

# SINOPHARM ACCORD (000028.SZ)

## Results in line with expectations, revenue remains high growth

China | Pharmaceuticals | Company Update

October 29, 2019

### Company Update

As of 30 September 2019, the company's revenue was RMB 38.876 billion, representing an increase of 22.38% YoY; net profit attributable to shareholders was RMB 962 million, with a YoY increase of 3.79%; net profit attributable to shareholders excluding non-recurring profit and loss was RMB 943 million, with a YoY increase of 4.14%. In the third quarter, the income was RMB 13.648 billion, showing a YoY increase of 24.21%; net profit attributable to shareholders was RMB 311 million, showing a YoY increase of 9.14%; net profit attributable to shareholders excluding non-recurring profit and loss was RMB 303 million, showing a YoY increase of 7.45%. Business revenue growth continued to accelerate, the reason for which was that business income increased for the good business performance in the period. The profit growth rate is lower than the income growth rate, it is mainly because the company implements new leasing standards, the finance cost increased by RMB 69.57 million (a YoY increase of 88.87%); and the company's subsidiary Guoda Drugstore introduced strategic investors WBA in 2H2018, leading to a YoY increase in minority shareholders' equity of RMB 81.76 million (a YoY growth rate of 97.93%).

The company's performance of core business is basically consistent with our forecast, and the revenue and net profit attributable to shareholders slightly exceeded our expectations. The company expanded the scale, and growth rate was better than the overall level of the industry, and related performance increase in total revenue was mainly contributed by the acceleration of the Wholesale and Retail Integration, better performance of distribution business and expansion of store network layout.

### Businesses sustained recovery, Wholesale and Retail Integration showed early results

In the first three quarters of 2019, the company's business continued to recover. The gross profit margin of sales was 10.82%, decreasing 0.67ppt YoY. We expect that this was mainly due to the adjustment of business income structure and the further enhancement of distribution business. With the gradual weakening of the influence of the introduction of strategic investors on minority shareholders' interests, the retail business continues to expand and the "Guoda" brand upgrades to "Guozhi" brand integration plan continues to advance, we expect the company will further increase profitability next year. In the first three quarters of 2019, the company's expense level was further reduced to 7.54%, decreasing 0.59ppt YoY; the selling expense rate was 5.78%, decreasing 0.38ppt YoY; the administration expense rate was 1.51%, decreasing 0.2ppt YoY; we expect it is mainly because the influence of the "two-invoice system" has gradually been reflected, and the company promotes "integration of wholesale and retail" to effectively control costs and reduce the period expense. The company's finance cost rate was 0.38%, showing an increase of 0.13ppt YoY. This was mainly due to the implementation of the new leasing standards, during the lease terms, interest expenses shall be calculated according to the discount rate for lease liabilities. The net interest expense increased by RMB 69.5683 million, the growth rate was 88.87%. In addition, the net cash flows from operating activities increased RMB 509 million on a YoY basis with growth rate of 90.24%. We expect it is mainly due to the increase in revenue, the improvement of operation efficiency and GPO policy, and also due to the implementation of new leasing standards in the period, the rents paid in the period are reckoned into cash paid with other financing activity concerned.

## BUY (Upgrade)

CMP RMB 43.90

(Closing price at 25 October 2019)

TARGET RMB 54.90 (+25.06%)

### COMPANY DATA

O/S SHARES (MN)	428.13
MARKET CAP (RMBMN)	18,795
52 - WK LO/HI (RMB):	37.79/52.75

### SHARE HOLDING PATTERN

Sinopharm Group Co., Ltd	56.06%
HK Securities Clearing Company Ltd	4.48%

### PRICE PERFORMANCE

	1M	3M	1Y
SINOPHARM ACCORD	-2.94%	6.30%	-0.54%
CSI300	0.67%	1.19%	15.30%

### RETURN & CSI300



Source: Phillip Securities (HK) Research

### KEY FINANCIALS

mn RMB	FY17 A	FY18 A	FY19 E	FY20 E	FY21 E
Revenue	41,263	43,122	51,835	57,027	62,781
NP for Owners	1,058	1,211	1,313	1,555	1,824
EPS RMB	2.47	2.83	3.07	3.63	4.26
P/E	17.77	15.52	14.31	12.09	10.30
BVPS RMB	21.95	27.14	29.77	32.89	36.55
P/B	2.00	1.62	1.47	1.33	1.20
ROE	11.85	11.52	10.78	11.59	12.27
	%	%	%	%	%

Source: Company reports, Phillip Securities Est.

