

CMS (867.HK)

Innovative Development and Transformation Continues

Hong Kong | Pharmaceuticals | Company Update

January 21, 2020

Project Update

The company recently issued announcements on the progress of various businesses: 1. On 13 January 2020, Neurelis announced that the U.S. FDA had approved its product VALTOCO (diazepam nasal spray) as an acute treatment of intermittent, stereotypic episodes of frequent seizure activity (i.e., seizure clusters, acute repetitive seizures) that are distinct from a patient's usual seizure pattern in people with epilepsy 6 years of age and older. Moreover, the company has been actively carrying out the regulatory application and other related work of VALTOCO in China since Neurelis submitted the NDA to the U.S. FDA, and has recently acquired the clinical trial notice of diazepam nasal spray from the National Medical Products Administration of China. The company is required to conduct a comparative pharmacokinetic study in Chinese subjects, and to submit a post-marketing study plan to further verify the efficacy and safety at the same time of submitting the NDA. 2. The company has signed a Collaboration Agreement on 5 December 2019 with Cambridge Judge Business School (CJBS) and AstraZeneca, and it will invest in the UK biotech and life sciences sectors over the next five years. Since 2015, AstraZeneca has played a role in mentoring biotech and life sciences researchers and innovators and has partnered with CJBS on various programs to promote enterprise and support entrepreneurship amongst life sciences researchers and students. Through the Collaboration Agreement, the company, AstraZeneca and CJBS demonstrate a common objective of strengthening the pipeline of opportunities in biotech and life sciences, more specifically in the areas of therapeutics, diagnostics, devices and digital health, thus providing the invested companies with greater access to international markets in particular Greater China. 3. The company signed a License Agreement with Sun Pharma Advanced Research Company Ltd. (SPARC) for five innovative products on 5 November 2019. The company gained an exclusive license with the right to grant sublicenses to develop and commercialize the products in Greater China. The initial term of the agreement shall be 20 years from the first commercial sale of the products in the Territory and may be extended for additional 3 years increments conditionally. The five innovative products are: (1) Taclantis™/PICS, indicated for metastatic breast cancer (MBC), locally advanced or metastatic non-small cell lung cancer (NSCLC) and metastatic adenocarcinoma of the pancreas; (2) Xelpros™ Ophthalmic Emulsion, indicated for reduction of elevated intraocular pressure (IOP) in patients with open-angle glaucoma, or ocular hypertension; (3) PDP-716 Eye Drops, proposed for the reduction of elevated IOP in patients with open-angle glaucoma or ocular hypertension; (4) SDN-037 Eye Drops, indicated for eye pain and inflammation after cataract surgery; (5) Elepsia™ XR Tablet, indicated as adjunctive therapy for the treatment of partial onset seizures in patients 12 years of age and older. 4. The company signed a License and Supply Agreement with Biocon Limited for three generic products on 12 September 2019, and it gained an exclusive license to register and commercialize the products in Greater China. The initial term of the agreement shall be 10 years and may be extended for every fixed period of two years on a product-by-product basis conditionally.

Innovation Research Drives Development

At present, the company's long-term object is focusing on innovation research, actively investing in overseas R&D companies or reaching strategic cooperation with a view to establish an innovative product group with sufficient competitive advantages and market potential to meet China's unmet clinical needs. In the med-term, the company focuses on complex generic drugs and through strategic cooperation with leading overseas generic drug companies, it plans to deploy complex generic drugs with high generic barriers. In the short-term, the company focuses on the distribution of high-quality generic drugs that have been listed overseas, and establishes a generic drug product group that has sufficient market competitiveness, high quality and affordable costs. In addition, the company, as a traditional medicine marketing and

Accumulate

CMP HKD 12.04

(Closing price at 17 January 2020)

TARGET HKD 13.35 (+10.85%)

COMPANY DATA

O/S SHARES (MN)	2,480.4
MARKET CAP (HKDMN)	29,864
52 - WK HI/LO (HKD):	13.08/6.14

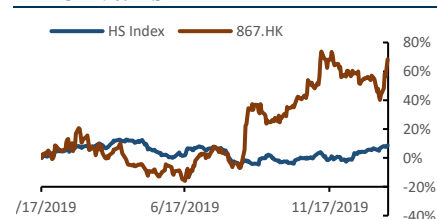
SHARE HOLDING PATTERN

Treasure Sea Limited	43.92%
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PRICE PERFORMANCE

