

Hong Kong
ADD (no change)

Consensus ratings*: Buy 42 Hold 6 Sell 1

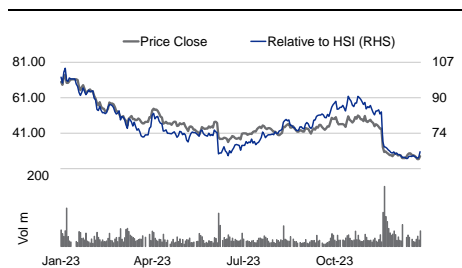
Current price:	HK\$28.00
Target price:	HK\$60.16
Previous target:	HK\$60.16
Up/downside:	114.9%
CGI / Consensus:	16.2%

Reuters:	2269.HK
Bloomberg:	2269 HK
Market cap:	US\$15,243m
	HK\$119,210m
Average daily turnover:	US\$134.7m
	HK\$1,052m
Current shares o/s:	0.23m
Free float:	66.3%

*Source: Bloomberg

Key changes in this note

➤ No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-4.6	-37.4	-58.5
Relative (%)	-3.1	-28.5	-34

Major shareholders	% held
Ge LI	15.3
Ning Zhao	15.3

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Wuxi Biologics

Strong rebound in new projects in 4Q23

- WuXi Biologics added 71 new projects to its pipeline in 4Q23, driven by a global recovery in biotech funding, according to the company.
- It added seven CMO projects in 2023 and the total number of CMO projects reached 25. We believe the rising CMO projects will remain a strong near-term catalyst.
- The microbial business could be a new revenue driver in the long term, in our view.
- Reiterate Add, with an unchanged DCF-based TP of HK\$60.16.

New projects rebound in 4Q23

WuXi Biologics has seen a slowdown in new projects since 1Q23 due to global biotech funding slowdown. However, it saw a strong rebound in 4Q23 with 71 new projects. This took the total number of new projects to 132 in 2023. Among the new projects, North America accounted for 55% and China 25%. The strong recovery in projects inflow is in line with the global biotech funding recovery, according to the company. We expect the recovery in new project inflow to continue in 2024F and 2025F.

Near-term catalyst is CMO projects

As of 31 Dec 2023, it had 698 integrated projects and 24 contract manufacturing organisation (CMO) projects. Seven new CMO projects were added in 2023 and two of them were "Win-the-molecule" projects. CMO projects generally have a much higher average service revenue per project and will be a strong revenue contributor for the company, in our view. It has several CMO projects that have the potential to be blockbuster drugs, including cancer bispecific A, cancer bispecific B, bispecific C, FcRn monoclonal antibody, autoimmune program K, cancer ADC Z, and cancer ADC Y. The strong increase in drug substance process performance qualification (PPQ) (+52% yoy) and drug product PPQ (+33% yoy) in 2023 was also in line with the increase in the number of CMO projects. In addition, the scheduled PPQ is an indicator of potential CMO projects in the future. We think the new CMO projects should remain a key revenue growth driver in 2024F and 2025F.

Microbial business: a new growth driver

According to the company, 95% of the revenue was generated from the mammalian cell business, as at end-2023. WuXi Biologics established its microbial platform during the Covid-19 pandemic, and now it has started to attract clients. The microbial platform can be used to manufacture insulin analogs, GLP analog, plasmid DNA among others, according to the company. As at the end of 2023, WuXi Biologics had 25 microbial projects and one of them was a CMO project for long-acting growth hormone (HGH). We believe the microbial platform will create a new revenue growth driver for the company since this year.

Reiterate Add with an unchanged TP of HK\$60.16

We reiterate our Add rating with an unchanged DCF-based TP of HK\$60.16. We think WuXi Biologics' promising outlook is supported by 1) the strong recovery in new projects, 2) rising CMO projects, and 3) the share buyback scheme announced in Dec 2023 which will be a positive catalyst for the company' share price. Our TP is derived from a DCF-based methodology (WACC: 10.8%, terminal growth rate: 4%, risk free rate: 3.0%, market risk premium: 6.3%, beta: 1.40) and we forecast FY23F/24F/25F EPS of Rmb0.99, Rmb1.19 and Rmb1.65, respectively. Downside risks: a) slowdown in biotech funding leading to fewer new projects, b) US\$/Rmb fluctuations since overseas business is in the US, and c) ramp-up of new sites leading to lower net profit growth.

