

CSPC Pharmaceutical (1093.HK)

Comments on 18H1 Results

Hong Kong | Pharmaceutical | Company report

30 August 2018

Investment Summary

CSPC announced 18H1 results last week with strong revenue and profit growth. We maintain EPS forecast of HK\$0.59/0.78 for 18E/19E, and target price of HK\$24.8 on the basis of a target P/E ratio 42x. (Closing price at 28 Aug 2018)

Business Overview

Financial review. Total sales increased by 49.8% yoy to HK\$10.79bn in the first half, mainly due to the sustained strong growth of innovative drugs (now 45.2% of the total revenue), and recovery of Vitamin C business which also drive the profitability of this business up. The profit attributable to shareholders increased by 41.1% yoy to HK\$1.85bn. Cash flows from operating activities climbed to HK\$2.18bn (HK\$1.27bn in 2017). Operation efficiency improves. Average turnover period of accounts receivable increased slightly from 40 days to 37 day, and inventory days dropped from 173 days to 150 days.

Escalated expenses. OPM dropped by 1.8pp due to rising selling and R&D expenses. R&D expenditure rose 112% yoy to HK\$688mn, more than 60% of which was spent on innovative drug R&D, and some on conformity assessment and generics. In the next few years, CSPC will continue to invest heavily in innovative drugs thus we expect that R&D cost is expected to remain relatively high. Selling expenditure ratio rose to 33.35% in 18H1 from 25.8% in 17H1, mainly resulting from continued expansion of sales team and increased cost of academic promotion. According to company guidelines, the number of salesmen for NBP will increase to about 1500 by FY17 end, and that for Xuanning and Olaining will reach more than 600 respectively. Also CSPC proactively promotes the consistency evaluation of generic drugs. At present, products that have passed consistency evaluation include azithromycin tablets, tramadol hydrochloride tablets and captopril tablets, etc.

Innovative medicines. Innovative drugs achieved HK\$48.7 in 18H1, up by 65% yoy. By products, NBP achieved sales revenue growth of 42.6% to HK\$2.36bn, with 28% growth for capsules and 57.5% for injections. Albumin paclitaxel has come into market since Mar, which grows quickly realizing sales of HK\$86mn yet. Albumin paclitaxel has now entered five provinces' drug reimbursement list and covers 290 hospitals. Sales target according to Mgt was HK\$300mn/1bn for 18E/19E. Revenue of Oulaining increased by 78% to HK\$1bn, and that of Xuanning injections increased by 105% to HK\$580mn.

Generic medicines. Sales of generic drugs reached HK\$3.31bn, a notable increase of 42.3%, mainly because the company continues to intensify promotion of non-antibiotic drugs and expand oral products for chronic diseases. High-end antibiotic products (Meropenem for injection) and health products (vitamin C buccal tablets) also maintained rapid growth. The company indicated that it would consider divestiture or sale of VC business. Currently, VC business provides stable cash flow for the group, and has higher than industry average profit margin. While its gross margin will further increase, if the divestiture of Vitamin C business happens.

Valuation Thesis & Risks

We maintain target price at HK\$24.8. Solid 18H1 results further prove its growth momentum that coming from expanding salesman team and newly-launched drugs. We remain TP of HK\$24.8 to factor into concerns about improving expenditures (for sales and R&D). **Risks include:** R&D failure; Slow than expected sales growth; Rising expenses.

Accumulate

CMP HKD20.45

(Closing price at 28 Aug 2018)

TARGET HKD24.8 (+5%)

COMPANY DATA

O/S SHARES (MN) :	6,243
MARKET CAP (HKDMN) :	127,670
52 - WK HI/LO (HKD):	26.6 / 11.83

SHARE HOLDING PATTERN , %

Director Cai Dong Chen	22.89
Common Success	6.78

PRICE PERFORMANCE , %

	1M	3M	1Y
CSPC	-4.22	-16.02	66.19
HIS	33.35	-5.67	1.67

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	0.78
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.