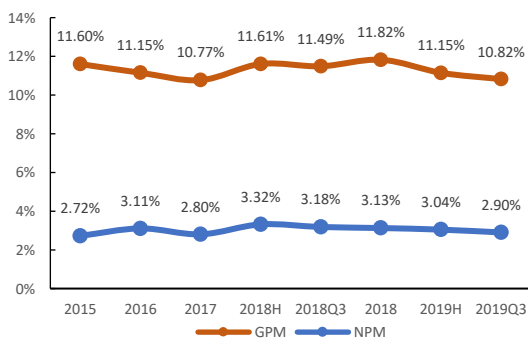
Research Analyst  
**Leon Duan** (+852 2277 6515)  
 leonduan@phillip.com.hk

In the first half of 2019, the distribution launched the logistics planning of wholesale and retail integration, the hospital direct selling market distributed in 30 cities at prefecture level and above in Guangdong and Guangxi ranked the top three; the distribution of customers was mainly including retail medical treatment, grass-root medical institutions, and small-scale social medical services: 1,804 medical institutions at the first level or above, 3,783 primary care customers (excluding 836 first-level hospitals), and 1,587 retail terminal customers (chain drugstores, single stores). In the pharmaceutical retail field, Guoda Drugstore is a pharmaceutical retail enterprise that ranks the first in the sales volume throughout the country, and is one of the few enterprises in China with national direct sales drug retail network. As of the end of June 2019, Guoda Drugstore had established 28 regional chain enterprises, had 4,593 stores, covering 19 provinces, autonomous regions, and municipalities directly under the central government, which formed a network of pharmacies covering the urban agglomerations of East China, North China, and coastal region of South China, and gradually spread into the Northwest, Central Plains, and inland city clusters; 3,470 direct-operated stores, 1,123 franchise stores. In addition, Guoda Drugstore built an Internet + medical e-commerce model, improved the value-added service system, optimized the self-operated OTO platforms such as WeChat Mall and APP, created a pharmacy + Internet O2O model, enhanced the front-end customer experience, and launched the e-commerce national customer service. In the first half of 2019, the number of effective members nationwide was 11.436 million, an increase of 8% YoY.

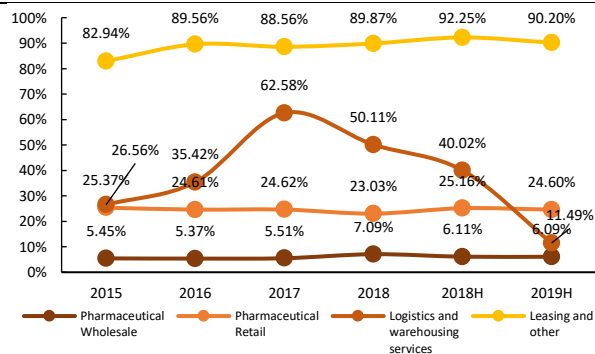
**Financial Forecast and Valuation**

We adjust the company's revenue in FY19/FY20/FY21 to be RMB 51.8/57.0/62.8 billion, representing increases of 20.20%/10.02%/10.09% YoY; gross profit will be RMB 5.9/6.5/7.3 billion, representing increases of 14.95%/11.37%/11.50% YoY; net profit attributable to shareholders will be RMB 1.3/1.6/1.8 billion, representing increases of 8.45%/18.39%/17.34% YoY; corresponding EPSs are RMB 3.067/3.631/4.261. Based on our residual income valuation model, we adjust a TP of RMB 54.90, corresponding to FY19/FY20/FY21 17.90x/15.12x/12.89x PE with a +25.06% potential upside compared with CP of RMB 43.90 as of October 25, 2019, we upgrade from “ACCUMULATE” to “BUY” investment rating.

