

WuXi AppTec (603259 CH)

Building cutting-edge expertise to secure long-term growth

- **Earnings slightly beat.** WuXi AppTec reported 2020 revenue of RMB16.54bn (+29% YoY) and adjusted non-IFRS net profit of RMB3.56bn (+48% YoY), in line with our estimates. By segment, China-based lab service and CDMO service continued strong growth momentum, delivering 32% YoY and 41% YoY revenue growth, respectively, contributing 52% and 32% of total revenue. Affected by the COVID pandemic, US-based lab service income declined 3% YoY and clinical research CRO/SMO service growth slowed down to 10% YoY. When China-based laboratory services and CDMO services maintained stable margins in 2020, US-based laboratory services and clinical services experienced 8.7ppts and 9.7ppts gross margin retreat due to COVID impact. WuXi AppTec continued to expand its customer base and added over 1,300 new customers with total active customers reaching 4,200, including all of the top 20 global pharmaceutical companies. Based on the strong customer demand, WuXi AppTec aims to further grow its employee size from 26,411 in 2020 (+21% YoY) to 33,600 (+27% YoY) by 2021E.
- **Seize long-term growth opportunities by accumulating cutting-edge expertise.** WuXi AppTec aims to invest in new capabilities and capacities, such as PROTAC, oligonucleotide, peptide, ADC, bi-specific antibody, cell and gene therapies, to capture new business opportunities. WuXi STA (subsidiary of WuXi AppTec) and WuXi Biologics plans to form a JV focused on ADCs and other drug conjugates. With integrated platform, the JV will provide customers end-to-end CDMO services from payloads/linkers, antibodies to finished conjugated drug products under one roof. In 2020, the Company also launched China-based cell therapy product CTDMO platform and AAV adherent and suspension manufacturing platform in China. Furthermore, WuXi AppTec will further explore technologies such as AI, medical big data and laboratory automation, etc. With technology advantage, we believe the Company will continue to gain market share from global market.
- **Strong growth momentum to continue in coming years.** We expect China-based laboratory services will grow strongly driven by capacity expansion and growing demand from biotech companies. WuXi AppTec added 575 projects to its small-molecule CDMO pipeline in 2020 and its total small-molecule CDMO pipeline expanded to over 1,300 active projects, including 28 commercial projects and 45 ph3 projects. The Company's cell and gene therapy CTDMO projects reached 38 projects (incl. China-based operations), of which 2-3 products are expected to file BLA in 2021. The Company registered 41% YoY growth in its SMO backlog in 2020 and 48% YoY growth in its CDS backlog during the same period. With the ease of the pandemic, we expect clinical CRO revenue to see strong recovery in 2021E.
- **Maintain BUY.** We revised up the net profit of FY21E/22E by 9%/9%, and forecast the net profit to grow 52%/33% YoY in FY21E/22E respectively. Moreover, WuXi AppTec's diversified investment portfolio will bring significant investment gains over the long term. We raised our TP to RMB218.88 (WACC 9.34%; Terminal growth rate 4.00%).

BUY (Maintain)

Target Price	RMB218.88
(Previous TP)	RMB218.73)
Up/Downside	+56.12%
Current Price	RMB140.20

China Healthcare Sector

Jill Wu, CFA

(852) 3900 0842

jillwu@cmbi.com.hk

Sam Hu, PhD

(852) 3900 0882

samhu@cmbi.com.hk

Jonathan Zhao

(852) 6359 1614

jonathanzhao@cmbi.com.hk

Mkt. Cap. (RMB mn)	339,977
Avg. 3mths t/o (RMB mn)	2,931.44
52W High/Low (RMB)	188.3/62.6
Total Issued Shares (mn)	2,135

Source: Bloomberg

Shareholding Structure

Management	26.63%
A-share public shareholders	60.47%
H-share public shareholders	12.90%

