

Yunnan Baiyao (000538.SZ)

Recent volatility brings accumulating opportunity

Mainland China | Pharmaceutical | Company report

29 JUNE 2018

Investment Summary

We highlight that recent market volatility brings accumulating opportunity. We restate that company fundamentals remain strong given improving salesman efficiency and solid 18Q1 results (revenue up by 7.26% YoY, NP up by 11.18% YoY and CFO up by 137.75%). We also suggest to pay attention to company's further exploration in hospital field. We maintain 18E EPS target of RMB3.4, and given 33x target PE, we give target price RMB112. (Closing price at 27 Jun 2018)

Accumulate

CMP RMB104.03

(Closing price at 27 Jun 2018)

TARGET RMB112.0 (+7.66%)

Business Overview

Larger gets larger. The report on drug circulation industry in 2017 issued by the Ministry of Commerce of China showed that the growth rate of pharmaceutical wholesale enterprises was slowing down, given Top 100 pharmaceutical wholesale enterprises report sales up by 8.4% YoY (dropped by 5.6 ppts compared to 2016 growth). The company reported wholesale business revenue of RMB14.5bn, ranking sixteenth among the Top 100, is a regional circulation enterprises. In future, the regional leaders are likely to accelerate expansion through more cross region M&A to increase industry concentration.

COMPANY DATA

O/S SHARES (MN) :	1,041.4
MARKET CAP (RMBMN) :	110,700
52 - WK HI/LO (RMB):	120.05/84.35

SHARE HOLDING PATTERN , %

Yunnan Baiyao Holdings	41.52
Yunnan Hehe	10.09
Pingan	9.36
HK Connect	6.51
New Huadu	3.39
CSF	2.56

PRICE PERFORMANCE , %

	1M	6M	1Y
Yunnan Baiyao	-12.18	4.40	9.00
SHA	-10.27	-10.99	-11.84

Salesman efficiency may continue to improve after the composite ownership reform. Salesman efficiency decreased during 2010 to 2016. In 2017, Yunnan Baiyao Holdings Limited (YBH) introduced New Huadu and Jiangsu Yuyue as strategic investors to diversify holding structure. We already see improving salesman efficiency in 2017, given revenue per capita was up by 9.62% YoY (2016 +4.19%) and net profit per capita up by 2.38% YoY (2016 +1.6%). We expect the company continue to improve operation efficiency.

RETURN VS. SHA



Source: Aastocks, Phillip Securities (HK) Research

Figure: Sales contributed by per capita (RMB 10k)

	2012	2013	2014	2015	2016	2017
No. of salesmen	1976	2403	3780	4970	5155	5102
% in total staff	46.23%	46.80%	53.72%	60.97%	61.40%	61.51%
Sales per capita	692.65	658.13	497.73	417.27	434.74	476.57
YoY	16.77%	-4.98%	-24.37%	-16.17%	4.19%	9.62%
Net profit per capita	80.09	96.61	66.30	55.75	56.64	57.99
YoY	26.12%	20.63%	-31.37%	-15.91%	1.60%	2.38%
Manufacturing income per capita	289.57	284.75	216.66	184.72	176.15	195.26
YoY	26.00%	-1.67%	-23.91%	-14.74%	-4.64%	10.85%
Distribution income per capita	395.75	373.38	280.11	231.93	257.53	279.96
YoY	13.47%	-5.65%	-24.98%	-17.20%	11.04%	8.71%

Source: Company, Phillip Securities

KEY FINANCIALS

RMB/mn	FY16	FY17	FY18E	FY19E
Net Sales	22,411	24,315	26,911	29,263
Net Profit	2,931	3,133	3,536	4,005
EPS, RMB	2.80	3.02	3.40	3.85
PER, x	34.36	31.86	28.34	25.02
BVPS, RMB	15.10	17.32	19.97	22.85
P/BV, x	6.37	5.56	4.82	4.21
ROE, %	18.50	17.27	17.00	16.83

Source: Wind, Phillip Securities Est.

Eurus Zhou (2277 6515)
euruszhou@phillip.com.hk

Potential progresses of hospital business. Investor meeting summary on its website shows that the company may benefit from provincial government's favorable policies, as the government aims to build Yunnan as a healthcare center featured healthy lifestyle. The company, as a regional pharmaceutical leader, may try to cooperate with tertiary institutions and explore orthopaedics field leveraging on Baiyao's brand advantage.

