

# CR PHARMA (3320.HK)

## Develop Segments Cooperation, Improve Business Synergy

Hong Kong | Pharmaceuticals | Company Update

November 26, 2019

### Subsidiaries Maintained Growth in 3Q2019

For the nine months ended September 30, 2019, the operating revenue of CR Pharmaceutical Holdings, a wholly-owned subsidiary of the company, was RMB 135.022 billion (3Q2018: RMB 116.795 billion), representing an increase of 15.6% YoY; the net profit attributable to shareholders was RMB 2.465 billion (3Q2018: RMB 1.804 billion), a YoY increase of 36.6%.

For the nine months ended September 30, 2019, the revenue of Dong-E-E-Jiao, a subsidiary of the company, was RMB 2.83 billion (3Q2018: RMB 4.394 billion), a YoY decrease of 35.59%; the net profit was RMB 207 million (3Q2018: RMB 1.226 billion), a YoY decrease of 83.12%. The revenue of CR Sanjiu, a subsidiary of the company, was RMB 10.187 billion (3Q2018: RMB 9.444 billion), a YoY increase of 7.87%; the net profit was RMB 1.984 billion (3Q2018: RMB 1.137 billion), a YoY increase of 74.49%; based on preliminary assessment by the management of CR Sanjiu, the unaudited net profit attributable to the shareholders of CR Sanjiu for the year ended 31 December 2019 are estimated to be RMB 2.11 to 2.25 billion (FY2018: RMB 1.432 billion), an expected increase of 47.34% to 57.11% YoY; the significant increase in the net profit attributable to the shareholders is primarily attributable to the completion of disposal of its 82.89% equity interest in Shenzhen Sanjiu Hospital Co., Ltd. in January 2019, resulting in a net gain (after tax) of approximately RMB 680 million to CR Sanjiu. The revenue of CR Double-Crane, a subsidiary of the company, was RMB 7.407 billion (3Q2018: RMB 6.31 billion), a YoY increase of 17.39%; the net profit was RMB 930 million (3Q2018: RMB 864 million), a YoY increase of 7.64%. The revenue of Jiangzhong Pharmaceutical, a subsidiary of the company, was RMB 1.704 billion (3Q2018: RMB 1.292 billion), a YoY increase of 31.89%; the net profit was RMB 393 million (3Q2018: RMB 354 million), a YoY increase of 11.02%. In general, apart from Dong-E-E-Jiao, the performance of the company's subsidiaries has maintained steady growth, and with the gradual progress of Dong-E-E-Jiao, we are still optimistic about the company's performance as the industry leader in the future.

### Continue to Increase and Optimize Product portfolio in the Pharmaceutical Sector

Recently, the company pointed out that it will use the channel advantage in the pharmaceutical sector to continuously increase and optimize its product portfolio in "CICC Forum 2019". The manufacturing business of the company encompasses the research and development, manufacturing and sale of pharmaceutical products. The company manufactured more than 540 products in 1H2019, of which more than 300 were included in NRDL. The products comprise chemical drugs, Chinese medicines and biopharmaceutical drugs as well as nutritional and healthcare products, covering a wide range of therapeutic areas including cardiovascular, alimentary tract and metabolism, large-volume IV infusion, pediatrics, respiratory system etc.. The company had approximately 200 R&D projects in the pipeline, including 45 projects in the pipeline on innovative drugs. In addition, on October 3, 2019, NIP292, an innovative drug developed by the China Pharmaceutical Research and Development Center directly under the company's research and development platform, was approved by the US Food and Drug Administration (FDA) clinical trial and conducted a phase I clinical trial in the United States. NIP292 is primary treatment of pulmonary fibrosis (IPF), it is a new small molecule drug with multiple functions such as anti-inflammatory, anti-fibrosis, dilation of blood vessels, and repair of vascular endothelial injury. In addition to IPF, NIP292 has great potential for the treatment of autoimmune diseases, other fibrotic diseases, and malignant tumors. On October 23, CR Sanjiu, a subsidiary of the company, and Japan's Takeda Consumer Health Co., Ltd. signed an ALINAMIN product cooperation agreement in Beijing. CR Sanjiu will be responsible for the commercialization and sales of ALINAMIN in the Chinese market, and the two sides will also reach a consensus on other product portfolios and cross-border e-commerce business in the future. The company continues to improve R&D capability, enrich pipeline and access to products, and forge advantages of brand clustering, which is believed to benefit future development.