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

Figure: 18H1 results by segments

	HK\$ mn	17H1	18H1	Change	Change excluding exchange effect
Revenue		7201.58	10787.47	49.8%	37.6%
--Finished drugs	Innovative drugs	1419.88	2357	66.00%	51.9%
	Generic drugs	1136.73	1696	49.20%	30.7%
	Subtotal	2556.66	4052.64	58.51%	-
--Bulk drugs	Vitamin C	320.224	692.299	116.19%	56.5%
	Antibiotics	335.874	424.847	26.49%	14.4%
	Caffine	286.084	265.933	-7.04%	-9.7%
	Subtotal	942.182	1383.08	46.80%	-
Gross profit		4124.86	6891.03	67.1%	53.5%
	GPM	57.3%	63.9%	+6.6pp	
R&D expenses		324.66	688.37	112%	94.8%
Operating profit		1675.88	2323.1	38.6%	27.3%
	OPM	23.3%	21.5%	-1.8pp	
Net profit		1312.93	1853.13	41.1%	29.7%
	NPM	18.3%	17.1%	-1.2pp	

Source: Company, Phillip Securities

Figure: Peers

Code	Firm	Free float HK\$ mn	PE		PB(MRQ)	EV	EV/EBITDA
			18E	19E			
1093.HK	石藥集團	127669.73	35.08	27.38	7.92	128609.01	29.45
	最高值	129158.23	38.34	30.66	11.85	133064.41	40.23
	中位值	9527.07	18.46	15.96	2.74	16635.13	13.26
	平均值	25323.13	21.35	17.58	2.20	37260.12	11.60
1177.HK	中國生物制藥	129158.23	38.34	30.66	5.37	133064.41	29.48
3320.HK	華潤醫藥	76670.98	18.59	16.06	1.83	121975.82	9.15
0867.HK	康哲藥業	32582.94	14.39	12.22	3.74	35101.21	13.78
2005.HK	石四藥集團	22002.39	24.77	19.21	5.40	23047.66	20.32
2196.HK	複星醫藥	19345.51	21.13	17.58	2.97	122562.84	30.76
0460.HK	四環醫藥	16384.97	9.65	8.89	1.18	16635.13	8.76
0512.HK	遠大醫藥	15847.42	24.49	19.56	5.98	19396.47	21.43
3933.HK	聯邦制藥	11592.83	15.15	14.61	1.78	17403.26	8.82
0940.HK	中國動物保健品	10223.15	--	--	-26.05	10251.10	--
1672.HK	歌禮制藥-B	8831.00	--	--	11.85	8831.00	-77.16
1558.HK	東陽光藥	8174.79	16.03	13.44	4.17	16386.95	15.45
1513.HK	麗珠醫藥	7725.95	18.32	15.86	1.83	29956.25	12.73
0950.HK	李氏大藥廠	4546.79	15.93	14.02	2.52	--	--
1061.HK	億勝生物科技	3825.77	18.31	14.81	4.50	4012.37	18.53
2633.HK	雅各臣科研制藥	3486.00	--	--	1.76	4837.81	10.67
2969.HK	東瑞制藥(舊)	3141.04	--	--	1.39	3141.08	4.91
2348.HK	東瑞制藥	3045.85	--	--	1.35	3141.08	4.91
1349.HK	復旦張江	1380.40	28.76	21.81	3.52	3925.29	40.23
0719.HK	山東新華制藥	826.80	--	--	0.88	5663.58	6.58

Source: Wind (as at 28 Aug 2018), Phillip Securities

Figure: PE Band



Source: Wind (as at Aug 28), Phillip Securities

Figure: PB Band



Source: Wind (as at Aug 28), 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)					
FY2015	FY2016	FY2017	FY2018E	FY2019E	
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: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 28 Aug 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 ± 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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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

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

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

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

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

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

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

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 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

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

AUSTRALIA**PhillipCapital Australia**

Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia

Tel (613) 96188238

Fax (613) 92002272

Website: www.phillipcapital.com.au