

Genscript Biotech (1548 HK)

Solid prospect but fully priced in

On 20 Mar, Genscript Biotech's FY16 core net profit of USD28m beat ours at USD24m. Without forex gain of USD6m, net profit could have been USD22m, climbed 62% y-o-y. We see its FY17 outlook remains solid on its brighter research services and enzyme sales. Downgrade to Neutral but higher TP at HKD4.95 (1.5x PEG from 1.0x), on bigger sales and wider margins in FY17F-18F.

Result miss on exchange gain and opex to sales.

Genscript reported its FY16 net profit at USD27m, 51% y-o-y jumped. Excluding the foreign exchange gain of USD6m, its net profit could have been USD22m versus ours of USD24m, climbed 62% y-o-y. Total revenue of USD115m (+19% y-o-y) came in-line with our estimate, thanks to steady rise in life science research services sales. This was helped by (1) bigger service orders as well as upgraded on-line ordering system; (2) improved production and tech platform; and (3) larger demand of DNA synthesis. Operating expenses (Opex) to sales of 44.7% in FY16 were higher than ours 39.8% on bigger sales team with more remuneration.

Brighter research services and enzyme sales outlook.

After an update from the management, and in light of steady orders from gene synthesis and more orders from polypeptide/ protein preparation, we edge up our life science research service sales in FY17F-18F to grow at 20% y-o-y each (old: 18%-19%). Moreover, 2H16's industrial enzyme sales of USD6m, in-line with ours, had 50% derived from Jinan Noroon. On better enzyme synthesis ramp-up in 2017, we raise our enzyme sales forecast by 24%/26% to USD17m/25m in FY17F-18F.

Lifting FY17F-18F earnings by 14%/10%.

Albeit of lifting our opex to sales ratio to 41.0%/ 40.5% in FY17F-18F (from 39.5% and 39.8%), we lift our FY17-18F net profit by 14% and 10% on higher revenue and wider gross margin. Our EPS CAGR (FY16-19F) now points to 22.2%, a bit behind 23.7% previously, on higher opex to sales. We see the reason of termination of strategic partnership with China Resources Group to be: (1) innovative work unmatched; (2) big R&D risk; and (3) project progressing too long. Higher inventories days at 30 versus 23 days in 2015 were due to (1) switching of services biz into product making approach; and (2) bigger Nornoon's inventories post acquisition.

Downgrade to Neutral but higher TP at HKD4.95.

Our new TP of HKD4.95 (from HKD4.70) is based on already high 1.5x PEG (from 1.0x). Our EPS CAGR (FY16-19F) at 22.2% (from FY15-18F: 41.3%) leads to our target FY17 P/E at 33.0x (20.7x EV/EBITDA). With our new TP offering 7% upside, we downgrade the stock to Neutral from BUY, and that its profit growth has fully priced in. Our R&D valuation on its anti-cancer antigen therapy, not included in our TP, stands at HKD1.71/s, 35% of its current valuation.

Figure 1: Financial Summary

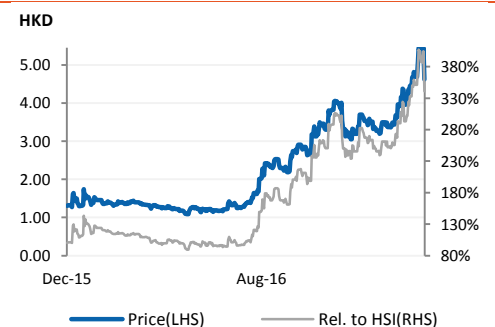
Year to Dec 31 (USDm)	FY15A	FY16A	FY17F	FY18F	FY19F
Revenue	87	115	150	193	257
Reported Profit	18	27	33	41	50
Underlying Profit	17	28	33	41	50
Underlying EPS (USD)	0.013	0.017	0.019	0.024	0.029
DPS (USD)	0.0	0.0	0.0	0.0	0.0
P/E (x)	44.3	36.0	30.8	24.6	20.4
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
P/B (x)	4.89	5.72	5.56	5.17	4.61
EV to EBITDA(x)	39.4	28.8	19.6	15.7	12.2
Underlying EPS growth (%)	164	23.0	16.9	25.3	20.7

Source: Company data, Guosen Securities (HK) Research

China	Healthcare Biotech & Pharma
21 March 2017	▼ NEUTRAL
Target price	▲ HKD4.95
Previous Rec/Target	Buy HKD4.70
Last price (21 Mar 17)	HKD4.62
Upside/downside (%)	7.2
HSI	24593.12
Mkt cap (HKDb/USDb)	7.8/1.0
52 week range (HKD)	1.10 - 5.80
Avg trading volume daily (USDm)	3.65
Free float (%)	25