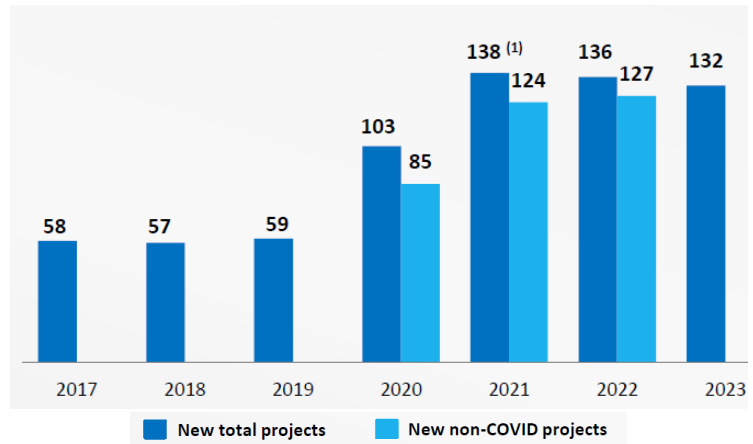
Financial Summary

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (Rmbm)	10,290	15,269	16,871	19,915	27,089
Operating EBITDA (Rmbm)	3,885	5,346	5,503	6,696	9,278
Net Profit (Rmbm)	3,389	4,420	4,179	5,025	7,056
Normalised EPS (Rmb)	0.77	1.01	0.98	1.18	1.66
Normalised EPS Growth	93.3%	30.4%	(2.6%)	20.2%	40.4%
FD Normalised P/E (x)	30.78	24.23	25.87	21.71	15.46
DPS (Rmb)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	27.50	20.78	19.75	16.26	11.56
P/FCFE (x)	NA	NA	NA	NA	73.54
Net Gearing	(18.2%)	(6.7%)	(4.2%)	(3.8%)	(6.8%)
P/BV (x)	3.32	3.06	2.79	2.48	2.15
ROE	12.8%	13.1%	11.3%	12.1%	14.9%
CGI/consensus EPS (x)			0.95	0.93	0.98
Normalised EPS/consensus EPS (x)			0.95	0.93	0.98

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

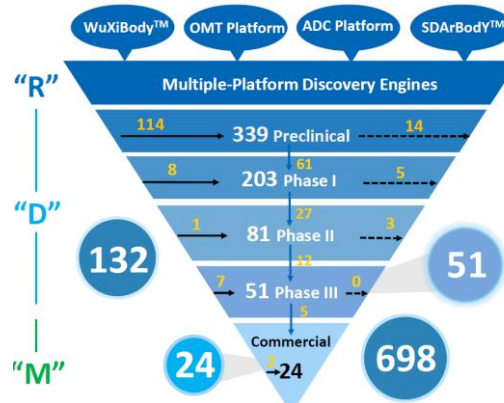
Strong rebound in new projects in 4Q23

Figure 1: Number of newly added integrated projects



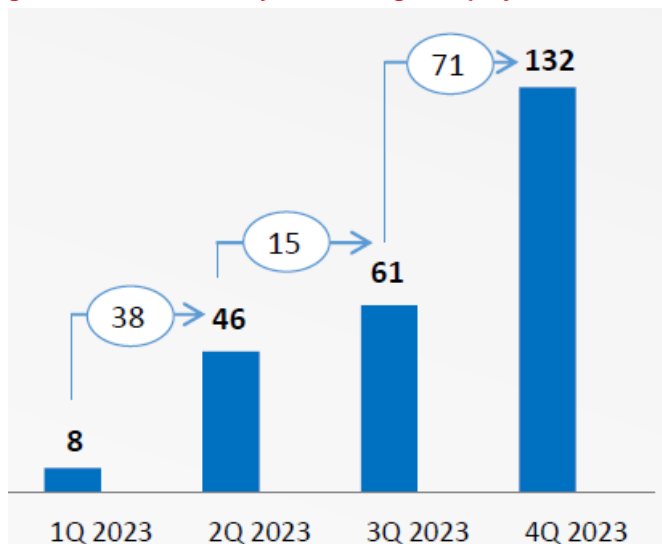
SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 2: WuXi Biologics' total projects, as of 31 Dec 2023