	1M	3M	1Y
CMS	5.24%	19.44%	68.44%
HSI	4.36%	8.22%	8.60%

RETURN & HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

mn RMB	FY17 A	FY18 A	FY19 E	FY20 E	FY21 E
Revenue	5,349	5,433	5,983	6,304	6,742
Net Profit to owner	1,675	1,850	2,187	2,298	2,451
EPS RMB	0.67	0.74	0.88	0.93	0.98
P/E	14.94	13.52	11.41	10.86	10.24
BVPS RMB	2.92	3.36	3.90	4.45	5.02
P/B	3.44	2.99	2.58	2.26	2.00
ROE	24.84%	23.67%	24.27%	22.18%	20.80%

Source: Company, Phillip Securities (HK) Research

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promotion enterprise, currently covers more than 57,000 hospitals and medical institutions in its promotion network, covering all provincial administrative regions in China, and basically covering the main departments of tertiary hospitals and secondary hospitals.

Raise TP and Maintain "Accumulate" Rating

We maintain our forecast for company performance growth using DCF model and residual income model to value. Assuming equity cost is 10.65%, debt cost is 5%, and WACC is 10.14%. We get TP of HKD 13.88 and HKD 13.35 respectively. The higher valuation result corresponds to FY19/FY20/FY21 15.14x/14.41x/13.59x PE, which has an increase of +10.85% compared to the current price (HKD 12.04 as of January 17, 2020), maintaining an "Accumulate" rating.

Figure-1: Profit margin keep increasing

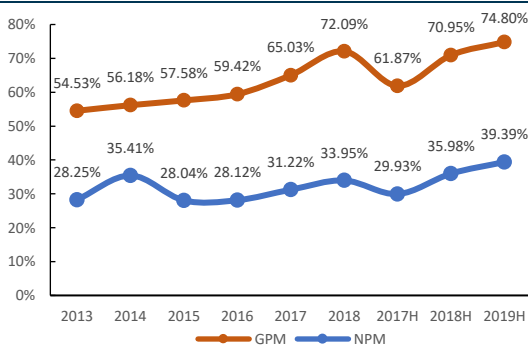
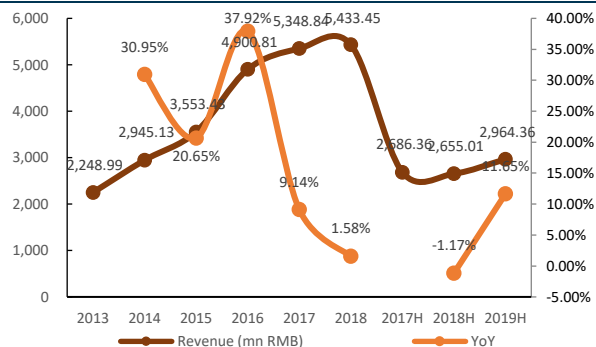


Figure-2: Growth rate of revenue rebounded slightly



Source: Phillip Securities (HK) Research, Company Report

Figure-3: Liability to asset ratio

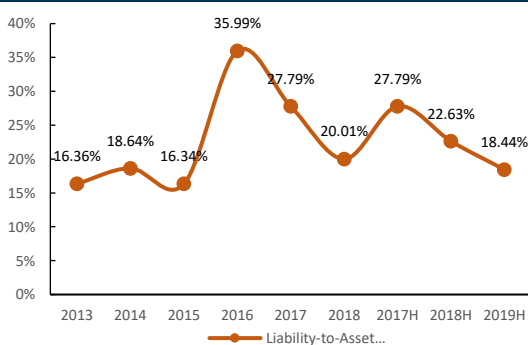
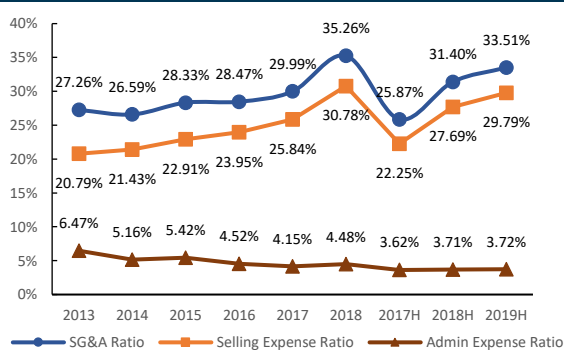


