

COMPANY RESULTS

China Shineway Pharmaceutical (2877 HK)

2021: Earnings Missed, Expects Revenue To Expand By 15-20% In 2022

Shineway's 2021 revenue grew 21.4% to Rmb3,223.6m and net earnings expanded 88.7% yoy to Rmb556.7m. The earnings were lower than our and market estimates. We expect Shineway's revenue to grow steadily by 15-20% yoy in 2022 amid the possible impact of a new COVID-19 outbreak in China. Maintain BUY with a lower target price of HK\$9.00.

2021 RESULTS

| Year to 31 Dec (Rmbm) | 2H20 | 2H21 | % chg yoy | 2020 | 2021 | % chg yoy |
|-----------------------|---------|---------|-------------|-----------|-----------|-------------|
| Revenue | 1,465.6 | 1,669.5 | 13.9% | 2,655.7 | 3,223.6 | 21.4% |
| Injection | 613.2 | 703.9 | 14.8% | 1,102.4 | 1,339.2 | 21.5% |
| Soft capsule | 206.4 | 209.7 | 1.6% | 462.1 | 484.8 | 4.9% |
| Granules | 258.6 | 295.1 | 14.1% | 406.0 | 533.5 | 31.4% |
| TCM formula granules | 316.6 | 371.1 | 17.2% | 556.3 | 692.6 | 24.5% |
| Others | 70.8 | 89.7 | 26.8% | 128.9 | 173.4 | 34.6% |
| Gross Profit | 1,111.5 | 1,263.3 | 13.7% | 1,987.8 | 2,410.3 | 21.3% |
| Selling cost | (623.6) | (797.4) | 27.9% | (1,185.5) | (1,499.7) | 26.5% |
| Administrative cost | (146.9) | (143.5) | -2.3% | (273.4) | (256.6) | -6.1% |
| R&D cost | (79.5) | (87.7) | 10.3% | (99.7) | (112.7) | 13.0% |
| Operating Profit | 273.8 | 304.7 | 11.3% | 515.4 | 643.6 | 24.9% |
| Investment income | 62.4 | 53.0 | -15.0% | 132.7 | 104.1 | -21.5% |
| Net income | 41.3 | 248.2 | 500.8% | 295.0 | 556.7 | 88.7% |
| Adjusted net income | 41.3 | 248.2 | 500.8% | 295.0 | 556.7 | 88.7% |
| Ratios | 2H20 | 2H21 | ppt chg yoy | 2020 | 2021 | ppt chg yoy |
| GP margin | 75.8% | 75.7% | -0.2 | 74.9% | 74.8% | -0.1 |
| Selling expense % | 42.6% | 47.8% | 5.2 | 44.6% | 46.5% | 1.9 |
| Admin expense % | 10.0% | 8.6% | -1.4 | 10.3% | 8.0% | -2.3 |
| R&D % | 5.4% | 5.3% | -0.2 | 3.8% | 3.5% | -0.3 |
| OP margin | 18.7% | 18.3% | -0.4 | 19.4% | 20.0% | 0.6 |
| Investment income % | 4.3% | 3.2% | -1.1 | 5.0% | 3.2% | -1.8 |
| Adjusted net margin | 2.8% | 14.9% | 12.0 | 11.1% | 17.3% | 6.2 |

Source: Shineway, UOB Kay Hian

RESULTS

- Net earnings below estimates.** China Shineway Pharmaceutical (Shineway) reported revenue and net earnings of Rmb3,223.6m and Rmb556.8m in 2021, representing an increase of 21.4% and 88.7% yoy, respectively. The revenue was in line with our forecast, but net earnings were lower than our and market estimates. Shineway proposed a dividend of 21 Rmb cents/share for 2H21 (1H21: 39 Rmb cents/share). 2021's dividend payout ratio is 81.4%.

