



Rating  
**Buy**

Asia  
China

Health Care  
Pharmaceuticals /  
Biotechnology

Company  
**Jointown  
Pharmaceuticals**

Reuters 600998.SS    Bloomberg 600998 CH    Exchange SHH    Ticker 600998

Date  
10 October 2017

**Company Update**

Price at 10 Oct 2017 (CNY)	21.02
Price target - 12mth (CNY)	27.30
52-week range (CNY)	22.36 - 18.62
Shanghai Composite	3,375

## Takeaways from Access China healthcare tour

### RMB100bn sales target in 2019; 3 key drivers

Management is targeting RMB100bn sales in 2019, suggesting CAGR16-19E of 18%. Major drivers include geographical expansion, increasing product offering and deeper penetration of hospital channels. First, the company expanded its logistics network coverage to 30 provinces in China, noting 5 distribution centers in construction and typically smaller base for newer regions. Second, products initiated over recent years continue to ramp up, while the company develops new offerings in high-margin segments such as medical devices and nutrition supplements. Lastly, as the company started its direct sales business in 2009, there is plenty of room for sales channel expansion. Going forward, management reaffirms 2H17 to outperform 1H17 per historical trends, and that over RMB73bn sales can be achieved in FY17.

### Dynamics of DS and IDS under two invoice implementation

Indirect sales (IDS) remains high at 44% of total sales as of now, down 1% from 45% in 2016. However, management also expects IDS to stay at 35% by 2019, as a two invoice policy is unlikely to be strictly implemented in rural areas, drug stores and device/consumables. For 1H17, robust growth was attributed partially to JT's ability to take market share due to the following two changes under the two invoices: 1) JT was able to get more contracts directly from manufacturers, bypassing JT's previous upstream distributors as those distributors exited the IDS business; 2) JT was able to assume more contracts directly from more drug stores, as JT's previous downstream distributors exited market.

### Approximately RMB10bn additional working capital required

On liquidity, the working capital to revenue ratio currently stands at 6:1, and is expected to go up with higher hospital concentration. As there is a RMB40bn revenue gap between the 2019 target and revenue in 2016, management budgets RMB10bn in capital requirements and plans to tackle liquidity pressure by raising RMB3.6bn equity, while additional debt can go up to RMB7.2bn. Cost of debt will likely be around 4-5%.

### Maintaining price target of RMB27.3; risks

We keep our PT of RMB27.3, based on 33x 2018E EPS of RMB0.83. We believe 33x is justified due to its growth profile and improving product mix, and Jointown's Chinese peers are trading at 30x 2018E EPS with 18% growth in 2018

### Valuation & Risks

Jack Hu, PhD

Research Analyst  
+852-2203 6208

Megan Xu

Research Associate  
+852-2203 5928

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	0.5	1.7	-4.6
Shanghai Composite	0.3	5.1	10.7

Source: Deutsche Bank

### Key indicators (FY1)

ROE (%)	10.8
Net debt/equity (%)	22.4
Book value/share (CNY)	9.94
Price/book (x)	2.1
Net interest cover (x)	3.5
Operating profit margin (%)	3.1

Source: Deutsche Bank

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(vs. the 26% we model for Jointown). Key risks include policy headwinds and a slower-than-expected ramp-up of new businesses.



# Appendix 1

## Important Disclosures

\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Jointown Pharmaceuticals	600998.SS	21.02 (CNY) 10 Oct 2017	NA

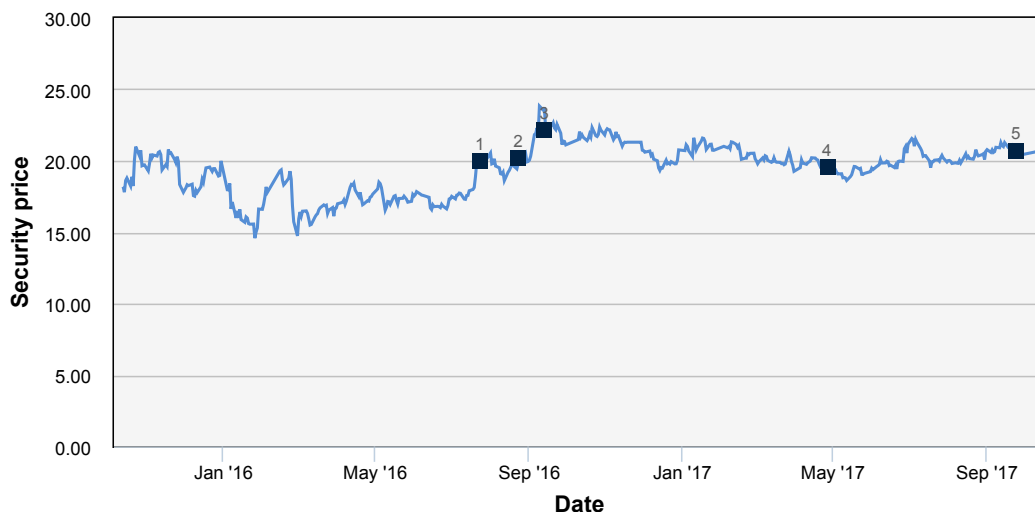
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## Historical recommendations and target price. Jointown Pharmaceuticals (600998.SS)

(as of 10/10/2017)



### Current Recommendations

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

\*\* Analyst is no longer at Deutsche Bank

1.	07/24/2016	Buy, Target Price Change CNY 24,40	Jack Hu, Ph.D	4.	04/28/2017	Buy, Target Price Change CNY 25,10	Jack Hu, Ph.D
2.	08/24/2016	Buy, Target Price Change CNY 24,50	Jack Hu, Ph.D	5.	09/25/2017	Buy, Target Price Change CNY 27,30	Jack Hu, Ph.D
3.	09/14/2016	Buy, Target Price Change CNY 26,10	Jack Hu, Ph.D				



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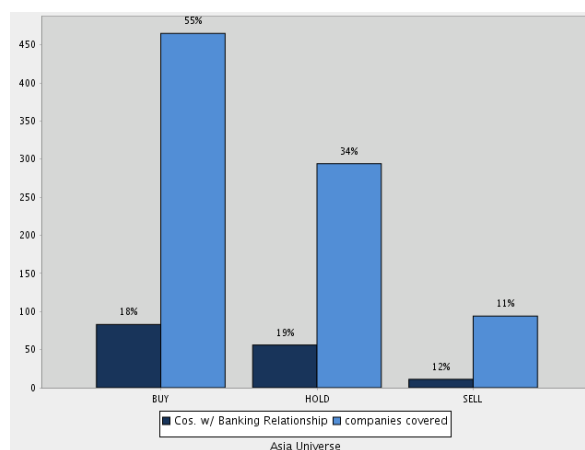
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