



Rating
Hold

Asia
China

Health Care
Pharmaceuticals /
Biotechnology

Company
**Hualan Biological
Engineering Inc**

Reuters 002007.SZ Bloomberg 002007 CH Exchange SHZ Ticker 002007

Date
22 August 2017

Recommendation
Change

Price at 21 Aug 2017 (CNY)	28.18
Price target - 12mth (CNY)	26.00
52-week range (CNY)	39.49 - 28.04
Shenzhen Index	1,989

Lackluster quarter amid policy headwinds; downgrading to Hold

Downgrade due to near-term pricing and volume pressure

We downgrade Hualan to Hold due to anticipated ex-manufacturing price cuts for albumin, volume growth deceleration and accompanying margin erosion. While we stay constructive on PDT (plasma derived therapeutics) growth prospects in the mid/long term, Hualan faces slightly higher risks vs. peers due to the lack of new product launches, higher inventory and less exposure in direct sales. As the 2Q17 results were below our revised expectations, we reduce our rev/ net profit estimates by 5%/10% for 2017, and 11%/18% for 2018, respectively.

Expect 4-6% ex-manufacturing price cuts for albumin due to supply relief

While low single-digit price erosion has already occurred across the PDT industry, this was mainly due to mix changes. Based on albumin approval data, MNCs had 29%/18% growth in 2Q17/1Q17 respectively, vs. -2%/30% YoY for domestic companies. We believe none of the major players has pulled the trigger on the delicate balance of sacrificing price for volume growth. However, we expect this to happen soon as long as MNC dumping continues. Additionally, a zero mark-up policy might have created another layer of pressure on pricing.

Most volume growth pressure derived from reform initiatives

Healthcare reform initiatives have rubbed salt into the wound, creating volume growth pressure for PDTs. These policies include controlling drug sales' contribution to hospital revenue, zero mark-up policies and two invoices. For example, Hualan sales were impacted in 2Q17 due to inventory destocking at the distributor level, while accelerated plasma collection since 2H15 has created higher inventory. With the highest inventory/sales ratio (of 114%) among major PDT players, Hualan management may have more incentive to cut prices in 2H17. That said, we believe most of the pressure from reform should be temporary.

Lowering price target to RMB26.0 from RMB38.0; risks

We base our target price on 28x 2018E EPS, compared to 34x used previously, as we cut 2018E EPS by 18%. We believe 28x is justified, as A-share peers are trading at 29x with 19% growth in 2018E (vs. 16% for Hualan). Upside risk: smaller-than-expected ASP cuts; downside risks: cost inflation/higher-than-expected ASP cuts.

Valuation & Risks

Jack Hu, PhD

Research Analyst

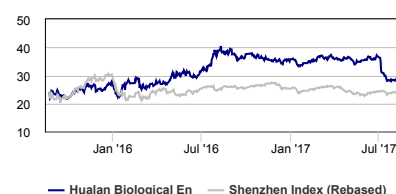
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Key changes

TP	38.00 to 26.00	↓	-31.6%
Rating Eng	Buy to Hold	↓	
Sales (FYE)	2,343 to 2,237	↓	-4.5%
Op prof margin (FYE)	41.9 to 40.0	↓	-4.5%
Net profit (FYE)	915.5 to 815.9	↓	-10.9%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-0.6	-19.3	-24.9
Shenzhen Index	3.1	2.6	-7.0

Source: Deutsche Bank

Forecasts and ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	1,471.8	1,934.7	2,237.4	2,566.8	2,899.3
DB EPS FD(CNY)	0.54	0.73	0.79	0.92	1.03

Source: Deutsche Bank estimates, company data



Growth outlook

Downgrade due to limited earnings visibility

Hualan reported sales/ core profit of RMB475m/ RMB163m in 2Q17, with YoY growth of 7%/ -3% respectively. This represents significant growth deceleration vs. 31%/ 35% growth in 1Q17 and 31%/ 34% in FY16 for revenue and core profit. In addition, the company released guidance for 3Q for the first time during 1H reporting, which we view as a signal of continued downward guidance revision on the back of growth deceleration and policy headwinds.

