



Rating
Buy

Asia
China

Health Care
Pharmaceuticals /
Biotechnology

Company
Tonghua Dongbao

Reuters 600867.SS Bloomberg 600867 CG Exchange SHH Ticker 600867

Date
30 October 2017

Results

Price at 27 Oct 2017 (CNY)	22.11
Price target - 12mth (CNY)	25.40
52-week range (CNY)	24.09 - 16.55
Shanghai Composite	3,416

Valuation & Risks

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Key changes

TP	23.70 to 25.40	↑	7.2%
Op prof margin (FYE)	39.3 to 40.4	↑	2.9%
Net profit (FYE)	800.5 to 816.0	↑	1.9%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	18.4	31.5	-7.2
Shanghai Composite	2.1	5.1	9.8

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	19.4
Net debt/equity (%)	-1.8
Book value/share (CNY)	2.62
Price/book (x)	8.4
Net interest cover (x)	53.3
Operating profit margin (%)	40.4

Source: Deutsche Bank

Another decent quarter

Solid growth from insulin franchise; reiterating Buy

Tonghua Dongbao (THDB) reported sales/core profit of RMB671m/239m in 3Q17, vs. our estimates of RMB673m/214m, respectively. These represent YoY growth of 14%/31% in 3Q17, vs. 33%/32% in 1H17 for revenue and core profit. Given steady performance of insulin franchise, the overall revenue growth was slower due to higher base in 3Q16, where the company had one-time revenue from real estate business and transfer of assets. We note robust profit growth was also driven by margin expansion and continued efficiency improvement. Importantly, insulin glargine filed for production in October, with estimated launch in 2H18 and meaningful contribution in 2020.

Smooth ramp-up of insulin franchise; insulin glargine launch expected in 2H18

According to the company, insulin products achieved sales of RMB537m in 3Q17 vs. RMB447m in 3Q16, representing 20% YoY growth. Insulin needles and test strips registered growth of over 30% and a bit under 20% respectively in 3Q17, vs. 30%/20% in 2Q17. Management expects Gansulin 40R to reach RMB100m sales in 2017 and 30R to maintain 15% full-year growth. For third-generation insulin, THDB filed production approval for insulin glargine on October 10, expecting launch in 2H18 and meaningful contribution in 2020. The company is on track with insulin aspart and has selected hospitals to conduct clinical trials for 30R. Additionally, insulin detemir received IND approval on October 20. Management suggested that insulin aspart 30R would be the next focus after the launch of insulin glargine, as currently the two take up 90% of insulin market in China.

Expecting stable margins ahead

GM/OPM stood at 75.7%/43.9% in 3Q17 vs. 72.8%/40.0% in 3Q16. Management attributed the hike to slower recognition of expense items from 1H17. Improvement in OPM was mainly driven by 198bps of savings on selling expenses. Management guided for stable margins ahead, with 1-2% ASP cuts from provincial tenders.

Raising price target to RMB25.4 from RMB23.7; risks

Our PT is based on 45x 2018E EPS (vs. 42x previously), due to sector re-rating and regulatory progress of third-generation insulin products. The A-share peers are trading at 36x (vs. 28x previously) with 24% growth in 2018E (vs. 21% for THDB). In our view, the premium is justified by sustainable growth of the insulin

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franchise, ramp-up of CDMP and a compelling risk profile. Key risks: larger-than-expected ASP erosion, growth slowdown and product launch delays.



