

Jumpcan Pharma (600566.SH)

Notable Growth in Third Quarter

Mainland China | Pharmaceutical | Company report

30 October 2017

Investment Summary

Jumpcan Pharma published its third quarterly results with revenue/net profit increasing by 21.75%/38% YoY. We forecast the future drivers come from: 1) core products' inclusion in more provincial drug reimbursement lists (PDRL); 2) enhanced sales network with expanding OTC market share; 3) sustainable and enriched product lines. We predict the topline growth rate in 2017 and 2018 to be 22% and 18%, and increase our target price to RMB45.7 with `Accumulate` recommendation. (Closing price as at 26 Oct 2017)

Accumulate

CMP: RMB 40.76

(Closing price as at 26 Oct 2017)

TARGET: RMB 45.70 (+12%)

COMPANY DATA

O/S SHARES (MN) :	809.62
MARKET CAP (RMBMN) :	33,000
52 - WK HI/LO (HKD):	42.53 / 28.8

Business Overview

Solid growth in third quarter. In 3Q17, Jumpcan reported revenue/net profit of RMB1,403mn/326mn, representing YoY growth of 22%/38%. During the first half, Jumpcan achieved RMB2,810mn revenue (+19.39% YoY) and net profit attributable to shareholders of RMB581.8mn (+32% YoY). We attribute the high growth to expanding sales network and growth momentum of core products, including Pudilan Anti-inflammatory Oral Liquid and Child Chiqiao Qingre Granules, etc. Also we see that the company kept stable GPM and rising NPM, due to effective cost control measures and improving operational efficiency.

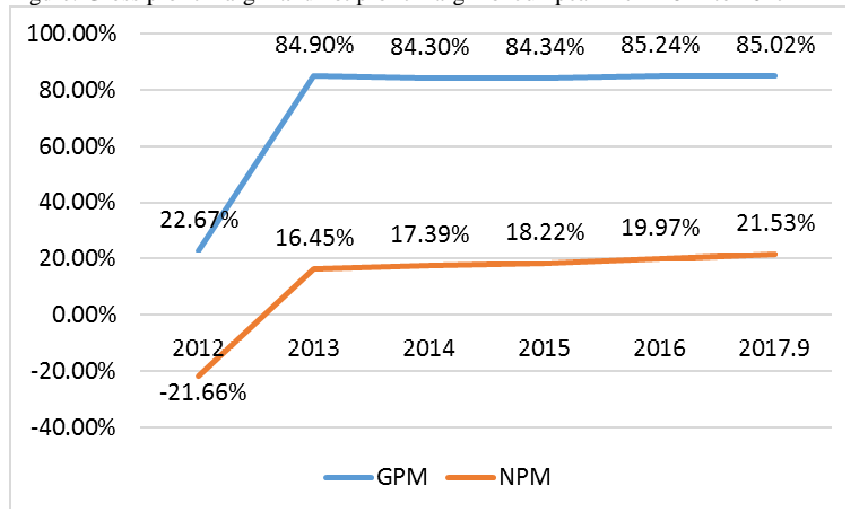
SHARE HOLDING PATTERN , %

Jiangsu Jumpcan Group	51.5
Tibet Jumpcan Investment Company	12.35
Cao Longxiang	5.74
Zhou Guodi	2.65

PRICE PERFORMANCE , %

	1M	3M	1Y
Jumpcan	10.28	16.36	29.31
SHI	1.91	2.28	9.35

Figure: Gross profit margin and net profit margin of Jumpcan from 2012 to 2017



Source: Company, Phillip Securities

RETURN VS. HSI



Source: Asstock, Phillip Securities (HK) Research

KEY FINANCIALS

RMB/mn	FY15	FY16	FY17E	FY18E
Net Sales	3,768	4,678	5,707	6,734
Net Profit	687	934	1,114	1,297
EPS, RMB	0.88	1.17	1.38	1.60
PER, x	46.11	34.62	29.43	25.29
BVPS, RMB	3.47	4.62	5.11	5.75
P/BV, x	11.67	8.77	7.94	7.05
ROE, %	25.31	25.34	26.96	27.88

Source: Wind, Phillip Securities Est.