Source: Bloomberg

Performance



Source: Bloomberg

Performance	1M	3M	12M
Absolute (%)	13.5	38.7	220.8
Absolute (USD, %)	13.4	38.7	220.3
Relative to HSI (%)	10.9	26.0	201.9

Source: Bloomberg

Company background

Founded in 2002 in New Jersey, Genscript sells variety of biotech or biochemical products to over 5,000 customers from biotech or drug-maker companies, educational sector (universities and research institutes), and government bodies/distributors of over 100 countries. Their major production centre are based in Nanjing, China. Their product types range from antibody service project, enzyme to gene synthesis project for customers. North America, Europe and China derived 57%/17%/9% of 1H16 total revenue, with another 14% derived from Asia excluding Japan and China. The company hired over 1,300 staff worldwide. Its major shareholders include: (1) Zhang Fangliang (Chairman & CEO) (61.6%) and (2) KPCB China Associates (13.6%).

Source: Bloomberg, Company data, Guosen Securities (HK) Research

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FY16 Result review

Result miss on exchange gain and opex to sales

Result miss after taking out exchange gain, and partly due to higher opex to sales

Genscript Biotech reported its FY16 net profit at USD27m, 51% y-o-y jump. Underlying earnings came in at USD28m, climbed 67% y-o-y, beat our estimate of USD24m. Excluding the foreign exchange gain of USD6m, its net profit could have been USD22m (+62% y-o-y), missed on higher opex to sales.

Total revenue of USD115m, up 19% y-o-y, was in-line with our estimate, thanks to steady rise in sales for life science research services sales, making up 79.5% of total FY16 total (FY15:88.7%). This was because of (1) bigger service orders as well as upgraded on-line ordering system; (2) improved production and tech platform; and (3) larger demand of DNA synthesis. Note that, pre-clinical drug development drug sales of USD11m beat our estimate by 17%, on (1) bigger demand for antibody engineering and related assay from drug-makers and biotechs; (2) reduced service delivery cycle or timing for antibody modification; and (3) more specific antibody design tailor-made to customers. Further, also thanks to the successful integration and consolidation of Jinan Nornoon in Jun 2016. Moreover, 2H16's industrial enzyme sales of USD6m, in-line with ours, had 50% sales derived from Jinan Nornoon

Gross margin of 66.4% beat ours of 65.5% (FY15:65.8%) on smaller production cost in particular to improved platform and product delivery cycle. This was supported by wider segment margin from life science research services of 69.3%, compared to FY15 at 67.0%.

Due to bigger (1) sales person compensation package and sales team; and (2) R&D cost, its SG&A to sales ratio at 44.7% were higher than our estimated 39.8% (FY15: 53.3%; 1H16: 40.6%). Receivable days reduced to 59 days in 2016, compared to 61 days, while inventories day edged up to 30 days in 2016 (FY15: 23). Higher inventories days at 30 versus 23 days in 2015 were due to (1) switching of services biz into product making approach; and (2) bigger Nornoon's inventories post acquisition.

The company declared to pay an annual dividend of HKD1.22 (FY15: Nil), implying a dividend payout ratio at 9.9% in FY16.

