

Jumpcan Pharma (600566.SH)

Strong 18H1 Results with Core Products Growing Fast

Mainland China | Pharmaceutical | Company Report

16 October 2018

Investment Summary

The company reported solid 18H1 results, given topline/profit attributable recorded 35.36%/44.81% growth yoy. Due to higher expectation for whole year performance, we raise 18E/19E EPS forecasts to RMB2.11/2.97. Considering recent market volatility, we adjust 6-month target PE to be 20x to derive TP of RMB42.2, suggest to prudently trade and accumulate during price trough. (Closing price at 12 Oct 2018)

Business Overview

Solid 18H1 results. In 18H1, Jumpcan revenue was RMB3.8bn up by 35.36% yoy, net profit attributable to shareholders RMB842mn up by 60.58% yoy, and NPATS excluding non-recurring items RMB820mn up by 73.6% yoy. Selling expenses went up by 45%, while impairment increased sharply due to accounts receivable surged. Higher profit margin growth was due to effective cost control measures in selling and administration. Net cash flow from operation reported yoy growth of 43.72%, mainly resulting from enlarging sales scale and higher capital turnover.

Wide coverage of fast-growing core products. Pudilan Oral Liquid is an exclusive dosage form, which is mainly used for treatment of mumps, pharyngitis, tonsillitis, furuncles, etc. Child Chiqiao Qingre Granule is an exclusive drug, mainly for children cold. In 2018, the two drugs were recommended for the prevention and treatment of influenza in Jiangsu Province in a diagnosis and treatment plan (江蘇省流行性感冒中醫診療方案(2018版)). Also they are recommended for the treatment and prevention of hand foot mouth disease in a provincial medical document (廣東省中醫藥防治手足口病專家共識). Due to the exclusive nature of both products and the availability in hospitals and OTC pharmacies, selling growth momentum will continue to be strong in the future.

Strong marketing channels. The company mainly focuses on academic promotion with distributors as supplement, and has established a professional academic promotion department. Its marketing offices cover 30 provinces, municipalities and autonomous regions in China, and have more than 3,000 marketing staff. Its sales terminals involve hospitals, OTC drugstores, and primary medical institutions. For OTC, the company sets up an OTC management team, which carries out product display and promotion.

R&D progresses. During the reporting period, the company completed the BE test of two drugs (Prucalopride Succinate Tablets and Tadalafil Tablets). As up to the end of first half, the company has obtained 17 clinical trial batches, launched one BE test, completed two BE tests, and applied for 16 production approvals. The company cooperated with the Institute of Chinese Materia Medica (中國中醫科學院中藥研究所) to carry out the second-stage development project of POL, ensuring good quality of follow-up products. During 18H1, the company obtained five patents including: a Pudilan Antibacterial and Antipruritic Bath Lotion and its preparation method; posaconazole oral suspension and its preparation method; a synthesis method of Ciprofloxacin; a preparation method of Ciprofloxacin Granules and its preparation method; a Chinese herbal compound and its application in preparation of drugs for chronic pelvic inflammation.

Accumulate

CMP RMB36.75

(Closing price at 12 Oct 2018)

TARGET RMB42.2 (+15%)

COMPANY DATA

O/S SHARES (MN) :	809.62
MARKET CAP (RMBMN) :	29,945
52 - WK HI/LO (RMB):	54.97 / 33.20

SHARE HOLDING PATTERN, %

Jiangsu Jumpcan Group	51.5
Tibet Jumpcan Investment Company	12.35

PRICE PERFORMANCE, %

	1M	3M	1Y
Jumpcan	0.41	-28.05	-5.63
HS300	-0.98	-9.22	-18.96

RETURN VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

RMB mn	FY16	FY17	FY18E	FY19E
Net Sales	4,678	5,642	7,617	9,902
Net Profit	934	1,223	1,709	2,401
EPS, RMB	1.17	1.51	2.11	2.97
PER, x	31.41	24.34	17.41	12.39
BVPS, RMB	4.52	5.27	6.13	6.98
P/BV, x	8.14	6.97	6.00	5.26
ROE, %	25.88	28.65	34.45	42.46