ASP decline is likely to continue

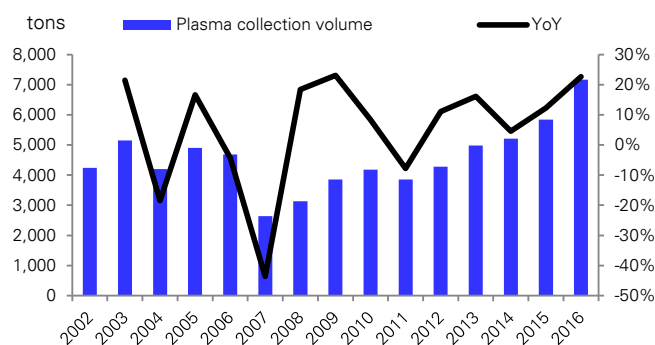
Due to the growth acceleration of imported albumin, as well as plasma collection growth acceleration, ASPs for albumin have already declined by c.4-6% for major players due to mix changes from 5mg (RMB210) to 10mg (RMB378, tender price). We expect ex-manufacturing price decline on single dosing level to emerge in 2H17, by c.2-3% with a further 2-3% erosion on mix changes.

Hualan suggested that ex-manufacturing prices remained stable in 1H17, while ASP in drug tenders recorded low single-digit declines for PDTs. The company estimated albumin and IVIG ASP eroded by 5% and 3%, respectively, during 1H17.

Domestic players losing market shares while MNCs thrived

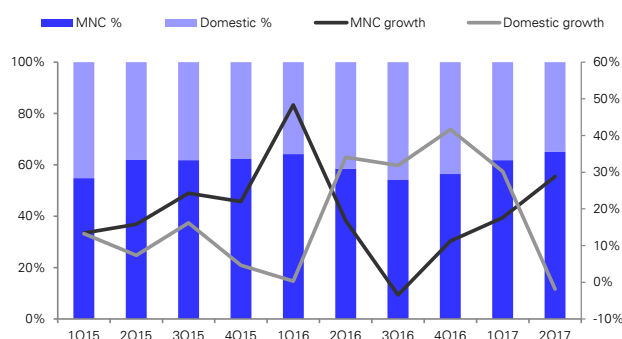
During 1H17, the market share of global plasma companies increased to 64% as at 1H17, compared to 58% as at YE16. Global companies also delivered superior growth according to albumin approval, with 23% YoY in 1H17, compared to 12% for domestic names.

Figure 1: Plasma collection volume (2002- 2016)



Source: Deutsche Bank, NHFPC, Institute of Food and Drug Control

Figure 2: Market share comparison for domestic and MNC companies

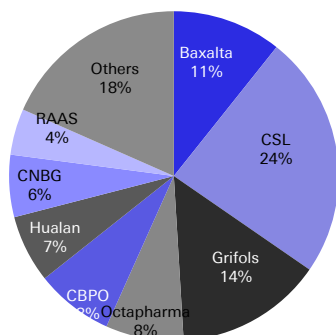


Source: Deutsche Bank, Institute of Food and Drug Control

We summarize the albumin market breakdown based on approval data as follows. Notably, Hualan registered market share erosion during the first six months of 2017, from 7% to 6%, based on provincial approval batches. In the meantime, top MNCs increased their shares of the PDT market. The market shares of CSL, Grifols and Baxalta reached 24%/ 18%/ 13% in 1H17, compared to 24%/ 14%/ 11% in YE16.