Figure 2 Historical P&L analysis

Year-ended Dec (USDm)	1H15	2H15	FY15	1H16	Guosen 2H16F	Actual 2H16		Guosen FY16F	Actual FY16	
Total revenue	41.1	45.7	86.7	53.2	62.3	61.5	-1%	115.5	114.7	-1%
YoY change	22.5%	25.2%	23.9%	29.6%	36.5%	34.8%	-1.8%	33.3%	32.3%	-0.9%
Cost of sales	(14.2)	(15.4)	(29.6)	(17.3)	(22.5)	(21.2)	-6%	(39.8)	(38.5)	-3%
Gross profit	26.9	30.2	57.1	35.9	39.8	40.3	1%	75.7	76.2	1%
YoY change	25.3%	33.3%	29.4%	33.7%	31.8%	33.5%	1.7%	32.7%	33.6%	0.9%
GPM	65.4%	66.2%	65.8%	67.5%	63.9%	65.5%	1.7%	65.5%	66.4%	0.9%
Selling and distribution expenses	(8.4)	(9.3)	(17.6)	(9.6)	(10.3)	(11.3)	10%	(19.9)	(20.9)	5%
% of total revenue	20.4%	20.3%	20.3%	18.0%	16.5%	18.4%	1.8%	17.2%	18.2%	1.0%
Administrative expenses	(11.3)	(17.2)	(28.5)	(12.1)	(14.1)	(18.4)	31%	(26.1)	(30.4)	17%
% of total revenue	27.6%	37.7%	32.9%	22.7%	22.5%	29.9%	7.3%	22.6%	26.5%	3.9%
R&D cost	(2.4)	(4.7)	(7.1)	(3.5)	(6.9)	(6.0)	-13%	(10.4)	(9.5)	-9%
% of total revenue	5.9%	10.2%	8.2%	6.7%	11.0%	9.7%	-1.3%	9.0%	8.3%	-0.7%
Opex to sales			53.3%	40.6%				39.8%	44.7%	
Operating profit	7.2	3.7	10.9	14.3	15.5	10.7	-31%	29.7	24.9	-16%
YoY change	73.0%	25.6%	53.2%	99.0%	314.9%	186.0%	-128.9%	172.8%	128.7%	-44.1%
Operating margin	17.5%	8.2%	12.6%	26.8%	24.8%	17.3%	-7.5%	25.7%	21.7%	-4.0%
Other income and gains	0.7	11.6	12.4	(0.0)	0.9	7.8	719%	0.9	7.7	744%
Other expenses	(0.0)	(0.3)	(0.3)	(0.0)	(0.4)	(0.1)	-65%	(0.4)	(0.2)	-60%
% of total revenue	0.0%	0.0%	0.3%	0.1%	0.6%	0.2%	-0.4%	0.3%	0.1%	-0.2%
Finance costs	0.0	0.0	0.0	0.0	(0.1)	(0.0)	-90%	(0.1)	(0.0)	-90%
EBIT	7.9	15.1	23.0	14.2	16.0	18.3	14%	30.3	32.5	7%
EBT	7.9	15.1	23.0	14.2	15.9	18.3	15%	30.2	32.5	8%
Income tax expense	(2.2)	(3.3)	(5.5)	(3.0)	(3.6)	(3.0)	-18%	(6.6)	(6.0)	-10%
Tax rate	27.2%	22.0%	23.8%	21.3%	22.7%	16.1%	-6.5%	22.0%	18.4%	-3.6%