KEY FINANCIALS

| Year to 31 Dec (Rmbm) | 2020 | 2021 | 2022F | 2023F | 2024F |
|-------------------------------|---------|---------|---------|---------|---------|
| Net turnover | 2,655.7 | 3,223.6 | 3,723.7 | 4,250.5 | 4,849.7 |
| EBITDA | 515.4 | 643.6 | 723.8 | 813.5 | 915.5 |
| Operating profit | 515.4 | 643.6 | 723.8 | 813.5 | 915.5 |
| Net profit (rep./act.) | 295.0 | 556.7 | 642.6 | 712.5 | 792.1 |
| Net profit (adj.) | 295.0 | 556.7 | 642.6 | 712.5 | 792.1 |
| EPS (Fen) | 39.0 | 73.7 | 85.1 | 94.4 | 104.9 |
| PE (x) | 13.6 | 7.2 | 6.2 | 5.6 | 5.0 |
| P/B (x) | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 |
| EV/EBITDA (x) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend yield (%) | 6.1 | 7.4 | 8.5 | 9.3 | 10.3 |
| Net margin (%) | 11.1 | 17.3 | 17.3 | 16.8 | 16.3 |
| Net debt/(cash) to equity (%) | (61.4) | (71.0) | (70.2) | (71.9) | (70.9) |
| Interest cover (x) | 31.0 | 513.2 | n.a. | n.a. | n.a. |
| ROE (%) | 5.1 | 9.5 | 10.6 | 11.2 | 11.8 |
| Consensus net profit | - | - | 717 | 777 | - |
| UOBKH/Consensus (x) | - | - | 0.90 | 0.92 | - |

Source: Shineway, Bloomberg, UOB Kay Hian

BUY

(Maintained)

| | |
|---------------|-----------|
| Share Price | HK\$6.50 |
| Target Price | HK\$9.00 |
| Upside | +38.5% |
| (Previous TP) | HK\$10.00 |

COMPANY DESCRIPTION

China Shineway Pharmaceutical Group Limited develops, manufactures, and sells modern Chinese medicines in the Peoples Republic of China. The Company also produces and sells a series of western pharmaceuticals.

STOCK DATA

| | |
|---------------------------------|-------------|
| GICS sector | Health Care |
| Bloomberg ticker: | 2877 HK |
| Shares issued (m): | 827.0 |
| Market cap (HK\$m): | 5,375.5 |
| Market cap (US\$m): | 686.7 |
| 3-mth avg daily t'over (US\$m): | 0.6 |

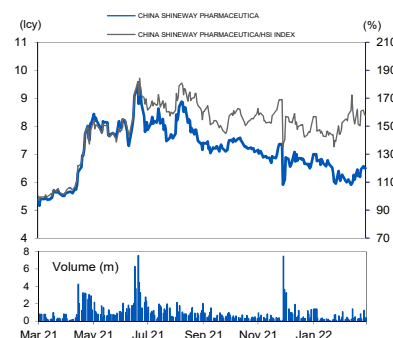
Price Performance (%)

| | | | | | |
|------------------|------|-------|------|-------|-------------------|
| 52-week high/low | | | | | HK\$9.41/HK\$5.16 |
| 1mth | 3mth | 6mth | 1yr | YTD | |
| 1.6 | 8.3 | (9.2) | 25.7 | (5.7) | |

Major Shareholders

| | % |
|---------------------------|-------|
| Li Zhenjiang | 66.12 |
| FY22 NAV/Share (Rmb) | 8.22 |
| FY22 Net Cash/Share (Rmb) | 5.77 |

