

# WuXi AppTec (603259 CH)

## Impressive margin improvement in 1H23

WuXi AppTec reported 1H23 revenue of RMB18,871mn, up 6.3% YoY, and attributable recurring net income of RMB4,761mn, up 23.7% YoY, with attributable adjusted non-IFRS net income of RMB5,095mn, up 18.5% YoY. 1H23 revenue / adjusted Non-IFRS net income accounted for 45-52% of both our full-year estimates and consensus estimates, which also fell in its average historical range. Non-IFRS gross profit margin (GPM) improved by 3.4ppt to 41.6% while non-IFRS net profit margin increased by 2.8ppt to 27.0% in 1H23, driven by favourable currency exchange rates and continuously improved operating efficiency. Excluding commercial COVID-19 projects, overall backlog increased by 25% YoY. Despite the high base of 2022, Management reiterated revenue growth target of 5-7% YoY while slightly raised non-IFRS gross profit growth target to 13-14% YoY (from 12-14% YoY) in 2023E, indicating management's confidence in the Company of navigating through the tough macro environment.

■ **Non-COVID projects to firmly fuel sustainable growth.** Supported by strong growth of D&M services, non-COVID revenue growth of WuXi Chemistry segment accelerated quarter-by-quarter in 1H23 with +51.6% YoY in 2Q23 vs +21.8% YoY in 1Q23 (both excluding commercial COVID-19 projects). Management expected COVID revenue of ~RMB3.0bn in 2023E with ~RMB1.5bn already recognized in 1H23. We think the strong growth of non-COVID revenue reflected the robust demand from the Company's extensive and balanced client base amid the temporarily challenging financing environment in global pharmaceutical industry.

■ **Benefiting from strong demand growth for new modalities services.** Revenue from TIDES (mainly oligo and peptides) in WuXi Chemistry segment grew by 37.9% YoY in 1H23, on top of a 337% YoY growth in 2022. Backlog of TIDES dramatically increased by 188% YoY in 1H23, while Management expected over 70% YoY growth of TIDES revenue in 2023E. We expect meaningful future revenue from the CMO services for a blockbuster dual-targeted GLP-1 product. We are positive on the Company's competency in the global peptide market to capture the increasing weight-loss market opportunity, based on its established capacities (over 10,000 liter peptide solid-phase synthesizers as of Feb 2023) and R&D capabilities (1,000 staff as of Feb 2023).

■ **Margin improvement driven by favourable currency exchange rates and operating efficiency improvement.** Management indicated that the GPM improvement of 3.4ppt in 1H23 was mainly attributed to favourable currency exchange rate (2.4ppt) and increasing operation efficiency (1.0ppt). If no major change in foreign exchange in 2H23E, GPM could be maintained at above 40% for 2023E, according to Management. The Company is also optimizing employee output by implementing big data and automation in services.

■ **Maintain BUY.** We revised our TP from RMB110.69 to RMB 116.73, based on a 10-year DCF model with WACC of 11.57% and terminal growth of 3.0%. We forecast WuXi AppTec's revenue to grow by 6.1%/ 28.8%/ 25.8% YoY and adjusted non-IFRS net income to grow by 12.5%/ 24.8%/ 23.2% YoY in 2023E/ 24E/ 25E, respectively.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	22,902	39,355	41,742	53,762	67,653
YoY growth (%)	38.5	71.8	6.1	28.8	25.8
Adjusted net profit (RMB mn)	5,131	9,399	10,574	13,202	16,269
EPS (Adjusted) (RMB)	1.76	3.17	3.56	4.45	5.48
Consensus EPS (RMB)	na	na	3.31	4.19	5.24
Adjusted P/E (x)	42.6	23.6	21.0	16.9	13.7

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** RMB116.73  
 (Previous TP RMB110.69)  
**Up/Downside** 55.7%  
**Current Price** RMB74.98

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### Stock Data

Mkt Cap (RMB mn)	212,732.0
Avg 3 mths t/o (RMB mn)	1,447.4
52w High/Low (RMB)	98.18/61.82
Total Issued Shares (mn)	2968.2