Profit for the year (reported)	5.7	11.8	17.5	11.2	12.3	15.3	24%	23.5	26.5	13%
MI	0.0	0.0	0.0	0.0	0.0	0.4		0.0	0.4	
YoY change	42.0%	452.3%	183.5%	94.8%	4.9%	30.5%	25.6%	34.4%	51.6%	17.2%
Adjustment	(1.7)	2.7	1.0	(0.5)	0.0	(0.8)		0.0	(1.4)	
Core profit	7.4	9.1	16.5	11.7	12.3	15.8	28%	23.5	27.5	17%
YoY change	83.1%	327.3%	167.3%	58.5%	227.9%	73.5%	-154.3%	110.7%	66.8%	-43.9%
Core profit margin	18.0%	19.9%	19.0%	22.1%	19.8%	25.7%	5.9%	20.4%	24.0%	3.6%
Core profit (excluding foreign exchange gain)	7.3	6.1	13.4	10.0	12.3	11.7		23.5	21.7	
Y-o-y change				58.5%	101.0%	90.2%		110.7%	61.6%	
Core profit margin	17.7%	13.4%	15.5%	18.8%	19.8%	19.0%		20.4%	18.9%	
DPS (HKD cents)	0.00	0.00	0.00	0.00		0.00			1.221	
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%		0.0%			9.9%	
Y-o-y										
Total revenue	22.5%	25.2%	23.9%	29.6%	36.5%	34.8%	-1.8%	33.3%	32.3%	-0.9%
Gross profit	25.3%	33.3%	29.4%	33.7%	31.8%	33.5%	1.7%	32.7%	33.6%	0.9%
Selling and distribution expenses	10.4%	16.5%	13.5%	14.4%	11.1%	21.8%	10.7%	12.6%	18.3%	5.6%
Administrative expenses	16.6%	46.7%	33.1%	6.5%	-18.3%	6.8%	25.1%	-8.5%	6.6%	15.1%
EBIT	47.3%	422.3%	178.6%	80.1%	6.4%	21.4%	15.0%	31.7%	41.5%	9.8%
EBT	53.5%	460.4%	193.2%	80.1%	5.7%	21.3%	15.6%	31.3%	41.5%	10.2%
Core profit	83.1%	327.3%	167.3%	58.5%	227.9%	73.5%	-154.3%	110.7%	66.8%	-43.9%
Margin analysis										
Total revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%
Gross profit	65.4%	66.2%	65.8%	67.5%	63.9%	65.5%	1.7%	65.5%	66.4%	0.9%
Selling and distribution expenses	20.4%	20.3%	20.3%	18.0%	16.5%	18.4%	1.8%	17.2%	18.2%	1.0%
Administrative expenses	27.6%	37.7%	32.9%	22.7%	22.5%	29.9%	7.3%	22.6%	26.5%	3.9%
EBIT	19.2%	33.0%	26.5%	26.7%	25.7%	29.7%	4.0%	26.2%	28.3%	2.2%
EBT	19.2%	33.0%	26.5%	26.7%	25.6%	29.7%	4.1%	26.1%	28.3%	2.2%
Core profit	18.0%	19.9%	19.0%	22.1%	19.8%	25.7%	5.9%	20.4%	24.0%	3.6%

