



Rating
Buy

Asia
China

Health Care
Pharmaceuticals /
Biotechnology

Company
Tonghua Dongbao

Reuters 600867.SS Bloomberg 600867 CG Exchange SHH Ticker 600867

Date
17 January 2018

Company Update

Price at 15 Jan 2018 (CNY)	24.16
Price target - 12mth (CNY)	26.80
52-week range (CNY)	24.55 - 16.55
Shanghai Composite	3,429

Access China conference highlights

Guiding for 30% net profit growth in 2018

Management guided for revenue growth of 20% and net profit growth of 30% in 2018. On insulin glargine, production approval is expected in 4Q18 while reaching RMB300-400m sales in 2019 is likely. For insulin needles, the company is aiming at over 30% growth. Management continues to expect margin expansion, driven by improving product mix and SG&A ratio.

Insulin glargine to reach RMB300-400m sales in 2019

Management believes insulin glargine is likely to reach RMB300-400m sales in 2019, and over RMB2bn sales in 2020. Market penetration of insulin glargine will be driven by existing sales team. According to management, the coverage network for 40R already reached 1000 hospitals in 2017, on track to exceed 2018 target of 2000 hospitals. Similarly for insulin glargine, coverage can reach 1000 hospitals by YE20, likely growing comparable with Ganli within 3-4 years of launch. Though hospitals usually work with only 2 suppliers for each drug, management expects maximum of 20-30% hospitals to be affected with regards to promoting insulin glargine.

Margins and other key updates

Management expects continued margin expansion given higher gross margins of third generation insulin products, though substantial volume growth may take time. In addition, the company plans to utilize existing sales team for promoting insulin glargine, leading to lower SG&A ratio going forward. Sales per representative ranged widely at RMB3-10m in 2017, and the company would be cautious in incremental hiring in 2018 given expansion of the team in 2017.

Forecasts and ratios

Year End Dec 31	2015A	2016A	2017E	2018E	2019E
Sales (CNYm)	1,669.3	2,040.4	2,493.4	2,977.4	3,738.6
DB EPS FD(CNY)	0.29	0.37	0.47	0.56	0.72

Source: Deutsche Bank estimates, company data

Valuation & Risks

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Price/price relative



Performance (%)	1m	3m	12m
Absolute	3.4	9.2	18.6
Shanghai Composite	5.0	1.1	10.2

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	19.4
Net debt/equity (%)	-1.8
Book value/share (CNY)	2.62
Price/book (x)	9.2
Net interest cover (x)	53.3
Operating profit margin (%)	40.4

Source: Deutsche Bank

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Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Tonghua Dongbao	600867.SS	25.00 (CNY) 17 Jan 2018	NA

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

(as of 01/15/2018)



Current Recommendations

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

** Analyst is no longer at Deutsche Bank

1.	06/03/2016	Buy, Target Price Change CNY 24,30	Jack Hu, Ph.D.	5.	04/28/2017	Buy, Target Price Change CNY 25,80	Jack Hu, Ph.D.
2.	08/15/2016	Buy, Target Price Change CNY 27,50	Jack Hu, Ph.D.	6.	08/08/2017	Buy, Target Price Change CNY 23,70	Jack Hu, Ph.D.
3.	08/21/2016	Buy, Target Price Change CNY 28,00	Jack Hu, Ph.D.	7.	10/30/2017	Buy, Target Price Change CNY 25,40	Jack Hu, Ph.D.
4.	04/13/2017	Buy, Target Price Change CNY 26,00	Jack Hu, Ph.D.	8.	11/17/2017	Buy, Target Price Change CNY 26,80	Jack Hu, Ph.D.



Equity Rating Key

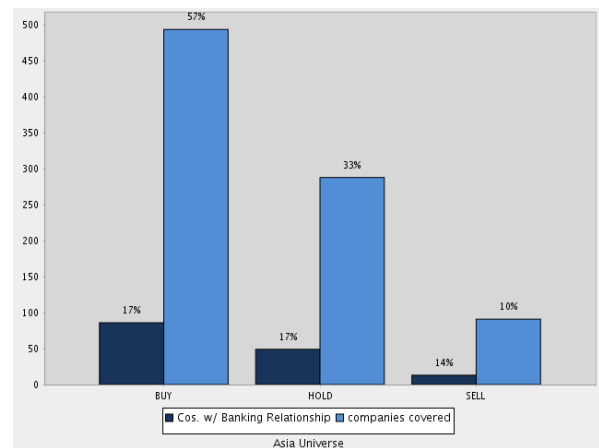
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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Equity rating dispersion and banking relationships





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