

COMPANY UPDATE

CSPC Pharmaceutical Group (1093 HK)

COVID-19 Lockdowns Could Distort Revenue And Earnings Growth In 1H22

We expect China's Zero-COVID policy to disrupt the sales and earnings growth of CSPC in 1H22, but the company's long-term outlook remains intact. In the meantime, the clinical trial of its mRNA vaccine for COVID-19 and other pipelines are well on track. CSPC is also embracing tremendous BD/M&A opportunities to further enhance its innovative pipeline. Maintain BUY but lower target price to HK\$12.50.

WHAT'S NEW

- CSPC Pharmaceutical Group (CSPC) will report its 1Q22 results on 25 May 22.
- Shanghai declared that 15 of its 16 districts had eliminated COVID-19 cases, and targets to end the lockdown by 1 Jun 22. The opening will be rolled out in phases.
- We expect the Zero-COVID policy to have significant impact on CSPC's sales revenue in 1H22, but the reopening of Shanghai city will boost sales growth from 3Q22.

STOCK IMPACT

- Strict COVID-19 measures may have caused slower sales growth in 1H22.** We believe CSPC's revenue and net earnings growth in 1Q22 will likely to be slower than our and market's previous 2022 full-year estimates, as the new COVID-19 outbreaks in various cities and regions resulted in strict lockdowns. 2Q22 sales revenue could be even more significantly impacted as Shanghai has been under lockdown for nearly two months, and Beijing has also seen tightening COVID-19-combating measures in recent weeks.
- Expects sales to regain momentum in 2H22.** There have been media reports that Shanghai aims to reopen gradually and return to normal life from 1 June. Although there are considerable uncertainties in revenue growth in the short term, we believe the reopening of major cities in China will help to boost demand for healthcare services and products, and cause a resumption in sales and marketing activities. The long-term outlook of CSPC's revenue and earnings growth remains intact given the stiff demand for medical products and services.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2020	2021	2022F	2023F	2024F
Net turnover	24,942.2	27,866.9	30,111.5	34,046.2	38,502.6
EBITDA	6,865.5	7,450.3	7,834.7	8,784.1	9,851.7
Operating profit	6,056.7	6,795.0	7,121.2	8,012.6	9,022.1
Net profit (rep./act.)	5,159.7	5,567.8	5,845.1	6,575.2	7,402.1
Net profit (adj.)	4,347.9	5,362.8	5,845.1	6,575.2	7,402.1
EPS (Fen)	36.4	44.9	48.9	55.0	61.9
PE (x)	18.2	14.7	13.5	12.0	10.7
P/B (x)	3.5	3.0	2.8	2.4	2.1
EV/EBITDA (x)	9.8	9.1	8.6	7.7	6.9
Dividend yield (%)	1.9	2.2	2.2	2.5	2.8
Net margin (%)	20.7	20.0	19.4	19.3	19.2
Net debt/(cash) to equity (%)	(32.1)	(35.7)	(43.4)	(51.1)	(56.8)
Interest cover (x)	561.3	972.1	1,022.3	1,146.1	1,285.4
ROE (%)	25.3	23.0	21.6	21.5	20.7
Consensus net profit	-	-	6,134	6,950	7,811
UOBKH/Consensus (x)	-	-	0.95	0.95	0.95

Source: CSPC, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$7.67
Target Price	HK\$12.50
Upside	+63.0%
(Previous TP)	HK\$14.00

COMPANY DESCRIPTION

CSPC Pharmaceutical Group transferred its core business focus from bulk medicine manufacturing to innovative drug manufacturing in 2012. It has become a leading pharmaceutical player in China.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	1093 HK
Shares issued (m):	11,933.2
Market cap (HK\$m):	91,527.8
Market cap (US\$m):	11,663.2
3-mth avg daily t'over (US\$m):	38.3