Source: Company data and Guosen Securities (HK) Research

Figure 3 Forecasted P&L analysis

Year-ended Dec (USDm)	FY15	Guosen FY16F	Actual FY16		Old FY17F	New FY17F		Old FY18F	New FY18F	
Total revenue	86.7	115.5	114.7	-1%	141.1	150.0	6%	179.4	193.5	8%
YoY change	23.9%	33.3%	32.3%	-0.9%	22.2%	30.7%	8.6%	27.1%	29.0%	1.9%
Cost of sales	(29.6)	(39.8)	(38.5)	-3%	(48.6)	(49.5)	2%	(60.2)	(65.9)	9%
Gross profit	57.1	75.7	76.2	1%	92.5	100.5	9%	119.2	127.5	7%
YoY change	29.4%	32.7%	33.6%	0.9%	22.2%	31.9%	9.7%	28.8%	26.8%	-2.0%
GPM	65.8%	65.5%	66.4%	0.9%	65.5%	67.0%	1.5%	66.4%	68.7%	2.2%
Selling and distribution expenses	(17.6)	(19.9)	(20.9)	5%	(23.3)	(27.0)	16%	(30.1)	(32.9)	9%
% of total revenue	20.3%	17.2%	18.2%	1.0%	16.5%	18.0%	1.5%	16.8%	17.0%	0.2%
Administrative expenses	(28.5)	(26.1)	(30.4)	17%	(32.5)	(34.5)	6%	(41.3)	(45.5)	10%
% of total revenue	32.9%	22.6%	26.5%	3.9%	23.0%	23.0%	0.0%	23.0%	23.5%	0.5%
R&D cost	(7.1)	(10.4)	(9.5)	-9%	(14.1)	(15.0)	6%	(19.7)	(21.3)	8%
% of total revenue	8.2%	9.0%	8.3%	-0.7%	10.0%	10.0%	0.0%	11.0%	11.0%	0.0%
Opex to sales	53.3%	39.8%	44.7%		39.5%	41.0%		39.8%	40.5%	
Operating profit	10.9	29.7	24.9	-16%	36.8	39.0	6%	47.8	49.2	3%
YoY change	53.2%	172.8%	128.7%	-44.1%	157.5%	56.6%	-100.9%	209.0%	25.9%	-183.1%
Operating margin	12.6%	25.7%	21.7%	-4.0%	26.0%	26.0%	0.0%	26.6%	25.4%	-1.2%
Other income and gains	12.4	0.9	7.7	744%	1.0	2.0	98%	1.1	2.2	98%
Other expenses	(0.3)	(0.4)	(0.2)	-60%	(0.6)	(0.6)	6%	(0.7)	(0.8)	8%
% of total revenue	0.3%	0.3%	0.1%	-0.2%	0.4%	0.4%	0.0%	0.4%	0.4%	0.0%
Finance costs	0.0	(0.1)	(0.0)	-90%	(0.2)	(0.2)	0%	(0.1)	(0.1)	0%
EBIT	23.0	30.3	32.5	7%	37.2	40.4	9%	48.1	50.6	5%
EBT	23.0	30.2	32.5	8%	37.1	40.3	9%	48.0	50.5	5%
Income tax expense	(5.5)	(6.6)	(6.0)	-10%	(8.2)	(7.3)	-11%	(10.6)	(9.1)	-14%
Tax rate	23.8%	22.0%	18.4%	-3.6%	22.0%	18.0%	-4.0%	22.0%	18.0%	-4.0%
Profit for the year (reported)	17.5	23.5	26.5	13%	28.9	33.0	14%	37.5	41.4	10%
MI	0.0	0.0	0.4		0.0	0.0		0.0	0.0	
YoY change	183.5%	34.4%	51.6%	17.2%	22.9%	24.5%	1.6%	29.6%	25.3%	-4.3%
Adjustment	1.0	0.0	(1.4)		0.0	0.0		0.0	0.0	
Core profit	16.5	23.5	27.5	17%	28.9	33.0	14%	37.5	41.4	10%
YoY change	167.3%	110.7%	66.8%	-43.9%	22.9%	20.0%	-2.9%	29.6%	25.3%	-4.3%
Core profit margin	19.0%	20.4%	24.0%	3.6%	20.5%	22.0%	1.5%	20.9%	21.4%	0.5%
Core profit (excluding foreign exchange gain)	13.4	23.5	21.7							
Y-o-y change		110.7%	61.6%							
Core profit margin	15.5%	20.4%	18.9%							
DPS (HKD cents)	0.00		1.221			1.516			0.949	
Dividend payout ratio	0.0%		9.9%			10.0%			5.0%	
Y-o-y										
Total revenue	23.9%	33.3%	32.3%	-0.9%	22.2%	30.7%	8.6%	27.1%	29.0%	1.9%
Gross profit	29.4%	32.7%	33.6%	0.9%	22.2%	31.9%	9.7%	28.8%	26.8%	-2.0%
Selling and distribution expenses	13.5%	12.6%	18.3%	5.6%	17.2%	29.4%	12.2%	29.4%	21.8%	-7.6%
Administrative expenses	33.1%	-8.5%	6.6%	15.1%	24.3%	13.4%	-10.9%	27.1%	31.8%	4.7%
EBIT	178.6%	31.7%	41.5%	9.8%	23.0%	24.4%	1.4%	29.4%	25.1%	-4.3%
EBT	193.2%	31.3%	41.5%	10.2%	22.9%	23.9%	1.1%	29.6%	25.3%	-4.3%
Core profit	167.3%	110.7%	66.8%	-43.9%	22.9%	20.0%	-2.9%	29.6%	25.3%	-4.3%
Margin analysis										
Total revenue	100.0%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%
Gross profit	65.8%	65.5%	66.4%	0.9%	65.5%	67.0%	1.5%	66.4%	65.9%	-0.5%
Selling and distribution expenses	20.3%	17.2%	18.2%	1.0%	16.5%	18.0%	1.5%	16.8%	17.0%	0.2%
Administrative expenses	32.9%	22.6%	26.5%	3.9%	23.0%	23.0%	0.0%	23.0%	23.5%	0.5%
EBIT	26.5%	26.2%	28.3%	2.2%	26.4%	27.0%	0.6%	26.8%	26.1%	-0.7%
EBT	26.5%	26.1%	28.3%	2.2%	26.3%	26.9%	0.6%	26.8%	26.1%	-0.7%
Core profit	19.0%	20.4%	24.0%	3.6%	20.5%	22.0%	1.5%	20.9%	21.4%	0.5%