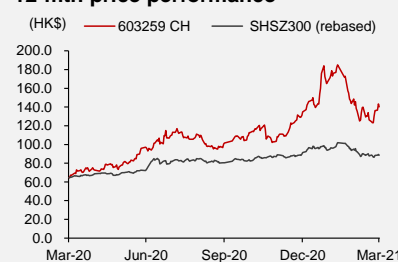
Source: Bloomberg

Share performance

	Absolute	Relative
1-mth	-0.2%	4.5%
3-mth	9.3%	9.7%
6-mth	41.3%	27.2%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

Related Reports

1. Strong growth outlook in 2021 and beyond – 25 Jan 2021
2. Accelerated growth in 3Q20 driven by strong performance in CDMO and China-base lab service – 30 Oct 2020
3. Enhance leading position amid COVID-19 pandemic – 17 Aug 2020

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	12,872	16,535	21,742	28,285	36,814
<i>YoY growth (%)</i>	34%	28%	31%	30%	30%
Net income (RMB mn)	1,855	2,960	4,503	5,979	7,964
<i>YoY growth (%)</i>	-18.0%	59.6%	52.1%	32.8%	33.2%
Adj Non-IFRS net income (RMB mn)	2,407	3,565	4,561	6,138	8,193
<i>YoY growth (%)</i>	38.2%	48.1%	27.9%	34.6%	33.5%
EPS (RMB)	0.81	1.27	1.84	2.44	3.25
<i>Change (%)</i>	-49%	56%	45%	33%	33%
Consensus EPS (RMB)	N/A	N/A	1.58	2.06	2.85
P/E (x)	172.44	110.25	76.27	57.45	43.13
P/B (x)	18.37	9.97	9.57	8.56	7.50
ROE (%)	10.98	9.13	12.65	15.02	17.54
Net gearing (%)	0.68	Net cash	Net cash	Net cash	Net cash

Source: Company data, Wind, CMBIS estimates

Figure 1: FY20A results change

	2019A	2020A	YoY Change	CMBIS 2020E	Diff (%)
YE 31 Dec (RMB mn)					
Revenue	12,872	16,535	28.46%	16,528	0.04%
Operating profit	2,341	3,389	44.79%	3,322	2.03%
Pre-tax profit	2,337	3,369	44.18%	3,313	1.70%
Net profit attributable to shareholders	1,855	2,960	59.62%	2,888	2.51%
Core net profit attributable to shareholders	1,914	2,385	24.60%	2,503	-4.72%
Adjusted Non-IFRS attributable net profit	2,407	3,565	48.15%	3,538	0.78%

Source: Company data, CMBIS estimates

Figure 2: CMBIS earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	21,742	28,285	36,814	21,722	28,248	N/A	0.09%	0.13%	N/A
Gross profit	8,451	11,236	14,854	8,500	11,136	N/A	-0.57%	0.90%	N/A
Operating profit	4,319	5,916	7,966	4,304	5,763	N/A	0.34%	2.65%	N/A
Net profit	4,503	5,979	7,964	4,124	5,475	N/A	9.19%	9.21%	N/A
EPS (RMB)	1.84	2.44	3.25	1.69	2.24	N/A	8.82%	8.85%	N/A
Gross margin	38.87%	39.72%	40.35%	39.13%	39.42%	N/A	-0.26 ppt	+0.30 ppt	N/A
Operating margin	19.86%	20.92%	21.64%	19.81%	20.40%	N/A	+0.05 ppt	+0.51 ppt	N/A
Net Margin	20.71%	21.14%	21.63%	18.99%	19.38%	N/A	+1.73 ppt	+1.76ppt	N/A

