

Jumpcan Pharma (600566.SH)

Pudilan Entered into Shandong PDRL; Robust FY17&18Q1 Results

Mainland China | Pharmaceutical | Company report

25 April 2018

Investment Summary

We highlight that: 1) PAOL and SGYX pill entered into Shandong PDRL; 2) Strong growth in FY17 & 18Q1; 3) Intensifying sales network; 4) Issuing convertible bonds to fund capacity expansion; 5) R&D going well. We assume topline growth in 18E/19E to be 30%/25% and target PE 30x conservatively, thus we get target price of RMB51.6, Accumulate recommendation. (Closing price at 23 Apr 2018)

Business Overview

Pudilan and SGYX pill entered into Shandong PDRL. The company announced on 29 Mar that its exclusive formula Pudilan Anti-inflammatory Oral Liquid (PAOL) and ShenGuiYangXue pills entered into Shandong PDRL, Class II (乙类). We expect the sales volume to hike after implementation of PDRL.

Strong FY17 & 18Q1 Results. We see stable growth in 2017: the company achieved revenue of RMB5.64bn (+20.6% YoY), net profit attributable to shareholders of RMB1.22bn (+30.97% YoY) and net profit excluding non-recurring items of RMB1.15bn (+28% YoY). Manufacturing segment turnover reached RMB5.43bn and distribution segment turnover amounted to RMB0.21bn. Selling expenses reported 17.3% YoY growth, roughly in line with topline growth. R&D expenses rose by 34.5% YoY to RMB195mn mainly due to increasing investment in R&D. We also highlight notable growth in 18Q1, which is beyond market expectations: 18Q1 topline was up by 51.45% YoY to RMB2.13bn. GPM remained relatively stable around 84.7% and selling expenses increased by 45%, which generally synchronized with sales growth.

Issuing Convertible Bond to Expand Capacity. In 18Q1, financing costs rose dramatically to RMB3.35mn, attributable to new issuance of RMB828mn convertible bond, which is mainly used to fund capacity expansion (involving the establishment of new buildings, liquid factories, etc.).

Intensifying Distribution Network. The company focuses on three segments, namely Western & Traditional Chinese medicines, TCM daily chemical articles and TCM healthcare products. It continues to enhance distribution channels including hospitals, OTC stores, clinics and supermarkets. With implementation of policies involving tiered medical services and medical union, the company entered more blank regions through intensive academic promotion in primary hospitals. For OTC channel, the company built a strong OTC sales team and enhanced cooperation with other OTC platforms. We see that sales of Iron Proteinsuccinylate Oral Solution (IPOS) and products of newly-acquired subsidiary Dongke continue to climb in 2017.

Progress of Pipeline. During 2017, the company gained production approval of Yangyingqingwei Granules (YYG), clinic trial permissions of three products and six patents. It also launched the construction of Shanghai research center. R&D progress is going well.

Accumulate

CMP RMB47.86

(Closing price at 23 Apr 2018)

TARGET RMB51.6 (+7.81%)

COMPANY DATA

O/S SHARES (MN) :	809.62
MARKET CAP (RMBMN) :	33,705
52 - WK HI/LO (HKD):	52.37 / 31.45

SHARE HOLDING PATTERN , %

Jiangsu Jumpcan Group	51.5
Tibet Jumpcan Investment Company	12.35

PRICE PERFORMANCE , %

	1M	3M	1Y
Jumpcan	11.69	14.14	38.0
SSE	-7.23	-14.24	-3.31

RETURN VS. HSI



Source: Aastocks, Phillip Securities (HK) Research

KEY FINANCIALS

RMB/mn	FY16	FY17	FY18E	FY19E
Net Sales	4,678	5,642	7,335	9,168
Net Profit	934	1,223	1,395	1,736
EPS, RMB	1.17	1.51	1.72	2.14
PER, x	40.91	31.67	27.77	22.32
BVPS, RMB	4.52	5.27	6.13	6.98
P/BV, x	10.36	8.80	7.81	0.00
ROE, %	25.88	28.67	28.13	30.71

Source: Wind, Phillip Securities Est.