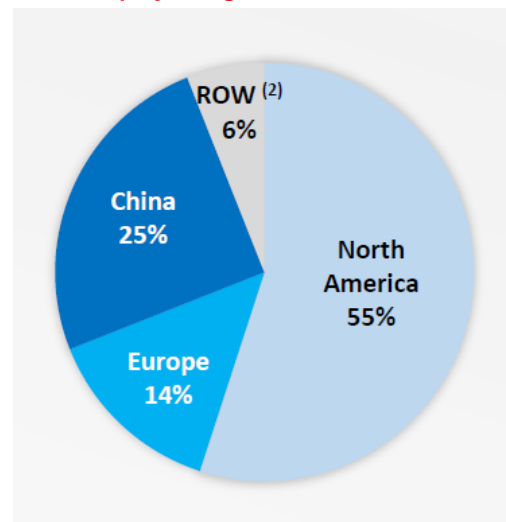
SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 3: Number of newly added integrated projects in 2023



SOURCES: CGIS RESEARCH, COMPANY DATA

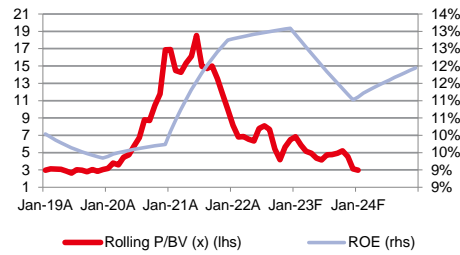
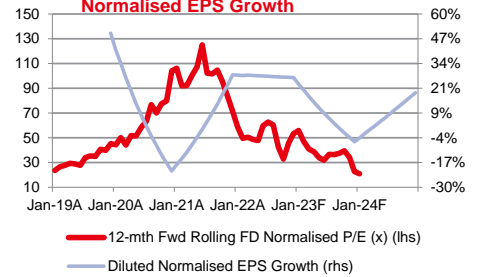
Figure 4: 2023 new project region mix



ROW: rest of world, primarily includes Singapore, Japan, South Korea, and Australia

SOURCES: CGIS RESEARCH, COMPANY DATA

BY THE NUMBERS

P/BV vs ROE

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


Profit & Loss

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	10,290	15,269	16,871	19,915	27,089
Gross Profit	4,829	6,724	6,749	8,165	11,513
Operating EBITDA	3,885	5,346	5,503	6,696	9,278
Depreciation And Amortisation	(576)	(798)	(1,008)	(1,181)	(1,347)
Operating EBIT	3,309	4,548	4,495	5,516	7,931
Financial Income/(Expense)	19	43	27	31	72
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	666	767	572	572	572
Profit Before Tax (pre-EI)	3,993	5,358	5,093	6,119	8,575
Exceptional Items					
Pre-tax Profit	3,993	5,358	5,093	6,119	8,575
Taxation	(485)	(808)	(771)	(925)	(1,289)
Exceptional Income - post-tax					
Profit After Tax	3,509	4,550	4,323	5,194	7,286
Minority Interests	(120)	(130)	(143)	(169)	(230)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,389	4,420	4,179	5,025	7,056
Normalised Net Profit	3,509	4,550	4,323	5,194	7,286
Fully Diluted Normalised Profit	3,389	4,420	4,179	5,025	7,056