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- 2021 revenue grew 21.4% yoy.** All of Shineway's segments experienced relatively modest growth in 2H21. Revenue from TCM injections increased by 21.5% yoy to Rmb1,339.2m in 2021. Soft capsules revenue grew modestly by 4.9% yoy to Rmb484.8m, while revenue from finished granule products continued to grow steadily at 31.4% yoy. The TCM formula granules segment witnessed relatively slower revenue growth of 24.5% yoy to Rmb692.6m in 2021.
- Gross margin remained stable.** Gross profit margin remained relatively flat at 74.8% in 2021 (vs 74.9% in 2020). Selling expenses/revenue ratio increased by 1.9ppt to reach 46.5%, indicating enhanced sales and marketing efforts. G&A/revenue ratio declined by 2.3ppt to 8.0% in 2021, showing effective cost control. As a result, operating income increased by 24.9% yoy to Rmb643.6m in 2021. Adjusted net profit margin increased by 6.2 ppt to 17.3% in 2021 mainly due to the absence of a significant amount of impairment loss for intangible assets occurred in previous year.
- Expects total revenue to increase 15-20% yoy in 2022.** Shineway's TCM formula granules generate 21% of total revenue, and most of it was generated from Hebei Province. Given tremendous market expansion opportunities, the company expects to extend its TCM granule business into more provinces in the next few years and has been expanding its sales team and preparing for new market entry by focusing on the provinces in North China. Shineway has also increased its production capacity of TCM granules to an annual value of Rmb4b, aiming to become one of the top three TCM formula granule producers in China in the next 2-3 years. Given the possible negative impact from the new wave of COVID-19 outbreak in China, the company guided for total revenue to grow 15-20% yoy in 2022. We estimate the TCM granule business to deliver a higher pace of growth at about 20% yoy in 2022.
- Sees GPO tender on TCM formula granules as a market expansion opportunity.** There are market talks about a GPO tender on TCM formula granules, but Shineway believes that any potential TCM formula granules GPO tenders would not lead to massive price cuts but instead provide tremendous expansion opportunities for the company.

EARNINGS REVISION/RISKS

- Worse-than-expected impact from the new wave of COVID-19 outbreak in China.
- Worse-than-expected GPO risk – possible tender loss or lower-than-expected tender prices.

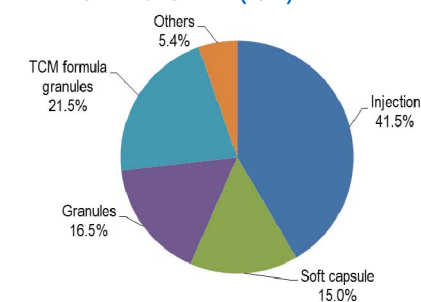
VALUATION/RECOMMENDATION

- Maintain BUY and lower target price to HK\$9.00** to reflect the possible impact of the current COVID-19 outbreak in China. The new target price implies 8.6x 2021F PE, or 1x PEG. The stock is currently trading at an attractive HK\$6.50, close to net cash/share of HK\$6.22.

SHARE PRICE CATALYSTS

- Catalysts: a) Robust revenue growth of TCM formula granule business.

REVENUE BY SEGMENT (2021)



Sources: Shineway, UOB Kay Hian

PROFIT & LOSS

| Year to 31 Dec (Rmbm) | 2021 | 2022F | 2023F | 2024F |
|----------------------------------|--------------|--------------|--------------|----------------|
| Net turnover | 3,223.6 | 3,723.7 | 4,250.5 | 4,849.7 |
| EBITDA | 643.6 | 723.8 | 813.5 | 915.5 |
| Deprec. & amort. | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 643.6 | 723.8 | 813.5 | 915.5 |
| Total other non-operating income | 77.7 | 100.0 | 100.0 | 100.0 |
| Associate contributions | 0.0 | 0.0 | 0.0 | 0.0 |
| Net interest income/(expense) | (1.3) | 0.0 | 0.0 | 0.0 |
| Pre-tax profit | 720.1 | 823.8 | 913.5 | 1,015.5 |
| Tax | (163.4) | (181.2) | (201.0) | (223.4) |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 |
| Net profit | 556.7 | 642.6 | 712.5 | 792.1 |
| Net profit (adj.) | 556.7 | 642.6 | 712.5 | 792.1 |

