

# Jumpcan Pharma (600566.SH)

## Pudilan Entered into Jilin and Henan PDRLs

Mainland China | Pharmaceutical | Company report

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### Investment Summary

**Events:** Pudilan was selected into Jilin and Henan PDRLs; NHFPC recommends CCQG for treatment of children flu; Another product YYG attained production approval. **Investment suggestion:** We highlight the company's comprehensive product mix and pipeline with visible sales growth and improved OTC channel. We predict the topline to grow at 23%/22% in 17E/18E and increase our target price to RMB50.8 (assuming PE 33.5x) with 'BUY' recommendation, 22% upside. (Closing price at 12 Jan 2018)

### Business Overview

**Winter flu may facilitate CCQG sales hike.** Since this winter the influenza has been prevalent in many Chinese cities, and the epidemic of children flu is especially serious. On Jan 8th, NHFPC issued a influenza treatment program (2018), in which the Child Chiqiao Qingre Granules (CCQG, Jumpcan's exclusive product) was recommended for the treatment of children influenza. We expect that winter flu may promote CCQC sales.

**Pudilan was selected into Jilin and Henan PDRLs.** The company recently announced that its exclusive product Pudilan Anti-inflammatory Oral Liquid (PAOL) entered into Jilin and Henan PDRLs. We highlight that inclusion into Jilin and Henan PDRLs will enlarge PAOL sales more obviously than inclusion into Qinghai PDRL before, given these two provinces have much bigger population base. Compared with Pudilan tablets and capsules, Pudilan oral liquid is more convenient for patient to take. And PAOL as an anti-inflammatory medicine will continue to benefit from national policy restrictions to its main competitors (including antibiotics and traditional Chinese medicine injection). We expect PAOL sales to grow at ~20% YoY in 2017E.

Figure: Drugs included in reimbursement lists

	Drugs	Provinces	Function
NDRL	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)
PDRL	Pudilan anti-inflammatory oral liquid	Jilin, Henan, Heilongjiang, Qinghai, Hebei, 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)
PEDL	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

### Accumulate

CMP RMB41.63

(Closing price at 12 Jan 2018)

TARGET RMB50.8 (+22%)

#### COMPANY DATA

O/S SHARES (MN) :	809.62
MARKET CAP (RMBMN) :	33,705
52 - WK HI/LO (HKD):	44.0 / 29.23

#### SHARE HOLDING PATTERN, %

Jiangsu Jumpcan Group	51.5
Tibet Jumpcan Investment Company	12.35

#### PRICE PERFORMANCE, %

	1M	3M	1Y
Jumpcan	11.31	5.23	35.97
SSE	4.51	1.27	8.71

#### RETURN VS. HSI



Source: Aastocks, Phillip Securities (HK) Research

#### KEY FINANCIALS

RMB/mn	FY15	FY16	FY17E	FY18E
Net Sales	3,768	4,678	5,754	7,020
Net Profit	687	934	1,228	1,531
EPS, RMB	0.88	1.17	1.52	1.89
PER, x	47.38	35.58	27.44	22.01
BVPS, RMB	3.47	4.62	5.16	5.92
P/BV, x	11.99	9.01	8.07	7.03
ROE, %	25.31	25.34	29.39	31.96

Source: Wind, Phillip Securities Est.

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**YYG gained production approval.** Digestive segment includes one core product Rabeprazole Sodium Enteric capsules (RSE), which recorded sales of RMB1.1bn (+12% YoY) in 2016 with relatively large market cap. In 2017 Nov one subsidiary Dongke attained the production approval for Yangyingqingwei Granules (YYG). YYG is an exclusive product for treatment of chronic atrophic gastritis with no competitors producing and selling the same product now. Dongke acquired the rights of YYG in 2016 June at a price of RMB17mn. We expect YYG to further enrich the digestive product line, while it still takes time to cultivate market and generate income.

**Comprehensive product mix and pipeline with visible sales growth.** We highlight that the company has comprehensive drug portfolio and sustainable pipeline for different growth stages. Pudilan sales by hospital channel is expected to maintain stable growth while OTC sales is likely to surge; CCQG won bid in many regions last year which will facilitate sales volume hike; Iron Proteinsuccinylate Oral Solution (IPOS) is likely to reach over RMB 100mn sales with attaining tender in eight new provinces and cities. Also we estimate sales of Fuyanshu Capsules, Ganhai Weikang capsules and Huanglong Kechuan capsules will also climb in 2017E. Meanwhile, the company launches Pudilan toothpaste series for both adults and children to enrich the health care product line. The sustainable product lines are expected to underpin future development.

Figure: 2017 Tenders of CCQG and RES

Drug	Size	Cities
CCQG	2g/4g	Hubei, Sichuan, Jiangsu, Zhejiang, Heilongjiang, Chongqing, Ningxia, Guangdong, Shanxi, Jiangxi, Shandong, Fujian, Liaoning, Inner Mongolia, Guangxi, Shanghai
IPOS	15ml:40mg	Heilongjiang, Jiangxi, Jiangsu, Fujian, Liaoning, Guangxi, Shandong, Yunnan

Source: Yaozh.com, Phillip Securities

**Improved OTC channel.** Jumpcan expanded its OTC channel in 2017H2 by building professional promotion team and intensify pharmacy chain network. It has an OTC sales team with over 1000 people which mainly promotes core products including PAOL, RSE, CCQG, etc. We expect OTC sales to experience rapid growth in 2017E.