## BUY

CMP HKD 6.74

(Closing price at 22 November 2019)

TARGET HKD 11.22 (+66.51%)

### COMPANY DATA

O/S SHARES (MN)	6,285
MARKET CAP (HKDMN)	42,358
52 - WK HI/LO (HKD):	12.16/6.76

### SHARE HOLDING PATTERN

CRH (Pharmaceutical) Limited	53.04%
BJ Pharmaceutical Investment Limited	17.42%

### PRICE PERFORMANCE

	1M	3M	1Y
CRP	-9.16%	-18.89%	-43.49%
HSI	0.11%	1.59%	2.21%

### RETURN & HSI



Source: Phillip Securities (HK) Research

### KEY FINANCIALS

mn HKD	FY1 7A	FY1 8A	FY1 9E	FY2 0E	FY2 1E
Revenue	172, 532	189, 689	206, 608	225, 639	246, 455
NP for Owners	3,48 3	4,03 8	4,71 8	5,22 2	6,19 8
EPS HKD	0.55	0.64	0.75	0.83	0.90
P/E	12.1 6	10.4 9	8.98	8.11	7.50
BVPS HKD	6.66	6.27	6.86	7.53	7.58
P/B	1.01	1.08	0.98	0.90	0.89
ROE	8.76 %	9.94 %	11.4 4%	11.5 5%	12.4 5%

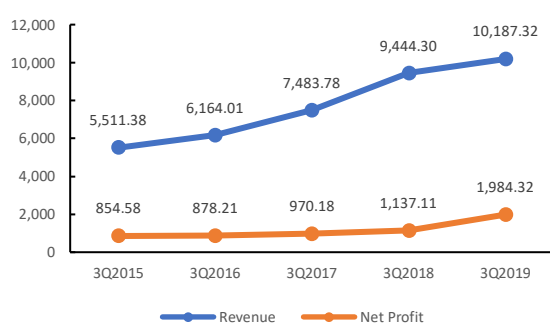
Source: Company reports, Phillip Securities Est.

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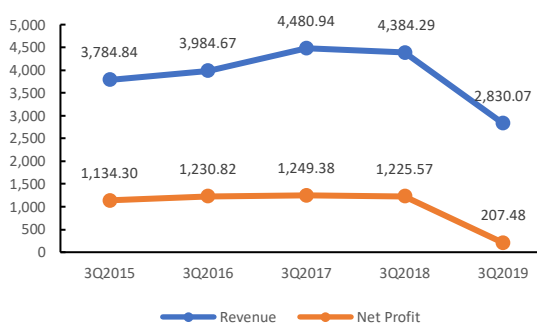
### Market Share of the Circulation Sector is Expected to Further Increase

As at the end of 1H2019, distribution network of the company covered 28 provinces, reached 141 cities in total, serving over 100,000 downstream customers, including 6,862 Class II & III hospitals, and 53,640 primary medical institutions competitiveness in the Eastern China. The company continuously enhanced efficiency of the integrated and modernized intelligent logistics system, as at the end of 1H2019, the company operated 185 logistics centers in total. The company enhanced capability in providing value-added services to downstream customers, provided Hospital Logistic Intelligence (HLI) services to over 300 hospitals, and commenced Network Hospital Logistics Intelligence (NHLI) projects. In 1H2019, the company operated 842 retail pharmacies, of which 150 are DTP pharmacies covering 76 cities nationwide. The company continues to deepen the layout of pharmaceutical circulation sector, and enhances strength of the company through endogenous expansion and outreach acquisition, its market share is expected to further increase.

