

WuXi AppTec (603259 CH)

Healthy growth amid challenging environment

Healthy earnings growth in 1Q23. WuXi AppTec reported 1Q23 revenue of RMB8,964mn, up 6% YoY. It posted attributable recurring net income of RMB1,869mn, up 9% YoY, and attributable adjusted non-IFRS net income of RMB2,342mn, up 14% YoY. 1Q23 revenue / adjusted Non-IFRS net income accounted for 21%/ 22% of our 2023 full-year estimates, which were also in line with its historical range. Non-IFRS gross profit margin (GPM) improved by 3.2ppt to 41.0% while non-IFRS net profit margin increased by 1.9ppt to 26.1% in 1Q23, driven by the continuously improved operating efficiency and output per employee. Non-COVID business saw resilient growth in 1Q23 with D&M revenue (in WuXi Chemistry segment) up 30% YoY. Given the high revenue base of 2022, management reiterated 5-7% YoY and 12-14% YoY growth target for its revenue and non-IFRS gross profit respectively in 2023E.

■ **Global healthcare funding slow-down remains a key factor to be watched.** According to VBDATA, global/ China healthcare funding decreased by 41%/ 57% YoY in 1Q23, following the decline of 43%/ 54% YoY in 2022. Although some small- to mid-sized pharmaceutical companies were forced to re-assess their R&D spending, R&D demand from top-tier biotech companies and big pharma companies remained at relatively healthy levels, in our view. We believe top CXO players such as WuXi AppTec will be less impacted by the demand cycle thanks to its superior client mix and strong bargaining power to clients. In fact, WuXi AppTec's 1Q23 revenue from biotech clients surged by 53% YoY, with over 310 new clients added in the quarter.

■ **New modalities services turning into new growth drivers.** Revenue of new modalities-related services in WuXi Chemistry segment grew by 44% YoY to RMB540mn in 1Q23, representing ~9.6% (vs ~10.4% in 2022) of segment revenue (excluding COVID-19 commercial projects). Moreover, new modalities revenue of WuXi Biology segment delivered a 40% YoY growth in 1Q23, representing 25.3% (vs 22.5% in 2022) of segment revenue. The Company has built the largest drug discovery team in the world, functioning as a critical project source for its downstream services. More synergies among its various business segments are yet to be released.

■ **WuXi ATU and DDSU saw encouraging progress despite business adjustments.** Pipeline of WuXi ATU included eight projects in Ph3 as of 1Q23, with two in BLA review stage and another two in BLA preparation stage. Management expect to see commercial demand rise in 2H23E with anticipated BLA approvals. With the adjustment of Lingang site, management indicated GPM of WuXi ATU to turn positive for full-year 2023E. Additionally, a customer of DDSU segment obtained marketing approval for a new COVID drug in Mar 2023, which may contribute additional royalty income.

■ **Maintain BUY.** We cut TP from RMB121.52 to RMB 110.69, based on a 10-year DCF model with WACC of 11.57% and terminal growth of 3.0%, to reflect uncertainties in healthcare funding. We forecast WuXi AppTec's revenue to grow by 5.8%/ 28.8%/ 25.8% YoY and adjusted non-IFRS net income to grow by 9.3%/ 27.4%/ 24.4% YoY in 2023E/ 24E/ 25E, respectively.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	22,902	39,355	41,657	53,634	67,498
YoY growth (%)	38.5	71.8	5.8	28.8	25.8
Adjusted net profit (RMB mn)	5,131	9,399	10,271	13,090	16,290
EPS (Adjusted) (RMB)	1.76	3.17	3.46	4.41	5.49
Consensus EPS (RMB)	na	na	3.28	4.18	5.22
P/E (x) (adjusted)	38.3	21.3	19.5	15.3	12.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB110.69
 (Previous TP RMB121.52)
Up/Downside 64.0%
Current Price RMB67.50

China Healthcare

Jill WU, CFA
 (852) 3900 0842
 jillwu@cmbi.com.hk

Benchen HUANG, CFA
 huangbenchen@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	200,301.1
Avg 3 mths t/o (RMB mn)	1,922.7
52w High/Low (RMB)	113.48/67.50
Total Issued Shares (mn)	2967.4