## Investment Thesis & Valuation

**We increase target price to RMB50.8.** We select 19 A-share firms focusing on Chinese patent medicine with market cap more than RMB10bn to get the PE average (37.56x) and median (30.44x). We see Jumpcan now is traded at around PE 28.9x, which is much lower than industry average. Back to 2016 Jumpcan recorded net profit YoY growth 34%, which is much higher than industry average growth level (10.3%). During past three quarters in 2017, Jumpcan achieved topline/bottom line growth of 21.75%/38%, therefore we see highly visible sales growth in 2017E. We predict the revenue growth to be 23%/22% in 17E/18E. Assuming PE 33.5x (middle between industry average and median), we give target price RMB50.8 and `BUY` recommendation.

Figure: Peer Information

Code	Firm	Mkt cap /100mn	PE TTM	Revenue Growth %	Net Profit Growth %	ROE %
600566.SH	濟川藥業	337.13	28.93	20.17	34.18	23.93
	<b>Average</b>		<b>37.56</b>	21.63	19.43	9.56
	<b>Median</b>		<b>30.44</b>	14.69	10.43	8.95
600436.SH	片仔癀	439.03	60.16	68.83	40.26	17.92
000423.SZ	東阿阿膠	415.96	22.21	12.45	1.69	14.36
002773.SZ	康弘藥業	392.62	65.23	14.69	33.85	13.36
603858.SH	步長製藥	351.40	21.41	4.92	-10.20	8.95
000623.SZ	吉林敖東	261.16	14.89	7.13	6.86	7.09
000999.SZ	華潤三九	259.80	20.18	21.41	10.33	10.59
002424.SZ	貴州百靈	222.55	43.20	14.49	10.43	11.06
002219.SZ	恒康醫療	218.42	48.14	65.28	24.81	5.98
002603.SZ	以嶺藥業	193.78	34.84	4.15	5.22	7.32
600572.SH	康恩貝	182.03	30.44	-16.62	34.86	13.62
000989.SZ	九芝堂	160.92	22.88	42.53	11.12	12.21
600771.SH	廣譽遠	151.91	83.77	18.94	129.85	5.89
002287.SZ	奇正藏藥	146.48	49.39	7.66	3.33	11.82
600252.SH	中恒集團	146.30	24.93	43.37	22.50	9.71
002390.SZ	信邦製藥	139.46	47.66	17.22	23.30	3.82
600329.SH	中新藥業	135.98	26.82	-10.35	2.65	8.44
000766.SZ	通化金馬	131.44	51.80	74.46	30.04	4.14
300026.SZ	紅日藥業	128.87	20.35	-11.93	-5.31	7.35
603567.SH	珍寶島	123.30	25.43	32.34	-6.50	8.06

Source: Wind (as at Jan 11), Phillip Securities

## Risk

Slow than expected expansion of distribution network;  
 Substantial shareholders selling shares;  
 Policy risks;  
 R&D failure.

## Financials

	2014	2015	2016	2017E	2018E
<b>RMB`000</b>					
Revenue	2,986,412	3,767,836	4,677,892	5,753,807	7,019,644
COGS	468,944	590,028	690,450	860,194	1,051,543
Gross Profit	2,517,468	3,177,809	3,987,441	4,893,613	5,968,101
Operating Expense	1,952,992	2,422,185	2,930,952	3,545,284	4,269,688
Operating Income	564,477	755,624	1,056,489	1,348,329	1,698,413
Net Non-operating Gain/Loss	40,169	43,945	31,550	80,000	82,000
Pretax Income	604,646	799,569	1,088,039	1,428,329	1,780,413
Tax	85,253	116,450	153,607	199,966	249,258
Minority Interest	0	-3,452	182	0	0
Net Profit	519,393	686,571	934,250	1,228,363	1,531,155
<b>Growth (%)</b>					
Revenue	22.02	26.17	24.15	23.00	22.00
Gross Profit	21.16	26.23	25.48	22.73	21.96
Operating Profit	36.15	33.86	39.82	27.62	25.96
Net Profit	28.97	32.19	36.07	31.48	24.65
<b>Profit Margin (%)</b>					
GPM	84.30	84.34	85.24	85.05	85.02
OPM	18.90	20.05	22.58	23.43	24.20
NPM	17.39	18.22	19.97	21.35	21.81
<b>Per Share Ratio (RMB)</b>					
P/E	62.13	47.38	35.58	27.44	22.01
P/B	14.07	11.99	9.01	8.07	7.03
EPS	0.67	0.88	1.17	1.52	1.89
Dividen	0.40	0.70	0.73	0.91	1.13
BVPS	2.96	3.47	4.62	5.16	5.92
ROE	22.64	25.31	25.34	29.39	31.96

Source: Wind, Phillip Securities (HK) Research Estimates

(Financial figures as at Jan 12 2018)

**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

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