

Tasly Pharmaceutical Group (600535.CH)

Steady recovery of the result in 1H17

China | Pharmaceutical | Company report

23 August 2017

Investment summary

Tasly's pharmaceutical manufacturing sector has recovered steadily with its pharmaceutical commerce business growing faster. Plus the adjustment of channels, the trading volume of the second-line potential varieties and the heated class I new drugs such as rhPro-UK will explode hopefully after entering the NDRL. The result of the Company will return to the upward trend. Moreover, as a leader in modern traditional Chinese medicine industry, the internationalization of Compound Danshen Dripping Pills will also have a positive influence. The Company's brand influence will be significantly improved. In light of comparable companies, we give Tasly an estimation of 35x PE in 2017 and a 12-month target price of RMB43.8, with the "Accumulate" rating maintained. (Closing price at 21 Aug 2017)

Historical P/E Valuation

Stock Code	Company	MV(CNY mn)	PE(TTM)	PE-2017F	PE-2018F	PB
000538.SZ	Yunnan Baiyao	91,841	30.38	27.05	23.41	5.58
600085.SH	Tongrentang	44,655	46.32	42.37	37.53	5.52
002603.SZ	Duchang Pharmaceutical	46,417	25.2	21.01	17.46	3.81
000423.SZ	Dong-E E-Jiao	41,269	21.44	19.29	16.74	4.77
002773.SZ	Kanghong Pharmaceutical	35,125	64.29	53.93	41.93	11.45
600436.SH	Plentzhuang	33,635	50.65	46.22	36.15	9.04
Average			39.71	34.98	28.87	6.70
600535.SH	Tasly	41,620	33.35	29.09	24.48	5.13

Source: Wind, Phillip Securities (HK) Research

Steady recovery of the result in 1H17

In 1H17, Tasly recorded a revenue of RMB7.26 billion, representing an annual growth of 13.5%. The net profit attributable to the parent company stood at RMB760 million, an increase of 10.4%. In terms of the quarter, the revenue in 2Q was RMB3.72 billion, up by 20.4% yoy. The net profit was RMB440 million, increased by 7.4% yoy, up by 37.7% qoq. The Company sees the trend of recovery.

In the previous two years, since the Company adjusted the channel structure and strengthened the management of accounts receivable, it was evident that the result of the sector of pharmaceutical manufacturing grew slowly until the first quarter of this year. However, the revenue of the second quarter reached RMB1.59 billion, up by 7.3% yoy, increased by 22.6% qoq, which has recovered to the level of the same period in 2015, which is the level before the decrease of the inventory of the pharmaceutical manufacturing sector. We expect that the Company will continue to recover because it is adjusting the sales model transforming from the agency mode to both the agency mode and the mode of sales through its own channels, covering the second and third class hospital market uncovered before.

Accumulate (Maintain)

CMP: CNY38.52

(Closing price at 21 Aug 2017)

TARGET: CNY43.8 (+13.8%)

COMPANY DATA

O/S SHARES (MN)	1,080
MARKET CAP (CNYMN)	41,620
52 - WK HI/LO (CNY)	45.28/ 37.00

SHARE HOLDING PATTERN %

Tasly Holdings Group	45.18
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PRICE PERFORMANCE %

	1M	3M	1Y
Tasly	1.74	-4.70	-1.96
SCI	0.23	-11.05	-7.71

PRICE VS. SCI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY15	FY16	FY17E	FY18E
Net Sales	13228	13946	15604	17598
Net Profit	1479	1176	1353	1628
EPS, CNY	1.38	1.09	1.25	1.51
PER, x	27.91	35.34	30.76	25.55
BVPS, CNY	6.91	7.37	8.06	8.95
P/BV, x	5.57	5.23	4.78	4.30
ROE, %	23.15	14.78	15.76	17.26
Debt/Equity (%)	99.99	108.68	117.39	117.39

Source: Company reports, Phillip Securities Est.

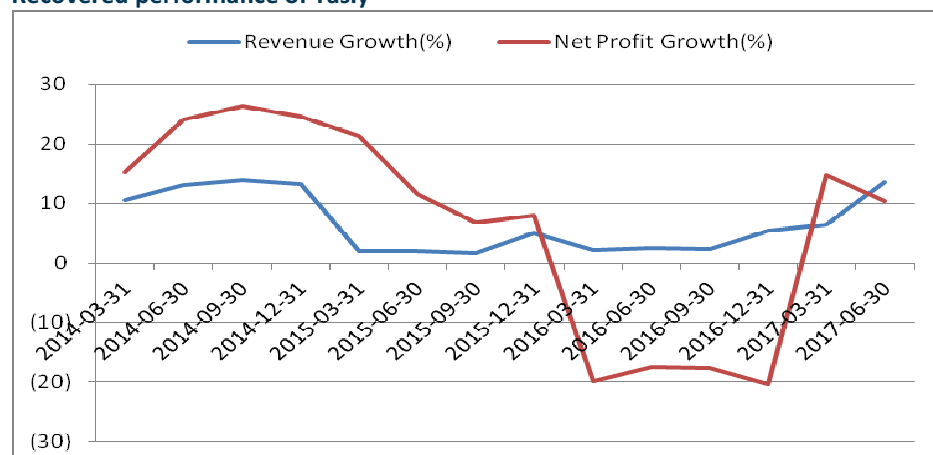
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Recovered performance of Tasly