**Figure-1: CR Sanjiu Results (mn RMB)**

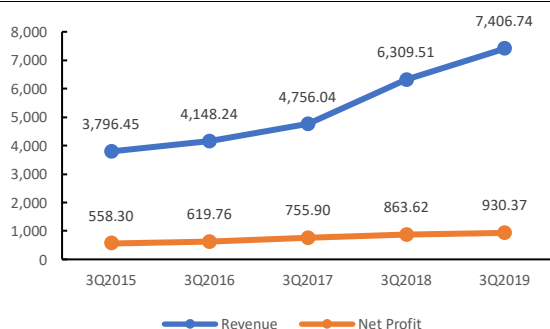


**Figure-2: Dong-E-E-Jiao Results (mn RMB)**

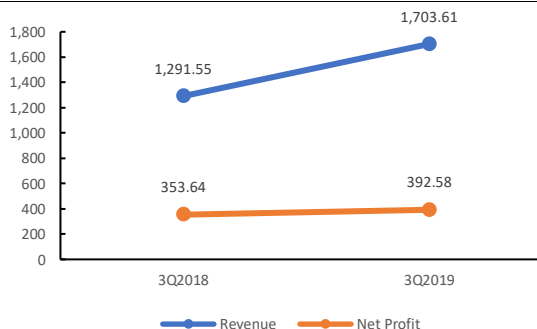


Source: Phillip Securities (HK) Research, Company Report

**Figure-3: CR Double-Crane Results (mn RMB)**



**Figure-4: Jiangzhong Pharmaceutical Results (mn RMB)**



Source: Phillip Securities (HK) Research, Company Report

**Table-1: Financial performance of last five years**

HKD in million		FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2018H	FY2019H
<b>Pharmaceutical Manufacturing Business</b>	Revenue before adjust	22,315.4	21,967.0	24,253.6	25,316.3	29,336.5	35,043.7	16,874.5	17,366.8
	YoY		-1.56%	10.41%	4.38%	15.88%	19.45%		2.92%
	Revenue after adjust	20,837.0	19,714.0	21,607.0	22,375.0	26,362.0	31,940.0	15,056.0	15,790.0
	GP after adjust	12,879.4	12,713.0	14,158.6	15,124.0	17,842.0	22,691.0	10,743.0	11,053.0
	GPM after adjust	61.81%	64.49%	65.53%	67.59%	67.68%	71.04%	71.35%	70.00%
	GPM in annual report	57.72%	57.87%	58.38%	59.74%	60.82%	64.75%	63.66%	63.64%
<b>Pharmaceutical Distribution Business</b>	Revenue before adjust	92,557.1	113,097.8	123,156.4	132,295.6	144,595.5	155,328.8	77,601.0	84,948.9
	YoY		22.19%	8.89%	7.42%	9.30%	7.42%		9.47%
	Revenue after adjust	91,652.0	111,790.0	121,191.0	130,313.0	141,826.0	152,151.0	76,111.0	83,094.0
	GP after adjust	6,133.2	7,724.8	8,281.7	8,200.0	9,632.0	11,365.0	5,713.0	5,954.0
	GPM after adjust	6.69%	6.91%	6.83%	6.29%	6.79%	7.47%	7.51%	7.17%
	GPM in annual report	6.63%	6.83%	6.72%	6.20%	6.66%	7.32%	7.36%	7.01%