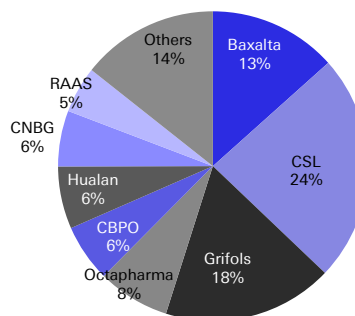


Figure 3: Albumin market breakdown of major players, 2016



Source: Deutsche Bank, Institute of Food and Drug Control

Figure 4: Albumin market breakdown of major players, 1H17



Source: Deutsche Bank, Institute of Food and Drug Control

Volume growth impacted by reform initiatives

We expect to see more near-term uncertainties arising from Hualan's sales model restructuring, as the company gradually converts its IDS into DS revenue. Recall that as of 1H17, 30% of total revenue came from direct sales, with 10% from hospital customers and 20% from pharmacies. The remaining 70% was contributed by the distributor channel - management estimated that the top five distributors accounted for 50-60% of total revenue. Going forward, Hualan intends to increase its sales force thereby converting IDS into DS coverage. The company expects longer AR days, and increased selling/ promotion costs as a result of the sales model transition.

Hualan believes recent policies, including the two-invoice system, are having larger-than-expected impacts on plasma distributors, resulting in lower purchases from downstream customers. Management recently realized that sales growth is no longer correlated to plasma collection/ utilization, hence it lowered its guidance for future periods. The company is also facing pressure on the regulated drug sales contribution front, due to the high ASPs of plasma products.

That being said, we believe most of the pressure on volume growth should be temporary. For example, while inventory destocking at the distributor level should have an instant impact on sales, we expect gradual inventory build-up as Hualan signs up new distributors in the near future.

Figure 5: Drivers of pricing/ volume pressure

	Drivers	One-time impact?	Impact on Hualan?	Impact on CBPO?
Drivers of pricing pressure	1) Sufficient supply of albumin	no	yes	yes
	2) 15% mark-up removal	yes	yes	yes
	3) Inventory de-stocking	yes	more than peers	yes
Drivers of volume pressure	1) Competition	no	yes	yes
	2) Regulated drug sales (30%)	mostly yes	more than peers	less than peers
	3) Two-invoice policy	yes	more than peers	less than peers

Source: Deutsche Bank, Company data



Hualan is more exposed vs. other PDT major players

We believe the following elements are likely to prompt Hualan management to make a decision to lower prices to clear its inventory in order to resume growth. We compare the operating efficiency matrices including inventory days and inventory level of the three reported plasma players. Notably, Hualan stood out with the highest inventory as a percentage of total sales among the three names, at 114% as of June 17, vs. 101% for CBPO and 75% for Boya.

We highlight that Hualan currently has the longest AR days (524 days) among all three domestic players; while AR days for CBPO and Boya were 493 days and 329 days, respectively.

Figure 6: Operating efficiency comparison between the three plasma companies

RMBmn	Hualan	CBPO	Boya
Inventory level			
1H17	1,150	1,268	403
2H16	921	1,062	289
1H16	797	895	262
2H15	598	803	214
1H15	574	788	147
Inventory as a % of sales			
1H17	114%	101%	75%
2H16	85%	95%	54%
1H16	93%	77%	66%
2H15	73%	86%	68%
1H15	87%	85%	66%
Inventory days			
1H17	524	493	329
2H16	343	458	263
1H16	409	366	280
2H15	199	415	320
1H15	384	385	282

Source: Deutsche Bank, Company data



Challenging near-term guidance; limited visibility on near-term growth

Hualan reported sales/ core profit of RMB475m/ RMN163m in 2Q17, with YoY growth of 7%/ -3%, respectively. This represents significant growth deceleration vs. 31%/ 35% growth in 1Q17 and 31%/ 34% in FY16 for revenue and core profit. Due to the aforementioned reasons, Hualan gave 9M17 guidance for the first time post the 2Q results, suggesting -5% and 10% profit growth for high/ low ends respectively.