Figure-4: Expense rate



Source: Phillip Securities (HK) Research, Company Report

Table-1: DCF model

RMB in million	FY2019	FY2020	FY2021	FY2022	FY2023
FCFF	1,848.78	1,972.10	2,028.26	2,296.04	2,599.66
Terminal Value					36,295.25
Discount factor	0.91	0.82	0.75	0.68	0.62
NPV	1,678.56	1,625.68	1,518.04	1,560.24	23,997.10
EV	30,379.62				
Debt value	1,443.27				
Cash	2,049.82				
Equity value	30,986.17				
Equity value in RMB	30,986,168,685.43				
Number of shares	2,480,408,512.00				
Value per share RMB	12.49				
Currency rate	0.90				
Value per share HKD	13.88				
Cost of debt	5.00%				
Debt weights	8.5%				
Adjusted beta	0.9				
Risk-free rate	3.19%				
Market return	11.48%				
Cost of equity	10.65%				
Equity weights	91.5%				

Tax	-7.65%
WACC	10.14%
Terminal growth rate	1%

Source: Phillip Securities (HK) Research, Company Report

Table-2: RI model

RMB	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
EPS	0.93	0.98	1.05	1.18	1.33	1.65	2.07	2.62	3.36	4.38
DPR	39.97%	39.97%	39.97%	39.97%	39.97%	39.97%	39.97%	39.97%	39.97%	39.97%
DPS	0.37	0.39	0.42	0.47	0.53	0.66	0.83	1.05	1.34	1.75
Add R/E PS	0.56	0.59	0.63	0.71	0.80	0.99	1.24	1.57	2.02	2.63
BPSt	4.45	5.02	5.65	6.36	7.16	8.15	9.39	10.96	12.98	15.61
BPS0	3.90	4.45	5.02	5.65	6.36	7.16	8.15	9.39	10.96	12.98
ROE0	23.77%	22.05%	20.95%	20.95%	20.95%	23.05%	25.35%	27.88%	30.67%	33.74%
Re	10.65%	10.65%	10.65%	10.65%	10.65%	10.65%	10.65%	10.65%	10.65%	10.65%
RI	0.51	0.51	0.52	0.58	0.66	0.89	1.20	1.62	2.19	3.00
Persistent factor	0.80									
Terminal Value	7.82									
PV	0.46	0.41	0.38	0.39	0.39	0.48	0.59	0.72	0.88	3.93
BPS0	3.36									
TP	12.01									
Currency rate	0.9									
TP in HKD	13.35									

Source: Phillip Securities (HK) Research, Company Report

Figure-5: Forward P/E Band

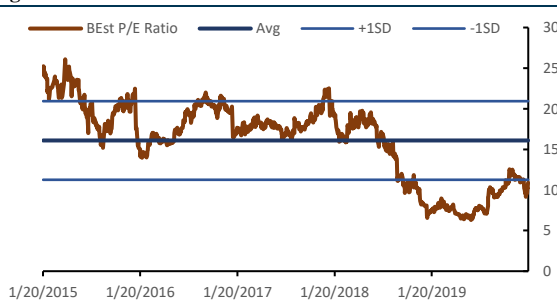
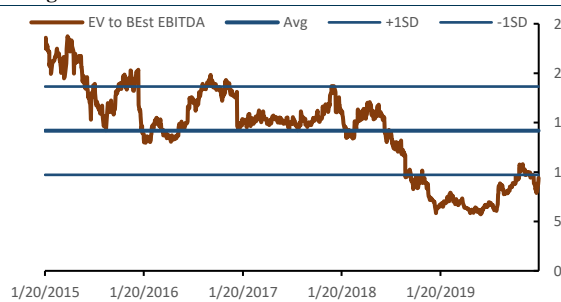