Pharmaceutical Retail Business	Revenue before adjust	2,600.6	3,040.3	3,651.2	3,914.5	4,243.6	5,454.6	2,470.4	2,945.6
	YoY		16.91%	20.09%	7.21%	8.41%	28.54%		19.23%
	Revenue after adjust	2,601.0	3,040.0	3,651.0	3,914.0	4,244.0	5,455.0	2,470.0	2,946.0
	GP after adjust	643.2	720.6	700.2	718.0	742.0	796.0	402.0	373.0
	GPM after adjust	24.73%	23.70%	19.18%	18.34%	17.48%	14.59%	16.28%	12.66%
Others	Revenue before adjust	1,861.0	1,205.3	119.4	102.7	99.7	144.1	103.5	93.2
	YoY		-35.24%	-90.10%	-14.00%	-2.88%	44.53%		-9.94%
	Revenue after adjust	1,861.0	1,205.0	119.0	103.0	100.0	143.0	104.0	93.0
	GP after adjust	493.3	331.6	58.4	-	-	-	-	-
	GPM after adjust	26.51%	27.52%	49.08%	-	-	-	-	-
Total	Revenue before adjust	119,334.1	139,310.3	151,180.6	161,629.0	178,275.3	195,971.2	97,049.5	105,354.5
	Elimination of inter-seg sales	-2,383.4	-3,561.1	-4,612.5	-4,923.8	-5,743.1	-6,282.1	-3,308.7	-3,431.6
	Revenue after adjust	116,950.7	135,749.2	146,568.1	156,705.2	172,532.2	189,689.1	93,740.8	101,923.0
	YoY		16.07%	7.97%	6.92%	10.10%	9.94%		8.73%
	GP after adjust	20,149.1	21,490.0	23,198.9	24,109.1	28,276.1	34,930.4	16,881.4	17,433.6
GPM in total	17.23%	15.83%	15.83%	15.39%	16.39%	18.41%	18.01%	17.10%	

Source: Phillip Securities (HK) Research, Company Report

## Maintain "BUY" Rating

We maintain the expected EPS of HKD 0.75/0.83/0.90. The target price was HKD 11.22, corresponding to FY19/FY20/FY21 14.95x/13.51x/12.48x PE, which was +66.51% higher than the current price (HKD 6.74 as of November 22, 2019), maintaining a "BUY" rating.

## Risk

Industry policy risk; M&A fails expectations.

## Financials

**Table-2: Financial data**

FYE DEC	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Valuation Ratios</b>					
P/E	12.16	10.49	8.98	8.11	7.50
P/B	1.01	1.08	0.98	0.90	0.89
Dividend Yield	1.63%	1.93%	2.25%	2.49%	2.70%
<b>Per Share Data in HKD</b>					
EPS	0.55	0.64	0.75	0.83	0.90
DPS	0.11	0.13	0.15	0.17	0.18
BVPS	6.66	6.27	6.86	7.53	7.58
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	10.10%	9.94%	8.92%	9.21%	9.23%
Operating Profit	11.59%	12.45%	14.19%	16.18%	15.89%
Net Profit	15.06%	11.15%	26.00%	10.69%	18.70%
<b>Margins</b>					
Gross Margin	16.39%	18.41%	17.52%	17.89%	18.27%
Operating Profit Margin	5.38%	5.51%	5.77%	6.14%	6.52%
Net Profit Margin	3.98%	4.02%	4.65%	4.72%	5.13%
<b>Key Ratios</b>					
ROA	2.36%	2.40%	2.48%	2.50%	2.83%
ROE	8.76%	9.94%	11.44%	11.55%	12.45%
<b>Income Statement in mn HKD</b>					
Revenue	172,532.20	189,689.11	206,607.56	225,638.62	246,455.07
Gross Profit	28,276.15	34,930.38	36,207.38	40,373.28	45,021.18
EBIT	10,813.30	12,439.40	15,043.29	16,429.70	18,988.36
EBT	8,582.35	9,242.76	11,646.22	12,890.63	15,301.36
Net Profit	6,866.87	7,632.61	9,617.37	10,645.00	12,635.76
Net Profit for Owners	3,483.04	4,037.89	4,717.79	5,221.89	6,198.45

Source: Company, Phillip Securities (HK) Research  
(Financial data as of November 22)

### 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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