Source: FactSet

Shareholding Structure

HK investors	19.7%
Ge Li and concerted parties	16.6%

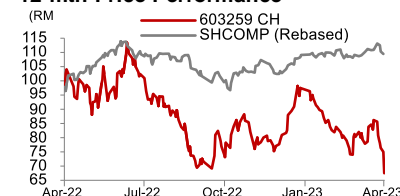
Source: Company

Share Performance

	Absolute	Relative
1-mth	-15.8%	-15.8%
3-mth	-30.8%	-30.8%
6-mth	-7.8%	-15.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	41,657	53,634	67,498	42,083	55,097	69,723	-1.01%	-2.66%	-3.19%
Gross Profit	16,386	20,696	25,478	16,713	21,514	26,503	-1.96%	-3.80%	-3.87%
Operating Profit	10,804	13,643	16,772	11,263	14,710	18,311	-4.08%	-7.25%	-8.41%
Non-IFRS net profit	10,271	13,090	16,290	10,670	13,997	17,607	-3.74%	-6.48%	-7.48%
Non-IFRS EPS (RMB)	3.46	4.41	5.49	3.60	4.73	5.94	-3.91%	-6.64%	-7.65%
Gross Margin	39.33%	38.59%	37.75%	39.71%	39.05%	38.01%	-0.38ppt	-0.46ppt	-0.26ppt
Operating Margin	25.94%	25.44%	24.85%	26.76%	26.70%	26.26%	-0.83ppt	-1.26ppt	-1.41ppt
Net Margin	24.66%	24.41%	24.13%	25.35%	25.40%	25.25%	-0.70ppt	-1.00ppt	-1.12ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	41,657	53,634	67,498	41,941	53,434	66,854	-0.68%	0.37%	0.96%
Gross Profit	16,386	20,696	25,478	16,091	20,639	25,896	1.83%	0.27%	-1.61%
Operating Profit	10,804	13,643	16,772	11,307	14,421	18,073	-4.45%	-5.39%	-7.20%
Non-IFRS net profit	10,271	13,090	16,290	9,715	12,328	15,384	5.72%	6.18%	5.89%
Non-IFRS EPS (RMB)	3.46	4.41	5.49	3.28	4.18	5.22	5.62%	5.58%	5.24%
Gross Margin	39.33%	38.59%	37.75%	38.37%	38.63%	38.74%	+0.97ppt	-0.04ppt	-0.99ppt
Operating Margin	25.94%	25.44%	24.85%	26.96%	26.99%	27.03%	-1.02ppt	-1.55ppt	-2.19ppt
Net Margin	24.66%	24.41%	24.13%	23.16%	23.07%	23.01%	+1.49ppt	+1.33ppt	+1.12ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	11,612	14,621	17,784	22,852	28,908	35,991	44,088	53,126	62,955	73,342
Tax rate	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
EBIT*(1-tax rate)	9,870	12,428	15,116	19,424	24,572	30,592	37,475	45,158	53,512	62,341
+ D&A	1,754	2,397	2,978	3,723	4,709	5,863	7,182	8,654	10,255	11,947
- Change in working capital	357	(1,842)	(2,138)	(2,673)	(3,381)	(4,209)	(5,156)	(6,213)	(7,363)	(8,578)
- Capex	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
FCFF	1,981	2,983	5,956	10,474	15,900	22,246	29,501	37,598	46,404	55,711
Terminal value										669,962
Terminal growth rate										3.00%
WACC										11.57%
Cost of Equity										14.70%
Cost of Debt										5.00%
Equity Beta										0.90
Risk Free Rate										3.00%
Market Risk Premium										13.00%
Target Debt to Asset ratio										30.00%
Effective Corporate Tax Rate										15.00%
PV of terminal value (RMB mn)										224,270
Total PV (RMB mn)										325,587
Net debt (RMB mn)										(2,892)
Equity value (RMB mn)										328,479
# of shares (mn)										2,967
Price per share (RMB per share)										110.69

