

COMPANY RESULTS

Sinopharm Group (1099 HK)

1Q22: Earnings Up 17.4% yoy; COVID-19 Outbreak Clouds 2022 Growth Outlook

Sinopharm's 1Q22 revenue and net profit attributable to shareholders grew 6.1% yoy and 17.4% yoy respectively. The revenue growth was lower than our full-year estimate of 7.4% yoy but net earnings beat on effective cost control efforts. We expect weakened cash flow and stringent COVID-19-combating measures to negatively impact its earnings outlook for 2022. Maintain SELL with a lower target price of HK\$15.00.

1Q22 RESULTS

Year to 31 Dec (Rmbm)	1Q21	1Q22	YoY%
Revenue	120,266	127,598	6.1%
Gross profit	9,219	10,010	8.6%
Selling expense	(3,754)	(3,796)	1.1%
G&A expense	(1,544)	(1,622)	5.0%
Operating profit	3,415	3,835	12.3%
Finance expense-net	(635)	(690)	8.6%
Net profit attributable to shareholders	1,216	1,428	17.4%
EPS - diluted	0.39	0.46	17.9%
Ratios (%)	1Q21	1Q22	Ppt chg
GP margin	7.67%	7.85%	0.18
Selling expense	3.12%	2.98%	(0.15)
G&A expense	1.28%	1.27%	(0.01)
OP margin	2.84%	3.01%	0.17
Financing expense	0.53%	0.54%	0.01
Net profit margin	1.01%	1.12%	0.11

Source: Sinopharm, UOB Kay Hian

RESULTS

- 1Q22 revenue growth missed but earnings growth above full-year estimate. Sinopharm Group (Sinopharm) reported a 6.1% yoy increase in revenue to Rmb127.6b in 1Q22. Net profit attributable to shareholders increased 17.4% yoy to Rmb1.4b in 1Q22. The revenue growth was lower than our full-year estimate of 7.4% yoy but net earnings beat on effective cost control efforts.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	456,414.6	521,051.2	549,572.0	585,170.9	623,524.3
EBITDA	23,380.9	23,005.7	24,160.9	25,618.1	27,208.6
Operating profit	19,783.8	21,441.3	22,572.1	24,113.1	25,779.6
Net profit (rep./act.)	7,187.3	7,758.6	8,186.1	8,729.6	9,316.7
Net profit (adj.)	7,079.6	7,590.8	8,017.9	8,561.4	9,148.6
EPS (Fen)	227.5	243.2	256.9	274.3	293.2
PE (x)	6.2	5.8	5.5	5.1	4.8
P/B (x)	0.8	0.7	0.7	0.6	0.6
EV/EBITDA (x)	4.4	4.5	4.3	4.0	3.8
Dividend yield (%)	4.9	5.3	5.6	5.9	6.3
Net margin (%)	1.6	1.5	1.5	1.5	1.5
Net debt/(cash) to equity (%)	24.3	32.4	25.3	16.7	9.2
Interest cover (x)	7.9	6.8	6.7	6.7	6.7
ROE (%)	13.9	13.1	12.7	12.4	12.2
Consensus net profit	-	-	8,623	9,557	10,423
UOBKH/Consensus (x)	-	-	0.93	0.90	0.88

Source: Sinopharm, Bloomberg, UOB Kay Hian

SELL

(Maintained)

Share Price	HK\$17.02
Target Price	HK\$15.00
Upside	-11.9%
(Previous TP)	HK\$16.90

COMPANY DESCRIPTION

Sinopharm Group is the largest pharmaceutical distributor in China.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	1099 HK
Shares issued (m):	1,341.8
Market cap (HK\$m):	53,113.6
Market cap (US\$m):	6,769.0
3-mth avg daily t'over (US\$m):	11.0