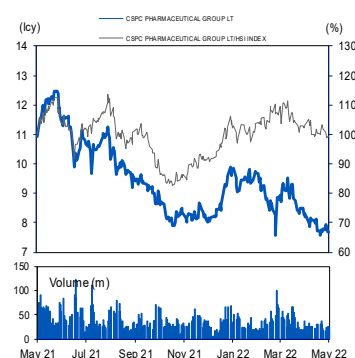
Price Performance (%)

52-week high/low	HK\$12.46/HK\$7.56			
1mth	3mth	6mth	1yr	YTD
(7.3)	(21.0)	(7.6)	(31.3)	(9.4)

Major Shareholders

	%
Cai Dongchen	23.65
FY22 NAV/Share (HK\$)	2.35
FY22 Net Cash/Share (HK\$)	1.02

PRICE CHART



Source: Bloomberg

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- Smooth progress in R&D.** Based in Hebei, CSPC has experienced smooth progress in manufacturing and R&D. With strong preclinical results demonstrating high neutralising activity against prevalent variants (including Omicron and Delta strains), its COVID-19 mRNA vaccine (SYS6006) has obtained clinical trial approval and is under phase I clinical trial in China with full speed. The company plans to conduct the phase II study in China and launch an international multi-centre phase III study in Malaysia, the United Arab Emirates, and some other countries that have used Chinese inactivated vaccines. CSPC expects to receive market approval for the mRNA vaccine for COVID-19 in 2022. Moreover, it has recently filed a biologics licence application (BLA) for recombinant fully human anti-RANKL monoclonal antibody for injection for treating giant cell tumor of bone to the CDE in China. The company targets to launch four innovative products in 2022, seven in 2023 and seven in 2024. We are highly confident that CSPC will achieve its target of launching >30 innovative drugs in the next five years, supported by its extensive pipeline and strong R&D capabilities.
- Sees tremendous opportunities in BD.** CSPC has continued to seek business development (BD) opportunities to further enrich its innovative R&D pipeline and enhance its global reach by collaborating with international partners. Seeing a significant increase in product approval requirement by US FDA, CSPC has global ambitions by focusing on globally exclusive new preparation and first-in-class drug candidates. As the market expects biotech sector to experience market consolidation in the next 1-2 years, the company believes there will be vast BD opportunities for the company to further enhance its product and R&D of oncology, cardio-cerebral vascular (CCV), immunity, respiratory and metabolism portfolios. The company's cash and cash equivalent amounted to Rmb10.7b as at end-Dec 2021, which is sufficient for potential BD and acquisition deals.

EARNINGS REVISION

- We lower our revenue forecasts from 11.1% yoy to 8.1% yoy for 2022 and from 12.5% yoy to 13.1% yoy for 2023 to reflect the possible short-term revenue disruption of the COVID-19 outbreak in China.

RISKS

- Policy risks, and intensifying competition – products such as NBP injection may face significant market competition after the patents expire in Jun 22.

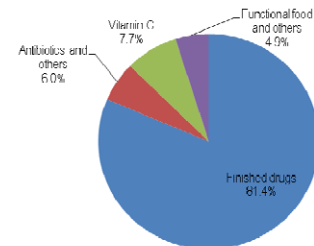
VALUATION/RECOMMENDATION

- Maintain BUY and lower target price to HK\$12.50**, based on SOTP valuation, comprising of: a) HK\$6.40/share or 11x 2022F PE for existing drugs; and b) NAV-derived pipeline value of HK\$6.10/share (WACC: 10.5%, perpetual growth rate: 4%).

STOCK PRICE CATALYSTS

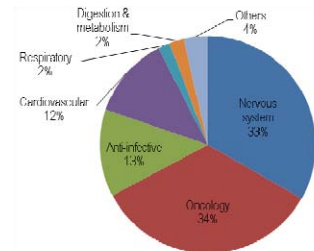
- a) Smooth R&D and BD progress.
- b) Attractive valuation which offers buying opportunities.