Investment Thesis, Valuation & Risk

Our model indicates a target price of RMB112.0. We estimate 2018E EPS to be RMB3.4 per share and with target PE 33x, we give 2018E Target price of RMB112.0. **Risks include:** Rising selling fees; Effects from Two-invoice system; Fierce competition in health product industry; Composite ownership reform fail expectation.

Figure: Segments Performance (RMB`000)

	2014	2015	2016	2017	2018E	2019E
Revenue	18,814,366.37	20,738,126.21	22,410,654.40	24,314,614.04	26,910,549.80	29,263,000.50
YOY	18.97%	10.22%	8.06%	8.50%	10.68%	8.74%
Distribution	10,588,189.27	11,527,074.37	13,275,890.44	14,283,554.30	15,283,403.10	16,429,658.34
YOY	18.01%	8.87%	15.17%	7.59%	7.00%	7.50%
GPM	6.54%	6.36%	7.84%	7.29%		
Weight	56.28%	55.58%	59.24%	58.74%	56.79%	56.14%
Manufacturing	8,189,759.72	9,180,400.94	9,080,384.24	9,962,024.66	11,627,146.70	12,833,342.17
YOY	19.69%	12.10%	-1.09%	9.71%	16.71%	10.37%
GPM	60.65%	60.83%	62.10%	65.61%	63.86%	64.73%
--Medicin Section	4,977,240.00	5,095,940.00	4,917,690.00	5,043,510.00	5,144,380.20	5,272,989.71
YOY	12.58%	2.38%	-3.50%	2.56%	2.00%	2.50%
Weight	26.45%	24.57%	21.94%	20.74%	19.12%	18.02%
--Health Product Section	2,753,320.00	3,354,510.00	3,756,770.00	4,361,150.00	5,015,322.50	5,817,774.10
YOY	32.66%	21.84%	11.99%	16.09%	15.00%	16.00%
Weight	14.63%	16.18%	16.76%	17.94%	18.64%	19.88%
--TCM Section	450,520.00	651,400.00	943,950.00	1,162,870.00	1,395,444.00	1,660,578.36
YOY	30.19%	44.59%	44.91%	23.19%	20.00%	19.00%
Weight	2.39%	3.14%	4.21%	4.78%	5.19%	5.67%

Source: Company, Phillip Securities

Figure: Peers valuation

Code	Firm	Mkt.Cap/mn	ROE(%)	GPM(%)			NPM(%)			PE		
				1Q18	17	16	1Q18	17	16	17A	18E	19E
000538.SZ	雲南白藥	110,700.79	18.63	29.96	30.7	29.38	12.81	12.97	13.17	35.2	30.78	26.89
A shares												
	Max	112,119.68	30.36	91.67	90.17	90.23	36.43	28.08	29.69	84.06	63.11	47.72
	Medium	45,002.75	17.6	46.7	44.15	46.83	15.24	14.38	15.12	31.02	24.62	21.13
	Average	57,717.35	17.92	54.59	54.27	54.51	19.07	16.78	16.55	37.5	32.21	26.6
600518.SH	康美藥業	112,119.68	13.41	28.66	29.68	29.23	15.63	15.61	15.56	27.34	22.55	18.55
600436.SH	片仔癀	67,836.99	21.16	45.85	42.65	48.26	26.96	21.24	22.24	84.06	63.11	47.72
600332.SH	白雲山	58,869.59	11.39	37.81	37.05	32.42	13.53	10.21	7.85	29.53	23.63	20.55
600085.SH	同仁堂	50,223.24	12.55	47.55	45.65	45.39	14.86	13.16	13.06	49.37	44.5	39.78
600566.SH	濟川藥業	39,782.26	30.36	84.37	84.66	84.95	22.37	22.12	20.37	32.52	24.62	19.62
600535.SH	天士力	39,041.92	16.57	33.71	35.53	35.82	9.62	8.82	8.84	28.36	24.49	21.13
002773.SZ	康弘藥業	34,586.97	19.98	91.67	90.17	90.23	29.85	23.52	20.05	53.69	41.23	31.83
000423.SZ	東阿阿膠	34,401.53	22.46	66.49	64.6	66.59	36.43	28.08	29.69	16.83	15	13.36
603858.SH	步長製藥	29,610.57	12.72	79.86	81.98	82.82	8.6	12.06	14.67	18.08	--	--