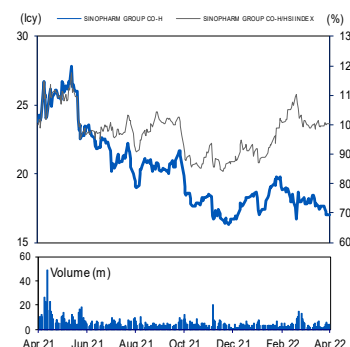
Price Performance (%)

52-week high/low HK\$27.85/HK\$16.30

1mth	3mth	6mth	1yr	YTD
(6.0)	(8.6)	(19.0)	(29.5)	0.4

Major Shareholders	%
CNP GC	57.0
FY22 NAV/Share (Rmb)	21.58
FY22 Net Debt/Share (Rmb)	5.45

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Revenue grew 6.1% yoy in 1Q22.** Sinopharm's total revenue increased by 6.1% yoy, reaching Rmb120.3b in 1Q22. We believe the slower-than-expected revenue growth is mainly due to: a) the impact of the Group Purchasing Organisation (GPO) programme on drugs and medical devices, and b) the impact of COVID-19 outbreaks in certain areas in China.
- **Net margin improved in 1Q22.** Sinopharm saw its gross margin increasing by 0.18ppt from 7.67% in 1Q21 to 7.85% in 1Q22. Management reduced the selling-expenses-to-sales ratio by 0.15ppt to 2.98% in 1Q22 from 3.12% in 1Q21, and the administration-expenses-to-sales ratio by 0.01ppt yoy to 1.27% in 1Q22, indicating effective cost control efforts. Financial costs rose significantly by 8.6% yoy in 1Q22, due to the expansion of bank borrowings. The overall net margin stood at 1.12% in 1Q22, representing an increase of 0.11ppt from a year ago. We believe management has made continued efforts to enhance product structure and stabilise profit margins amid continued gross margin pressure from GPO programmes.
- **Expects revenue growth to further weaken in 2Q22.** Looking forward, we anticipate that revenue will likely further weaken or experience a significant decline in 2Q22 due to the possible significant impact from the lockdown in Shanghai. The Zero-COVID policy could still bring uncertainties to the logistic and medical services in other regions/cities in the short term as we see COVID-19-positive cases on the rise in an increasing number of cities in China. The outlook of revenue growth for Sinopharm remains cloudy.
- **Expects increasing financial costs and tightening cash flow.** Sinopharm's cash amounted to Rmb35.9b at the end of Mar 22, declining by 32.5% from Rmb53.2b as at end-21. The company has bank borrowings amounting to Rmb63.9b at 31 Mar 22, representing a significant increase of 29.0% from three months ago. The AR days increased further by 8.5 days from 120.1 in 2021 to 128.6 in 1Q22. Moreover, operating cash flow decreased further to -Rmb34.8b in 1Q21 to -Rmb36.5b in 1Q22. We believe the company may face increasing financial costs and tightening cash flow in the next few quarters.

EARNINGS REVISION/RISKS

- We further lower our earnings growth estimates from 7.0% yoy to 5.5% yoy for 2022, to reflect weaker growth potential due to the impact from the new COVID-19 outbreak in China.
- **Risks:** a) Worse-than-expected impact from the COVID-19 outbreak in China, b) increasing AR days and weakened operating cash flow, and c) worse-than-expected impact from GPO programmes.

VALUATION/RECOMMENDATION

- **Maintain SELL with a lower target price of HK\$15.00**, based on 4.8x 2022F PE, or 0.7x PEG.

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Net turnover	521,051.2	549,572.0	585,170.9	623,524.3
EBITDA	23,005.7	24,160.9	25,618.1	27,208.6
Deprec. & amort.	1,564.4	1,588.8	1,505.0	1,429.0
EBIT	21,441.3	22,572.1	24,113.1	25,779.6
Total other non-operating income	218.4	218.4	218.4	218.4
Associate contributions	1,069.2	1,069.2	1,069.2	1,069.2
Net interest income/(expense)	(3,402.9)	(3,589.1)	(3,821.6)	(4,072.1)
Pre-tax profit	17,601.6	18,500.5	19,689.0	20,973.1
Tax	(3,938.4)	(4,117.5)	(4,390.8)	(4,686.2)
Minorities	(5,306.1)	(5,598.5)	(5,970.1)	(6,371.7)
Net profit	7,758.6	8,186.1	8,729.6	9,316.7
Net profit (adj.)	7,590.8	8,017.9	8,561.4	9,148.6

