

CR Pharmaceutical (3320.HK)

Promote digital transformation and M&A cooperation to create competitive advantage through innovation and differentiation

Hong Kong | Pharmaceutical industry

25th May 2022

Investment highlights

CR Pharmaceutical is a leading integrated pharmaceutical company in China specializing in the pharmaceutical, distribution and retail of medicines. Its product portfolio includes chemical drugs, traditional Chinese medicines, biological drugs, and nutraceutical products. Its product coverage contains cardiovascular system, respiratory system, anti-tumor, central nervous system, immune system, genitourinary system, blood, digestive tract and metabolism, anti-infection, traditional Chinese medicine, etc. 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%.

Actively expand external mergers and acquisitions and innovative cooperation, and digitalization helps business development

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.

Accelerate the steady and professional development of the equipment distribution business and promote innovative value-added services through digital transformation.

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.

Deploy a "Dual Channel" qualified professional pharmacies to ensure a high-quality digital operation platform

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

Accumulate

CMP HKD 4.55
(Closing price as of 12th May)
Target HKD 4.95 (+8.8%)

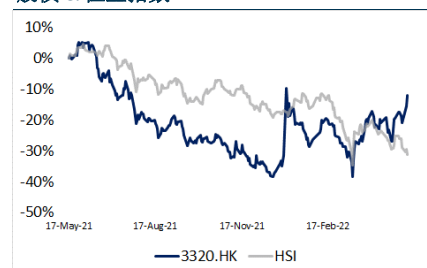
COMPANY DATA

O/S SHARES (MN) : 6282.51
MARKET CAP (HKD MN) : 285.88
52- WK HI/LO (HKD) : 5.55/3.18

SHARE HOLDING PATTERN %

CRH (Pharmaceutical)	53.05%
BSCOMC Investment Management	17.43%

股價 & 恒生指數



Source: Phillip Securities (HK) Research

KEY FINANCIALS

HKD \$'mn	FY20	FY21	FY22E	FY23E
Net Sales	200,423	236,806	260,030	285,172
Net Profit	3,297	3,769	3,461	3,995
EPS (HKD)	0.52	0.60	0.55	0.64
P/E, x	8.8	7.6	8.3	7.2
BVPS (HKD)	7.4	8.1	9.4	11.2

Source: PSHK Est.

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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.

Company Valuation and investment advice

Compared with the leading companies in the domestic pharmaceutical industry including Sinopharm Group Co. Ltd, Shanghai Pharmaceuticals Holding Co., Ltd. and Fosun Pharmaceutical Co., Ltd., the current PE ratio of CR Pharmaceutical is only about 7.6x which is lower than the industry average of 9.0x; We forecast that the company's EPS during 2022-2024 to be HK\$0.55, HK\$0.64, and HK\$0.71 respectively and give a target price of HK\$4.95. The corresponding PE ratio were to 9.0 x, 7.7 x, and 7.0x during 2022-2024 and the Company is given a "Accumulate" rating.

Table 1: Comparable Company Analysis

	Ticker	Last Price 12/5/2022	Mkt Cap (HKD mn)	P/E (x)			P/B (x)			ROE (%)			EV/EBITDA		
				TTM	2022E	2023E	TTM	2022E	2023E	TTM	2022E	2023E	TTM	2022E	2023E
SINOPHARM-H	1099 HK	18.10	56,484	6.0	5.5	5.0	0.7	0.7	0.6	12.9	12.5	12.2	5.9	5.6	5.1
SHANGHAI PHARM-H	2607 HK	12.78	74,918	5.9	6.4	5.7	0.6	0.6	0.6	11.4	10.2	10.7	6.9	7.0	6.2
FOSUN PHARMA-H	2196 HK	33.30	123,150	14.9	14.6	12.0	1.8	1.7	1.5	11.1	11.4	12.5	23.5	22.5	18.6
Average				9.0	8.8	7.6	1.0	1.0	0.9	11.8	11.4	11.8	12.1	11.7	10.0

Source: Bloomberg

Risk factors

Uncertainty brought about by epidemic resurgence, diversity of volume-based procurement policies have brought challenges to enterprises and the effect of external cooperation was below expectation.