Source: FactSet

### Shareholding Structure

HK investors	20.1%
Ge Li and concerted parties	15.9%

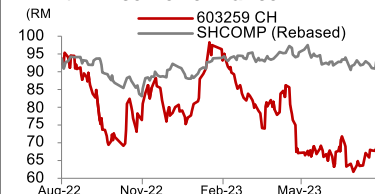
Source: Company

### Share Performance

	Absolute	Relative
1-mth	15.0%	11.9%
3-mth	6.1%	7.2%
6-mth	-23.1%	-24.0%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

**Figure 1: Historical currency exchange rate of US\$/RMB**

Source: WIND, CMBIGM

**Figure 2: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	41,742	53,762	67,653	41,657	53,634	67,498	0.20%	0.24%	0.23%
Gross Profit	16,697	21,066	26,232	16,386	20,696	25,478	1.90%	1.79%	2.96%
Operating Profit	11,279	14,008	17,350	10,804	13,643	16,772	4.39%	2.67%	3.44%
Non-IFRS net profit	10,574	13,202	16,269	10,271	13,090	16,290	2.95%	0.85%	-0.13%
Non-IFRS EPS (RMB)	3.56	4.45	5.48	3.46	4.41	5.49	2.93%	0.83%	-0.15%
Gross Margin	40.00%	39.18%	38.77%	39.71%	39.05%	38.01%	+0.29ppt	+0.14ppt	+0.76ppt
Operating Margin	27.02%	26.05%	25.64%	26.76%	26.70%	26.26%	+0.26ppt	-0.64ppt	-0.62ppt
Net Margin	25.33%	24.56%	24.05%	25.35%	25.40%	25.25%	-0.02ppt	-0.85ppt	-1.21ppt

Source: Company data, CMBIGM estimates

**Figure 3: CMBIGM estimates vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	41,742	53,762	67,653	41,845	53,014	66,349	-0.25%	1.41%	1.97%
Gross Profit	16,697	21,066	26,232	16,053	20,487	25,766	4.01%	2.83%	1.81%
Operating Profit	11,279	14,008	17,350	11,183	14,250	17,950	0.86%	-1.70%	-3.35%
Non-IFRS net profit	10,574	13,202	16,269	9,778	12,424	15,492	8.14%	6.26%	5.01%
Non-IFRS EPS (RMB)	3.56	4.45	5.48	3.31	4.19	5.24	7.53%	6.12%	4.54%
Gross Margin	40.00%	39.18%	38.77%	38.36%	38.65%	38.83%	+1.64ppt	+0.54ppt	-0.06ppt
Operating Margin	27.02%	26.05%	25.64%	26.72%	26.88%	27.05%	+0.30ppt	-0.82ppt	-1.41ppt
Net Margin	25.33%	24.56%	24.05%	23.37%	23.44%	23.35%	+1.97ppt	+1.12ppt	+0.70ppt

Source: Company data, Bloomberg, CMBIGM estimates

**Figure 4: Valuation on risk-adjusted DCF valuation**

DCF Valuation (in Rmb mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	12,634	14,771	18,191	23,376	29,570	36,815	45,098	54,344	64,397	75,023
Tax rate	16.24%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
EBIT*(1-tax rate)	10,583	12,555	15,463	19,869	25,135	31,293	38,334	46,192	54,738	63,769
+ D&A	1,754	2,397	2,978	3,722	4,709	5,862	7,181	8,653	10,254	11,946
- Change in working capital	351	(1,848)	(2,132)	(2,665)	(3,371)	(4,197)	(5,141)	(6,195)	(7,342)	(8,553)
- Capex	(9,300)	(9,300)	(9,300)	(9,300)	(9,300)	(9,300)	(9,300)	(9,300)	(9,300)	(9,300)
<b>FCFF</b>	<b>3,388</b>	<b>3,804</b>	<b>7,008</b>	<b>11,627</b>	<b>17,172</b>	<b>23,658</b>	<b>31,074</b>	<b>39,350</b>	<b>48,350</b>	<b>57,863</b>
<b>Terminal value</b>										<b>695,838</b>
<b>Terminal growth rate</b>	<b>3.00%</b>									
<b>WACC</b>	<b>11.57%</b>									
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)	232,932									
Total PV (RMB mn)	342,048									
Net debt (RMB mn)	(4,422)									
Equity value (RMB mn)	346,470									
# of shares (mn)	2,968									
Price per share (RMB per share)	<b>116.73</b>									