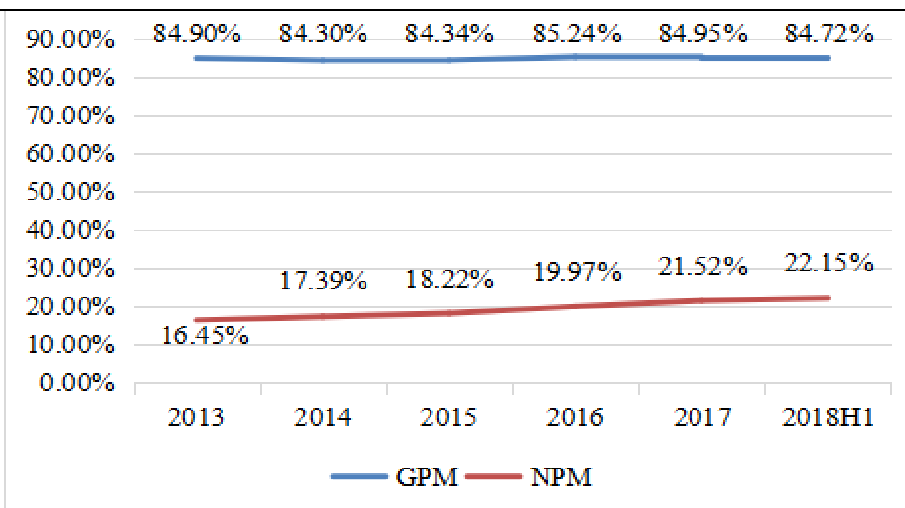
Source: Company reports, Phillip Securities Est.

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

Investment Thesis & Risks

Our target price is adjusted to RMB42.2. We suggest to accumulate Jumpan during price trough due to its better fundamentals than peers, given higher-than-average growth performance in FY18H1 and FY17. We increase EPS estimates to be RMB2.11/2.97 for 18E/19E based on good operation results in first half, and derive 6-mon TP of RMB42.2, targeting 20x PE. **Risks include:** Slow-than-expected sales growth; Share selling of major shareholders; Policy risks.

