

Hong Kong

ADD (previously HOLD)

Consensus ratings*: Buy 5 Hold 2 Sell 0

Current price:	HK\$6.49
Target price:	HK\$7.39
Previous target:	HK\$4.60
Up/downside:	13.9%
CGI / Consensus:	30.2%
Reuters:	2005.HK
Bloomberg:	2005 HK
Market cap:	US\$2,530m
	HK\$19,639m
Average daily turnover:	US\$3.26m
	HK\$25.31m
Current shares o/s:	3,034m
Free float:	45.3%

*Source: Bloomberg

Key changes in this note

- FY21/22/23F revenue increased by 1.4%/2.9%/4.1%.
- FY21/22/23F EPS increased by 1.7%/3.1%/4.6%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	25.5	49.5	27.5
Relative (%)	25	46.2	8.3

Major shareholders

	% held
Qu, Jiguang, Chairman & CEO	33.1
Sichuan Kelun Industry Group CO., LTD.	20.0

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SSY Group

Multi-layer co-extrusion bioprocessing films expected to drive a rerating; upgrade to ADD

- We expect multi-layer co-extrusion bioprocessing films to drive a rerating of the Company.
- In the next few years, the Company's earnings will be driven by 1) the plastic ampoule series; 2) bulk medicines; and 3) multi-layer co-extrusion bioprocessing films.
- We raised expected 2021/22/23F net profits by 1.7%/3.1%/4.6% to reflect the films' contribution. We lift our TP from to HK\$4.6 (10x 2022F P/E) to HK\$7.39 (10x 2022F P/E for existing business + Rmb6.7bn for bioprocessing films). Upgrade to ADD.

Multi-layer co-extrusion bioprocessing films

The Company announced in late May that its wholly-owned subsidiary Jiangsu Best New Medical Material had developed multi-layer co-extrusion bioprocessing films for single-use system in liquid dosing (多层共挤生物膜). The films can be widely used in the fields of R&D and production of vaccines and biopharmaceuticals, and have broad market development prospects. Bioreactors using the multi-layer co-extrusion bioprocessing films are expected to benefit from reduced capex, higher flexibility for production, significantly simplified sterilization and cleanliness in place, etc.

The only domestic manufacturer to embrace import substitution

Currently, SSY is the only domestic manufacturer of multi-layer co-extrusion bioprocessing films in China. Imported manufacturers include ThermoFisher, Merck and Sartorius. We expect import substitution of SSY's bioprocessing films because of competitive pricing (we expect an ASP of ~Rmb20/m², only ~1/3 of the imported price of ~Rmb70/m²) and solid quality standards (the Company's bioprocessing films meet the relevant requirements under the USP Class VI of the U.S. Pharmacopoeia and the national standards of China). We think the barriers of the films lie in the complex manufacturing process, with at least a five-layer structure (including out-layer/binding layer/EVOH/binding layer/inner layer) to realize high separation efficiency (高阻隔).

Capacity expansion to support the growth of films

The Company expects to expand its capacity to ~20m m² within three years. We think it may further expand its capacity to 40–50m m² in the long run given the strong demand for multi-layer co-extrusion bioprocessing films with the development of the bio industry. We estimate a revenue contribution of ~Rmb700m in ~2025–2026F from films. Assuming a 30% net margin, and giving it a 40x P/E valuation (its peer Tofflon Science and Technology (300171.CH) is trading at ~44/34x 2021/22F P/E) and discounted to 2022F using a discount rate of 8%, we value the multi-layer co-extrusion bioprocessing film business at ~Rmb6.7bn at the moment.

Three earnings drivers despite the possibility of GPO for injections capping the valuation of the IV business

The Company's *Ropivacaine Hydrochloride Injection* and *Fluconazole & Sodium Chloride Injection* won tenders in the 5th round national GPO. In the future, we expect the Company's IV business valuation to remain capped, with the GPO expanding to more injections (in the first four rounds GPO, oral dosage forms were the main form. In the 5th round, injection became the main form, accounting for half of the quantity and 70% of the amount). Looking ahead, we expect the Company's earnings to be driven by 1) the plastic ampoule series, with the increased acceptance of plastic ampoules in hospitals for improved convenience and safety over glass ampoules; 2) a bulk medicine sales ramp-up with the new plant in Hebei releasing its capacity; and 3) multi-layer co-extrusion bioprocessing films.