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	16,535	22,902	39,355	41,657	53,634	67,498
Cost of goods sold	(10,253)	(14,592)	(24,677)	(25,271)	(32,938)	(42,019)
Gross profit	6,282	8,310	14,678	16,386	20,696	25,478
Operating expenses	(3,155)	(3,898)	(5,372)	(5,582)	(7,052)	(8,707)
Selling expense	(588)	(699)	(732)	(754)	(943)	(1,154)
Admin expense	(1,839)	(2,203)	(2,826)	(2,949)	(3,743)	(4,644)
R&D expense	(693)	(942)	(1,614)	(1,667)	(2,092)	(2,566)
Others	(35)	(54)	(200)	(212)	(273)	(344)
Operating profit	3,127	4,412	9,306	10,804	13,643	16,772
Gain/loss on financial assets at FVTPL	52	(93)	770	448	478	512
Investment gain/loss	606	1,356	188	160	200	200
Net Interest income/(expense)	(520)	(84)	248	63	79	121
Other income/expense	104	425	106	200	300	300
Pre-tax profit	3,369	6,016	10,618	11,674	14,700	17,905
Income tax	(383)	(880)	(1,716)	(1,751)	(2,205)	(2,686)
After tax profit	2,986	5,136	8,903	9,923	12,495	15,219
Minority interest	(26)	(39)	(89)	(99)	(125)	(152)
Net profit	2,960	5,097	8,814	9,824	12,370	15,067
Adjusted net profit	3,637	5,131	9,399	10,271	13,090	16,290
Gross dividends	890	1,529	2,644	2,947	3,711	4,520
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	23,059	21,986	23,997	23,922	28,077	34,987
Cash & equivalents	10,237	8,239	7,986	8,029	8,756	11,649
Account receivables	3,667	4,668	6,047	5,671	7,301	9,189
Inventories	2,686	5,905	5,669	5,926	7,724	9,854
Prepayment	176	303	291	291	291	291
Financial assets at FVTPL	4,618	527	2	2	2	2
Other current assets	1,676	2,344	4,003	4,003	4,003	4,003
Non-current assets	23,232	33,142	40,693	47,480	53,696	59,363
PP&E	5,710	8,554	14,171	20,917	27,020	32,542
Deferred income tax	301	390	492	492	492	492
Investment in JVs & assos	765	678	1,203	1,203	1,203	1,203
Intangibles	998	1,600	1,785	1,641	1,497	1,353
Goodwill	1,392	1,926	1,822	1,822	1,822	1,822
Financial assets at FVTPL	6,717	8,714	8,954	9,562	10,240	10,952
Other non-current assets	7,349	11,280	12,265	11,843	11,421	10,999
Total assets	46,291	55,127	64,690	71,402	81,772	94,350
Current liabilities	7,920	12,985	14,499	14,737	16,323	18,202
Short-term borrowings	1,230	2,261	3,874	3,874	3,874	3,874
Account payables	941	1,931	1,659	1,897	3,483	5,362
Tax payable	379	536	882	882	882	882
Other current liabilities	5,370	8,256	8,084	8,084	8,084	8,084
Non-current liabilities	5,652	3,385	3,264	2,762	2,762	2,762
Long-term borrowings	0	0	279	279	279	279
Bond payables	1,819	607	502	0	0	0
Obligations under finance leases	1,067	1,019	984	984	984	984
Other non-current liabilities	2,766	1,759	1,499	1,499	1,499	1,499
Total liabilities	13,573	16,370	17,764	17,499	19,086	20,964
Share capital	2,442	2,956	2,961	2,961	2,961	2,961
Capital surplus	22,678	25,732	26,512	33,388	42,048	52,595
Other reserves	7,374	9,804	17,118	17,118	17,118	17,118
Total shareholders equity	32,494	38,492	46,590	53,467	62,126	72,673
Minority interest	225	266	337	436	561	713
Total equity and liabilities	46,291	55,127	64,690	71,402	81,772	94,350
CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	3,369	6,016	10,618	11,674	14,700	17,905
Depreciation & amortization	959	1,363	1,718	2,121	2,764	3,345
Tax paid	(383)	(880)	(1,716)	(1,751)	(2,205)	(2,686)
Change in working capital	(494)	(1,151)	(298)	357	(1,842)	(2,138)

Others	523	(759)	294	(471)	(558)	(634)
Net cash from operations	3,974	4,589	10,616	11,930	12,859	15,792
Investing						
Capital expenditure	(3,031)	(6,936)	(9,966)	(8,500)	(8,500)	(8,500)
Acquisition of subsidiaries/ investments	(186)	(858)	(161)	0	0	0
Net proceeds from disposal of short-term investments	(5,638)	2,766	82	0	0	0
Others	79	189	355	0	0	0
Net cash from investing	(8,776)	(4,839)	(9,690)	(8,500)	(8,500)	(8,500)
Financing						
Dividend paid	(638)	(916)	(1,598)	(2,885)	(3,632)	(4,399)
Net borrowings	(1,284)	1,071	1,668	0	0	0
Proceeds from share issues	13,162	104	150	0	0	0
Others	(1,352)	(1,983)	(1,497)	(502)	0	0
Net cash from financing	9,888	(1,724)	(1,278)	(3,387)	(3,632)	(4,399)
Net change in cash						
Cash at the beginning of the year	5,223	10,228	8,175	7,986	8,029	8,756
Exchange difference	(81)	(79)	161	0	0	0
Cash at the end of the year	10,228	8,175	7,984	8,029	8,756	11,649
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	28.5%	38.5%	71.8%	5.8%	28.8%	25.8%
Gross profit	25.3%	32.3%	76.6%	11.6%	26.3%	23.1%
Operating profit	26.4%	41.1%	110.9%	16.1%	26.3%	22.9%
Net profit	59.6%	72.2%	72.9%	11.5%	25.9%	21.8%
Adj. net profit	51.1%	41.1%	83.2%	9.3%	27.4%	24.4%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	38.0%	36.3%	37.3%	39.3%	38.6%	37.7%
Operating margin	18.9%	19.3%	23.6%	25.9%	25.4%	24.8%
Adj. net profit margin	22.0%	22.4%	23.9%	24.7%	24.4%	24.1%
Return on equity (ROE)	11.9%	14.4%	20.7%	19.6%	21.4%	22.4%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Current ratio (x)	2.9	1.7	1.7	1.6	1.7	1.9
Receivable turnover days	73.2	66.4	49.7	49.7	49.7	49.7
Inventory turnover days	78.8	107.4	85.6	85.6	85.6	85.6
Payable turnover days	107.4	107.8	75.5	75.5	75.5	75.5
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E (adjusted)	43.2	38.3	21.3	19.5	15.3	12.3
P/B	5.5	10.1	5.9	3.7	3.2	2.7
P/CFPS	45.1	85.5	26.1	16.8	15.6	12.7
Div yield (%)	0.5	0.4	1.0	1.5	1.9	2.3

Note: The calculation of net cash includes financial assets. Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.,") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.