Due to limited growth visibility of major products and lingering policy headwinds, we reduce our 3Q17 estimates and model 6% YoY growth (RMB208m) to reflect the latest guidance as well as the change in underlying fundamentals. We summarize the updated 9M17 guidance and our forecasts as follows:

Figure 7: Guidance update for 9M17

RMB mn	9M17	3Q17	1H17	9M16	3Q16	1H16
Net income (low end)	577	146	431	607	197	410
YoY	-5%	-26%	5%	32%	32%	32%
Net income (high end)	668	237	431			
YoY	10%	20%	5%			
Net income (mid-point)	622	191	431			
YoY	2%	-3%	5%			
DB estimates	639	208	431			
YoY	5%	6%	5%			

Source: Deutsche Bank, Company data



Valuation and estimates

Lowering target price to RMB 26.0; downgrading to Hold

We base our target price on 28x 2018E EPS. We believe 28x is justified, as its A-share peers are trading at 29x with 19% growth in 2018E (vs. the 16% we model for Hualan). We believe Hualan deserves a slight discount due to its lower earnings visibility, ASP pressure and growth deceleration of major products. Upside risks include smaller-than-expected ASP cuts; downside risks include cost inflation, higher-than-expected ASP cuts.

Model changes

We reduce our FY2017 revenue and core net profit estimates by 5% and 10%, respectively, on the back of lowered 9M17 guidance and the weak 1H17 results. As for 2018, we cut our sales and net profit estimates by 11%/18%, respectively, driven by anticipated ASP erosion, policy headwinds and PDT supply relief.

We summarize our estimate changes and comparison with BBG consensus in the following table:

Figure 8: Comparison of estimates change (2017- 2018E)

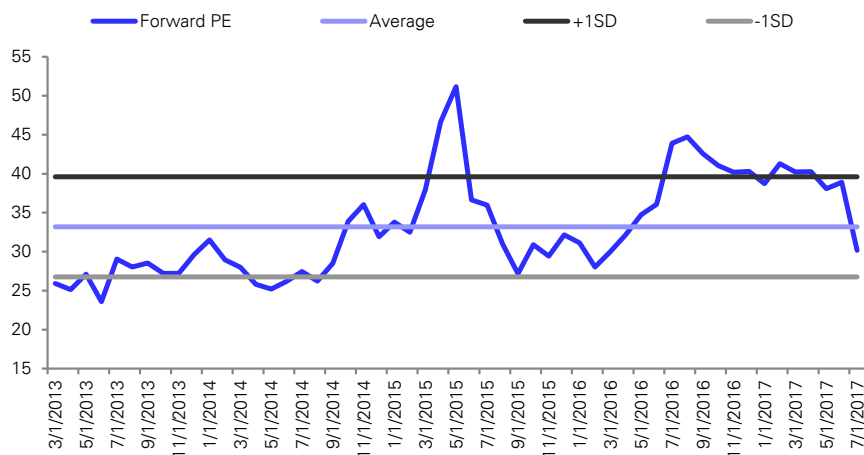
RMB m	Previous Dbe		Updated Dbe		Change of estimates (%)		Consensus		DBe vs. consensus	
	2017E	2018E	2017E	2018E	2017E	2018E	2017E	2018E	2017E	2018E
Revenue	2,343	2,880	2,237	2,567	-5%	-11%	2,422	3,015	-8%	-15%
Gross profit	1,414	1,748	1,353	1,553	-4%	-11%	1,467	1,825	-8%	-15%
EBIT	981	1,223	895	1,025	-9%	-16%	1,058	1,329	-15%	-23%
Core net Income	816	1,032	731	851	-10%	-18%	948	1,190	-23%	-28%
Diluted EPS - core	0.88	1.11	0.79	0.92	-10%	-17%	1.02	1.28	-23%	-28%

Source: Deutsche Bank, Company data, Bloomberg Finance LP



We highlight that Hualan is currently trading at 30.2x 12m forward EPS, slightly below its five-year average of 33.2x and much lower than its two-year average of 36.0x PE multiple.

Figure 9: Historical 12-month forward PE band (March 2013 - August 2017)



Source: Deutsche Bank, Company data, Bloomberg Finance LP

We summarize the A share pharma comps for Hualan as below:

Figure 10: A share pharma peers

BBG Ticker	Name	21-Aug	52-week		Mkt cap (US\$m)	PE			Crncy	EPS Growth %			EV/EBITDA			EBITDA Growth %		
		Price (LC)	High	Low		2017E	2018E	2019E		2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E
600276 CH Equity	JIANGSU HENGRU-A	54.8	55.0	35.5	23,136	48.3	39.4	32.3	CNY	18.9	22.8	21.8	39.1	32.1	26.6	8.5	10.4	10.0
600998 CH Equity	JOINTOWN PHARM-A	20.3	23.9	18.7	5,162	29.8	23.9	20.4	CNY	30.5	25.0	17.3	20.3	16.4	13.8	15.2	11.4	9.1
600518 CH Equity	KANGMEI PHARMA-A	21.1	22.0	15.7	15,622	25.2	20.6	16.5	CNY	21.9	22.5	25.1	15.1	12.9	NA	10.4	8.1	NA
000538 CH Equity	YUNNAN BAIYAO-A	NA	96.2	70.8	13,837	27.1	23.2	19.8	CNY	10.5	16.5	17.0	23.2	20.1	17.3	3.5	7.6	7.8
000423 CH Equity	DONG E-E-JIAO-A	64.1	72.0	51.1	6,279	19.6	17.0	14.8	CNY	17.9	15.3	14.5	15.5	13.6	12.1	9.8	7.0	6.1
600196 CH Equity	SHANGHAI FOSUN-A	30.3	33.0	21.3	10,912	22.1	18.7	16.4	CNY	13.3	18.0	14.4	27.5	22.8	19.6	9.3	9.9	8.0
000503 CH Equity	SEARAINBOW HLD-A	24.9	58.8	24.9	3,358	NA	NA	NA	CNY	NA	NA	NA	NA	NA	NA	NA	NA	NA
002252 CH Equity	SHANGHAI RAAS -A	20.2	23.4	19.3	15,078	71.0	62.3	81.0	CNY	(10.9)	14.0	(23.1)	NA	NA	60.6	NA	7.8	8.5
002007 CH Equity	HUALAN BIOLOGI-A	28.2	39.1	28.0	3,928	36.8	32.2	28.0	CNY	7.7	14.5	14.8	26.1	22.7	20.1	6.4	12.9	11.4
600535 CH Equity	TASLY PHARMAC-A	38.5	44.3	36.9	6,238	28.1	23.5	19.7	CNY	1.9	19.5	19.2	20.6	18.0	15.4	2.8	7.2	7.8
600867 CH Equity	TONGHUA DONGBA-A	18.8	19.9	16.5	4,803	37.7	29.7	23.0	CNY	34.2	27.1	28.9	26.6	21.9	18.3	16.3	10.3	9.2
000623 CH Equity	JILIN AODONG P-A	22.2	28.3	19.1	3,871	NA	NA	NA	CNY	NA	NA	NA	NA	NA	NA	NA	NA	NA
002030 CH Equity	DA AN GENE CO -A	19.9	29.1	18.2	2,162	NA	NA	NA	CNY	NA	NA	NA	NA	NA	NA	NA	NA	NA
600079 CH Equity	HUMANWELL HEAL-A	19.0	21.4	18.1	3,662	23.6	18.5	15.8	CNY	10.1	27.6	17.5	13.6	11.5	9.9	14.4	8.8	7.3
000963 CH Equity	HUADONG MEDICI-A	49.1	50.9	32.6	7,148	26.2	21.2	17.3	CNY	30.8	24.0	22.3	17.9	15.1	12.4	10.7	8.8	10.5
600252 CH Equity	GUANGXI WUZHOU-A	4.1	5.0	3.9	2,135	NA	NA	NA	CNY	NA	NA	NA	NA	NA	NA	NA	NA	NA
600085 CH Equity	BEIJING TONGRE-A	32.7	35.2	29.5	6,724	41.1	36.3	31.8	CNY	9.8	13.1	14.2	19.4	17.0	14.6	4.8	6.8	7.9
601607 CH Equity	SHANG PHARM -A	25.3	28.5	18.8	9,219	18.8	16.5	14.7	CNY	11.3	13.9	12.7	12.6	11.1	10.1	5.5	6.5	5.1
600201 CH Equity	JINYU BIO-TECH-A	34.3	35.6	29.2	3,302	25.6	20.7	16.7	CNY	31.0	23.9	23.5	19.1	15.9	14.6	13.6	9.5	4.4
002004 CH Equity	HUAPONT LIFE S-A	7.9	9.8	7.5	2,422	NA	NA	NA	CNY	NA	NA	NA	NA	NA	NA	NA	NA	NA
600332 CH Equity	GUANGZHOU BAIY-A	26.9	29.4	23.1	6,239	24.5	21.8	19.2	CNY	17.9	12.3	13.4	18.1	15.4	12.7	7.0	8.3	10.0
A share Pharma						34.7	29.2	27.5		14.3	19.4	14.7	23.0	19.4	22.4	8.5	8.6	8.4