**Figure-1: Profitability Level**



**Figure-2: GPM of Segments**

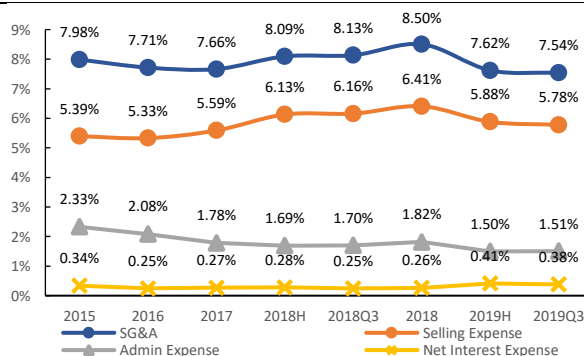


Source: Phillip Securities (HK) Research, Company Report

**Figure-3: Liability-to-asset Ratio**



**Figure-4: Expense Rates**



Source: Phillip Securities (HK) Research, Company Report

**Table-1: Performance Summary of 2019Q1~Q3**

mn HKD	2018Q1-Q3	2019Q1-Q3	YoY Growth
<b>P&amp;L Analysis</b>			
Total Revenue	31,766.71	38,875.94	22.4%
COS	-28,117.50	-34,669.03	23.3%
GP	3,649.21	4,206.91	15.3%
SG&A	-2,583.64	-2,930.74	13.4%
Operating Profit	1,065.57	1,276.17	19.8%
Net Other Income	263.68	271.94	3.1%
EBIT	1,329.26	1,548.11	16.5%
Net Interest Expense	-78.28	-147.85	88.9%
EBT	1,250.98	1,400.26	11.9%
Tax	-240.52	-272.88	13.5%
NP	1,010.46	1,127.38	11.6%
Minority Interest	83.48	165.24	97.9%
NP attributable to shareholders	926.97	962.14	3.8%
EPS (Basic)	2.17	2.25	3.8%
EPS (Diluted)	2.17	2.25	3.8%
<b>Margin Analysis</b>			
Gross Margin	11.5%	10.8%	-0.7ppt
Operating Margin	3.4%	3.3%	-0.1ppt
Net Margin	2.9%	2.5%	-0.4ppt
Effective Tax Rate	-19.2%	-19.5%	+0.3ppt

Source: Phillip Securities (HK) Research, Company Report

**Table-2: Key Actual Figures and Forecast**

mn RMB	2019Q1-Q3	Previous 2019 Forecast	% of Completion
Revenue	38,875.94	50,456.29	77.0%
GP	4,206.91	5,704.65	73.7%
Operating Profit	1,276.17	1,703.32	74.9%
EBIT	1,548.11	2,063.89	75.0%
EBT	1,400.26	1,870.34	74.9%
NP attributable to shareholders	962.14	1,266.31	76.0%

Source: Phillip Securities (HK) Research, Company Report

**Table-3: Key Forecast and Target Price Revision**

mn RMB		Old	New	% Change
Revenue	FY2019E	50,456.29	51,834.59	2.7%
	FY2020E	55,051.50	57,027.39	3.6%
	FY2021E	60,101.20	62,781.42	4.5%
GP	FY2019E	5,704.65	5,860.48	2.7%
	FY2020E	6,300.47	6,526.60	3.6%
	FY2021E	6,966.23	7,276.89	4.5%
Operating Profit	FY2019E	1,703.32	1,762.07	3.4%
	FY2020E	1,934.72	2,017.62	4.3%
	FY2021E	2,200.03	2,312.95	5.1%
NP attributable to shareholders	FY2019E	1,266.31	1,313.07	3.7%
	FY2020E	1,483.08	1,554.52	4.8%
	FY2021E	1,729.61	1,824.14	5.5%
RI TP		54.12	54.90	1.4%

Source: Phillip Securities (HK) Research, Company Report

## Risk

Industry policy risk;  
 Guoda Drugstore's business fails expectations;  
 Distribution business transformation fails expectations.

## Financials

**Table-4: Financial data**

FYE DEC	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Valuation Ratios</b>					
P/E	17.77	15.52	14.31	12.09	10.30
P/B	2.00	1.62	1.47	1.33	1.20
Dividend Yield	0.68%	0.91%	0.99%	1.17%	1.37%
<b>Per Share Data in RMB</b>					
EPS	2.47	2.83	3.07	3.63	4.26
DPS	0.30	0.40	0.43	0.51	0.60
BVPS	21.95	27.14	29.77	32.89	36.55
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	0.04%	4.51%	20.20%	10.02%	10.09%
Operating Profit	-9.58%	11.63%	23.12%	14.50%	14.64%
Net Profit	-9.75%	16.57%	14.10%	18.39%	17.34%
<b>Margins</b>					
Gross Margin	10.77%	11.82%	11.31%	11.44%	11.59%
Operating Profit Margin	3.11%	3.32%	3.40%	3.54%	3.68%
Net Profit Margin	2.80%	3.13%	2.97%	3.19%	3.40%
<b>Key Ratios</b>					
ROA	4.85%	4.72%	4.11%	4.37%	4.92%
ROE	11.85%	11.52%	10.78%	11.59%	12.27%
<b>Income Statement in mn RMB</b>					
Revenue	41,263.39	43,122.39	51,834.59	57,027.39	62,781.42
Gross Profit	4,443.84	5,098.28	5,860.48	6,526.60	7,276.89
EBIT	1,576.39	1,791.79	2,124.66	2,464.13	2,843.43
EBT	1,466.03	1,678.93	1,921.13	2,274.38	2,668.85
Net Profit	1,156.74	1,348.43	1,538.58	1,821.50	2,137.42
Net Profit for Owners	1,057.79	1,210.74	1,313.07	1,554.52	1,824.14

Source: Company, Phillip Securities (HK) Research  
(Financial data as of October 25)

### 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

#### GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

#### Disclosure of Interest

**Analyst Disclosure:** Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

**Firm's Disclosure:** Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

#### Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2019 Phillip Securities (Hong Kong) Limited

---

**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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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](http://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