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Improving penetration of core products. On 20th Oct, Pudilan Anti-inflammatory Oral Liquid was selected into Qinghai PDRL, so far it has been included in PDRL of seven PRC provinces and cities. We expect that Pudilan Anti-inflammatory Oral Liquid can boost its sales volume through entering into more PDRLs, given there are still 25 provinces that can be explored. We see that the two-child policy will benefit the company's pediatric products. The company's Child Chiqiao Qingre Granules are exclusive products and included in NDRL. According to the company, the Child Chiqiao Qingre Granules accounted for 34.78% in Chinese medicines for children's common cold sold in public hospitals, ranking at NO.1. The Iron Proteinsuccinylate Oral Solution, which is the first generic drug and used for treatment of iron deficiency anemia (IDA), has achieved high growth in IH17. As the previous ferrous iron solutions taste bad, which is especially unsuitable for children. Given the Iron Proteinsuccinylate Oral Solution features better efficacy and tastes better, it is expected to take over market share of previous ferrous iron solutions. We estimate that the Proteinsuccinylate Oral Solution will contribute more than RMB 100 million to company topline in 2017. And we believe that Jumpcan will continue to explore the market of core products and further improve the market penetration.

Figure: Drugs included in reimbursement lists

	Drugs	Provinces	Function
National Drug Reimbursement List	Rabeprazole sodium enteric capsules	--	Gastric ulcer (胃潰瘍)
	Child chiqiao qingre granules	--	Children common cold (小兒感冒)
	Sanao tablets	--	Cough (咳嗽)
Provincial Drug Reimbursement List	Pudilan anti-inflammatory oral liquid	Qinghai, Jiangsu, Hunan, Shanxi, Xinjiang, Tianjin, Liaoning	Anti-inflammatory (消炎抗腫)
	Jianwei digestion oral liquid	Chongqing, Jiangsu, Guangdong, Shanxi, Shandong, Jilin	Indigestion (健胃消食)
Provincial Essential Drug List	Rabeprazole sodium enteric capsules	Anhui, Shanghai, Zhejiang, Ningxia	Gastric ulcer (胃潰瘍)
	Child chiqiao qingre granules	Chongqing, Anhui, Xinjiang, Zhejiang, Hubei	Children common cold (小兒感冒)
	Jianwei digestion oral liquid	Gansu, Chongqing, Shanxi	Indigestion (健胃消食)
	Sanao tablets	Xinjiang, Hubei	Cough (咳嗽)

Source: Company, Phillip Securities

Progressive pipeline and sustainable products underpin development.

Currently, three main medicines make up over 77% of topline, namely Pudilan Anti-inflammatory Oral Liquid, Child Chiqiao Qingre Granules and Rabeprazole Sodium Enteric Capsules. The company continues to nurture the market of potential drivers including Sanao tablets and Jianweixiaoshi Oral Liquid. Meanwhile, the company places importance on R&D. According to 2016 financial report, although the company's R&D to revenue ratio (3.11%) is lower than industry average (4.19%), it reported R&D expense of RMB145.3mn representing notably 30.4% YoY growth. As up to June 2017, the company has submitted 9 applications for clinical trial and 15 products are pending for production approval. The strong pipeline helps to prepare the company to achieve better performance in future.

Figure: R&D expenses of Jumpcan and peers

Code	Company	R&D Expense RMB`000	R&D Expense / Revenue
600594	益佰製藥	188,987	5.13%
300026	紅日藥業	163,651	4.23%
300039	上海凱寶	53,389	3.57%
300181	佐力藥業	22,481	2.68%
002107	沃華醫藥	29,916	5.32%
Peers` Average		91,685	4.19%
600566	濟川藥業 (Jumpcan)	145,300	3.11%