Model updated: 30 October 2017

Running the numbers

Asia
 China
 Pharmaceuticals / Biotechnology

Tonghua Dongbao

Reuters: 600867.SS Bloomberg: 600867 CG

Buy

Price (27 Oct 17) CNY 22.11
 Target Price CNY 25.40
 52 Week range CNY 16.55 - 24.09
 Market cap (m) CNYm 36,163 USDm 5,438.1

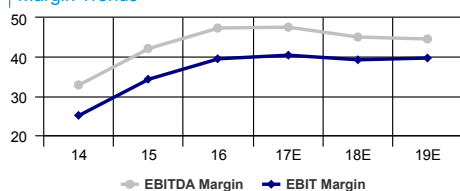
Company Profile

Tonghua Dongbao was established in 1992 and is headquartered in Tonghua city, Jilin province. The company primarily engages in developing, manufacturing and marketing recombinant human insulin products. It has several products under development, including insulin analogues, oral diabetes drugs and GLP-1 injections.

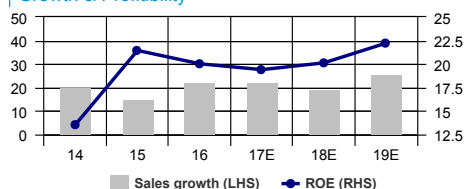
Price Performance



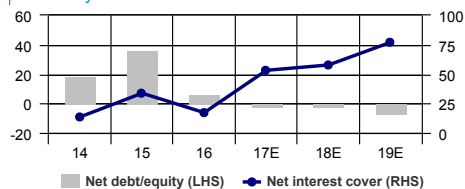
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec 2014 2015 2016 2017E 2018E 2019E

Financial Summary

DB EPS (CNY)	0.18	0.29	0.37	0.47	0.56	0.72
Reported EPS (CNY)	0.17	0.30	0.38	0.48	0.56	0.72
DPS (CNY)	0.19	0.40	0.40	0.40	0.40	0.40
BVPS (CNY)	1.3	1.5	2.3	2.6	3.0	3.5
Weighted average shares (m)	1,636	1,636	1,706	1,706	1,706	1,706
Average market cap (CNYm)	19,966	36,371	39,336	36,163	36,163	36,163
Enterprise value (CNYm)	20,166	37,122	39,277	35,765	35,731	35,426

Valuation Metrics

P/E (DB) (x)	66.8	77.4	62.3	46.7	39.2	30.7
P/E (Reported) (x)	71.4	73.8	61.4	46.2	39.2	30.7
P/BV (x)	10.78	18.06	9.50	8.44	7.41	6.31
FCF Yield (%)	0.5	nm	0.8	1.7	1.0	1.8
Dividend Yield (%)	1.5	1.8	1.7	1.8	1.8	1.8
EV/Sales (x)	13.9	22.2	19.2	14.3	12.0	9.5
EV/EBITDA (x)	42.3	52.8	40.6	30.1	26.6	21.3
EV/EBIT (x)	55.4	64.8	48.7	35.5	30.6	23.9

Income Statement (CNYm)

Sales revenue	1,451	1,669	2,040	2,493	2,977	3,739
Gross profit	999	1,256	1,549	1,900	2,227	2,812
EBITDA	477	704	967	1,187	1,342	1,666
Depreciation	104	122	130	141	147	163
Amortisation	9	9	30	37	26	18
EBIT	364	573	806	1,008	1,169	1,485
Net interest income/(expense)	-27	-17	-47	-19	-20	-19
Associates/affiliates	6	-15	-14	-28	-21	-25
Exceptionals/extraordinary	-16	-7	-6	-11	0	0
Other pre-tax income/(expense)	-4	36	20	8	0	0
Profit before tax	324	571	759	958	1,128	1,441
Income tax expense	47	80	120	144	168	213
Minorities	-3	-3	-2	-2	-3	-3
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	280	493	641	816	963	1,231
DB adjustments (including dilution)	19	-23	-9	-8	0	0
DB Net profit	299	470	631	808	963	1,231

Cash Flow (CNYm)