Source: Deutsche Bank, Company data, Bloomberg Finance LP

We use BBG estimates for RAAS, Beijing Tiantan and Boya, and DBE for Hualan



Figure 11: Income statement

Income Statement (RMB millions)	2013	2014	2015	1H16	2H16A	2016	1H17	2H17E	2017E	2018E	2019E
Human Albumin	377	435	640	343	339	682	438	389	827	910	992
Human Immunoglobulin for Intravenous Injection	408	431	422	324	407	731	327	427	755	868	972
Vaccines	156	160	111	9	100	109	34	125	158	179	199
Other plasma derived therapeutics	175	204	292	174	228	402	207	279	486	598	723
Other segments	2	12	7	6	5	11	6	5	11	12	13
Revenue	1,118	1,243	1,472	857	1,078	1,935	1,013	1,225	2,237	2,567	2,899
COGS	(439)	(474)	(619)	(311)	(453)	(764)	(361)	(523)	(884)	(1,014)	(1,150)
Gross profit	679	769	853	546	625	1,171	652	701	1,353	1,553	1,750
Selling expenses	(26)	(47)	(20)	(15)	(53)	(68)	(58)	(63)	(121)	(131)	(155)
General and administrative expenses	(163)	(182)	(219)	(124)	(149)	(274)	(133)	(172)	(306)	(365)	(416)
Business Taxes and Surcharges	(10)	(9)	(9)	(6)	(12)	(18)	(12)	(21)	(32)	(32)	(33)
EBIT	481	531	605	400	411	811	449	445	895	1,025	1,145
Depreciation and amortization	102	113	144	69	75	144	74	47	121	126	133
EBITDA	583	644	749	469	486	955	524	492	1,016	1,152	1,278
Impairments	(19)	(22)	(31)	(6)	(26)	(32)	(15)	(17)	(32)	(32)	(32)
Other income	25	48	28	54	17	70	8	27	35	54	54
Other expenses	(2)	(4)	(4)	(3)	(2)	(5)	(2)	(2)	(2)	(2)	(3)
Others / Investment income	49	55	46	20	23	43	54	(11)	43	43	43
Non-recurring items	(62)	(91)	(82)	(71)	(30)	(101)	(38)	(47)	(85)	(95)	(100)
Net interest income	28	20	47	17	(2)	16	8	12	19	26	42
Income before income taxes and minority interests - reported	561	628	693	483	421	904	502	456	958	1,116	1,252
Taxation as reported	(85)	(89)	(111)	(75)	(58)	(133)	(78)	(73)	(151)	(179)	(200)
Tax rate	15%	14%	16%	16%	14%	15%	16%	16%	16%	16%	16%
Net income after tax	476	539	582	408	363	771	424	383	807	937	1,052
Minority interests	(0)	(0)	7	2	7	9	7	2	9	9	9
Net income attributable to Equity holders	475	538	589	410	370	780	431	385	816	946	1,061
Core Net income attributable to Equity holders	414	447	507	339	340	679	393	338	731	851	961
Core EPS: Basic (RMB)	0.45	0.48	0.54	0.36	0.37	0.73	0.42	0.36	0.79	0.92	1.03
Core EPS: Diluted (RMB)	0.45	0.48	0.54	0.36	0.37	0.73	0.42	0.36	0.79	0.92	1.03
Weighted average no. of shares - Basic (millions)	922	929	930	930	930	930	930	930	930	930	930
Weighted average no. of shares - Diluted (millions)	922	929	930	930	930	930	930	930	930	930	930

