

# Yibai Pharmaceutical (600594.CH)

## 2016 Results Resume Growth

China | Pharmaceutical | Company report

17 February 2017

### Investment Summary

The upsurge in the expense ratio caused the sharp fall in Yibai Pharmaceutical's results for 2015, but in 2016, the pharmaceutical sector rebounded after hitting the bottom and Lobaplatin experienced rapid growth. Thanks also to the recovery of the expense ratio due to expense control, the company has resumed growth in results. It is worth mentioning that the most core varieties are exclusive ones with good competitive landscape, and its abundant product line and powerful sales capacity will contribute to a steady growth in pharmacy. In the meanwhile, a medical service platform with tumor hospitals at the core, medical institutions and medical groups are expected to boost rapid growth in medical service business. In other words, the service is likely to enjoy an equal share with its pharmaceutical sector in a long and middle term. We give an estimation of 30x EPS in 2017 with a target price of RMB19.5, with the "Accumulate" rating maintained. (Closing price as at 15 Feb 2017)

### Peer Comparison

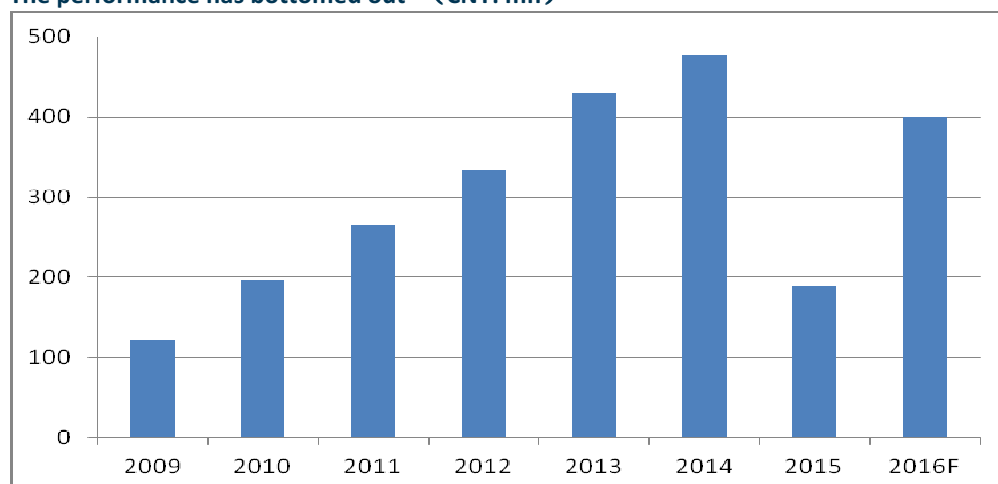
Stock Code	Company	MV(CNY: mn)	PE-TTM	PE-2016F	PE-2017F	PB
600518.SH	Kangmei Pharmaceutical	86,626	26.73	25.44	20.56	3.04
000538.SZ	Yunnan Baiyao	79,198	26.5	25.56	22.73	5.22
603858.SH	Buchang Pharmaceutical	61,342	32.23	35.22	30.88	7.29
600085.SH	Beijing Tongrentang	41,624	42.89	41.2	36.13	5.49
600535.SH	Tasly	40,820	32.32	28.34	23.97	5.11
300015.SZ	Aier Ophthalmology	30,356	56.41	52.76	40.07	11.5
000538.SZ	TC Medical	9,578	49.42	51.48	39.98	10.13
	<b>Average</b>		<b>38.07</b>	<b>37.14</b>	<b>30.62</b>	<b>6.83</b>
<b>600594.SH</b>	<b>Yibai Pharmaceutical</b>	<b>12,980</b>	<b>40.89</b>	<b>29.67</b>	<b>24.07</b>	<b>3.37</b>

Source: Wind, Phillip Securities (HK) Research

### 2016 Results Resume Growth

According to Yibai Pharmaceutical's announcement, the company's net profit in 2016 is expected to soar by 100% to 120% yoy, amounting to RMB378 million to RMB416 million, reversing decline in results over the previous year. In 2015, its net profit plummeted by 60.4%, mainly due to increased marketing expense, which led to the year-on-year rise in marketing expense rate and administration expense rate by 6.6 ppts and 2.2 ppts, respectively. Meanwhile, sales of the Aidi injection, the company's first line drug was down by 11% yoy.