Source: CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
Revenue	16,535	22,902	39,355	41,742	53,762	67,653
Cost of goods sold	(10,253)	(14,592)	(24,677)	(25,045)	(32,696)	(41,421)
<b>Gross profit</b>	<b>6,282</b>	<b>8,310</b>	<b>14,678</b>	<b>16,697</b>	<b>21,066</b>	<b>26,232</b>
Operating expenses	(3,155)	(3,898)	(5,372)	(5,418)	(7,059)	(8,882)
Selling expense	(588)	(699)	(732)	(799)	(1,057)	(1,330)
Admin expense	(1,839)	(2,203)	(2,826)	(2,851)	(3,699)	(4,654)
R&D expense	(693)	(942)	(1,614)	(1,490)	(1,946)	(2,449)
Others	(35)	(54)	(200)	(277)	(357)	(449)
<b>Operating profit</b>	<b>3,127</b>	<b>4,412</b>	<b>9,306</b>	<b>11,279</b>	<b>14,008</b>	<b>17,350</b>
Gain/loss on financial assets at FVTPL	52	(93)	770	511	263	342
Investment gain/loss	606	1,356	188	570	200	200
<b>Net Interest income/(expense)</b>	<b>(520)</b>	<b>(84)</b>	<b>248</b>	<b>495</b>	<b>105</b>	<b>162</b>
Other income/expense	104	425	106	274	300	300
<b>Pre-tax profit</b>	<b>3,369</b>	<b>6,016</b>	<b>10,618</b>	<b>13,129</b>	<b>14,876</b>	<b>18,354</b>
Income tax	(383)	(880)	(1,716)	(2,132)	(2,231)	(2,753)
<b>After tax profit</b>	<b>2,986</b>	<b>5,136</b>	<b>8,903</b>	<b>10,997</b>	<b>12,644</b>	<b>15,601</b>
Minority interest	(26)	(39)	(89)	(90)	(103)	(127)
<b>Net profit</b>	<b>2,960</b>	<b>5,097</b>	<b>8,814</b>	<b>10,907</b>	<b>12,541</b>	<b>15,473</b>
<b>Adjusted net profit</b>	<b>3,637</b>	<b>5,131</b>	<b>9,399</b>	<b>10,574</b>	<b>13,202</b>	<b>16,269</b>
Gross dividends	890	1,529	2,644	3,272	3,762	4,642
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
<b>Current assets</b>	<b>23,059</b>	<b>21,986</b>	<b>23,997</b>	<b>25,410</b>	<b>30,574</b>	<b>38,540</b>
Cash & equivalents	10,237	8,239	7,986	9,559	11,292	15,321
Account receivables	3,667	4,668	6,047	5,682	7,319	9,210
Inventories	2,686	5,905	5,669	5,873	7,667	9,713
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
<b>Non-current assets</b>	<b>23,232</b>	<b>33,142</b>	<b>40,693</b>	<b>46,694</b>	<b>51,995</b>	<b>56,793</b>
PP&E	5,710	8,554	14,171	20,913	27,017	32,539
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	8,780	8,543	8,385
Other non-current assets	7,349	11,280	12,265	11,843	11,421	10,999
<b>Total assets</b>	<b>46,291</b>	<b>55,127</b>	<b>64,690</b>	<b>72,104</b>	<b>82,569</b>	<b>95,333</b>
<b>Current liabilities</b>	<b>7,920</b>	<b>12,985</b>	<b>14,499</b>	<b>14,690</b>	<b>16,273</b>	<b>18,078</b>
Short-term borrowings	1,230	2,261	3,874	3,874	3,874	3,874
Account payables	941	1,931	1,659	1,850	3,433	5,238
Tax payable	379	536	882	882	882	882
Other current liabilities	5,370	8,256	8,084	8,084	8,084	8,084
<b>Non-current liabilities</b>	<b>5,652</b>	<b>3,385</b>	<b>3,264</b>	<b>2,762</b>	<b>2,762</b>	<b>2,762</b>
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
<b>Total liabilities</b>	<b>13,573</b>	<b>16,370</b>	<b>17,764</b>	<b>17,453</b>	<b>19,035</b>	<b>20,841</b>
Share capital	2,442	2,956	2,961	2,961	2,961	2,961
Capital surplus	22,678	25,732	26,512	34,147	42,925	53,756
Other reserves	7,374	9,804	17,118	17,118	17,118	17,118
<b>Total shareholders equity</b>	<b>32,494</b>	<b>38,492</b>	<b>46,590</b>	<b>54,225</b>	<b>63,004</b>	<b>73,835</b>
Minority interest	225	266	337	427	530	657
<b>Total equity and liabilities</b>	<b>46,291</b>	<b>55,127</b>	<b>64,690</b>	<b>72,104</b>	<b>82,569</b>	<b>95,333</b>
CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>3,369</b>	<b>6,016</b>	<b>10,618</b>	<b>13,129</b>	<b>14,876</b>	<b>18,354</b>
Depreciation & amortization	959	1,363	1,718	2,121	2,764	3,345
Tax paid	(383)	(880)	(1,716)	(2,132)	(2,231)	(2,753)
Change in working capital	(494)	(1,151)	(298)	351	(1,848)	(2,132)