Figure: GPM and NPM



Source: Company, Phillip Securities

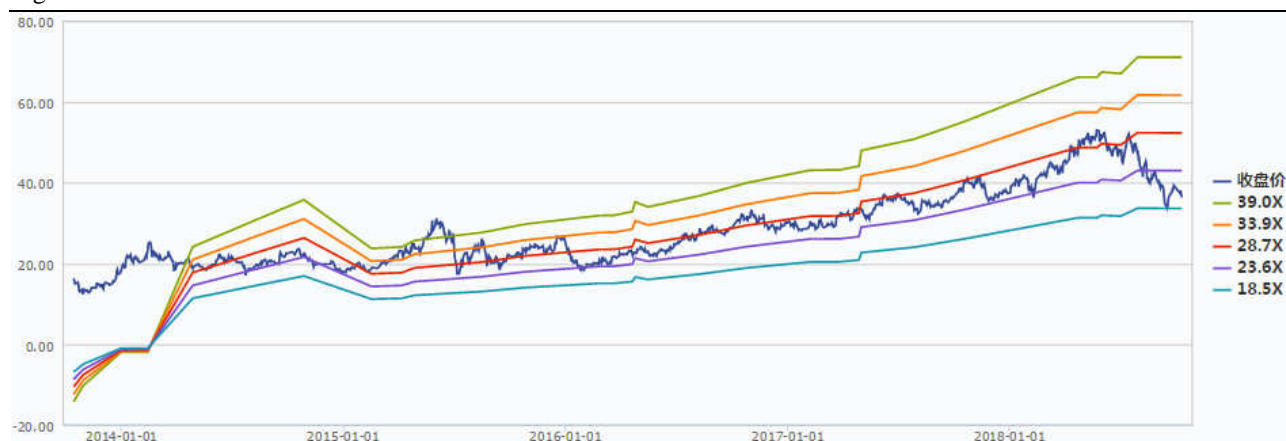
Figure: Peers

Code	Ticker	Mrk.Cap	Topline mn	Earnings mn	Topline yoy growth %		Earnings yoy growth %		ROE%	PE			PB (MRQ)
					18H1	17	18H1	17		17A	18E	19E	
600566.SH	濟川藥業	29,944.5	5,533.5	1,223.5	35.51	20.62	44.81	30.97	30.36	24.48	18.4	14.51	6.52
China													
	最高值	107,286.2	26,239.1	4,100.9	52.92	61.27	126.14	92.82	30.36	67.28	48.64	36.64	12.26
	中位值	22,370.2	5,365.4	912.2	17.37	13.94	17.01	11.25	14.14	23.49	19.94	16.79	3.08
	平均值	30,144.7	8,666.3	1,262.9	18.33	16.19	24.3	21	15.56	26.65	23.32	19.35	3.84
600518.SH	康美藥業	107,286.2	26,239.1	4,100.9	27.92	22.39	21.06	22.77	13.41	26.16	21.35	17.54	3.22
000538.SZ	雲南白藥	73,137.5	24,145.0	3,145.0	8.53	8.48	4.35	7.71	18.63	23.26	21.03	18.56	3.72
600436.SH	片仔癀	54,292.5	3,674.3	807.0	37.26	61.27	42.55	50.53	21.16	67.28	48.64	36.64	12.26
600332.SH	白雲山	52,264.0	20,750.1	2,061.7	33.66	4.55	126.14	36.71	11.39	26.66	16.2	15.75	2.63
600085.SH	同仁堂	40,636.7	13,232.2	1,017.4	3.7	10.62	6.6	9.02	12.55	39.94	36.4	32.62	4.66
600535.SH	天士力	31,493.7	15,905.0	1,376.5	16.8	15.3	22.32	17.01	16.57	22.88	19.66	16.92	3.43
000423.SZ	東阿阿膠	28,920.8	7,280.4	2,044.4	1.4	16.53	-4.35	10.36	22.46	14.15	13.38	12.24	2.86
002773.SZ	康弘藥業	25,444.7	2,738.7	644.2	1.3	9.8	33.13	29.68	19.98	39.5	31.47	24.79	6.91
603858.SH	步長制藥	22,734.6	13,585.8	1,638.0	-0.03	12.58	3.37	-7.43	12.72	13.88	--	--	1.78
000999.SZ	華潤三九	22,005.7	10,926.0	1,301.7	29.56	23.72	11.5	8.67	14.11	16.91	14.9	13.11	2.15
600572.SH	康恩貝	17,364.3	5,197.3	711.1	52.92	-12.58	42.62	61.23	14.17	24.42	20.21	16.66	3.05
000623.SZ	吉林敖東	16,953.3	2,914.2	1,863.5	29	8.63	-33.25	11.82	9.57	9.1	--	--	0.81
600329.SH	中新藥業	12,908.9	5,623.9	476.1	4.12	-9.07	12.97	12.7	11.05	22.77	17.62	14.08	2.35
002603.SZ	以嶺藥業	12,823.0	3,995.8	540.7	20.34	5.85	32.06	-0.24	8.7	23.72	18.59	15.57	1.72