### The performance has bottomed out (CNY: mn)



Source: Company reports, Phillip Securities (HK) Research

### Accumulate (Maintain)

CMP: CNY 16.39

(Closing price as at 15 Feb 2017)

TARGET: CNY 19.50 (+19%)

### COMPANY DATA

O/S SHARES (MN) :	792
MARKET CAP (CNYMN) :	12,980
52 - WK HI/LO (CNY):	19.05/ 12.85

### SHARE HOLDING PATTERN, %

Dou Quling :	23.15
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### PRICE PERFORMANCE, %

	1M	3M	1Y
YIBAI	0.48	-0.42	21.30
SCI	-2.90	-0.65	5.59

### PRICE VS. SCI



Source: Phillip Securities (HK) Research

### KEY FINANCIALS

CNY mn	FY14	FY15	FY16E	FY17E
Net Sales	3103	3247	3755	4461
Net Profit	478	189	400	513
EPS, CNY	0.61	0.24	0.51	0.65
PER, x	26.9	68.3	32.4	25.3
BVPS, CNY	4.33	4.51	5.00	5.58
P/BV, x	3.8	3.6	3.3	2.9
ROE, %	17.8	5.4	10.6	12.3
Debt/Equity (%)	59.7	56.4	61.3	66.7

Source: Company reports, Phillip Securities Est.

Research Analyst

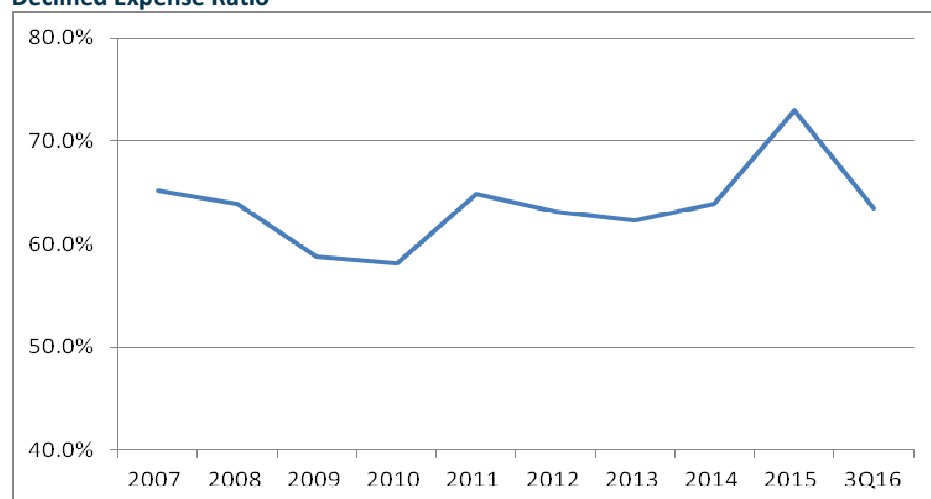
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In 2016, the expense ratio fell from up to 73% to a normal level of about 64%, resulting from effective expense control and management with gradual development of marketing and promotion and continuous optimization of marketing structure. At the same time, the pharmaceutical sector recorded a steady growth. Despite negative factors such as medical insurance cost control and limitations imposed on adjuvant drugs, and Aidi injection, one of the core varieties, still under pressure of price reduction, the company actively exploited grassroots channels and other untapped markets to boost sales. Furthermore, it had boosted the marketing of second-line products, such as Lobaplatin for injection, Bao Gong Zhixue Jiaonang and Jingulian Jiaonang, among which Lobaplatin recorded a sharp increase of around 80%.

### Declined Expense Ratio



Source: Wind, Phillip Securities (HK) Research

We believe the exclusive Lobaplatin, compared with the previous two generations of platinum drugs, has wider applications to indications and lower toxic and side effects. Coupled with the company's deep-seated channel edge in tumor for a long time, Lobaplatin is likely to become another major variety for drug combination of chemotherapy and maintain rapid growth.

