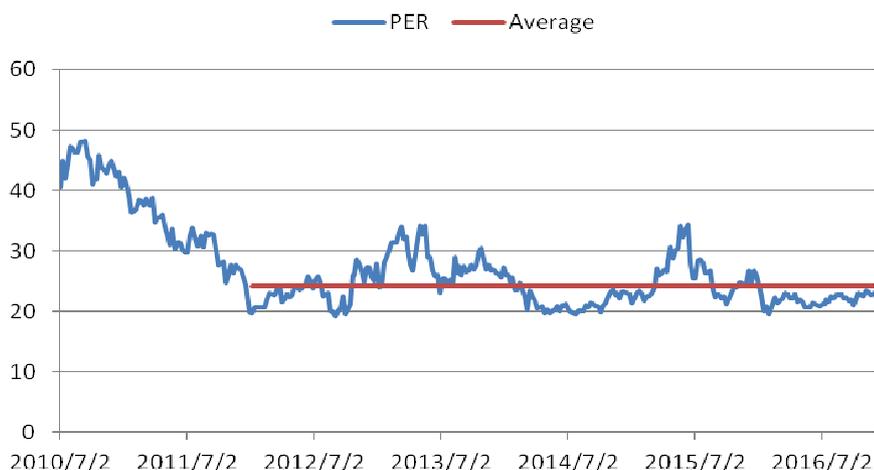
Second, the main second-line products are likely to enter the new Medical Insurance Drug Reimbursement List and sell quickly, which will mitigate the company's risk resulting from over-dependence on a single variety. Bivalirudin has become the preferred anti-coagulant drugs for PCI operations in the new version of guidelines, and its clinical status has exceeded heparin. Allisartan isoproxil, which belongs to New Drug Class 1.1, can be hydrolyzed into antihypertensive active substances in the gastrointestinal tract and absorbed without going through liver metabolism, thus imposing only small burden on liver and safer to the elderly. If Allisartan isoproxil makes the reimbursement list, its future revenue is likely to exceed RMB500 million.

In addition, the company accepted the assignment of 69.52% equity of Alain Medical for RMB129 million, for the improvement of its layout in cerebrovascular sector and peripheral vessel sector. The main products of Alain Medical are cerebral artery drug-eluting stent (in clinical follow-up stage) and lower limb arterial drug-eluting stent (in preclinical research stage), which possess optimistic market potential and is expected to become one of the growth points.

## Valuation at Record Low

Generally, the company's growth hit the bottom in 2016, but will speed up in 2017 when the preparations business boosts. Meanwhile, the API business anticipates stable development. And the valuation of the company was only around 20x, at record low and the bottom of the industry counterparts. In light of the result improvement, we give an estimation of 24x EPS in 2017 with a target price of RMB36.70, with the "Buy" rating initially. (Closing price as at 8 Feb 2017)

### Historical P/E Valuation



Source: Bloomberg, Phillip Securities (HK) Research

**Peer Comparison**

Stock code	Company	MV(CNY:mn)	PE-TTM	PE-2016F	PE-2017F	PB
002294.SZ	Salubris	30,376	21.78	20.77	17.92	6.07
600276.SH	Hengrui medicine	113,288	44.80	42.09	34.10	9.66
600521.SH	Huahai Pharma	22,634	45.97	41.92	32.54	5.61
000963.SZ	Huadong Pharma	37,043	27.14	26.42	21.61	5.27
002262.SZ	Nhwa-group	13,402	45.18	42.72	33.75	6.57
600196.SH	Fosun Pharma	60,971	22.43	21.27	17.76	3.14
	<b>Average</b>		<b>37.10</b>	<b>34.88</b>	<b>27.95</b>	<b>6.78</b>

Source: Wind, Phillip Securities (HK) Research

**Risks**

Persistent risk of single product;  
 Expansion of second-line market below expectations;  
 R&D progress of new products below expectations.

## Financials

Periodicity:	2013	2014	2015	2016F	2017F
<b>Valuation Ratios</b>					
Price Earnings	36.59	29.22	24.00	21.83	18.98
Price to Book	9.71	8.04	6.62	5.67	4.85
Dividend Yield	1.63%	1.52%	1.71%	1.71%	1.71%
<b>Per share data(CNY)</b>					
EPS Adjusted	0.79	0.99	1.21	1.33	1.53
Book Value Per Share	2.99	3.61	4.39	5.12	5.99
Dividends Per Share	0.47	0.44	0.50	0.50	0.50
<b>Growth &amp; Margin</b>					
Revenue growth	27.19%	23.92%	20.67%	11.85%	13.84%
Gross profit growth	29.17%	20.14%	21.19%	12.18%	12.76%
Net profit growth	30.71%	25.51%	21.45%	10.20%	14.22%
Gross Margin	75.36%	73.07%	73.38%	73.60%	73.85%
Operating Margin	41.39%	41.19%	42.36%	41.90%	42.25%
Net Profit Margin	36.23%	36.70%	36.94%	36.39%	36.67%
Dividend Payout Ratio %	47.24%	44.03%	49.59%	49.62%	49.68%
<b>Key ratios</b>					
Return on Assets	25.07%	25.24%	25.31%	23.73%	22.91%
Return on Equity	28.97%	30.17%	30.25%	27.17%	26.18%
Liability ratio	13.95%	17.94%	12.83%	12.50%	12.50%
Effective Tax Rate	14.66%	14.29%	14.87%	15.00%	15.00%
<b>Income Statement(CNY: mn)</b>					
<b>Revenue</b>	<b>2,292</b>	<b>2,840</b>	<b>3,427</b>	<b>3,833</b>	<b>4,363</b>
- Cost of Goods Sold	565	765	912	1,012	1,141
<b>Gross Income</b>	<b>1,727</b>	<b>2,075</b>	<b>2,515</b>	<b>2,821</b>	<b>3,222</b>
- Selling, General & Admin Expense	779	905	1,063	1,215	1,379
<b>Operating Income</b>	<b>949</b>	<b>1,170</b>	<b>1,452</b>	<b>1,606</b>	<b>1,844</b>
- Net Non-Operating Losses (Gain)	-29	-48	-38	-40	-45
Pretax Income	976	1,217	1,491	1,646	1,889
- Income Tax Expense	143	174	222	247	283
Income Before XO Items	833	1,043	1,270	1,399	1,605
- Minority Interests	3	1	4	4	5
<b>Net Profit</b>	<b>830</b>	<b>1,042</b>	<b>1,266</b>	<b>1,395</b>	<b>1,600</b>

Source: Company, Phillip Securities (HK) Research Estimates  
(Financial figures as at 8 Feb 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 $\pm 5\%$ 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>.

© 2017 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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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