HK shares												
Max		58,869.59	22.6	74.87	77.68	81.66	43.37	39.87	40.42	27.75	23.55	20.34
Medium		10,824.68	12.92	56.34	62.87	64.54	28.45	21.38	18.24	22.77	17.8	15.68
Average		15,572.27	14.19	56.34	61.61	62.33	28.45	20.88	20.23	20.99	17.1	14.65
0874.HK	白雲山	58,869.59	11.39	37.81	37.05	32.42	13.53	10.21	7.85	22.45	17.86	15.56
0570.HK	中國中藥	28,232.46	9.74	--	55.79	57.98	--	15.72	16.63	24.28	20.37	17.11
2186.HK	綠葉製藥	22,903.14	14.87	--	77.68	81.66	--	25.67	30.6	23.49	19.88	17.29
1666.HK	同仁堂科技	13,361.09	14.46	--	50.26	50.71	--	19.3	18.24	20.17	17.74	15.8
3613.HK	同仁堂國藥	11,291.19	21.23	74.87	72.39	73.33	43.37	39.87	40.42	27.75	23.55	20.34
2877.HK	神威藥業	10,358.17	7.89	--	66.01	64.54	--	23.47	29.49	23.09	16.58	14.1
1681.HK	康臣藥業	5,398.26	22.6	--	73.99	74.46	--	25.4	26.09	13.71	11.42	9.66
0587.HK	華瀚健康	3,167.48	--	--	--	--	--	--	--	--	--	--
0932.HK	順騰國際控股	1,234.31	--	--	--	71.14	--	--	5.35	--	--	--
3737.HK	中智藥業	906.98	11.33	--	59.73	54.68	--	7.4	7.36	13.03	9.38	7.36

Source: Wind (as at Jun 27), Phillip Securities

Financials

FYE	FY2015	FY2016	FY2017	FY2018E	FY2019E
Valuation Ratios					
Price to Earnings (P/E)	36.17	34.36	31.86	28.34	25.02
Price to Book (P/B)	7.46	6.37	5.56	4.82	4.21
Per Share Data (RMB)					
EPS	2.66	2.80	3.02	3.40	3.85
Book Value Per Share	12.90	15.10	17.32	19.97	22.85
Dividend Per Share	0.60	0.80	1.50	1.70	1.92
Growth (%)					
Revenue	10.22	8.06	8.50	10.68	8.74
Gross Profit	30.53	29.86	31.19	31.89	32.66
Operating Income	11.96	4.78	9.06	12.89	12.65
Net Profit	10.34	6.36	6.88	12.87	13.28
Margins (%)					
Gross Profit Margin	30.53	29.86	31.19	31.89	32.66
Operating Profit Margin	15.28	14.81	14.89	15.19	15.74
Net Profit Margin	13.29	13.08	12.88	13.14	13.69
Profitability					
ROE (%)	20.37	18.50	17.27	17.00	16.83
ROA (%)	14.28	11.92	11.31	11.22	11.11
FYE	FY2015	FY2016	FY2017	FY2018E	FY2019E
Income Statement (RMB Mn)					
Revenue	20,738.1	22,410.7	24,314.6	26,910.5	29,263.0
- Cost of Goods Sold	-14,405.9	-15,718.0	-16,731.6	-18,329.8	-19,707.0
Gross Income	6,332.2	6,692.7	7,583.0	8,580.7	9,556.0
- Operating Expenses	-3,164.0	-3,372.9	-4,100.4	-4,493.2	-4,951.3
Operating Income	3,168.2	3,319.8	3,620.7	4,087.5	4,604.7
+ Net Non-Operating Gain/Loss	47.1	77.7	1.1	0.0	0.0
Pretax Income	3,215.3	3,397.5	3,621.8	4,087.5	4,604.7
- Income Tax Expenses	-459.8	-466.6	-489.3	-551.7	-599.4
- Minority Interest	-15.3	11.0	-12.4	-13.8	-15.0
Net Profit	2,755.6	2,930.9	3,132.5	3,535.8	4,005.3

Source: Company, Wind, Phillip Securities (HK) Research Estimates
(Financial figures as at 27 Jun 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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Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website: www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: www.phillipcapital.com.au

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Hengfeng Road,
Greentech Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 63532643
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005