Others	523	(759)	294	(1,317)	(369)	(505)
<b>Net cash from operations</b>	<b>3,974</b>	<b>4,589</b>	<b>10,616</b>	<b>12,152</b>	<b>13,191</b>	<b>16,308</b>
<b>Investing</b>						
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	1,200	700	700
Others	79	189	355	0	0	0
<b>Net cash from investing</b>	<b>(8,776)</b>	<b>(4,839)</b>	<b>(9,690)</b>	<b>(7,300)</b>	<b>(7,800)</b>	<b>(7,800)</b>
<b>Financing</b>						
Dividend paid	(638)	(916)	(1,598)	(2,777)	(3,658)	(4,480)
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
<b>Net cash from financing</b>	<b>9,888</b>	<b>(1,724)</b>	<b>(1,278)</b>	<b>(3,279)</b>	<b>(3,658)</b>	<b>(4,480)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	5,223	10,228	8,175	7,986	9,559	11,292
Exchange difference	(81)	(79)	161	0	0	0
<b>Cash at the end of the year</b>	<b>10,228</b>	<b>8,175</b>	<b>7,984</b>	<b>9,559</b>	<b>11,292</b>	<b>15,321</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	28.5%	38.5%	71.8%	6.1%	28.8%	25.8%
Gross profit	25.3%	32.3%	76.6%	13.8%	26.2%	24.5%
Operating profit	26.4%	41.1%	110.9%	21.2%	24.2%	23.9%
Net profit	59.6%	72.2%	72.9%	23.8%	15.0%	23.4%
Adj. net profit	51.1%	41.1%	83.2%	12.5%	24.8%	23.2%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	38.0%	36.3%	37.3%	40.0%	39.2%	38.8%
Operating margin	18.9%	19.3%	23.6%	27.0%	26.1%	25.6%
Adj. net profit margin	22.0%	22.4%	23.9%	25.3%	24.6%	24.0%
Return on equity (ROE)	11.9%	14.4%	20.7%	21.6%	21.4%	22.6%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
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	1.7	1.9	2.1
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
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	59.0	42.9	25.2	20.4	17.7	14.4
P/E (adjusted)	48.0	42.6	23.6	21.0	16.9	13.7
P/B	5.3	5.6	4.7	4.1	3.5	3.0

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

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**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

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