Source: Deutsche Bank, Company data



Model updated: 21 August 2017

Running the numbers

Asia

China

Pharmaceuticals / Biotechnology

Hualan Biological Engineeri

Reuters: 002007.SZ Bloomberg: 002007 CH

Hold

Price (21 Aug 17) CNY 28.18

Target Price CNY 26.00

52 Week range CNY 28.04 - 39.49

Market cap (m) CNYm 26,210
USDm 3,922.9

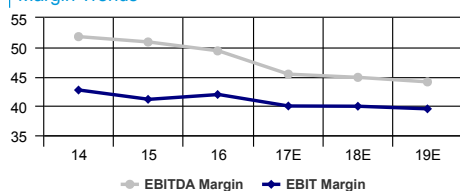
Company Profile

Established in 1992, Hualan Biological engages in the manufacture of plasma derived therapeutics and vaccines. The company also has strong R&D capabilities with multiple products under development including vaccines and monoclonal antibodies.

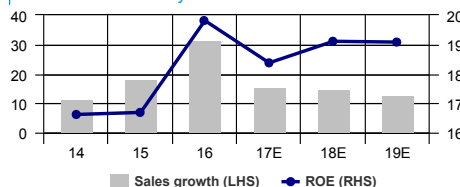
Price Performance



Margin Trends



Growth & Profitability



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Fiscal year end 31-Dec

Financial Summary

	2014	2015	2016	2017E	2018E	2019E
DB EPS (CNY)	0.48	0.54	0.73	0.79	0.92	1.03
Reported EPS (CNY)	0.58	0.63	0.84	0.88	1.02	1.14
DPS (CNY)	0.38	0.25	0.40	0.39	0.46	0.00
BVPS (CNY)	3.7	3.9	4.5	5.0	5.6	6.3
Weighted average shares (m)	929	930	930	930	930	930
Average market cap (CNYm)	16,276	25,206	29,874	26,210	26,210	26,210
Enterprise value (CNYm)	15,800	25,040	29,586	25,799	25,347	24,952

Valuation Metrics

P/E (DB) (x)	36.4	49.7	44.0	35.9	30.8	27.3
P/E (Reported) (x)	30.2	42.8	38.3	32.1	27.7	24.7
P/BV (x)	5.59	6.94	7.88	5.62	5.00	4.46
FCF Yield (%)	2.2	1.3	0.4	1.9	3.1	3.1
Dividend Yield (%)	2.1	0.9	1.2	1.4	1.6	0.0
EV/Sales (x)	12.7	17.0	15.3	11.5	9.9	8.6
EV/EBITDA (x)	24.5	33.4	31.0	25.4	22.0	19.5
EV/EBIT (x)	29.8	41.4	36.5	28.8	24.7	21.8

Income Statement (CNYm)

Sales revenue	1,243	1,472	1,935	2,237	2,567	2,899
Gross profit	769	853	1,171	1,353	1,553	1,750
EBITDA	644	749	955	1,016	1,152	1,278
Depreciation	105	137	137	112	117	124
Amortisation	8	7	7	9	9	9
EBIT	531	605	811	895	1,025	1,145
Net interest income/(expense)	20	47	16	19	26	42
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinary	0	0	0	0	0	0
Other pre-tax income/(expense)	77	40	77	44	65	65
Profit before tax	628	693	904	958	1,116	1,252
Income tax expense	89	111	133	151	179	200
Minorities	0	-7	-9	-9	-9	-9
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	538	589	780	816	946	1,061
DB adjustments (including dilution)	-91	-82	-101	-85	-95	-100
DB Net profit	447	507	679	731	851	961

Cash Flow (CNYm)

Cash flow from operations	497	549	330	643	988	1,014
Net Capex	-138	-229	-220	-157	-180	-203
Free cash flow	359	319	110	487	808	811
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-236	-349	-233	-372	-365	-426
Net inc/(dec) in borrowings	-150	0	0	0	0	0
Other investing/financing cash flows	-660	-571	480	0	0	0
Net cash flow	-688	-600	357	114	443	386
Change in working capital	-118	-138	-563	-285	-76	-171

