

CSPC Pharmaceutical (1093.HK)

Robust sales of innovative drugs

Hong Kong | Pharmaceutical | Company report

9 July 2018

Investment Summary

During the last month, the stock price has dropped by ~17%, after which we see Accumulate opportunity. The management maintains annual NP growth guidance of 20-30% intact for future 5 years. We highlight that CSPC as a leading firm among HK listing peers has solid fundamentals and maintain 18E/19E EPS estimation of HKD0.59/0.78 and target price HKD24.8, implying forward PE 36.8x. (Closing price at 5 Jul 2018)

Accumulate

CMP HKD21.4

(Closing price at 5 Jul 2018)

TARGET HKD24.8 (+16%)

Business Overview

Solid 18Q1 results. The company reported 18Q1 topline growth of 55% (HKD5.39bn) and lower operating income growth of 41%. This is due to rising selling expenses and increasing R&D investment, which led operating margin dropped by 2ppts. While net profit maintains proportionated growth of 42%. We expect the company to achieve good results in first half.

Finished drugs beat our expectations, given notable YoY growth of 58.5%. Innovative drugs (60% in segment income) recorded 66% growth while common generic drugs reported 49% growth. In future, the company will continue to enlarge sales team of innovative drugs, explore blank markets and strengthen academic promotion. On generic drugs, the company targets continuously stable growth through introducing TCM products and pediatric drugs, to build branded generic drugs.

Bulk drugs. VC continues to benefit from relatively high price since last year, given Q1 sales was up by 112% which simultaneously contributed to profitability. Antibiotics reported moderate growth of 24% resulting from recovering price. However caffeine generated less profit attributable to rising costs.

Focusing on biotech targets. The company can externally expand through acquiring biotech targets to enrich product mix. Back to the beginning of 2018, CSPC announced acquisition of ~40% interest of a biotech firm. In future, it is expected to seek target firms with relatively mature pipeline of biologic drug products.

COMPANY DATA

O/S SHARES (MN) :	6,243
MARKET CAP (HKDMN) :	133,601
52 - WK HI/LO (HKD):	26.59 / 10.93

SHARE HOLDING PATTERN , %

Director Cai Dong Chen	22.89
Common Success	6.78

PRICE PERFORMANCE , %

	1M	3M	1Y
CSPC	-17.7	-2.36	92.58
HIS	-9.37	-5.57	10.43

RETURN VS. HSI



Source: Phillip Securities (HK) Research

Valuation Thesis & Risks

Our model derive TP of HKD24.8: Given recently intensifying short-term volatility, we highlight Accumulate opportunity for medium-term investment. Robust Q1 results enhance our confidence towards 2018 performance, but concerns of rising selling costs and R&D expenses lead to unchanged 18E/19E EPS estimation of HKD0.59/0.78 and target price of HKD24.8, with target PE 42x. **Risks include:** rising selling and R&D expenditure; M&A or R&D fail expectations; policy risks.

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	0.78
PER, x	61.14	47.05	36.41	27.60
BVPS, HKD	1.67	2.45	2.89	3.43
P/BV, x	12.81	8.73	7.40	6.23
ROE, %	20.96	18.56	20.31	22.57

Source: Company reports, Phillip Securities Est.

Figure: 18Q1 results

HK\$m	17Q1	18Q1
Revenue	3,470.90	5,387.36
<i>change</i>		55.21%
Gross Profit	1,978.86	3,462.57
<i>change</i>		74.98%
<i>GPM</i>	57.01%	64.27%
- Operating Expenses	1,194.12	2,381.95
<i>change</i>		99.47%
Operating Income	806.89	1,136.06
<i>change</i>		40.79%
<i>OPM</i>	23.25%	21.09%
Net Profit	640.83	911.89
<i>change</i>		42.30%
<i>NPM</i>	18.46%	16.93%

