



Rating  
**Buy**

Asia  
China

Health Care  
Pharmaceuticals /  
Biotechnology

Company  
**Hengrui Medicine**

Reuters 600276.SS    Bloomberg 600276 CH    Exchange SHH    Ticker 600276

Date  
10 January 2018

## Company Update

Price at 8 Jan 2018 (CNY)	71.25
Price target - 12mth (CNY)	78.10
52-week range (CNY)	75.84 - 45.26
Shanghai Composite	3,392

### Valuation & Risks

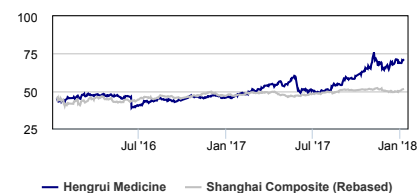
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### Price/price relative



Performance (%)	1m	3m	12m
Absolute	9.0	18.8	55.1
Shanghai Composite	3.6	1.8	8.1

Source: Deutsche Bank

### Key indicators (FY1)

ROE (%)	22.8
Net debt/equity (%)	-40.2
Book value/share (CNY)	5.44
Price/book (x)	13.1
Net interest cover (x)	-
Operating profit margin (%)	26.8

Source: Deutsche Bank

## Access China conference highlights

### Solid growth to continue with multiple catalysts ahead

The two key take-aways include 1) Hengrui already filed PD1 application in 4Q17. We believe the indications are cHL and esophageal cancer, which is earlier than street consensus. This led to stock rally on Tuesday. Additionally the company expects approval in 2018; 2) Hengrui expects growth acceleration in 2018. We believe this might be a combination of delayed booking of export profit and other unspecified elements. For 2017, Hengrui reiterated 18-20% domestic sales growth and 20% exports growth. As for the products breakdown, traditional oncology/ anesthetics/ contrast agents should reach 10-15%, 20% and over 30% growth respectively in 2017. In addition, lower pricing erosion could be witnessed in FY18 compared with FY17, as secondary negotiations and tenders are largely concluded.

### Apatinib growth likely to accelerate in 2018; 4Q17 hiccup

The company indicated that apatinib sales was below expectation in 2017, due to slowdown in 4Q17 stemming from NRDL settlement/ implementation delays and budget controls. Hengrui remains optimistic on 2018 outlook driven by reimbursement coverage. Despite the 36% nominal ASP cut of apatinib, management believes the upside could very well outweigh pricing erosion. As such, management welcomes negotiations for NRDL/ PRDL rolling inclusion for key innovative products. In addition, indication expansion studies for liver cancer and NSCLC are both progressing to final stages, with approval expected in 2H18-2019.

### Updates on pipeline and other key takeaways

Four blockbusters are likely to be approved including nab-paclitaxel, 19K, pyrotinib and PD-1. Hengrui commented on bigger addressable market for pyrotinib vs. apatinib, on the back of longer treatment duration, without offering any color on pricing strategy. On nab-paclitaxel, Hengrui and CSPC are both on priority review list, with the possibility of obtaining approvals simultaneously. As for R&D spending, the ratio is likely to remain at current level, as expense increase will synchronize with sales growth. On management incentive, the company implemented 3 rounds in 2014/16/17, with near-term plan of another round, using 3m reserved shares.

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# Appendix 1

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\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Hengrui Medicine	600276.SS	74.74 (CNY) 9 Jan 2018	NA

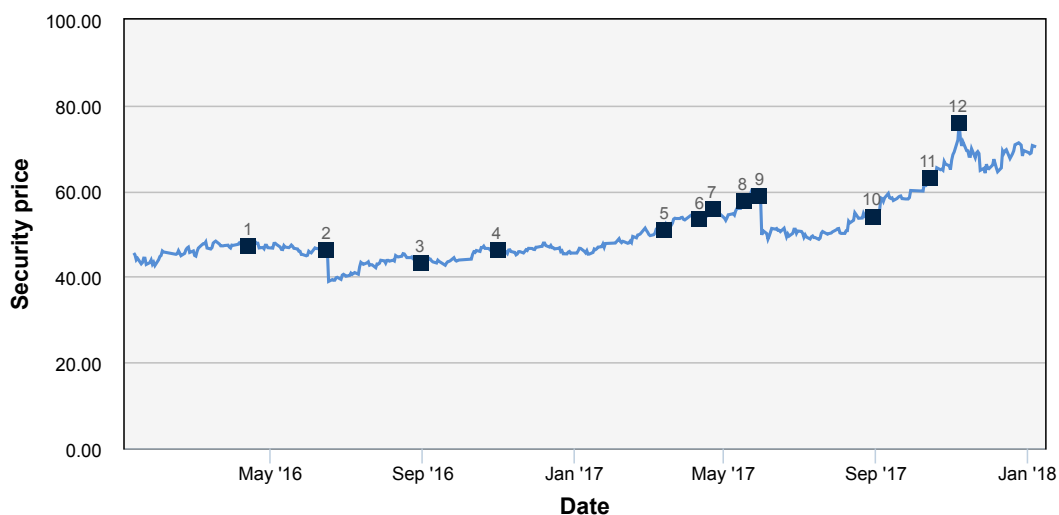
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## Historical recommendations and target price. Hengrui Medicine (600276.SS)

(as of 01/08/2018)



### Current Recommendations

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

\*\* Analyst is no longer at Deutsche Bank

1.	04/14/2016	Buy, Target Price Change CNY 59,50	Jack Hu, Ph.D.	7.	04/23/2017	Buy, Target Price Change CNY 65,00	Jack Hu, Ph.D.
2.	06/16/2016	Buy, Target Price Change CNY 49,50	Jack Hu, Ph.D.	8.	05/18/2017	Buy, Target Price Change CNY 70,00	Jack Hu, Ph.D.
3.	08/31/2016	Buy, Target Price Change CNY 50,00	Jack Hu, Ph.D.	9.	05/31/2017	Buy, Target Price Change CNY 58,50	Jack Hu, Ph.D.
4.	11/01/2016	Buy, Target Price Change CNY 55,00	Jack Hu, Ph.D.	10.	08/30/2017	Buy, Target Price Change CNY 60,50	Jack Hu, Ph.D.
5.	03/15/2017	Buy, Target Price Change CNY 60,00	Jack Hu, Ph.D.	11.	10/15/2017	Buy, Target Price Change CNY 69,00	Jack Hu, Ph.D.
6.	04/13/2017	Buy, Target Price Change CNY 63,50	Jack Hu, Ph.D.	12.	11/07/2017	Buy, Target Price Change CNY 78,10	Jack Hu, Ph.D.



### Equity Rating Key

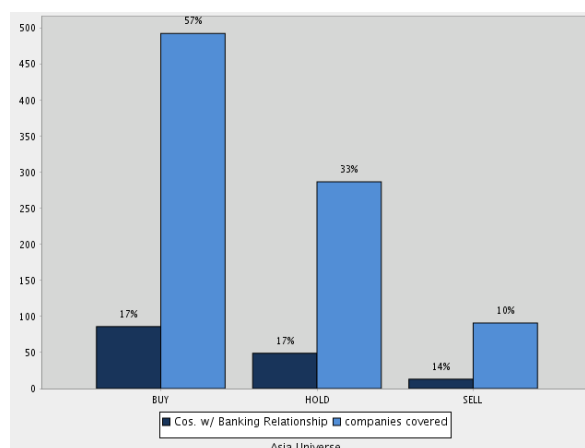
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**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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