Source: Wind, Phillip Securities (HK) Research

Its pharmaceutical commerce business reported a revenue of RMB4.33 billion in 1H17, up by 15.8% yoy, mainly due to the enhanced expansion of the Company's hospital business. Profit growth was slower than revenue growth, mainly because the increased proportion of pharmaceutical commercial revenue pulled gross margin down by about 1.6 pts. However, the gross margin of the pharmaceutical commerce sector increased by 0.8 pts to 7.4%. In addition, because the Company controlled the expenses effectively, the marketing expense, administration expenses, and financial costs annually increased by only 3%, 5.5%, 9.5%, respectively, lower than the growth of revenue.

rhPro-UK was included in the NDRL through negotiation

The Company's exclusive product, Recombinant Human Prourokinase for Injection (rhPro-UK), is introduced into the class B through the NDRL negotiation. Previously, the lowest bidding price of the drug was less than RMB1,200/bottle. The negotiation set the medical insurance payment standard of RMB1,020, a drop of only about 14%, at the low level of the same batch, reflecting the recognition of government and the market of its efficacy. The patency rate of rhPro-UK in patients with acute myocardial infarction is over 85%, and the incidence of intracranial hemorrhage is only 0.19%, which is superior to its competitors. Moreover, as a thrombolytic drug, it is more effective at the substrate level than PCI. Therefore, its future market is promising. With a good competitive landscape, we expect it will become another blockbuster after Compound Danshen Drop Pills.

Stock ownership plan of employees highlighted its confidence of development

At the end of March, the Company released its first stock ownership plan of employees in 2017, with 16 executives, including the Chairman taking active part in it. On June 10, the Company announced the completion of the stock purchase of the plan, a total of 506,800 shares from the secondary market with the average transaction price of about RMB39.5 per share. We believe that the immediate implementation of stock ownership plan of employees highlights the confidence of management in the development of the Company, forming the positive support for the intrinsic value of the Company.

Risks

Risk of price drop in drugs;
Progress in FDA certification of Compound Danshen Dripping Pills below expectations.

Financials

Periodicity:	2014	2015	2016	2017F	2018F
Valuation Ratios					
Price Earnings	29.18	27.91	35.34	30.76	25.55
Price to Book	8.22	5.57	5.23	4.78	4.30
Dividend Yield	1.01%	1.09%	1.45%	1.61%	1.95%
Per share data(CNY)					
EPS Adjusted	1.32	1.38	1.09	1.25	1.51
Book Value Per Share	4.68	6.91	7.37	8.06	8.95
Dividends Per Share	0.39	0.42	0.56	0.62	0.75
Growth & Margin					
Revenue growth	-28.53%	5.17%	5.43%	11.89%	12.78%
Gross profit growth	-24.14%	8.35%	-1.28%	8.01%	14.10%
Net profit growth	-15.96%	8.09%	-20.49%	15.01%	20.38%
Gross Margin	36.72%	37.84%	35.43%	34.20%	34.60%
Operating Margin	16.05%	15.18%	12.23%	12.00%	12.60%
Net Profit Margin	10.88%	11.18%	8.43%	8.67%	9.25%
Dividend Payout Ratio %	29.55%	30.43%	51.38%	49.51%	49.75%
Key ratios					
Return on Assets	11.73%	10.44%	7.23%	7.39%	7.94%
Return on Equity	31.44%	23.15%	14.78%	15.76%	17.26%
Liability ratio	60.77%	50.00%	52.08%	54.00%	54.00%
Effective Tax Rate	16.31%	15.15%	18.52%	16.50%	16.50%
Income Statement(CNY: mn)					
Revenue	12,578	13,228	13,946	15,604	17,598
- Cost of Goods Sold	7,857	8,102	9,005	10,268	11,509
Gross Income	4,619	5,005	4,941	5,337	6,089
- Selling, General & Admin Expenses	2,600	2,996	3,236	3,464	3,872
Operating Income	2,019	2,008	1,705	1,873	2,217
- Interest Expense	305	267	244	250	260
- Net Non-Operating Losses (Gains)	-19	-59	-35	-50	-50
Pretax Income	1,733	1,795	1,496	1,673	2,007
- Income Tax Expense	283	272	277	276	331
Income Before XO Items	1,450	1,524	1,219	1,397	1,676
- Minority Interests	82	45	43	44	48
Net Profit	1,368	1,479	1,176	1,353	1,628

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 21 Aug 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

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