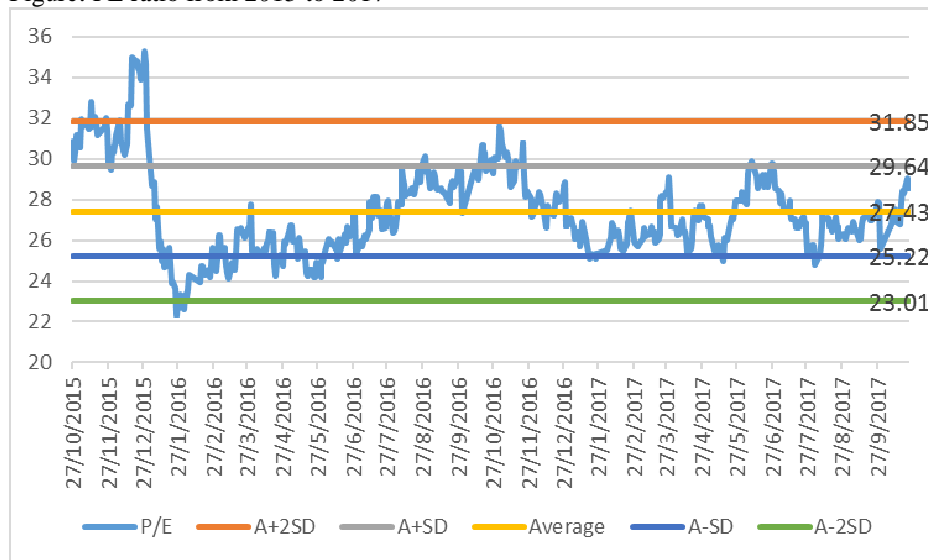
Source: Company, Phillip Securities

Powerful sales team and expanding network. Currently the company has a sales team of over 2,000 staff and mainly focuses on academic promotion, covering 30 provinces and cities in PRC. And the main products Pudilan and Child Chiqiao maintained 30% and 40% YoY growth in past five years. At the same time, the company shows strong control in accounts receivables and kept the ratio of accounts receivables to revenue around 30% since 2013. The company continues to consolidate its existing market position and proactively explore OTC market through building a more efficient and professional OCT sales team. Its OTC market strategy still focus on the promoting core products, including Pudilan anti-inflammatory oral liquid, Child chiqiao qingre granules and Rabeprazole sodium enteric capsules. We expect the company to cover more hospitals and pharm chains with expanding network and excellent sales team.

Investment Thesis, Valuation & Risk

We increase our target price to **RMB45.7**, given its high growth in past three quarters and potential sales hike due to core products and new drivers. We expect the topline growth rate to be 22%/18% in 17E/18E, and estimate the net profit to be RMB1,114.5mn/1,296.8mn in 17E/18E. With 12% upside room, we give `Accumulate` recommendation.

Figure: PE ratio from 2015 to 2017



Source: Bloomberg, Phillip Securities

Downside Risks	<ul style="list-style-type: none"> (1) Product concentration risk given three products contributing 77% topline (2) Products fail to enter more provincial drugs reimbursement lists (3) Slow than expected expansion of distribution network
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Financials

	2014	2015	2016	2017E	2018E
RMB`000					
Revenue	2,986,412	3,767,836	4,677,892	5,707,028	6,734,293
COGS	468,944	590,028	690,450	853,201	1,043,815
Gross Profit	2,517,468	3,177,809	3,987,441	4,853,827	5,690,477
Operating Expense	1,952,992	2,422,185	2,930,952	3,477,267	4,099,904
Operating Income	564,477	755,624	1,056,489	1,376,560	1,590,573
Net Non-operating Gain/Loss	40,169	43,945	31,550	80,000	82,000
Pretax Income	604,646	799,569	1,088,039	1,296,560	1,508,573
Tax	85,253	116,450	153,607	181,518	211,200
Minority Interest	0	-3,452	182	550	560
Net Profit	519,393	686,571	934,250	1,114,491	1,296,813
Growth (%)					
Gross Profit	21.16	26.23	25.48	21.73	17.24
Operating Profit	36.15	33.86	39.82	30.30	15.55
Net Profit	28.97	32.19	36.07	19.29	16.36
Profit Margin (%)					
GPM	84.30	84.34	85.24	85.05	84.50
OPM	18.90	20.05	22.58	24.12	23.62
NPM	17.39	18.22	19.97	19.53	19.26
Valuation Ratio					
P/E	60.46	46.11	34.62	29.43	25.29
P/B	13.69	11.67	8.77	7.94	7.05
Per Share Ratio (RMB)					
EPS	0.67	0.88	1.17	1.38	1.60
Dividend	0.40	0.70	0.73	0.83	0.96
BVPS	2.96	3.47	4.62	5.11	5.75

Source: Wind, Phillip Securities (HK) Research Estimates
(Financial figures as at 26 Oct 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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