

# Tonghua Dongbao (600867.CH)

## NDRL adjustment will support insulin products to grow rapidly

China | Pharmaceutical | Company report

24 May 2017

### Investment Summary

Tonghua Dongbao is a domestic leading company of second-generation insulin, and its diabetes products reserves are rich. With the second generation of insulin shifting from Class B to Class A in the NDRL, plus the company's strong grassroots promotion channels, we expect it will continue to grow rapidly. The launch of third-generation insulin is expected soon, which will also inject new impetus to the growth. In addition, the company relies on chronic disease management platform, and establishes diabetes closed-loop system to consolidate its leading position. We give an estimation of 35x EPS in 2018 and the target price is RMB27.08, with the "Buy" rating initially. (Closing price as at 22 May 2017)

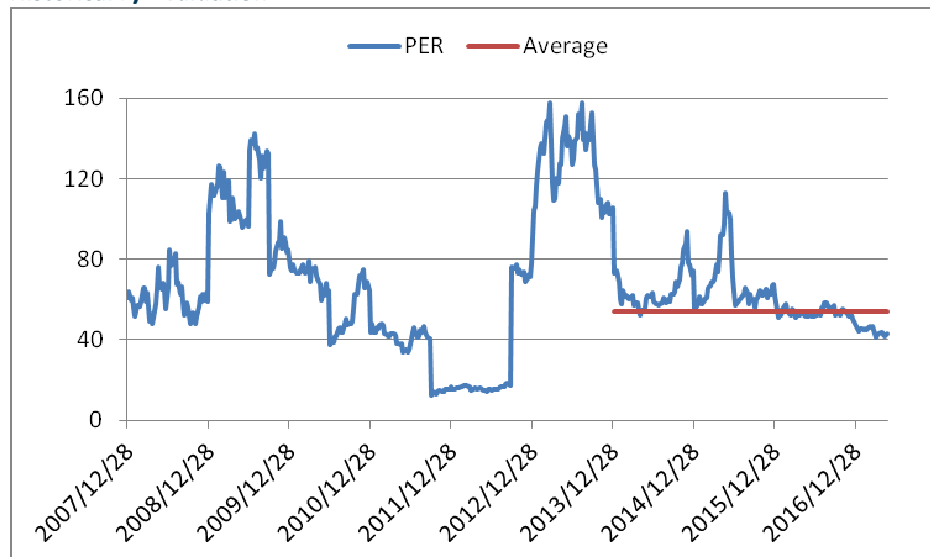
### BUY (Initially)

CMP: CNY 21.34  
(Closing price as at 22 May 2017)  
TARGET: CNY 27.08 (+27%)

#### COMPANY DATA

O/S SHARES (MN) :	1,422
MARKET CAP (CNYMN) :	30,344
52 - WK HI/LO (CNY):	25.18/ 19.58

### Historical P/E valuation



Source: Bloomberg, Phillip Securities (HK) Research

#### SHARE HOLDING PATTERN, %

Dongbao Industrial Group:	37.6
---------------------------	------

#### PRICE VS. HS300, %

	1M	3M	1Y
Tonghua Dongbao	0.62	2.28	6.38
HS300	3.15	5.76	-2.50

#### PRICE VS. HS300



Source: Phillip Securities (HK) Research

### Peer Comparison

Ticker	Company	MV (CNY: mn)	PE-2017F	PE-2018F	PB
300294.SZ	Boya Bio-Pharmaceutical	15,669	41.62	29.74	7.25
002252.SZ	Shanghai RAAS Blood	100,747	54.83	48.31	8.41
000661.SZ	Changchun High&New	19,629	31.78	24.95	4.85
600276.SH	Hengrui Medicine	139,251	44.51	36.71	10.55
	Average		43.19	34.93	6.84
600867.SH	Tonghua Dongbao	30,344	35.40	27.60	7.60

Source: Bloomberg, Phillip Securities (HK) Research

### Results Continue to Grow Rapidly

In 2016, Tonghua Dongbao recorded a revenue of RMB2.04 billion and the net profit attributable to parent company after deduction of non-recurring profit or loss stood at RMB620 million, respectively, up by 22.2% and 34.9% year-on-year. In the first quarter of 2017, the company continued to grow rapidly, with its revenue of RMB570 million, up by 25.3% year-on-year, and the net profit attributable to parent company after deduction of non-recurring profit or loss stood at RMB210 million, up by 31.2% year-on-year, basically in line with expectations.

