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Report Review of May 2022

Hong Kong | INVESTNOTES REPORTS REVIEW

Sectors:

Healthcare, Energy& Technology sectors (Victoria Wei)

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This month I released an updated reports of China Resources Pharmaceutical Group Limited (3320.HK).CR Pharmaceutical announced its 2021 annual results that the company achieved total revenue of HK\$236.806 billion, with a YoY increase of 18.2%. The increase was mainly due to the relief of the epidemic and the recovery in performance. In particular, the pharmaceutical distribution business accounted for the largest contribution to revenue growth. The overall net profit reached HK\$6.647 billion, with a YoY increase of 24.9%; The net profit attributable to owners of the parent company was HK\$3.769 billion, with a YoY increase of 14.3%.

Revenue from the pharmaceutical business was HK\$38.61 billion, with a YoY increase of 19.9%. The revenue of the CHC segment, the prescription drug segment and the biopharmaceutical segment all achieved growth, mainly due to the impact of the mitigation of the epidemic and driven by external mergers and acquisitions. The gross profit margin of pharmaceuticals in 2021 was 57.6%, with decrease of 2.9% compared with same period of last year mainly due to factors such as volume-based procurement and product structure, etc. From the perspective of product categories, chemical medicine and traditional Chinese medicine contributed a larger proportion of the income, accounting for 41.6% and 49.4% respectively. The company continues to lay out a high-growth track, incubate new industrialization opportunities, continuously optimize its business structure and enhance its core competitiveness.

Revenue from distribution business was HK\$199.13 billion with a YoY increase of 17.9%. Its gross profit was HK\$12.36 billion and the margin was 6.2% with a YoY decrease of 0.9% mainly resulted from the ease of epidemic and the income from the export of epidemic prevention materials with high gross profit margins has decreased. The company's medical terminal coverage continues to improve and it strives to build an efficient and safe pharmaceutical integrated logistics network to continuously enhances its core competitive advantages. The company continues to vigorously promote the professional development of medical device distribution business, build national professional platform and professional service company and enhance innovative service capabilities. At the same time, the digital transformation process was promoted and the service platform "CR Micro Medicine", a vertical operation service system of precision medicine for special diseases/rare diseases, was established. The transaction volume of the B2B online platform "CR Pharma e-Store" has grown steadily, covering a wide range of 28 provinces across the country.

Retail business revenue was HK\$7.61 billion with a YoY increase of 17.6% which was mainly due to the rapid growth of direct-to patient (DTP) business revenue. Its gross profit was HK\$696 million with a gross profit margin of 9.2% with a YoY decrease of 1.1%, which was mainly due to the proportion of revenue from DTP business with lower gross profit margin increased. DTP business revenue was RMB 4.32 billion which accounted for 68.4% of the retail segment revenue with a YoY increase of 12.7%. The company actively deploys professional "Dual-Channel" qualified pharmacies such as DTP, creates a high-quality, integrated retail pharmacy operation platform and promotes an online and offline integrated digital retail 2C platform.

We believe that the uncertainty of epidemic resurgence, the challenges brought by various centralized procurement policies to the company and the less-than-expected effect of external cooperation will be the risk factors for the company in the future.

Fig 1. Performance of Recommended Stocks

Time	Ticker	Company	Analyst	Rating	Price on Recommendation Date	Target Price	Expected Return	Last Month Closing Price	Last Month Return	Closing Price 2M ago	1M Price Chg
20220525	3320 HK	CR Pharmaceutical	VW	Accumulate	4.55	4.95	8.79%	4.34	-4.62%	4.17	4.08%

A stock is calculated by RMB yuan.

Source: Phillip Securities Research

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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