Financial data

Consolidated Statement of Profit or Loss

Dec Y/E, HKD mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	204,454	200,423	236,806	260,030	285,172	312,352
COGS	(170,436)	(168,129)	(201,426)	(219,656)	(241,730)	(264,312)
Gross Profit	34,018	32,294	35,380	40,374	43,442	48,040
Other income	1,886	1,504	1,517	1,511	1,514	1,512
Other gains and losses	(39)	(1,511)	(1,275)	(1,680)	(1,689)	(1,934)
Selling and distribution expenses	(19,189)	(16,029)	(17,531)	(21,484)	(22,493)	(24,522)
Administrative expense	(5,204)	(5,564)	(6,236)	(7,033)	(7,611)	(8,393)
Finance costs, net	(3,712)	(2,478)	(2,015)	(2,714)	(2,702)	(3,110)
Share of profits of associates and joint vent	140	207	314	220	247	260
Profit before tax	6,640	7,076	8,408	7,362	8,652	9,628
Income tax	(1,542)	(1,752)	(1,761)	(1,692)	(1,981)	(2,144)
Minorities	(1,811)	(2,027)	(2,879)	(2,210)	(2,676)	(3,053)
Net profit	3,286	3,297	3,769	3,461	3,995	4,430
EPS(HKD)-Basic	0.52	0.52	0.60	0.55	0.64	0.71
DPS	0.11	0.12	0.15	0.15	0.17	0.18
Payout ratio	21.2%	23.1%	25.0%	26.9%	26.1%	25.5%
Shares outstanding	6,285	6,283	6,283	6,283	6,283	6,283

Key Financial Data

Dec Y/E	FY19	FY20	FY21	FY22E	FY23E	FY24E
Valuation Ratio						
P/E ratio, x	8.8	8.8	7.6	8.3	7.2	6.5
Dividend Yield, %	2.42%	2.64%	3.30%	3.26%	3.64%	3.95%
Per share data (RMB)						
EPS	0.52	0.52	0.60	0.55	0.64	0.71
BVPS	6.48	7.40	8.11	9.42	11.16	12.64
DPS (HKD)	0.11	0.12	0.15	0.15	0.17	0.18
Growth & Margin						
Growth						
Revenue Growth	7.8%	-2.0%	18.2%	9.8%	9.7%	9.5%
Gross Profit Growth	-2.6%	-5.1%	9.6%	14.1%	7.6%	10.6%
Operating Profit Growth	-28.2%	6.6%	18.8%	-12.4%	17.5%	11.3%
Net Profit Growth	-18.6%	0.3%	14.3%	-8.2%	15.4%	10.9%
Margin						
Gross Profit Margin	16.6%	16.1%	14.9%	15.5%	15.2%	15.4%
Operating Profit Margin	3.2%	3.5%	3.6%	2.8%	3.0%	3.1%
Net Profit Margin	1.6%	1.6%	1.6%	1.3%	1.4%	1.4%
Key Ratios						
RDE	8.2%	7.6%	7.7%	6.3%	6.2%	5.9%
ROA	1.8%	1.7%	1.6%	1.3%	1.5%	1.5%