Figure-6: Forward EV/EBITDA Band



Source: Phillip Securities (HK) Research, Bloomberg

Table-3: Comparable peers

Name	Mkt Cap	EV	EV/TTM EBITDA	EV/EBITDA FY1	EV/EBITDA FY2	P/E	P/E FY1	P/E FY2	P/FCF	Dividend Yield
CNY (17 securities)										
Median	22.26	23.45	0	14.61	12.46	16.29	16.22	13.2	27.88	1.28
Average	28.52	34.62	0	17.77	14.42	22.13	21.34	17.58	52.49	1.85
CHONGQING ZHIFEI BIOLOGICA-A	106.78	108.44	N.A.	30.91	21.88	44.37	38.09	27.34	126.04	0.85
SHANGHAI FOSUN PHARMACEUTI-A	74.49	97.04	N.A.	21.1	17.78	25.56	21.82	18.77	N.A.	1.19
SHANGHAI PHARMACEUTICALS-A	54.77	83.92	N.A.	9.1	8.61	13.46	12.27	11.07	32.63	2.22
LIVZON PHARMACEUTICAL GROU-A	35.64	29.70	N.A.	14.68	12.67	29.94	27.77	23.59	12.37	2.44
YIFENG PHARMACY CHAIN CO L-A	33.30	34.41	N.A.	33.75	26.23	55.37	51.79	39.56	131.67	0.39
JOINTOWN PHARMACEUTICAL-A	30.94	55.57	N.A.	14.54	12.24	17.23	16.22	13.2	51.82	0.69
CHINA NATIONAL MEDICINES-A	25.04	23.45	N.A.	8.71	7.73	14.66	2.16	1.92	23.13	1.36
LAOBAIXING PHARMACY CHAIN-A	22.37	25.00	N.A.	24.65	20.36	38.96	36.99	29.98	163.89	0.72
HUBEI JUMPCAN PHARMACEUT-A	22.26	20.84	N.A.	N.A.	N.A.	11.67	9.58	7.89	8.6	5.09
CHINA MEHECO CO LTD -A	15.83	19.07	N.A.	N.A.	N.A.	11	9.96	9.63	34.3	3.31
GUIZHOU BAILING GROUP PHAR-A	13.89	16.02	N.A.	N.A.	N.A.	25.74	27.19	26.36	N.A.	0.92
REALCAN PHARMACEUTICAL GROU-A	12.36	23.72	N.A.	8.57	7.28	21.73	10.8	9.01	7.03	0.72
CQ PHARMACEUTICAL HOLDING-A	11.20	19.25	N.A.	N.A.	N.A.	11.18	N.A.	N.A.	N.A.	N.A.
GUANGXI LIUZHOU PHARMACEUT-A	10.19	13.56	N.A.	11.65	9.42	13.05	12.76	10.21	N.A.	1.78
XIN JIANG READY HEALTH IND-A	6.69	6.96	N.A.	N.A.	N.A.	10.83	N.A.	N.A.	16.57	4.87
HPGC RENMINTONGTAI PHARMAC-A	4.58	5.73	N.A.	N.A.	N.A.	15.26	N.A.	N.A.	21.86	N.A.
SHANDONG XINHUA PHARM CO-A	4.53	5.90	N.A.	N.A.	N.A.	16.29	N.A.	N.A.	N.A.	1.28

