



Rating
Buy

Asia
China

Health Care
Pharmaceuticals /
Biotechnology

Company
**Jointown
Pharmaceuticals**

Reuters 600998.SS Bloomberg 600998 CH Exchange SHH Ticker 600998

Date
9 January 2018

Company Update

Price at 8 Jan 2018 (CNY)	19.01
Price target - 12mth (CNY)	30.00
52-week range (CNY)	22.20 - 18.41
Shanghai Composite	3,392

Access China conference highlights

Maintaining FY17 guidance

Management continues to guide RMB73bn revenue for 2017, on track to reach the RMB100bn target by 2019. Net profit / core net profit excluding extraordinary items in 2017 likely have reached RMB1.3-1.4bn / RMB1.0bn, respectively. Major drivers include expanding network coverage, increasing product offerings, and better DS penetration. Going forward, the company expects to reach core net profit of RMB1.3bn in 2018, while RMB1.4bn might be possible.

Updates on DS / IDS and coverage

Indirect sales (IDS) now accounts for 42% of total sales, down 2% from 44% in October 2017. Medical institutions, drug stores, non-drug channels account for 29%, 22%, 6-7% of total revenue, respectively. Medical institution sales grew at above 30% rate for 2016-2017, while drug store sales grew at 31-32% in 2017 vs. 15-16% in 2016 due to two-invoice. On coverage expansion, the company's core strategy is to acquire local distributors. During 9m17, Jointown acquired over 40 distributors, though 80 more are needed to reach target coverage at the national level. On average, each acquired distributor was valued at RMB20-30m with over RMB200-300m revenue and net profit of RMB4-5m, while Jointown typically acquires up to 60% of interest only. In addition, each acquired asset undergoes a 3-year transition period, where operational and financial IT systems need to integrate with Jointown's, though financial statements are not consolidated yet. The practice would add some but not much profit growth to Jointown, as most acquired assets were already clients, though volume typically will rise once in a cooperative relationship. As of now, Hubei / Henan / Beijing / Guangdong are Jointown's largest markets, with 2017 sales of RMB10bn/8-9bn/7bn/6bn respectively.

Margins and other key takeaways

On margins, sales to medical institutions typically lead to 7-8% GM, where tier 2 and above are 9%, and below tier 2 have 7%. Chain drug stores typically have 5-6% GM, and independent ones have a bit over 7%. Overall GM for Jointown is about 8% at present. The company is seeing worsening receivable days, on average about 10 days longer in 2017 compared to same period in 2016. For 2017, the major nonrecurring items were proceeds from land sales of a distribution center in Wuhan, estimated at RMB400m pre-tax and RMB360m after-tax.

Valuation & Risks

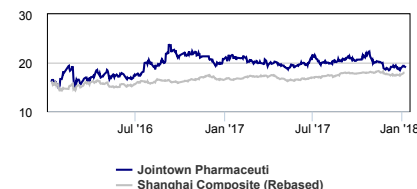
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Price/price relative



Performance (%)	1m	3m	12m
Absolute	-0.6	-7.8	-6.4
Shanghai Composite	3.1	1.3	7.5

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	10.2
Net debt/equity (%)	-8.2
Book value/share (CNY)	8.66
Price/book (x)	2.2
Net interest cover (x)	3.0
Operating profit margin (%)	3.1

Source: Deutsche Bank

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Appendix 1

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*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Jointown Pharmaceuticals	600998.SS	19.01 (CNY) 8 Jan 2018	NA

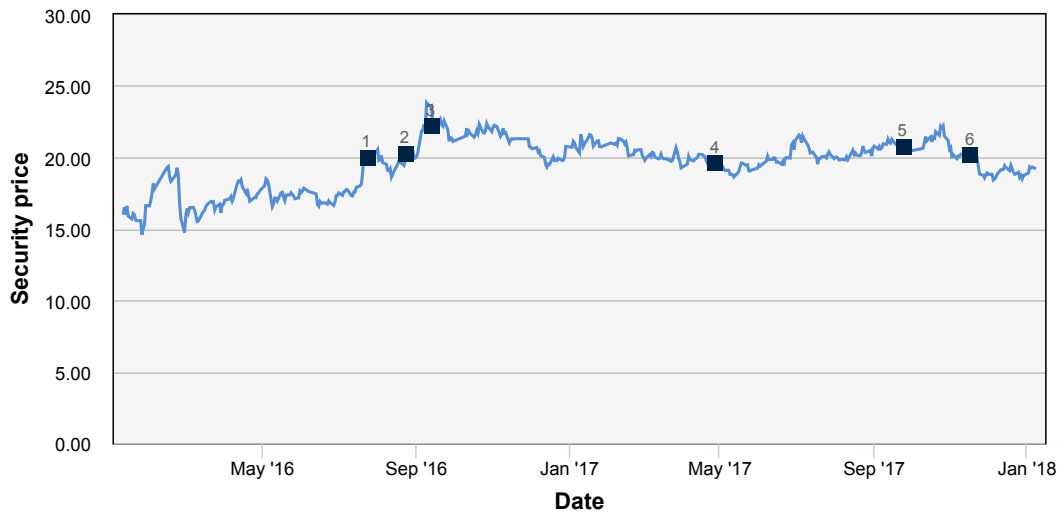
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Historical recommendations and target price. Jointown Pharmaceuticals (600998.SS)

(as of 01/08/2018)



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.	6.	11/17/2017	Buy, Target Price Change CNY 30,00	Jack Hu, Ph.D.



Equity Rating Key

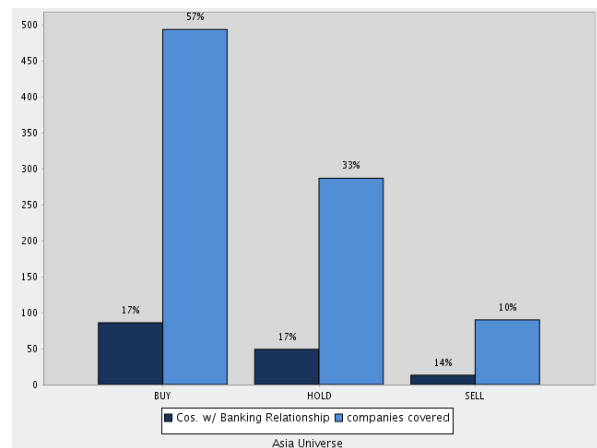
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