Source: Bloomberg, CMBIS estimates

Figure 3: CMBIS vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	21,742	28,285	36,814	21,732	28,234	36,590	0.04%	0.18%	0.61%
Gross profit	8,451	11,236	14,854	8,543	11,149	14,636	-1.08%	0.78%	1.49%
Operating profit	4,319	5,916	7,966	4,631	6,002	8,291	-6.75%	-1.43%	-3.92%
Net profit	4,503	5,979	7,964	3,833	5,016	7,051	17.49%	19.20%	12.95%
EPS (RMB)	1.84	2.44	3.25	1.58	2.06	2.85	16.34%	18.76%	14.26%
Gross margin	38.87%	39.72%	40.35%	39.31%	39.49%	40.00%	-0.44 ppt	+0.24 ppt	+0.35 ppt
Operating margin	19.86%	20.92%	21.64%	21.31%	21.26%	22.66%	-1.45 ppt	-0.34 ppt	-1.02 ppt
Net Margin	20.71%	21.14%	21.63%	17.64%	17.77%	19.27%	+3.08 ppt	+3.37 ppt	+2.36 ppt

Source: Bloomberg, CMBIS estimates

Figure 4: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2027E
EBIT	5,290	7,165	9,520	13,804	19,878	28,426	40,365	56,914
Tax rate	13.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
EBIT*(1-tax rate)	4,603	6,090	8,092	11,734	16,896	24,162	34,310	48,377
+ D&A	1,146	1,474	1,547	1,919	2,360	2,879	3,484	4,181
- Change in working capital	(172)	(806)	(1,003)	(1,243)	(1,529)	(1,866)	(2,258)	(2,709)
- Capx	(7,000)	(4,000)	(4,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
FCFF	(1,424)	2,759	4,637	10,409	15,727	23,176	33,536	47,849
Terminal value								932,322
Terminal growth rate	4.00%							
WACC	9.34%							
Cost of Equity	11.70%							
Cost of Debt	4.50%							
Equity Beta	0.80							
Risk Free Rate	2.50%							
Market Risk Premium	11.50%							
Target Debt to Asset ratio	30.00%							
Effective Corporate Tax Rate	15.00%							
Terminal value	456,471							
Total PV	533,317							
Net debt	(2,921)							
Equity value	536,238							
# of shares	2,449,965,618							
DCF per share (in RMB)	218.88							

Source: CMBIS estimates

Figure 5: Sensitivity analysis (RMB mn)

		Terminal growth rate				
		3.00%	3.50%	4.00%	4.50%	5.00%
Equity Beta	0.60	270.25	299.27	336.07	384.28	450.16
	0.70	222.93	242.70	266.84	296.96	335.60
	0.80	187.97	202.10	218.88	239.12	264.04
	0.90	161.17	171.63	183.80	198.13	215.25
	1.00	140.04	148.01	157.13	167.66	179.97