Financial Summary

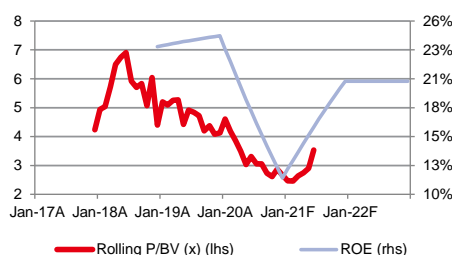
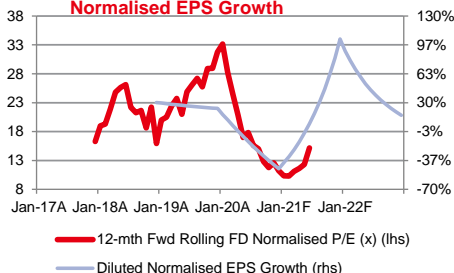
	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue (HK\$m)	4,636	4,261	6,275	7,957	9,726
Operating EBITDA (HK\$m)	1,669	1,103	1,889	2,115	2,343
Net Profit (HK\$m)	1,136	612	1,245	1,436	1,624
Normalised EPS (HK\$)	0.38	0.20	0.41	0.47	0.54
Normalised EPS Growth	23%	(46%)	104%	15%	13%
FD Normalised P/E (x)	17.28	32.16	15.80	13.70	12.11
DPS (HK\$)	0.11	0.10	0.12	0.14	0.16
Dividend Yield	1.69%	1.54%	1.90%	2.19%	2.48%
EV/EBITDA (x)	12.41	18.96	10.99	9.43	8.46
P/FCFE (x)	196.1	14.7	66.9	17.9	22.4
Net Gearing	16.9%	16.6%	12.2%	0.0%	(1.3%)
P/BV (x)	3.94	3.48	3.02	2.61	2.27
ROE	24.6%	11.5%	20.4%	20.4%	20.1%
% Change In Normalised EPS Estimates			1.70%	3.06%	4.60%
Normalised EPS/consensus EPS (x)			1.03	1.00	0.99

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 1: Earnings revision table

Rmbm	FY21			FY22			FY23		
	old	new	Change	old	new	Change	old	new	Change
Revenue	6,191	6,275	1.4%	7,734	7,957	2.9%	9,344	9,726	4.1%
Net profit	1,224	1,245	1.7%	1,394	1,437	3.1%	1,552	1,624	4.6%
EPS (HKD)	0.40	0.41	1.7%	0.46	0.47	3.1%	0.51	0.54	4.6%

SOURCES: CGIS RESEARCH

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Normalised P/E vs FD Normalised EPS Growth

Profit & Loss

(HK\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Net Revenues	4,636	4,261	6,275	7,957	9,726
Gross Profit	2,877	2,708	3,940	4,944	5,948
Operating EBITDA	1,669	1,103	1,889	2,115	2,343
Depreciation And Amortisation	-277	-345	-371	-378	-383
Operating EBIT	1,392	759	1,518	1,737	1,961
Financial Income/(Expense)	-31	-34	-38	-29	-28
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	1,361	725	1,481	1,709	1,932
Exceptional Items					
Pre-tax Profit	1,361	725	1,481	1,709	1,932
Taxation	-224	-114	-234	-270	-305
Exceptional Income - post-tax					
Profit After Tax	1,137	610	1,247	1,439	1,627
Minority Interests	-1	1	-2	-2	-3
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	1,136	612	1,245	1,436	1,624
Normalised Net Profit	1,137	610	1,247	1,439	1,627
Fully Diluted Normalised Profit	1,136	612	1,245	1,436	1,624