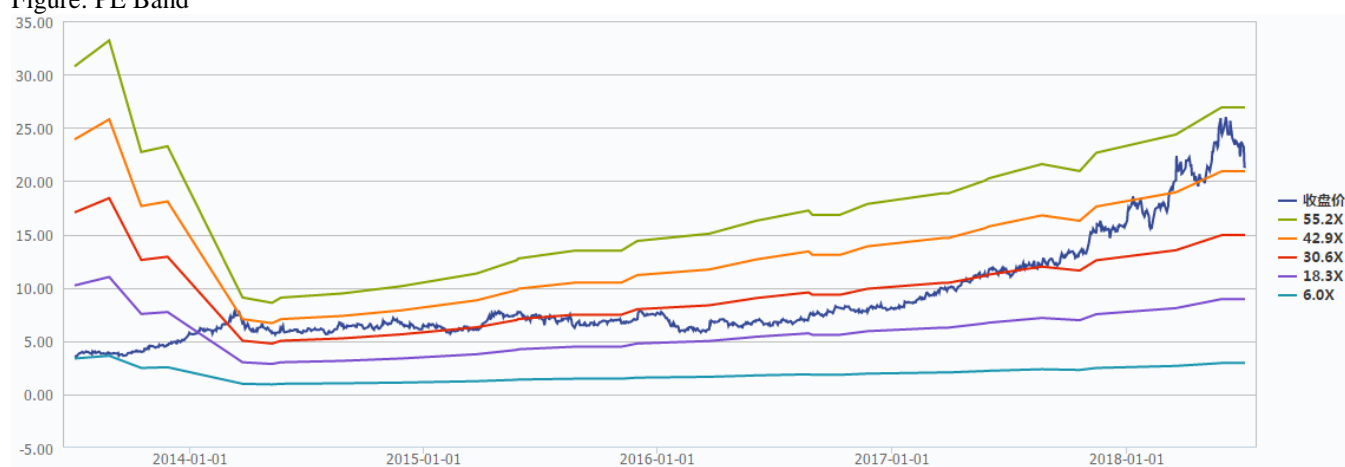
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Figure: 18Q1 results by segments

	HK\$ mn	17Q1	18Q1	Change
Finished drugs	Innovative drugs	1419.88	2357	66.00%
	Generic drugs	1136.73	1696	49.20%
	Subtotal	2556.66	4052.64	58.51%
Bulk drugs	Vitamin C	320.224	692.299	116.19%
	Antibiotics	335.874	424.847	26.49%
	Caffine	286.084	265.933	-7.04%
	Subtotal	942.182	1383.08	46.80%

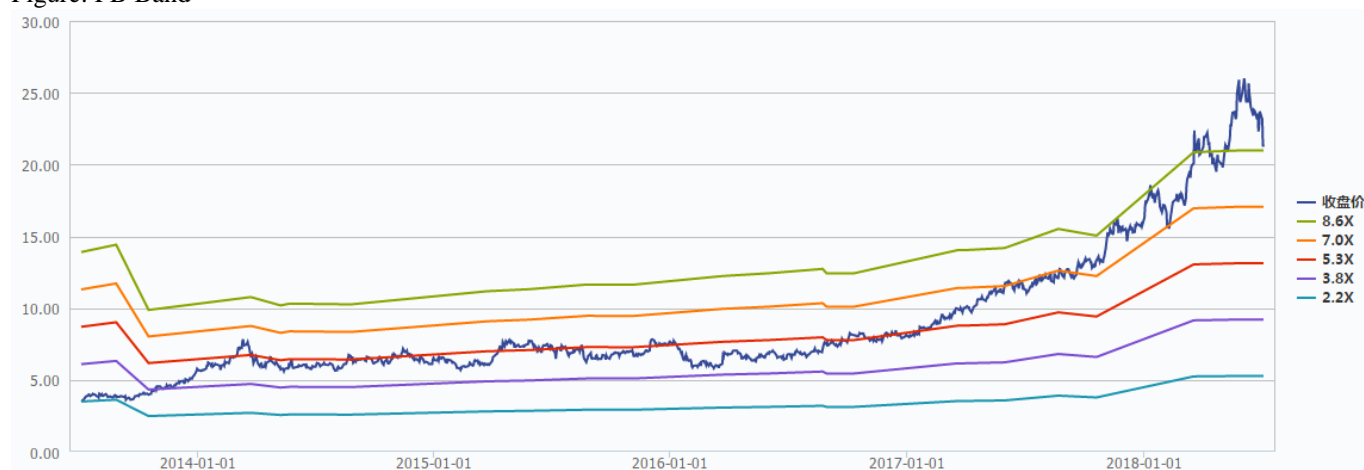
Source: Company, Phillip Securities

Figure: PE Band



Source: Wind, Phillip Securities

Figure: PB Band



Source: Wind, Phillip Securities

Financials

Key Ratios	FY2015	FY2016	FY2017	FY2018E	FY2019E
Valuation Ratios					
Price to Earnings (P/E)	76.43	61.14	47.05	36.41	27.60
Price to Book (P/B)	14.46	12.81	8.73	7.40	6.23
Per Share Data (HKD)					
EPS	0.28	0.35	0.45	0.59	0.78
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
Growth & Margins (%)					
Growth					
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	30.78	25.82	31.56	31.18	31.92
Margins					
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	14.74	17.08	17.98	19.14	20.86
Returns					
ROE (%)	18.92	20.96	18.56	20.31	22.57
ROA (%)	12.30	14.23	12.86	14.39	16.36
Income Statement (HKD Mn)					
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 5 Jul 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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