Source: Company data, CMBIS estimates

Financial Statements

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	12,872	16,535	21,742	28,285	36,814	Total net profit	1,911	2,986	4,543	6,032	8,034
China-based lab services	6,473	8,546	11,110	14,442	18,775	Depreciation and amortization	814	959	1,366	1,694	1,768
CMO/CDMO services	3,752	5,282	7,131	9,413	12,425	Change in working capital	(497)	(494)	(172)	(806)	(1,003)
US-based laboratory services	1,563	1,517	1,896	2,313	2,822	Investment loss (gain)	219	(631)	(772)	(1,049)	(1,354)
Clinical research & other CRO services	1,063	1,169	1,578	2,083	2,749	Other operating activities	469	1,154	254	254	254
Others	21	22	28	35	43	Net cash from operating	2,916	3,974	5,219	6,126	7,699
Cost of sales	(7,858)	(10,253)	(13,290)	(17,049)	(21,960)	Capex	(2,532)	(3,031)	(5,000)	(2,000)	(2,000)
Gross profit	5,014	6,282	8,451	11,236	14,854	Acquisition of subsidiaries	(785)	(186)	-	-	-
Business taxes	(28)	(35)	(45)	(59)	(77)	Other investing activities	(1,658)	(5,559)	(2,000)	(2,000)	(2,000)
Selling & distribution expenses	(439)	(588)	(783)	(990)	(1,288)	Net cash from investing	(4,975)	(8,776)	(7,000)	(4,000)	(4,000)
Administrative expenses	(1,482)	(1,839)	(2,392)	(3,111)	(4,050)	Net proceeds from shares issued	769	13,162	-	-	-
R&D expenses	(590)	(693)	(913)	(1,160)	(1,473)	Net borrowings	4,510	(1,284)	-	-	-
Operating profit	2,474	3,127	4,319	5,916	7,966	Acquisition of non-controlling					
Finance costs, net	(24)	(520)	(69)	(69)	(69)	Dividends and interests paid	(730)	(638)	(1,420)	(1,862)	(2,458)
Investment gains	48	606	100	100	100	Other financing activities	(2,991)	(1,352)	-	-	-
Net gain from FV changes	(259)	52	672	949	1,254	Net cash from financing	1,558	9,888	(1,420)	(1,862)	(2,458)
Other gains	98	104	200	200	200	FX changes	(33)	(81)	-	-	-
Pre-tax profit	2,337	3,369	5,222	7,096	9,452	Net change in cash	(501)	5,086	(3,200)	264	1,242
Income tax	(426)	(383)	(679)	(1,064)	(1,418)	Cash at the beginning of the year	5,758	5,223	10,237	7,037	7,301
Minority interests	(57)	(26)	(40)	(53)	(70)	Cash at the end of the year	5,223	10,228	7,037	7,301	8,542
Net profit	1,855	2,960	4,503	5,979	7,964						
Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	16,576	23,232	29,452	32,621	36,021	Sales mix (%)					
Fixed asset	4,333	5,710	9,564	10,090	10,543	China-based lab services	50	52	51	51	51
Intangible assets	918	998	919	840	761	CMO/CDMO services	29	32	33	33	34
Financial assets	4,009	6,717	9,489	12,538	15,892	US-based laboratory services	12	9	9	8	8
Goodwill	1,362	1,392	1,392	1,392	1,392	Clinical research and other CRO services	8	7	7	7	7
Other non-current assets	5,954	8,415	8,088	7,761	7,434	Others	0	0	0	0	0
Current assets	12,663	23,059	20,546	22,721	26,410	Profit & loss ratios (%)					
Cash	5,227	10,237	7,037	7,301	8,542	Gross margin	39	38	39	40	40
Inventories	1,742	2,686	2,870	3,682	4,742	EBITDA margin	25	29	31	31	31
Trade and bills receivables	2,961	3,667	4,170	5,270	6,657	Pre-tax margin	18	20	24	25	26
Prepayments, deposits and other receivables	123	210	210	210	210	Net margin	14	18	21	21	22
Other current assets	2,609	6,259	6,259	6,259	6,259	Effective tax rate	18	11	13	15	15
Current liabilities	6,634	7,920	8,435	9,541	10,986	Balance sheet ratios					
Borrowings	1,604	1,230	1,230	1,230	1,230	Current ratio (x)	2	3	2	2	2
Trade and other payables	592	941	1,456	2,562	4,007	Trade receivables turnover days	70	73	70	68	66
Other current liabilities	4,438	5,749	5,749	5,749	5,749	Trade payables turnover days	103	107	107	107	107
Non-current liabilities	5,195	5,652	5,652	5,652	5,652	Net debt to total equity ratio (%)	0.68	Net cash	Net cash	Net cash	Net cash
Borrowings	762	-	-	-	-	Returns (%)					
Other non-current liabilities	4,433	5,652	5,652	5,652	5,652	ROE	11	9	13	15	18
Total net assets	17,410	32,718	35,910	40,148	45,793	ROA	7	6	9	11	13
Minority interest	97	225	264	317	387	Per share					
Shareholders' equity	17,312	32,494	35,646	39,832	45,406	EPS (RMB)	0.81	1.27	1.84	2.44	3.25
						DPS (RMB)	0.24	0.38	0.55	0.73	0.98
						BVPS (RMB)	7.63	14.06	14.66	16.39	18.69

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.