SEGMENTAL REVENUE (2021)



Source: CSPC, UOB Kay Hian

FINISHED DRUG SALES BREAKDOWN (2021)



Source: CSPC, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Net turnover	27,866.9	30,111.5	34,046.2	38,502.6
EBITDA	7,450.3	7,834.7	8,784.1	9,851.7
Deprec. & amort.	655.4	713.4	771.5	829.6
EBIT	6,795.0	7,121.2	8,012.6	9,022.1
Associate contributions	22.4	22.4	22.4	22.4
Net interest income/(expense)	(7.7)	(7.7)	(7.7)	(7.7)
Pre-tax profit	6,809.7	7,136.0	8,027.3	9,036.9
Tax	(1,159.0)	(1,207.9)	(1,358.7)	(1,529.6)
Minorities	(82.9)	(83.0)	(93.4)	(105.1)
Net profit	5,567.8	5,845.1	6,575.2	7,402.1
Net profit (adj.)	5,362.8	5,845.1	6,575.2	7,402.1

CASH FLOW

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Operating	4,637.0	6,387.2	6,839.3	7,620.6
Pre-tax profit	6,847.1	7,136.0	8,027.3	9,036.9
Tax	(1,347.4)	(1,207.9)	(1,358.7)	(1,529.6)
Deprec. & amort.	655.4	713.4	771.5	829.6
Working capital changes	(1,388.8)	(80.8)	(366.8)	(415.5)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(129.3)	(173.6)	(234.0)	(300.7)
Investing	(924.8)	(1,016.6)	(1,016.6)	(1,015.6)
Capex (growth)	(1,016.6)	(1,016.6)	(1,016.6)	(1,016.6)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	91.8	0.0	0.0	1.0
Financing	(1,688.0)	(2,428.6)	(1,189.4)	(1,672.8)
Dividend payments	(1,503.3)	(1,745.8)	(1,753.5)	(1,972.6)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(197.3)	0.0	0.0	0.0
Others/interest paid	12.6	(682.9)	564.2	299.7
Net cash inflow (outflow)	2,024.2	2,942.0	4,633.4	4,932.2
Beginning cash & cash equivalent	7,259.5	9,283.6	12,225.7	16,859.1
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	9,283.6	12,225.7	16,859.1	21,791.3

BALANCE SHEET

Year to 31 Dec (Rmbm)	2021	2022F	2023F	2024F
Fixed assets	8,529.4	8,487.1	8,758.3	8,971.4
Other LT assets	5,875.7	5,092.6	5,066.5	5,040.3
Cash/ST investment	9,283.6	12,225.7	16,859.1	21,791.3
Other current assets	11,052.9	11,862.4	12,549.2	13,984.5
Total assets	34,741.6	37,667.8	43,233.0	49,787.6
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	7,226.0	7,916.4	8,816.8	9,836.6
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	687.3	687.3	437.1	437.1
Shareholders' equity	25,986.7	28,139.5	32,961.2	38,390.8
Minority interest	841.6	924.6	1,017.9	1,123.0
Total liabilities & equity	34,741.6	37,667.8	43,233.0	49,787.6

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	26.7	26.0	25.8	25.6
Pre-tax margin	24.4	23.7	23.6	23.5
Net margin	20.0	19.4	19.3	19.2
ROA	17.2	16.1	16.3	15.9
ROE	23.0	21.6	21.5	20.7
Growth				
Turnover	11.7	8.1	13.1	13.1
EBITDA	8.5	5.2	12.1	12.2
Pre-tax profit	6.6	4.8	12.5	12.6
Net profit	7.9	5.0	12.5	12.6
Net profit (adj.)	23.3	9.0	12.5	12.6
EPS	23.4	9.0	12.5	12.6
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(35.7)	(43.4)	(51.1)	(56.8)
Interest cover (x)	972.1	1,022.3	1,146.1	1,285.4

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