CASH FLOW

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Operating	9,308.1	12,306.5	14,435.6	15,319.4
Pre-tax profit	17,763.5	18,784.0	20,113.7	21,561.4
Tax	(4,212.8)	(4,071.0)	(4,319.8)	(4,609.5)
Deprec. & amort.	1,564.4	1,588.8	1,505.0	1,429.0
Associates	(1,069.2)	(1,069.2)	(1,069.2)	(1,069.2)
Working capital changes	(13,636.5)	(6,539.4)	(5,642.4)	(6,093.2)
Non-cash items	3,402.9	3,589.1	3,821.6	4,072.1
Other operating cashflows	5,495.8	24.1	26.7	28.7
Investing	(1,267.0)	(905.0)	(905.0)	(905.0)
Capex (growth)	(1,034.2)	(610.0)	(610.0)	(610.0)
Investments	(95.0)	(95.0)	(95.0)	(95.0)
Proceeds from sale of assets	(200.0)	(200.0)	(200.0)	(200.0)
Others	62.3	0.0	0.0	0.0
Financing	(14,693.0)	(5,201.7)	(5,447.4)	(5,973.4)
Dividend payments	(3,624.3)	(3,919.4)	(4,135.4)	(4,409.9)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(307.4)	3,178.5	3,337.4	3,504.3
Others/interest paid	(10,761.4)	(4,460.8)	(4,649.5)	(5,067.8)
Net cash inflow (outflow)	(6,651.9)	6,199.9	8,083.2	8,441.0
Beginning cash & cash equivalent	50,178.3	43,529.4	49,729.3	57,812.5
Changes due to forex impact	3.0	0.0	0.0	0.0
Ending cash & cash equivalent	43,529.4	49,729.3	57,812.5	66,253.5

BALANCE SHEET

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Fixed assets	12,424.3	11,681.9	11,013.7	10,412.3
Other LT assets	32,065.8	32,794.1	33,536.2	34,291.6
Cash/ST investment	43,529.4	49,729.3	57,812.5	66,253.5
Other current assets	247,392.7	256,869.4	272,790.9	289,937.4
Total assets	335,412.3	351,074.7	375,153.3	400,894.8
ST debt	55,151.7	57,909.2	60,804.7	63,844.9
Other current liabilities	164,154.9	167,092.2	177,371.3	188,424.6
LT debt	8,418.7	8,839.6	9,281.6	9,745.7
Other LT liabilities	8,033.2	8,103.8	8,201.4	8,306.9
Shareholders' equity	61,886.0	67,355.4	73,429.1	79,927.0
Minority interest	37,767.9	41,774.6	46,065.2	50,645.8
Total liabilities & equity	335,412.3	351,074.7	375,153.3	400,894.8

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	4.4	4.4	4.4	4.4
Pre-tax margin	3.4	3.4	3.4	3.4
Net margin	1.5	1.5	1.5	1.5
ROA	2.4	2.4	2.4	2.4
ROE	13.1	12.7	12.4	12.2
Growth				
Turnover	14.2	5.5	6.5	6.6
EBITDA	(1.6)	5.0	6.0	6.2
Pre-tax profit	7.7	5.1	6.4	6.5
Net profit	7.9	5.5	6.6	6.7
Net profit (adj.)	7.2	5.6	6.8	6.9
EPS	6.9	5.6	6.8	6.9
Leverage				
Debt to total capital	38.9	38.0	37.0	36.0
Debt to equity	102.7	99.1	95.4	92.1
Net debt/(cash) to equity	32.4	25.3	16.7	9.2
Interest cover (x)	6.8	6.7	6.7	6.7

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