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Investment Thesis & Valuation

We increase target price to RMB51.6. Given continuously rising sales volume of main products, we estimate that revenue growth to be 30%/25% and EPS to be RMB1.72/2.14 in 18E/19E, with relatively stable margins. We see that currently the average PE of TCM sector is around 28.2x-34.4x. We conservatively assume target PE ratio of 30x to derive 2018 target price of RMB51.6, Accumulate recommendation. (Closing price at 23 Apr 2018)

Figure: Comparable Firms

Code	Firm	Mkt.Cap/ RMB mn	PE (TTM)	2018 NP Estimates (Wind)	2017 ROE/%	2017 Topline Growth /%	2017 NP Growth/%
600566.SH	濟川藥業	39,234.4	33.7	1,234.3	30.4	20.6	31.0
Maxium		107145.42	97.5	4,066.9	22.5	60.9	50.5
Median		23,834.9	28.2	939.9	16.3	10.6	10.4
Average		34,610.5	34.4	1,397.7	15.3	15.8	14.4
600518.SH	康美藥業	107,145.4	27.5	4,066.9	-	-	-
000538.SZ	雲南白藥	98,308.1	31.3	3,648.4	18.6	8.5	7.7
600436.SH	片仔癀	51,692.2	64.1	1,049.6	21.2	60.9	50.5
600085.SH	同仁堂	48,083.7	47.3	1,129.4	12.6	10.6	9.0
600535.SH	天士力	47,540.9	33.2	1,601.2	16.6	15.4	17.0
600332.SH	白雲山	47,029.3	23.8	2,431.4	11.4	4.6	36.7
000423.SZ	東阿阿膠	38,652.7	18.9	2,314.4	22.5	16.7	10.4
002773.SZ	康弘藥業	38,261.4	59.4	830.1	-	9.7	29.7
603858.SH	步長製藥	32,474.1	19.8	-	-	-	-
000999.SZ	華潤三九	24,658.5	18.9	1,503.1	14.1	23.8	8.7
000623.SZ	吉林敖東	23,011.2	12.3	-	9.6	8.8	11.8
002424.SZ	貴州百靈	18,133.9	34.5	613.7	16.3	17.1	9.1
000989.SZ	九芝堂	17,821.8	24.7	-	16.7	43.5	10.7
600771.SH	廣譽遠	17,680.3	97.5	216.3	-	-	-
002603.SZ	以嶺藥業	17,396.0	31.8	759.1	-	7.6	2.6
600572.SH	康恩貝	17,337.6	29.0	748.9	-	-	-
002287.SZ	奇正藏藥	12,448.0	40.3	373.5	16.7	8.8	3.8
300026.SZ	紅日藥業	12,104.4	25.0	556.7	7.3	-12.7	-31.6
002737.SZ	葵花藥業	11,306.2	26.7	520.6	15.1	14.6	39.9
603567.SH	珍寶島	11,124.0	22.9	-	-	-	-

Source: Wind (as at Apr 20th), Phillip Securities

Risks

Slow than expected expansion of distribution network;
Policy risks;
R&D failure.

Financials

	2015	2016	2017	2018E	2019E
RMB'000					
Revenue	3,767,836	4,677,892	5,642,009	7,334,612	9,168,265
COGS	(590,028)	(690,450)	(849,030)	(1,129,530)	(1,466,922)
Gross Profit	3,177,809	3,987,441	4,792,979	6,205,082	7,701,342
Operating Expense	(2,434,460)	(2,939,525)	(3,440,913)	(4,573,009)	(5,670,928)
Operating Income	755,624	1,056,422	1,358,906	1,632,072	2,030,415
Net Non-operating Gain/Loss	43,945	31,550	66,570	0	0
Pretax Income	799,569	1,087,972	1,425,475	1,632,072	2,030,415
Tax	(116,450)	(153,607)	(211,606)	(236,799)	(294,223)
Minority Interest	(3,452)	182	485	0	0
Net Profit	686,571	934,183	1,223,464	1,395,274	1,736,192
Growth (%)					
Revenue	26.17	24.15	20.61	30.00	25.00
Gross Profit	26.23	25.48	20.20	29.46	24.11
Operating Profit	33.86	39.81	28.63	20.10	24.41
Net Profit	18.22	19.97	21.68	19.02	18.94
Profit Margin (%)					
GPM	84.34	85.24	84.95	84.60	84.00
OPM	20.05	22.58	24.09	22.25	22.15
NPM	18.22	19.97	21.68	19.02	18.94
Key Ratios					
P/E	54.47	40.91	31.67	27.77	22.32
P/B	13.79	10.36	8.80	7.81	
EPS/RMB	0.88	1.17	1.51	1.72	2.14
Dividen/RMB	0.70	0.73	1.00	1.03	1.29
BVPS/RMB	3.41	4.52	5.27	6.13	6.98
ROE%	25.76	25.88	28.67	28.13	30.71
ROA%	20.45	26.06	24.53	20.94	24.50

Source: Wind, Phillip Securities (HK) Research Estimates

(Financial figures as at Apr 23 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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