Cash Flow

(HK\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
EBITDA	1,669	1,103	1,889	2,115	2,343
Cash Flow from Inv. & Assoc.					
Change In Working Capital	-838	-78	-593	-108	-957
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	21	81	196	241	277
Net Interest (Paid)/Received	-31	-34	-38	-29	-28
Tax Paid	-206	-114	-234	-270	-305
Cashflow From Operations	615	958	1,221	1,950	1,330
Capex	-762	-350	-500	-450	-450
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	35	0	0	0	0
Cash Flow From Investing	-726	-350	-500	-450	-450
Debt Raised/(repaid)	211	731	-427	-400	0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	-302	-333	-303	-373	-431
Preferred Dividends					
Other Financing Cashflow	106	-412	-304	-327	-362
Cash Flow From Financing	15	-13	-1,034	-1,101	-792
Total Cash Generated	-96	595	-313	400	87
Free Cashflow To Equity	100	1,339	294	1,100	880
Free Cashflow To Firm	-80	642	759	1,529	908

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd
Balance Sheet

(HK\$m)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Cash And Equivalents	817	1,446	1,170	1,598	1,714
Total Debtors	1,803	1,813	2,313	2,483	3,112
Inventories	507	638	705	863	1,103
Total Other Current Assets	237	361	361	361	361
Total Current Assets	3,365	4,259	4,549	5,306	6,291
Fixed Assets	3,414	3,836	3,936	3,980	4,020
Total Investments	0	0	0	0	0
Intangible Assets	546	685	714	743	770
Total Other Non-Current Assets	399	474	474	474	474
Total Non-current Assets	4,359	4,995	5,124	5,196	5,264
Short-term Debt	817	1,327	1,000	800	800
Current Portion of Long-Term Debt					
Total Creditors	647	710	683	905	817
Other Current Liabilities	113	80	80	80	80
Total Current Liabilities	1,577	2,118	1,764	1,785	1,697
Total Long-term Debt	879	1,100	1,000	800	800
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	81	121	121	121	121
Total Non-current Liabilities	960	1,221	1,121	921	921
Total Provisions	0	0	0	0	0
Total Liabilities	2,537	3,338	2,885	2,706	2,618
Shareholders' Equity	4,986	5,652	6,523	7,529	8,666
Minority Interests	201	263	265	267	270
Total Equity	5,187	5,915	6,788	7,796	8,936

Key Ratios

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue Growth	10.9%	(8.1%)	47.3%	26.8%	22.2%
Operating EBITDA Growth	19.4%	(33.9%)	71.2%	12.0%	10.8%
Operating EBITDA Margin	36.0%	25.9%	30.1%	26.6%	24.1%
Net Cash Per Share (HK\$)	-0.29	-0.32	-0.27	-0.00	0.04
BVPS (HK\$)	1.65	1.86	2.15	2.48	2.86
Gross Interest Cover	45.61	22.53	40.46	60.60	68.94
Effective Tax Rate	16.4%	15.8%	15.8%	15.8%	15.8%
Net Dividend Payout Ratio	29.3%	49.6%	30.0%	30.0%	30.0%
Accounts Receivables Days	121.0	155.3	120.0	110.0	105.0
Inventory Days	96.4	135.0	105.0	95.0	95.0
Accounts Payables Days	33.24	48.61	33.00	33.00	33.00
ROIC (%)	27.7%	12.3%	21.6%	22.4%	24.8%
ROCE (%)	21.8%	10.0%	17.7%	19.1%	19.7%
Return On Average Assets	16.0%	7.6%	13.6%	14.5%	15.0%

Key Drivers

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Plastic ampoule revenue growth (%)	207.7%	148.1%	75.0%	50.0%	40.0%
Gross margin (%)	62.1%	63.6%	62.8%	62.1%	61.2%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Distribution of stock ratings and investment banking clients for quarter ended on 31 Mar 2021		
613 companies under coverage for quarter ended on 31 Mar 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	70.3%	1.1%
Hold	19.6%	0.2%
Reduce	10.1%	0.2%

Spitzer Chart for stock being researched (2 year data)

SSY Group (2005 HK)

RECOMMENDATION FRAMEWORK

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Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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