Source: Company data and Guosen Securities (HK) Research

Figure 4 Revenue breakdown

Year-ended Dec (USDm)	FY15	Guosen FY16F	Actual FY16		Old FY17F	New FY17F		Old FY18F	New FY18F	
Revenue										
Life sciences research service	76.9	93.5	91.2	-2%	110.8	109.5	-1%	131.0	131.5	0%
YoY change	21.7%	21.5%	18.6%	-2.9%	18.6%	20.1%	1.5%	18.2%	20.0%	1.8%
% Total revenue	88.7%	80.9%	79.5%	-1.4%	78.5%	73.0%	-5.5%	73.0%	68.0%	-5.1%
Gene synthesis services	46.7	55.8	54.9	-2%	65.4	66.0	1%	76.3	79.5	4%
YoY change	21.7%	19.6%	17.6%	-2.0%	17.2%	20.2%	3.0%	16.6%	20.5%	3.9%
% Total revenue	53.8%	48.3%	47.8%	-0.5%	46.4%	44.0%	-2.4%	42.5%	41.1%	-1.4%
Protein production services	10.2	13.5	12.2	-10%	17.7	15.6	-12%	23.2	19.9	-14%
YoY change	21.7%	32.0%	19.2%	-12.8%	31.3%	28.4%	-2.9%	31.3%	27.4%	-3.9%
% Total revenue	11.8%	11.7%	10.6%	-1.1%	12.5%	10.4%	-2.1%	12.9%	10.3%	-2.7%
Other	20.0	24.2	24.2	0%	27.7	28.0	1%	31.5	32.1	2%
YoY change	21.7%	20.6%	20.6%	0.0%	14.7%	15.6%	1.0%	13.7%	14.7%	1.0%
% Total revenue	23.1%	20.9%	21.1%	0.1%	19.6%	18.6%	-1.0%	17.6%	16.6%	-1.0%
Life sciences research catalog products	2.5	5.5	5.3	-3%	11.6	11.2	-3%	23.2	22.4	-3%
YoY change	20.8%	123.4%	116.0%	-7.4%	110.0%	110.0%	0.0%	100.0%	100.0%	0.0%
% Total revenue	2.8%	4.8%	4.6%	-0.1%	8.2%	7.5%	-0.7%	12.9%	11.6%	-1.3%
Preclinical drug development services	6.0	9.5	11.2	17%	4.8	11.9	150%	N/A	7.8	
YoY change	36.2%	60.0%	87.0%	27.0%	-50.0%	7.0%	57.0%	N/A	-35.0%	
% Total revenue	6.9%	8.3%	9.7%	1.5%	3.4%	8.0%	4.6%	N/A	4.0%	
Industrial synthetic biology products	1.4	7.0	7.0	0%	13.9	17.3	24%	25.2	31.8	26%
YoY change	289.4%	417.8%	416.9%	-0.9%	98.8%	147.2%	48.4%	80.6%	83.8%	3.2%
% Total revenue	1.6%	6.1%	6.1%	0.0%	9.9%	11.5%	1.7%	14.0%	16.4%	2.4%
Total revenue	86.7	115.5	114.7	-1%	141.1	150.0	6%	179.4	193.5	8%
YoY change	23.9%	33.3%	32.3%	-0.9%	22.2%	30.7%	8.6%	27.1%	29.0%	1.9%

Source: Company data and Guosen Securities (HK) Research

Figure 5 Gross margin assumptions

Year-ended Dec (USDm)	FY15	Guosen FY16F	Actual FY16		Old FY17F	New FY17F		Old FY18F	New FY18F	
Gross margin breakdown										
Life sciences research service	67.0%	68.7%	69.9%	1.2%	69.5%	71.8%	2.4%	71.6%	72.1%	0.6%
Gene synthesis services	69.0%	67.0%	68.5%	1.5%	68.0%	70.0%	2.0%	71.0%	71.0%	0.0%
Protein production services	60.0%	59.0%	60.0%	1.0%	60.0%	65.0%	5.0%	62.0%	64.0%	2.0%
Others	65.9%	78.0%	78.0%	0.0%	79.0%	80.0%	1.0%	80.0%	80.0%	0.0%
Life sciences research catalog products	64.4%	64.5%	65.0%	0.5%	65.0%	67.0%	2.0%	66.0%	66.5%	0.5%
Preclinical drug development services	65.2%	65.0%	66.0%	1.0%	65.0%	65.0%	0.0%	0.0%	65.0%	65.0%
Industrial synthetic biology products	5.5%	25.0%	23.5%	-1.5%	35.0%	38.0%	3.0%	40.0%	40.0%	0.0%
Blended margin	65.8%	65.5%	66.4%	0.9%	65.5%	67.0%	1.5%	66.4%	68.7%	2.2%

Source: Company data and Guosen Securities (HK) Research

Figure 6 Traditional bigger US biotech peer's group comparison

Company	Ticker	Rating	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	3-Yr EPS Cagr (%)	PEG (x)	Div yld		P/B Hist (x)	EV/EBITDA (FY16F)	EV/EBITDA (FY17F)
											Hist (%)	Div yld FY1 (%)			
Adjusted sector median*						22.4	15.6	13.3	10.4	1.1	2.5	0.6	4.5	10.2	9.1
Thermon Group Ho	THR US	Non-rated	20.41	660	2.2	28.3	39.6	29.5	4.4	8.95	N/A	N/A	2.20	16.6	15.1
Gilead Sciences	GILD US	Non-rated	68.71	89,809	750.3	6.8	8.4	9.2	(10.3)	N/A	2.8	0.7	4.77	4.5	5.7
Celgene Corp	CELG US	Non-rated	126.51	98,421	489.2	49.2	17.5	14.4	60.3	0.29	N/A	N/A	14.93	28.5	13.6
Biogen Inc	BIIB US	Non-rated	274.80	59,344	464.0	16.2	13.1	12.3	12.1	1.09	N/A	N/A	4.89	10.0	9.1
Amgen Inc	AMGN US	Non-rated	169.24	124,637	630.3	16.4	13.7	13.3	8.7	1.58	2.5	0.6	4.18	10.2	8.6