Cash flow from operations	206	295	726	889	691	1,035
Net Capex	-106	-400	-411	-249	-298	-374
Free cash flow	100	-105	315	640	393	662
Equity raised/(bought back)	41	28	1,045	0	0	0
Dividends paid	-223	-247	-272	-303	-361	-361
Net inc/(dec) in borrowings	67	513	-636	140	0	0
Other investing/financing cash flows	0	-178	-428	0	0	0
Net cash flow	-14	10	23	477	32	301
Change in working capital	-223	-329	-141	-122	-462	-393

Balance Sheet (CNYm)

Cash and other liquid assets	202	212	236	712	744	1,045
Tangible fixed assets	1,305	1,639	1,925	2,034	2,185	2,396
Goodwill/intangible assets	56	50	125	87	61	43
Associates/investments	229	179	320	320	320	320
Other assets	1,164	1,708	2,070	2,185	2,713	3,091
Total assets	2,956	3,788	4,675	5,338	6,023	6,894
Interest bearing debt	608	1,123	490	630	630	630
Other liabilities	188	186	240	233	300	284
Total liabilities	796	1,309	730	863	930	914
Shareholders' equity	2,138	2,459	3,939	4,471	5,092	5,982
Minorities	23	20	6	4	1	-2
Total shareholders' equity	2,161	2,479	3,945	4,475	5,093	5,980
Net debt	406	911	254	-82	-114	-415

Key Company Metrics

Sales growth (%)	20.5	15.0	22.2	22.2	19.4	25.6
DB EPS growth (%)	57.3	57.0	28.9	27.9	19.1	27.9
EBITDA Margin (%)	32.8	42.1	47.4	47.6	45.1	44.6
EBIT Margin (%)	25.1	34.3	39.5	40.4	39.3	39.7
Payout ratio (%)	110.5	132.7	106.5	83.6	70.9	55.5
ROE (%)	13.6	21.4	20.0	19.4	20.1	22.2
Capex/sales (%)	7.3	24.0	20.2	10.0	10.0	10.0
Capex/depreciation (x)	0.9	3.1	2.6	1.4	1.7	2.1
Net debt/equity (%)	18.8	36.7	6.4	-1.8	-2.2	-6.9
Net interest cover (x)	13.6	33.8	17.3	53.3	57.8	77.1

Source: Company data, Deutsche Securities estimates



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Tonghua Dongbao	600867.SS	22.11 (CNY) 27 Oct 2017	NA

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Historical recommendations and target price. Tonghua Dongbao (600867.SS)

(as of 10/27/2017)



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 29,00	Jack Hu, Ph.D	5.	04/13/2017	Buy, Target Price Change CNY 26,00	Jack Hu, Ph.D
2.	06/03/2016	Buy, Target Price Change CNY 24,30	Jack Hu, Ph.D	6.	04/28/2017	Buy, Target Price Change CNY 25,80	Jack Hu, Ph.D
3.	08/15/2016	Buy, Target Price Change CNY 27,50	Jack Hu, Ph.D	7.	08/08/2017	Buy, Target Price Change CNY 23,70	Jack Hu, Ph.D
4.	08/21/2016	Buy, Target Price Change CNY 28,00	Jack Hu, Ph.D				



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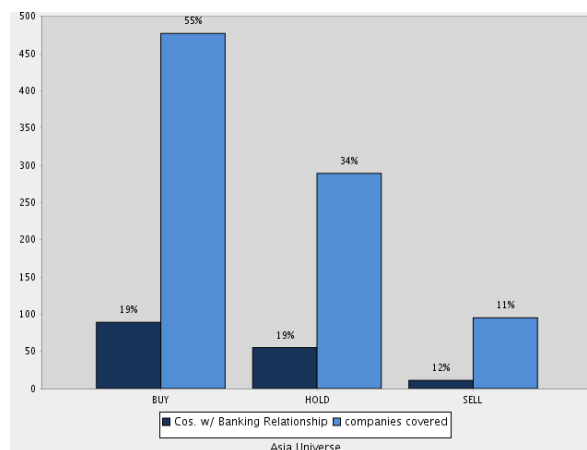
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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