Consolidated Statement of Financial Position

Dec Y/E, HKD mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
Non Current Asset						
PP&E, Gross	16,322	17,324	19,677	21,648	23,806	26,408
Right-of-use assets	5,508	5,318	5,361	5,361	5,361	5,361
Intangible assets	6,049	6,940	9,001	9,001	9,001	9,001
Goodwill	19,306	21,072	24,902	24,902	24,902	24,902
Deferred Tax Assets	856	970	1,310	1,310	1,310	1,310
Other non-current assets	9,040	10,639	11,704	11,704	11,704	11,704
Total Non Current Assets	57,082	62,263	71,953	73,926	76,084	78,686
Current Asset						
Cash & cash equivalent	12,524	11,231	17,513	19,490	18,703	19,806
Trade receivables & Notes receivables	63,772	67,703	77,613	82,536	89,007	98,317
Inventories	22,332	24,585	29,688	32,247	35,558	38,841
Due from related parties	3,231	2,440	3,576	3,546	4,098	4,374
Pledged bank deposits	4,615	6,492	7,815	8,502	9,368	10,237
Other current financial assets	26,403	34,614	40,252	44,554	48,668	53,412
Tax recoverable	65	44	153	113	154	152
Other current assets	-	-	-	-	-	-
Total Current Assets	132,943	147,109	176,610	190,988	205,555	225,140
Total Assets	190,025	209,372	248,563	264,914	281,639	303,826
Non Current Liabilities						
Long term borrowings	3,579	792	4,124	3,369	3,263	4,354
Bonds payable	5,664	1,216	3,058	4,046	3,283	4,164
Deferred tax liabilities	1,507	1,669	1,965	2,080	2,341	2,551
Other non-current liabilities	3,022	3,046	3,108	3,683	3,891	4,343
Total Non-current Liabilities	13,772	6,723	12,255	13,179	12,778	15,412
Current Liabilities						
Trade and other payables	60,077	66,396	75,551	80,007	86,611	95,487
Short Term borrowings	27,486	35,457	46,544	46,544	46,544	46,544
Amounts due to related parties	14,101	12,012	12,814	12,814	12,814	12,814
Tax payable	453	671	894	894	894	894
Other current liabilities	4,555	8,084	5,520	8,274	7,859	9,273
Total Current Liabilities	106,672	122,620	141,323	148,533	154,722	165,012
Equity						
Total shareholders' equity	40,711	46,470	50,981	59,200	70,135	79,399
Minority interests	28,870	33,560	44,003	44,003	44,003	44,003
Total equity	69,581	46,470	50,981	59,200	70,135	79,399
Total Liabilities and Equity	190,025	209,372	248,563	264,914	281,639	303,826
Consolidated Statement of Cash Flow						
Dec Y/E, HKD mn	FY19	FY20	FY21E	FY22E	FY23E	FY24E
CFD						
Profit before tax	6,640	7,076	8,408	7,362	8,652	9,628
Depreciation and amortisation	(2,365)	(2,444)	(2,813)	(3,130)	(3,410)	(3,748)
Tax paid	(1,542)	(1,752)	(1,761)	(1,692)	(1,981)	(2,144)
Change in working capital	(2,012)	(3,763)	5,858	3,026	3,178	3,717
Others	7,420	6,367	8,059	8,555	9,543	10,364
CFI	1,009	(2,255)	(4,069)	(3,887)	(4,241)	(4,894)
Total Capex	(3,102)	(2,503)	(4,069)	(3,887)	(4,241)	(4,894)
Others	4,111	248	-	-	-	-
CFE	(13,010)	(6,415)	(13,284)	(8,258)	(12,527)	(11,820)
Proceeds from bank borrowings	55,824	55,086	64,872	71,351	78,186	85,673
Repayment of bank borrowings	(72,814)	(53,030)	(73,496)	(74,753)	(85,244)	(91,581)
Dividend Paid	(817)	(691)	(881)	(932)	(1,042)	(1,130)
Interest Paid	(3,615)	(2,852)	(3,778)	(3,925)	(4,427)	(4,782)
Share repurchase	-	(10)	-	-	-	-
Other	8,412	(4,918)	-	-	-	-
Net Change in Cash	(3,850)	(463)	397	1,977	(787)	1,103
FX impact	(228)	(854)	(637)	(903)	(879)	(1,024)
Cash and CE at Y/E	12,548	11,231	10,991	12,064	10,399	10,478

Current Price as of 12th May 2022

Source: PSHK Est.

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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