* Outliners and "N/A" entries are in red and excl. from the calculation of averages

Source: Bloomberg data and Guosen Securities (HK) Research

Figure 7 Global closest peer's group comparison

Company	Ticker	Rating	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	3-Yr EPS Cagr (%)	PEG (x)	Div yld		P/B Hist (x)	P/B FY1 (x)	EV/EBITDA (FY16F)	EV/EBITDA (FY17F)
											Hist (%)	Div yld FY1 (%)				
Adjusted sector median*						26.7	21.7	19.6	16.5	1.6	0.8	3.4	3.6	17.6	14.8	
Novozymes-B Shs	NZYM DC	Non-rated	269.80	12,148	24.3	26.6	25.2	23.5	6.3	4.02	1.5	6.84	N/A	17.08	16.4	
Intrexon Corp	XON US	Non-rated	20.68	2,455	30.2	N/A	N/A	N/A	(160.5)	N/A	N/A	4.38	N/A	N/A	N/A	
Du Pont (Ei)	DD US	Non-rated	81.50	70,463	204.5	28.4	22.1	20.3	14.0	1.58	1.9	7.21	7.65	15.51	12.7	
Thermo Fisher	TMO US	Non-rated	156.74	61,190	260.9	30.6	17.1	15.5	29.7	0.58	0.4	2.86	2.83	18.31	15.3	
Vwr Corp	VWR US	Non-rated	27.56	3,628	20.7	24.4	15.3	14.1	22.5	0.68	N/A	2.39	2.36	12.48	11.2	
Waters Corp	WAT US	Non-rated	155.86	12,482	91.0	24.1	22.2	20.4	8.5	2.61	N/A	5.42	5.35	15.95	14.9	
Perkinelmer Inc	PKI US	Non-rated	57.14	6,273	36.6	26.7	20.2	18.1	17.7	1.14	0.5	2.91	3.02	18.15	14.8	
Agilent Tech Inc	A US	Non-rated	53.15	17,130	98.4	37.4	24.7	22.0	24.4	1.01	0.9	3.98	4.13	18.74	16.4	
Albany Molecular	AMRI US	Non-rated	13.87	596	5.6	N/A	12.1	10.4	(193.4)	N/A	N/A	1.76	N/A	39.36	9.4	
Illumina Inc	ILMN US	Non-rated	163.49	23,919	172.8	52.9	44.9	38.1	16.5	2.72	N/A	10.88	10.35	32.32	228.4	
Bruker Corp	BRKR US	Non-rated	23.12	3,697	16.1	24.3	21.3	19.0	12.8	1.66	0.7	5.38	5.18	15.61	12.4	
Qiagen Nv	QGEN US	Non-rated	29.19	6,594	23.5	85.9	23.5	21.1	64.9	0.36	3.7	2.63	N/A	22.86	14.9	
Dsm (Konin)	DSM NA	Non-rated	62.48	12,240	36.7	17.7	17.4	15.7	7.4	2.34	2.6	1.80	N/A	11.34	9.9	

* Outliners and "N/A" entries are in red and excl. from the calculation of averages

Source: Bloomberg data and Guosen Securities (HK) Research

Summary financial statements (Year to Dec 31)

Profit & Loss (USDm)	FY15A	FY16A	FY17F	FY18F	FY19F
Revenue	87	115	150	193	257
Revenue growth (%)	23.9	32.3	30.7	29.0	32.7
Cost of sales	(30)	(39)	(49)	(66)	(92)
Gross profit	57	76	101	128	165
Other income/(expense)	0	0	0	0	0
Operating expenses	(46)	(51)	(61)	(78)	(102)
Operating profit	11	25	39	49	63
Operating profit growth (%)	53.2	129	56.6	25.9	27.4
Other non-operating inc/(exp)	12	8	1	1	1
Finance income	0	0	0	0	0
Finance expenses	0	0	0	0	0
Associates & JCE	0	0	0	0	0
Profit before taxation	23	33	40	50	64
Taxation	(5)	(6)	(7)	(9)	(14)
Non-controlling interests	0	0	0	0	0
Net profit	18	27	33	41	50
Other Adjustments on UP	(1)	1	0	0	0
Underlying Profit	17	28	33	41	50
Underlying profit growth (%)	167	71.2	16.9	25.3	20.7
EPS (USD)	0.014	0.016	0.019	0.024	0.029
Underlying EPS (USD)	0.013	0.017	0.019	0.024	0.029
Underlying EPS growth (%)	164	23.0	16.9	25.3	20.7
DPS (USD)	0.0	0.0	0.0	0.0	0.0
DPS growth (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, Guosen Securities (HK) Research