Cash Flow

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	3,885	5,346	5,503	6,696	9,278
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(963)	(130)	61	(248)	(586)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	532	0	0	0	0
Other Operating Cashflow	516	0	0	0	0
Net Interest (Paid)/Received	(54)	(63)	(63)	(63)	(63)
Tax Paid	(485)	(808)	(771)	(925)	(1,289)
Cashflow From Operations	3,431	4,345	4,730	5,460	7,339
Capex	(6,494)	(6,848)	(6,000)	(6,000)	(6,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments	(2,162)	0	0	0	0
Other Investing Cashflow	(946)	107	98	103	144
Cash Flow From Investing	(9,602)	(6,741)	(5,902)	(5,897)	(5,856)
Debt Raised/(repaid)	158	21	0	0	0
Proceeds From Issue Of Shares	5,585	0	0	0	0
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	2,467	0	0	0	0
Cash Flow From Financing	8,209	21	0	0	0
Total Cash Generated	2,039	(2,375)	(1,172)	(437)	1,483
Free Cashflow To Equity	(6,013)	(2,375)	(1,172)	(437)	1,483
Free Cashflow To Firm	(6,117)	(2,332)	(1,109)	(373)	1,547

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet

(Rmbm)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	10,151	6,700	6,138	6,436	8,995
Total Debtors	4,857	5,610	5,783	6,827	9,286
Inventories	1,687	2,281	2,351	2,728	3,617
Total Other Current Assets	2,834	3,879	3,879	3,879	3,879
Total Current Assets	19,530	18,470	18,151	19,870	25,777
Fixed Assets	18,065	24,171	29,215	34,082	38,778
Total Investments	0	0	0	0	0
Intangible Assets	2,131	2,079	2,026	1,978	1,935
Total Other Non-Current Assets	4,307	4,845	4,845	4,845	4,845
Total Non-current Assets	24,503	31,095	36,086	40,906	45,559
Short-term Debt	2,122	1,321	1,321	1,321	1,321
Current Portion of Long-Term Debt					
Total Creditors	3,801	3,418	4,292	4,985	6,615
Other Current Liabilities	2,332	4,579	4,025	4,534	5,735
Total Current Liabilities	8,256	9,319	9,638	10,840	13,671
Total Long-term Debt	641	1,462	1,462	1,462	1,462
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,430	2,571	2,728	3,024	3,724
Total Non-current Liabilities	3,071	4,033	4,189	4,486	5,186
Total Provisions	0	0	0	0	0
Total Liabilities	11,326	13,351	13,827	15,326	18,857
Shareholders' Equity	32,279	35,047	39,102	43,972	50,770
Minority Interests	428	1,166	1,309	1,478	1,708
Total Equity	32,706	36,213	40,411	45,450	52,478

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	83.3%	48.4%	10.5%	18.0%	36.0%
Operating EBITDA Growth	91.1%	37.6%	2.9%	21.7%	38.6%
Operating EBITDA Margin	37.8%	35.0%	32.6%	33.6%	34.2%
Net Cash Per Share (Rmb)	1.43	0.58	0.40	0.40	0.84
BVPS (Rmb)	7.73	8.40	9.20	10.35	11.95
Gross Interest Cover	35.40	39.93	37.05	45.46	65.37
Effective Tax Rate	12.1%	15.1%	15.1%	15.1%	15.0%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Accounts Receivables Days	143.6	125.1	123.2	115.9	108.5
Inventory Days	92.62	84.76	83.50	79.10	74.35
Accounts Payables Days	214.8	148.8	133.3	138.9	130.5
ROIC (%)	19.6%	16.4%	12.9%	13.9%	17.7%
ROCE (%)	13.2%	14.0%	12.1%	13.0%	16.0%
Return On Average Assets	9.6%	9.6%	8.3%	9.0%	10.9%

Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Pre-IND services %	21.1%	45.8%	-2.0%	0.0%	10.0%
Early-phase services %	9.0%	100.1%	19.4%	3.4%	31.1%
Late-phase services %	293.0%	39.0%	15.6%	36.6%	50.3%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Distribution of stock ratings and investment banking clients for quarter ended on 31 Dec 2023		
636 companies under coverage for quarter ended on 31 Dec 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	67.5%	1.3%
Hold	22.5%	0.0%
Reduce	10.1%	0.2%

Spitzer Chart for stock being researched (2 year data)

Wuxi Biologics (2269 HK)



Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more 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:

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- 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.

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Definition:

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- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
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