

# CSPC Pharmaceutical (1093.HK)

## Strong 2017 Results

Hong Kong | Pharmaceutical | Company report

23 March 2018

### Investment Summary

We highlight that: 1) 2017 results maintain strong growth; 2) NBP and oncology portfolio grew rapidly; 3) oncology portfolio will benefit from expanding sales team; 4) gross profit margin climbing while expenses surging (R&D, selling). CSPC has become the leading pharmaceutical firm among HK listed peers, given its great growth potential with high visibility. Considering rising expenses, new launches and expansion of current sales network, we fine-tune data to derive FY18/FY19 EPS of HKD0.59/0.77 and raise TP to HKD24.8, implying target PE 42x. (Closing price as at 21 Mar 2018)

### Business Overview

**Strong 2017 results.** CSPC announced 2017 results that revenue was up by 25% to HKD15.46bn, mainly due to fast growth of core products (NBP +34.7%, Xuanning +22%, Oulaining +48%). Operating profit amounted to HKD3.48bn which represented 31% YoY growth. Net profit surged by 32% to HKD2.7bn. Profit margins improved obviously, given GPM was up by 9.4ppt to 60.44% attributable sales volume hike of products enjoying high profit margin. OPM increased by 1.1pp, lower than GPM growth, resulting from R&D and selling expenses surge in 2017. EPS grew by 29% to HKD0.4548.

**NBP injection inclusion into NDRL promoting sales climbing.** NBP injection was included into NDRL in 2017 and we see dramatic sales volume hike in provinces like Shaanxi, Inner Mongolia. Sales of innovative drugs reached HKD6.58bn implying 37.9%, and core product NBP accounted for over 54% income. We expect future drivers coming from increasing hospital penetration to cover enter more Class II hospitals, given majority of current hospitals are Class III ones.

**Oncology portfolio will continue to benefit from intensifying sales team.** CSPC oncology portfolio became a key driver and recorded revenue of HKD1.03bn, up by 72.9% compared to 2016 sales. CSPC will continue to expand sales team in 2018 and aims to cultivate a sales team of over 1200 staff in 2018E (460 in 2016, 720 in 2017). We expect that sales of oncology portfolio will keep to grow quickly and even doubled in 2018 given expanding sales team.

**Albumin-bound paclitaxel gained registration approval.** In Feb, the company announced that albumin-bound paclitaxel developed by CSPC was granted drug registration approval by CFDA. Albumin-bound paclitaxel is an antimicrotubule agent indicated for treatment of metastatic breast cancer after failure of combination chemotherapy or breast cancer relapse within 6 months of adjuvant chemotherapy. Compared with conventional formulation, the product has lesser allergic reactions and faster administration with a higher dose, achieving a more favourable efficacy. According to CSPC management that this product will be sold at only 60% of original drug and have stronger distribution channel. This product is expected to contribute over HKD1bn income in 2019E.

### Accumulate

CMP HKD21.65

(Closing price as at 21 Mar 2018)

TARGET HKD24.80 (+14.5%)

#### COMPANY DATA

O/S SHARES (MN) :	6,243
MARKET CAP (HKDMN) :	135,161
52 - WK HI/LO (HKD):	23.15 / 9.8

#### SHARE HOLDING PATTERN , %

Director Cai Dong Chen	22.89
Common Success	6.78

#### PRICE PERFORMANCE , %

	1M	6M	1Y
CSPC	36.51	67.83	112.67
HIS	2.68	14.23	28.97

#### RETURN VS. HSI



Source: Phillip Securities (HK) Research

#### KEY FINANCIALS

HKD mn	FY16	FY17	FY18E	FY19E
Net Sales	12,369	15,463	19,057	23,066
Net Profit	2,101	2,771	3,635	4,799
EPS, HKD	0.35	0.45	0.59	0.77
PER, x	61.86	47.60	36.96	28.00
BVPS, HKD	1.67	2.45	2.89	3.43
P/BV, x	12.96	8.84	7.48	6.30
ROE, %	20.96	18.56	20.25	22.52

Source: Company reports, Phillip Securities Est.

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**Rising R&D expenses.** According to the management, 2017 R&D cost doubled compared to 2016 level, which is mainly spent on biopharmaceutical projects and BE tests. The management indicates that operating profit of Vitamin C will be invested into R&D to further enhance CSPC's innovation power.

### Valuation Thesis & Risks

We believe future drivers coming from sales hike of core products (i.e. NBP, Xuanning, etc) and sales network expansion of oncology portfolio. We adjust the EPS estimation to be HKD0.59/0.77 in FY18/FY19, thus get our target price HKD24.8 implying target PE 42x. **Risks** include: increasing expenses; policy risks; R&D or M&A fail expectations.

## Financials

Key Ratios	FY2015	FY2016	FY2017	FY2018E	FY2019E
<b>Valuation Ratios</b>					
Price to Earnings (P/E)	77.32	61.86	47.60	36.96	28.00
Price to Book (P/B)	14.63	12.96	8.84	7.48	6.30
<b>Per Share Data (HKD)</b>					
EPS	0.28	0.35	0.45	0.59	0.77
Book Value Per Share	1.48	1.67	2.45	2.89	3.43
Dividend Per Share	0.11	0.12	0.15	0.21	0.27
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	4.00	8.56	25.01	23.25	21.04
Operating Income	24.68	20.84	48.14	20.31	21.04
Net Profit	31.29	26.15	31.88	31.20	32.02
<b>Margins</b>					
Gross Profit Margin	45.82	51.00	60.44	59.00	59.00
Operating Profit Margin	18.96	21.40	22.52	24.16	26.33
Net Profit Margin	14.62	16.98	17.92	19.07	20.80
<b>Returns</b>					
ROE (%)	18.92	20.96	18.56	20.25	22.52
ROA (%)	12.30	14.23	12.86	14.39	16.36
<b>Income Statement (HKD Mn)</b>					
Revenue	11,394	12,369	15,463	19,057	23,066
- Cost of Goods Sold	(6,173)	(6,060)	(6,117)	(7,813)	(9,457)
Gross Income	5,221	6,309	9,346	11,244	13,609
- Operating Expenses	(3,061)	(3,662)	(5,864)	(6,639)	(7,535)
Operating Income	2,160	2,647	3,482	4,605	6,074
- Net Non-Operating Gain	(48)	(11)	(16)	(46)	(61)
Pretax Income	2,112	2,635	3,465	4,559	6,013
- Income Tax Expenses	(432)	(522)	(685)	(912)	(1,203)
- Minority Interest	(14)	(12)	(10)	(12)	(12)
Net Profit	1,665	2,101	2,771	3,635	4,799

Source: Bloomberg, Phillip Securities (HK) Research Estimates

(Financial figures as at 21 Mar 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

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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