Balance Sheet (USDm)	FY15A	FY16A	FY17F	FY18F	FY19F
Fixed assets	38	44	42	44	46
Associates & JCE	0	0	0	0	0
Others	11	18	21	24	25
Non-current assets	49	62	63	67	71
Inventories	2	4	3	7	6
Debtors & prepayments	27	23	33	40	60
Bank deposits & cash	104	136	137	149	168
Others	0	0	0	0	0
Current assets	133	164	172	195	235
Bank & other borrowings	0	0	3	2	0
Trade & payables	2	4	4	7	10
Taxation	4	4	5	5	5
Others	25	30	31	42	60
Current liabilities	31	39	43	57	76
Bank & other borrowings	0	0	0	0	0
Others	2	3	2	2	2
Non-current liabilities	2	3	2	2	2
Net assets	149	184	190	204	228
Share capital	2	2	2	2	2
Premium & reserves	148	176	181	195	219
Shareholders' funds	149	178	183	197	221
Non-controlling interests	0	6	7	7	7
Total equity	149	184	190	204	228
BVPS (USD)	0.1	0.1	0.1	0.1	0.1

Source: Company data, Guosen Securities (HK) Research

Financial Ratios	FY15A	FY16A	FY17F	FY18F	FY19F
Gross profit margin (%)	65.8	66.4	67.0	65.9	64.2
Operating profit margin (%)	12.6	21.7	26.0	25.4	24.4
Underlying profit margin (%)	19.0	24.6	22.0	21.4	19.5
Net debt/equity (%)	(69.6)	(76.9)	(73.4)	(74.7)	(76.1)
Net debt/total assets (%)	(57.1)	(60.5)	(57.3)	(56.0)	(54.9)
Current ratio (x)	431	418	403	345	310
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
Interest cover (x)	0.0	2,493	252	396	0.0
Dividend cover (x)	0.0	0.0	0.0	0.0	0.0
Acct. receivable turnover days	61.2	58.8	58.8	58.8	63.1
Acct. payable turnover days	32.5	32.1	32.1	32.1	34.8
Inventory turnover days	23.4	29.7	25.0	25.7	26.1
Cash cycle days	52.1	56.4	51.7	52.4	54.5
Dupont Analysis	FY15A	FY16A	FY17F	FY18F	FY19F
Tax burden (%)	76.2	82.7	82.0	82.0	78.0
Interest burden (%)	211	130	103	103	102
Operating profit margin (%)	12.6	21.7	26.0	25.4	24.4
Asset turnover (x)	0.6	0.6	0.7	0.8	0.9
Leverage ratio (x)	1.3	1.2	1.3	1.3	1.4
ROA (%)	12.0	13.8	14.3	16.7	17.6
ROE (%)	15.6	17.3	18.3	21.8	23.9

Source: Company data, Guosen Securities (HK) Research

Cashflow (USDm)	FY15A	FY16A	FY17F	FY18F	FY19F
EBIT	23	33	40	51	64
Depreciation & amortization	5	6	6	6	7
Interest expense	0	0	0	0	0
Change in working capital	(10)	(2)	(8)	(9)	(18)
Tax paid	(2)	(4)	(4)	(5)	(8)
Other operating cashflow	4	1	1	1	1
Operating activities	20	33	35	43	46
Capex	(7)	(10)	(28)	(27)	(21)
Free cash flow	13	24	7	16	25
Disposal of non-current assets	0	0	0	0	0
Associates & JCE (net)	0	0	0	0	0
Interest received	0	0	0	0	0
Dividends received	0	0	0	0	0
Other investing cashflow	3	1	1	2	0
Investing activities	(4)	(8)	(28)	(25)	(20)
New loans raised	0	0	0	0	0
Repayment of loans	0	4	0	0	0
Dividends paid	0	(3)	(3)	(2)	(2)
Other financing cashflow	65	7	(1)	(1)	(1)
Financing activities	65	8	(4)	(3)	(3)
Inc/(dec) in cash	81	33	3	15	22
Cash at beginning of year	26	104	136	137	149
Foreign exchange effect	(3)	(1)	(3)	(3)	(3)
Cash at end of year	104	136	137	149	168

Source: Company data, Guosen Securities (HK) Research

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