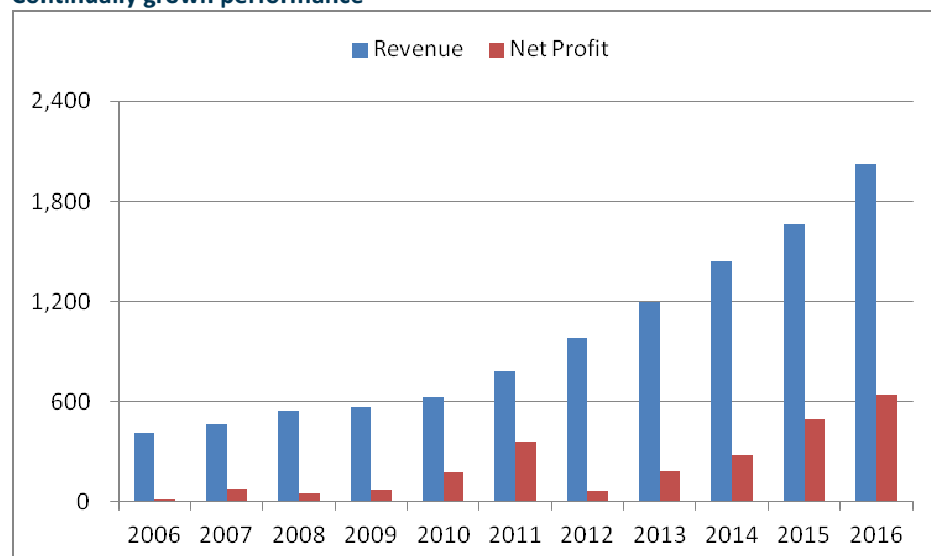
#### KEY FINANCIALS

CNY mn	FY15	FY16	FY17E	FY18E
Net Sales	1664	2021	2455	3063
Net Profit	493	641	848	1087
EPS, CNY	0.36	0.46	0.60	0.77
PER, x	59.6	46.4	35.4	27.6
BVPS, CNY	1.80	2.80	3.21	3.73
P/BV, x	11.8	7.6	6.7	5.7
ROE, %	21.45	20.03	20.04	22.28
Debt/Equity (%)	52.8	18.5	22.0	25.0

Source: Company reports, Phillip Securities Est.

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

### Continually grown performance

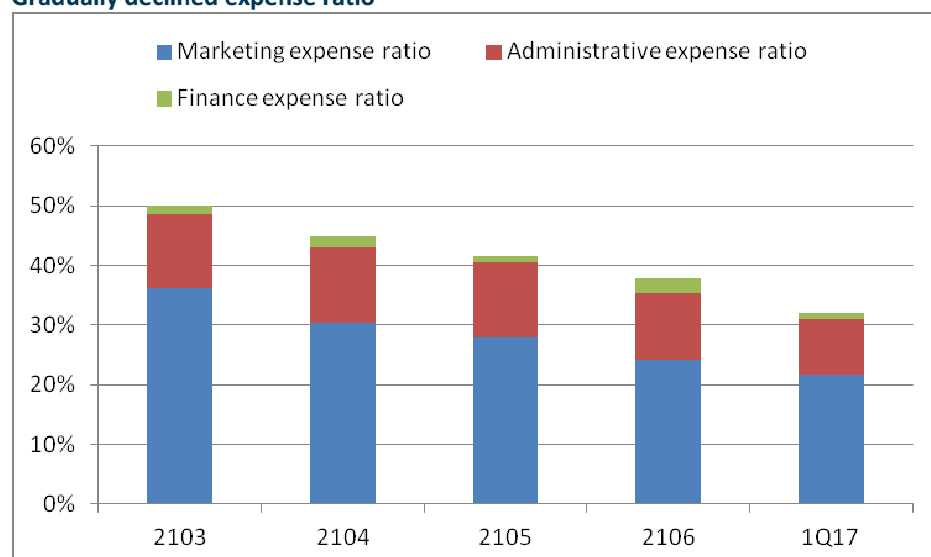


Source: Company reports, Phillip Securities (HK) Research

For insulin business, the company continued to deepen the grassroots market and increase sales efforts. In 2016 its annual income reached RMB1.6 billion, up by 16.4% year-on-year, in which sales of 30/70 mixed recombinant human insulin injection rose to 1.2 billion, up by 14.6% year-on-year, sales growth of 50/50 mixed recombinant human insulin injection, recombinant human insulin injection and protamine recombinant human insulin injection stood up to 25-30%, sales of protamine recombinant human insulin injection soared 133.2% year-on-year. In addition, the medical equipment revenue in 2016 increased by 55.3% year-on-year, mainly due to the company's obtaining the franchise rights of Bionime's blood glucose test strips and other medical equipment, so that all specifications of Reiter blood sugar glucose test strips achieved a single income over 100 million, up by 200% year-on-year.

At the same time, the company's cost control was good. Since 2014 the expense ratio has decreased yearly 3-5pcts continuously, and that of 2016 was down by nearly 4pcts year-on-year, which is one of the main factors that the company's profit growth was faster than revenue growth. In the first quarter of 2017, the expense ratio continued to decrease by 4.6pcts year-on-year, of which marketing expense ratio decreased by 2.2pcts to 21.7%, administrative expense ratio decreased by 0.4pcts to 9.4%, and financial expense ratio decreased by 2pcts to 0.9%.