000989.SZ	九芝堂	12,397.0	3,770.7	721.4	1.31	43.25	-9.77	10.68	16.69	17.18	--	--	2.76
002424.SZ	貴州百靈	11,148.5	2,547.5	526.1	7.09	16.73	10.13	9.08	16.34	21.19	18.57	16.14	3.12
600771.SH	廣譽遠	11,108.6	1,146.6	236.8	30.94	24.75	83.35	92.82	13.08	46.91	26.65	18	5.4
002287.SZ	奇正藏藥	10,076.9	1,034.0	300.8	17.93	9.12	12.07	3.79	16.66	33.5	30.13	26.45	5.3
603567.SH	珍寶島	9,952.2	3,085.1	520.9	7.24	31.26	24.38	2.22	11.61	19.11	--	--	2.09
HK													
	最高值	52,264.0	20,750.1	2,061.7	60.79	35.6	126.14	36.71	22.6	257.03	21.3	18.43	4.64
	中位值	4,004.9	1,360.0	402.9	28.7	15.75	22.12	9.51	10.54	15.42	13.05	10.99	1.48
	平均值	9,860.7	3,745.0	494.3	21.67	12.77	34.35	2505.66	-2.1	31.57	13.51	11.87	1.81
0874.HK	白雲山	52,264.0	20,750.1	2,061.7	33.66	4.55	126.14	36.71	11.39	16.08	10	11.11	1.6
0570.HK	中國中藥	19,891.5	8,339.0	1,170.4	40.14	27.63	27.01	21.05	9.74	16.11	13.62	10.99	1.26
2186.HK	綠葉制藥	16,574.5	3,819.3	981.4	--	30.74	--	10.08	14.87	16.01	13.05	10.94	2.32
1666.HK	同仁堂科技	11,925.1	5,025.2	666.7	0.8	7.71	3.99	11.92	14.46	16.96	15.89	14.55	2.26
3613.HK	同仁堂國藥	10,790.6	1,060.0	409.6	21.8	16.53	16.07	8.93	21.23	24.98	21.3	18.43	4.64
2877.HK	神威藥業	7,065.6	1,924.4	451.6	60.79	-3.69	40.45	-23.36	7.89	14.83	11.93	9.57	1.17
1681.HK	康臣藥業	4,004.9	1,660.0	396.2	13.29	35.6	18.5	28.85	22.6	9.58	8.77	7.53	2.01
0587.HK	華瀚健康	3,362.5	--	--	--	--	--	--	--	--	--	--	0.44
3737.HK	中智藥業	1,081.3	946.3	70.1	28.7	29.22	22.12	30.04	11.33	14.63	--	--	1.48
0932.HK	順騰國際控 股	464.2	212.8	(111.6)	--	20.13	--	1120.69	-85.19	-3.78	--	--	4.59
1498.HK	培力控股	428.1	495.6	1.6	46.94	10.6	41.89	-94.51	0.38	257.03	--	--	0.86
0897.HK	位元堂	247.6	688.9	(92.6)	--	14.97	--	-15.76	-4.44	-2.43	--	--	0.11
8197.HK	北斗嘉藥業	89.3	18.0	(73.6)	-51.08	-40.78	12.98	28961.1	8	-49.46	-1.15	--	0.78

Source: Wind (as at Oct 12th), Phillip Securities

Figure: Historical PE band



Source: Wind (as at Oct 12th), Phillip Securities

Figure: Historical PB band



Source: Wind (as at Oct 12th), Phillip Securities

Financials

P&L RMB mn	2015	2016	2017	2018E	2019E
Revenue	3,768	4,678	5,642	7,617	9,902
COGS	(590)	(690)	(849)	(1,181)	(1,485)
Gross Profit	3,178	3,987	4,793	6,436	8,416
Operating Expense	(2,422)	(2,931)	(3,424)	(4,513)	(5,693)
Operating Income	756	1,056	1,369	1,924	2,723
Net Non-operating Gain/Loss	44	32	67	75	85
Pretax Income	800	1,088	1,436	1,999	2,808
Tax	(116)	(154)	(212)	(290)	(407)
Net Profit	687	934	1,223	1,709	2,401
	2015	2016	2017	2018E	2019E
Growth (%)					
Revenue	26.17	24.15	20.61	35.00	30.00
Gross Profit	26.23	25.48	20.20	34.28	30.77
Operating Profit	33.86	39.82	29.58	40.51	41.56
Net Profit	32.19	36.07	30.96	39.66	40.50
Profit Margin (%)					
GPM	84.34	85.24	84.95	84.50	85.00
OPM	20.05	22.58	24.26	25.25	27.50
NPM	18.22	19.97	21.68	22.43	24.25
Key Ratio					
P/E	41.76	31.41	24.34	17.41	12.39
P/B	10.76	8.14	6.97	6.00	5.26
EPS/RMB	0.88	1.17	1.51	2.11	2.97
Dividend /RMB	0.70	0.73	1.00	1.37	1.93
BVPS/RMB	3.41	4.52	5.27	6.13	6.98
ROE%	25.81	25.88	28.65	34.45	42.46
ROA	20.45	26.06	24.53	20.94	24.50

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at Oct 12 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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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