### Optimistic Outlook for Medical Service Business

In June 2015, the company put forward the strategy of transforming medical services, a double-track model in which pharmacy serves as the root and tumor medicare ecosystem as priority. Thereafter, it has been dedicated to a comprehensive tumor medicare service platform with support from the tumor treatment center and tumor medical group. The tumor treatment center, currently an entity platform providing tumor medicare services with around 30 ongoing projects by far, anticipates a continuous expansion in the future. And the tumor medical group makes up the core resource and operators of tumor medicare services, and the tumor treatment center provides a permanent establishment for its regular practice. The company also set up a joint venture with IKON, Australia's largest radiotherapy chain, to provide a comprehensive and standardized management service for the radiotherapy center.

We expect the company to be the largest tumor medicare service platform in China with the "drug + hospital + doctor" tumor treatment ecosystem, and establish a tumor treatment system that integrates surgery, radiotherapy, chemotherapy, imaging, diagnosis, rehabilitation and precision medicine. The model of medical group, involving doctors in management and investment, is also expected to address the issues of private capital investing in hospitals. In 2016, the medicare services contributed a profit of roughly RMB60 million to the company. We anticipate the sector's rapid growth in 2017, its harvest season.

## Risks

Progress of transformation below expectations;  
Risk of price drop in drugs.

## Financials

FYE	2013	2014	2015	2016F	2017F
<b>Valuation Ratios</b>					
Price Earnings	27.3x	26.9x	68.3x	32.4x	25.3x
Price to Book	6.1x	3.8x	3.6x	3.3x	2.9x
Dividend Yield	0.4%	0.4%	0.1%	0.4%	0.4%
<b>Per share data(RMB)</b>					
EPS Adjusted	0.60	0.61	0.24	0.51	0.65
Book Value Per Share	2.67	4.33	4.51	5.00	5.58
Dividends Per Share	0.07	0.06	0.02	0.06	0.07
<b>Growth &amp; Margin</b>					
Revenue growth	-15.6%	13.2%	4.6%	15.6%	18.8%
Gross Profit growth	-14.2%	12.8%	3.3%	13.1%	13.0%
Net Profit growth	127.1%	11.4%	-60.5%	111.8%	28.3%
<b>Profitability Ratios</b>					
Gross Margin	81.9%	81.6%	80.5%	78.8%	75.0%
Net Profit Margin	15.7%	15.4%	5.8%	10.7%	11.5%
Dividend Payout Ratio %	9.9%	9.1%	8.4%	10.3%	9.5%
<b>Key Ratios</b>					
Return on Assets	15.7%	11.0%	3.5%	6.7%	7.5%
Return on Equity	24.8%	17.8%	5.4%	10.6%	12.3%
Effective Tax Rate	16.4%	13.5%	15.4%	15.0%	15.0%
Liability ratio	39.6%	37.4%	36.1%	38.0%	40.0%
<b>Income Statement(RMB: mn)</b>					
<b>Revenue</b>	<b>2,741</b>	<b>3,103</b>	<b>3,247</b>	<b>3,755</b>	<b>4,461</b>
- Cost of Goods Sold	497	571	632	796	1,117
<b>Gross Income</b>	<b>2,245</b>	<b>2,532</b>	<b>2,615</b>	<b>2,959</b>	<b>3,344</b>
- Selling, General & Admin Expenses	1,722	1,996	2,365	2,422	2,677
<b>Operating Income</b>	<b>523</b>	<b>536</b>	<b>250</b>	<b>537</b>	<b>667</b>
- Interest Expense	23	38	51	59	65
- Net Non-Operating Losses (Gains)	-16	-58	-28	0	-10
<b>Pretax Income</b>	<b>515</b>	<b>557</b>	<b>227</b>	<b>478</b>	<b>612</b>
- Income Tax Expense	84	75	35	72	92
<b>Income Before XO Items</b>	<b>431</b>	<b>481</b>	<b>192</b>	<b>406</b>	<b>520</b>
- Minority Interests	2	3	3	6	7
<b>Net Profit</b>	<b>429</b>	<b>478</b>	<b>189</b>	<b>400</b>	<b>513</b>

Source: Company, Phillip Securities (HK) Research Estimates  
(Financial figures as at 15 Feb 2017)

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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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