### Gradually declined expense ratio



Source: Company reports, Phillip Securities (HK) Research

## NDRL adjustment will support insulin products to grow rapidly

The company's insulin market share steadily increases, and its current market share of ordinary insulin is more than 20%, ranking second. Because of 2017 new National Drug Reimbursement List (NDRL) adjustment, second-generation insulin changed from the class B to class A, saving patients' annual costs by approx. RMB500-600, and is expected to further expand the grassroots market. Continued promotion of domestic grading clinics will also enhance the penetration of insulin products in the grassroots market. Moreover, compared to Novo Nordisk, Eli Lilly, the tender price of the company's products is more competitive. We believe that in the medium term the company's growth rate of second-generation insulin will remain at around 20%.

## Abundant product reserve, prospective growth

The company's phase III clinical study of insulin glargine injection and aspartic insulin injection has entered the summary stage, and the former is about to apply for production, which is expected to be approved in 2018. So the company may become the third domestic insulin glargine injection manufacturer, which is only one year behind United Laboratories. Moreover, by virtue of a very close relation of cooperation with doctors and experts at grassroots level and third-grade class-A hospitals, the company is still expected to quickly occupy the market after its insulin glargine injection come to the market. In addition, the company's other insulin analogues, GLP-1 agonists, DDP-4 inhibitors and other hypoglycemic drugs echelon reserves are abundant, which will also provide support its long-term development.

## Rapid promotion of diabetes chronic disease platform

The company rapidly promotes the construction of diabetes chronic disease platform, enhances the relationship between doctors and patient with the help of APP "your doctor", and achieves the integrated target of "insulin + blood glucose monitoring equipment + Dongbao diabetes platform" through the integration of drugs, equipment and mobile Internet, to help the company become a whole solution provider for diabetes patients with insulin therapy, and occupy the leading position in the field of diabetes. At present, registered doctors in APP "Your Doctor" are up to 7,000, and registered patients are more than 100,000, highlighting its rapid progress.

## Risks

Expansion of second - generation insulin in grass - roots market is below expectations;  
Progress of the launch of third-generations of insulin is below expectations.

## Financials

Periodicity:	2014	2015	2016	2017F	2018F
<b>Valuation Ratios</b>					
Price Earnings	104.33	59.55	46.39	35.39	27.58
Price to Book	13.57	11.83	7.61	6.66	5.72
Dividend Yield	0.71%	0.78%	0.94%	1.17%	1.55%
<b>Per share data(CNY)</b>					
EPS Adjusted	0.20	0.36	0.46	0.60	0.77
Book Value Per Share	1.57	1.80	2.80	3.21	3.73
Dividends Per Share	0.15	0.17	0.20	0.25	0.33
<b>Growth &amp; Margin</b>					
Revenue growth	20.40%	15.55%	21.50%	21.46%	24.76%
Gross profit growth	21.98%	26.63%	22.28%	21.68%	24.76%
Net profit growth	52.17%	76.19%	30.02%	32.23%	28.29%
Gross Margin	68.60%	75.18%	75.67%	75.80%	75.80%
Operating Margin	24.18%	34.02%	39.57%	42.30%	43.30%
Net Profit Margin	19.43%	29.63%	31.71%	34.52%	35.50%
Dividend Payout Ratio %	74.07%	46.51%	43.48%	41.46%	42.66%
<b>Key ratios</b>					
Return on Assets	9.90%	14.62%	15.15%	16.66%	18.03%
Return on Equity	13.55%	21.45%	20.03%	20.04%	22.28%
Liability ratio	26.92%	34.56%	15.61%	18.00%	20.00%
Effective Tax Rate	14.60%	14.10%	15.78%	15.50%	15.50%
<b>Income Statement(CNY: mn)</b>					
<b>Revenue</b>	<b>1,440</b>	<b>1,664</b>	<b>2,021</b>	<b>2,455</b>	<b>3,063</b>
- Cost of Goods Sold	452	413	492	594	741
<b>Gross Income</b>	<b>988</b>	<b>1,251</b>	<b>1,530</b>	<b>1,861</b>	<b>2,322</b>
- Selling, General & Admin Expenses	640	685	730	823	996
<b>Operating Income</b>	<b>348</b>	<b>566</b>	<b>800</b>	<b>1,039</b>	<b>1,326</b>
- Interest Expense	27	18	45	48	52
- Net Non-Operating Losses (Gains)	-3	-23	-6	-10	-10
Pretax Income	324	571	759	1,001	1,284
- Income Tax Expense	47	80	120	155	199
Income Before XO Items	277	490	639	846	1,085
- Minority Interests	-3	-3	-2	-2	-2
<b>Net Profit</b>	<b>280</b>	<b>493</b>	<b>641</b>	<b>848</b>	<b>1,087</b>

Source: Company, Phillip Securities (HK) Research Estimates

(Financial figures as at 22 May 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