BALANCE SHEET

| Year to 31 Dec (Rmbm) | 2021 | 2022F | 2023F | 2024F |
|---------------------------------------|----------------|----------------|----------------|----------------|
| Fixed assets | 1,252.0 | 1,253.7 | 1,255.2 | 1,256.5 |
| Other LT assets | 252.8 | 225.5 | 209.4 | 199.9 |
| LT debt | n.a. | n.a. | n.a. | n.a. |
| Cash/ST investment | 4,205.7 | 4,370.3 | 4,719.5 | 4,927.3 |
| Other current assets | 1,493.4 | 1,804.1 | 1,972.3 | 2,337.0 |
| Total assets | 7,204.0 | 7,653.6 | 8,156.3 | 8,720.7 |
| ST debt | 13.8 | 13.8 | 13.8 | 13.8 |
| Other current liabilities | 1,084.6 | 1,230.3 | 1,393.0 | 1,575.1 |
| Other LT liabilities | 204.1 | 204.1 | 204.1 | 204.1 |
| Shareholders' equity | 5,901.5 | 6,205.4 | 6,545.4 | 6,927.7 |
| Minority interest | 0.0 | 0.0 | 0.0 | 0.0 |
| Total liabilities & equity | 7,204.0 | 7,653.6 | 8,156.3 | 8,720.7 |

CASH FLOW

| Year to 31 Dec (Rmbm) | 2021 | 2022F | 2023F | 2024F |
|---|----------------|----------------|----------------|----------------|
| Operating | 733.7 | 521.2 | 739.6 | 635.6 |
| Pre-tax profit | 720.1 | 823.8 | 913.5 | 1,015.5 |
| Tax | (163.4) | (181.2) | (201.0) | (223.4) |
| Deprec. & amort. | 182.4 | 177.4 | 166.3 | 159.9 |
| Working capital changes | 29.4 | (167.6) | (8.1) | (182.7) |
| Non-cash items | (117.2) | (117.2) | (117.2) | (117.2) |
| Other operating cashflows | 82.4 | (13.9) | (13.9) | (16.6) |
| Investing | (17.9) | (17.9) | (17.9) | (17.9) |
| Capex (growth) | (150.0) | (150.0) | (150.0) | (150.0) |
| Investments | 87.8 | 87.8 | 87.8 | 87.8 |
| Proceeds from sale of assets | 44.2 | 44.2 | 44.2 | 44.2 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing | (453.1) | (338.7) | (372.5) | (409.8) |
| Dividend payments | (453.1) | (338.7) | (372.5) | (409.8) |
| Proceeds from borrowings | 0.0 | 0.0 | 0.0 | 0.0 |
| Loan repayment | 0.0 | 0.0 | 0.0 | 0.0 |
| Others/interest paid | 0.0 | 0.0 | 0.0 | 0.0 |
| Net cash inflow (outflow) | 262.7 | 164.6 | 349.1 | 207.8 |
| Beginning cash & cash equivalent | 3,943.0 | 4,205.7 | 4,370.3 | 4,719.5 |
| Changes due to forex impact | 0.0 | 0.0 | 0.0 | 0.0 |
| Ending cash & cash equivalent | 4,205.7 | 4,370.3 | 4,719.5 | 4,927.3 |

KEY METRICS

| Year to 31 Dec (%) | 2021 | 2022F | 2023F | 2024F |
|---------------------------|--------|--------|--------|--------|
| Profitability | | | | |
| EBITDA margin | 20.0 | 19.4 | 19.1 | 18.9 |
| Pre-tax margin | 22.3 | 22.1 | 21.5 | 20.9 |
| Net margin | 17.3 | 17.3 | 16.8 | 16.3 |
| ROA | 7.7 | 8.7 | 9.0 | 9.4 |
| ROE | 9.5 | 10.6 | 11.2 | 11.8 |
| Growth | | | | |
| Turnover | 21.4 | 15.5 | 14.1 | 14.1 |
| EBITDA | 24.9 | 12.5 | 12.4 | 12.5 |
| Pre-tax profit | 82.3 | 14.4 | 10.9 | 11.2 |
| Net profit | 88.7 | 15.4 | 10.9 | 11.2 |
| Net profit (adj.) | 88.7 | 15.4 | 10.9 | 11.2 |
| EPS | 89.1 | 15.4 | 10.9 | 11.2 |
| Leverage | | | | |
| Debt to total capital | 0.2 | 0.2 | 0.2 | 0.2 |
| Debt to equity | 0.2 | 0.2 | 0.2 | 0.2 |
| Net debt/(cash) to equity | (71.0) | (70.2) | (71.9) | (70.9) |
| Interest cover (x) | 513.2 | n.a. | n.a. | n.a. |

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