HKD (18 securities)										
Median	20.05	21.81	7.99	8.27	7.74	12.8	11.93	10.24	13.4	2.16
Average	35.23	41.60	9.66	10.06	8.33	13.95	14.6	11.86	20.85	2.8
SINO BIOPHARMACEUTICAL	147.79	150.50	20.43	19.87	17.51	14.04	40.07	34.37	N.A.	0.68
CSPC PHARMACEUTICAL										
GROUP LT	117.99	113.34	20.42	17.18	14.19	30.15	26.3	21.53	66.29	0.95
SINOPHARM GROUP CO-H	86.48	163.61	7.52	7.69	6.82	12.88	11.87	10.46	N.A.	2.3
GUANGZHOU BAIYUNSHAN										
PHARM-H	61.68	57.71	N.A.	12.09	9.29	11.92	11.93	10.02	46.06	1.83
CHINA RESOURCES										
PHARMACEUTIC	44.81	90.39	6.78	5.98	5.35	9.33	9.38	8.57	10.52	1.82
CHINA MEDICAL SYSTEM										
HOLDING	29.86	29.69	11.31	10.3	9.36	12.8	11.99	10.89	12.67	3.1
3SBIO INC	28.55	30.75	19.96	14.25	11.35	23.08	19.79	14.74	22.4	N.A.
SSY GROUP LTD	20.98	22.13	14.38	13.47	11.3	20.57	18.7	15.52	N.A.	1.45
LUYE PHARMA GROUP LTD	20.37	21.48	8.55	8.27	7.74	11.7	11.36	10.01	N.A.	2.08
CHINA TRADITIONAL CHINESE										
ME	19.74	24.83	7.99	6.92	6.01	11.34	10.13	8.45	N.A.	2.86
YICHANG HEC CHANGJIANG										
PHA-H	18.67	18.86	9.61	7.87	6.74	12.97	10.14	8.75	27.06	4.3
TONG REN TANG										
TECHNOLOGIES-H	9.61	8.94	6.3	6.29	6.01	13.47	12.39	11.78	9.73	2.71
SIHUAN PHARMACEUTICAL										
HLDGS	8.80	3.61	1.46	N.A.	N.A.	N.A.	N.A.	4.22	4.31	2.06
CHINA SHINEWAY										
PHARMACEUTICA	6.12	2.09	2.48	2.45	2.13	9.79	9.44	8.23	14.13	4.85
SHANGHAI FUDAN-										
ZHANGJIANG-H	4.31	3.93	15.57	N.A.	N.A.	20.23	19.66	16.51	17.83	1.75
CONSUN PHARMACEUTICAL										
GROUP	3.44	3.04	3.55	3.59	3.24	6.05	5.93	5.25	10.11	7.54
LEE'S PHARMACEUTICAL										
HLDGS	2.77	2.34	4.36	14.61	7.87	8.45	15.23	10.73	N.A.	2.16
DAWNRAYS PHARMACEUTICAL										
HOLD	2.26	1.51	3.51	N.A.	N.A.	8.38	3.88	3.46	9.07	5.17

Source: Phillip Securities (HK) Research, Bloomberg

Risk

The launch of new products fails expectations; Industry policy risk.

Financials

Table-4: Financial data

FYE DEC	FY17A	FY18A	FY19E	FY20E	FY21E
Valuation Ratios					
P/E	17.88	16.18	13.65	13.00	12.26
P/B	4.12	3.58	3.09	2.70	2.40
Dividend Yield	2.23%	2.46%	2.93%	3.08%	3.26%
Per Share Data in RMB					
EPS	0.67	0.74	0.88	0.93	0.98
DPS	0.27	0.30	0.35	0.37	0.39
BVPS	2.92	3.36	3.90	4.45	5.02
Growth & Margins (%)					
Growth					
Revenue	9.14%	1.58%	10.12%	5.36%	6.95%
Operating Profit	23.59%	6.77%	17.75%	5.36%	6.95%
Net Profit	21.19%	10.46%	18.42%	5.07%	6.65%
Margins					
Gross Margin	65.03%	72.09%	72.09%	72.09%	72.09%
Operating Profit Margin	35.04%	36.83%	39.38%	39.38%	39.38%
Net Profit Margin	31.22%	33.95%	36.51%	36.40%	36.30%
Key Ratios					
ROA	16.80%	17.91%	19.30%	17.70%	16.67%
ROE	24.84%	23.67%	24.27%	22.18%	20.80%
Income Statement in mn RMB					
Revenue	5,348.84	5,433.45	5,983.32	6,304.14	6,742.15
Gross Profit	3,478.30	3,916.87	4,313.27	4,544.54	4,860.29
EBIT	1,890.68	2,078.26	2,423.42	2,549.75	2,722.24
EBT	1,808.43	2,006.37	2,365.29	2,485.09	2,650.31
Net Profit	1,669.94	1,844.60	2,184.32	2,294.96	2,447.54
Net Profit for Owners	-4.87	-5.29	-2.86	-3.00	-3.20

Source: Company, Phillip Securities (HK) Research
(Financial data as of January 17)

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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