Balance Sheet (CNYm)

Cash and other liquid assets	672	363	486	600	1,043	1,429
Tangible fixed assets	960	1,060	1,152	1,197	1,259	1,338
Goodwill/intangible assets	206	200	211	202	192	183
Associates/investments	37	29	19	19	19	19
Other assets	1,894	2,369	2,783	3,084	3,183	3,356
Total assets	3,770	4,021	4,650	5,102	5,698	6,326
Interest bearing debt	0	0	0	0	0	0
Other liabilities	134	137	215	232	255	257
Total liabilities	134	137	215	232	255	257
Shareholders' equity	3,402	3,658	4,218	4,662	5,243	5,878
Minorities	234	226	217	209	200	191
Total shareholders' equity	3,636	3,884	4,435	4,870	5,442	6,069
Net debt	-672	-363	-486	-600	-1,043	-1,429

Key Company Metrics

Sales growth (%)	11.3	18.4	31.5	15.6	14.7	13.0
DB EPS growth (%)	7.3	13.2	34.0	7.7	16.5	12.9
EBITDA Margin (%)	51.8	50.9	49.4	45.4	44.9	44.1
EBIT Margin (%)	42.7	41.1	41.9	40.0	39.9	39.5
Payout ratio (%)	64.8	39.5	47.7	44.8	45.0	0.0
ROE (%)	16.6	16.7	19.8	18.4	19.1	19.1
Capex/sales (%)	11.2	15.6	11.4	7.0	7.0	7.0
Capex/depreciation (x)	1.2	1.6	1.5	1.3	1.4	1.5
Net debt/equity (%)	-18.5	-9.4	-11.0	-12.3	-19.2	-23.6
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Securities estimates



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Hualan Biological Engineering Inc	002007.SZ	28.18 (CNY) 21 Aug 2017	NA

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg, and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqs>. Aside from within this report, important conflict disclosures can also be found at <https://gm/db.com/equities> under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

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Historical recommendations and target price. Hualan Biological Engineering Inc (002007.SZ)

(as of 08/21/2017)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	11/10/2015	Buy, Target Price Change CNY 52,00	Jack Hu, Ph.D	6.	07/25/2016	Buy, Target Price Change CNY 40,50	Jack Hu, Ph.D
2.	01/06/2016	Buy, Target Price Change CNY 54,00	Jack Hu, Ph.D	7.	08/15/2016	Buy, Target Price Change CNY 44,00	Jack Hu, Ph.D
3.	04/06/2016	Buy, Target Price Change CNY 52,00	Jack Hu, Ph.D	8.	08/18/2016	Buy, Target Price Change CNY 45,00	Jack Hu, Ph.D
4.	05/04/2016	Buy, Target Price Change CNY 57,20	Jack Hu, Ph.D	9.	10/10/2016	Buy, Target Price Change CNY 43,50	Jack Hu, Ph.D
5.	06/07/2016	Buy, Target Price Change CNY 35,70	Jack Hu, Ph.D	10.	07/04/2017	Buy, Target Price Change CNY 38,00	Jack Hu, Ph.D



Equity Rating Key

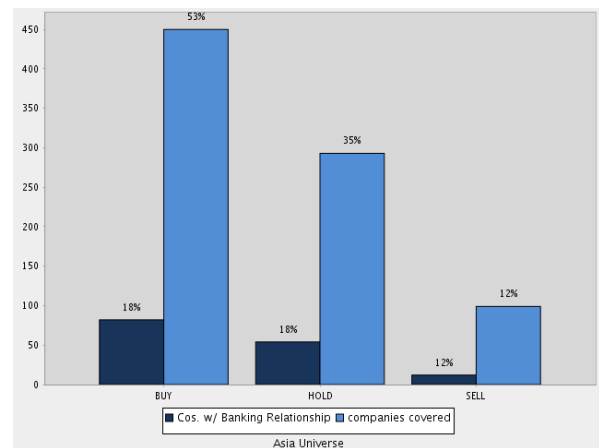
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