

Company Report

Wuxi Biologics (2269 HK)

Solid 1H22 results; more resilient in tightening cycle

- 1H22 adj. net profit grew 60% yoy to RMB2,835mn, on the high end of profit alert range of 58-60%, in line w/ CMS est.
- Co. slightly lifted growth guidance to 47% from 45% for FY22E top/bottom line, closer to our projection of 49% growth
- We cut DCF-based TP to HKD118. Maintain BUY on its leading position in biologics CXO space and resilient track record

Business momentum remained strong in 1H22

1H22 revenue grew 64% yoy to ~RMB7.2bn, driven by: 1) sustained increase in integrated projects (+59 new projects in 1H22); 2) total order backlog reached USD18.5bn (+48% yoy, +36% hoh) in 1H22, consisting of USD5.7bn milestone and USD12.8bn service. Backlog within 3yrs grew 36% yoy to USD3bn, solidifying its growth outlook in next 12-18mo. Overall GPM down 4.8ppt to 47.4% due to lower avg. labor productivity (excl. COVID rev) as a result of COVID disruption in 2Q22 and continued new staff recruitment (+729 staff to 10.6k in 1H22). Co. expects GPM to be stable in 2H22E and to trend slightly lower in longer term due to sales mix changes as overseas facility gradually come online (~30% GPM for overseas sites vs. ~50% GPM in China). We thus forecast a slightly lower overall GPM of 44-45% over FY23E/24E to reflect the supply/demand uncertainties on overseas capacities amid inflationary pressure and tighter funding condition. OCF grew 83% yoy to RMB1.5bn, on track to achieve its FCF goal (breakeven in 22E and turn positive in 23E).

Strong non-COVID growth to drive 2H22E-2023E

1H22 non-COVID rev grew 73% yoy to ~RMB5bn. Co. expects strong non-COVID growth (FY22E total rev guidance +47%, o/w non-COVID rev +65%) to offset less COVID-related rev (RMB1bn/1bn for 2H22/23E vs. ~RMB2bn in 1H22). We believe Co. could continue to deliver ~50-60% yoy growth for non-COVID in 23E, supported by 1) robust increase in non-COVID project (+56 vs. +54 in 1H21); 2) growing CXO demand for new modalities (e.g. ADC projects +58%, BsAb +42%), and avg. service fee for novel modalities projects are 50%-100% higher than conventional modalities. That said, we remain cautious for overall CXO demand over 2024E-25E given global healthcare funding dropped ~40-45% YTD.

Maintain BUY with DCF TP revised down to HKD118

We maintain FY22E forecast but revised down FY23E earnings by 5% to reflect margin pressures under inflationary environment. We also cut DCF TP to HKD118 to reflect biotech's CXO demand hampered by tighter funding condition. **Investment risk:** lower-than-expected growth, tight biotech funding, geo-political risk.

RMB mn	2019	2020	2021	2022E	2023E
Consolidated revenue	3,984	5,612	10,290	15,307	20,778
yoy change	57%	41%	83%	49%	36%
Adjusted net profit	1,208	1,708	3,344	4,878	6,282
yoy change	85%	41%	96%	46%	29%
Adj EPS fully diluted (HKD)	0.3	0.5	0.9	1.3	1.7
PER adj (x)	214.2	159.2	79.3	55.3	43.0
PBR (x)	21.1	13.7	8.4	7.3	6.2

Sources: Company data, CMS (HK) estimates, closing price as of Aug 18, 2022

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WHAT'S NEW

1H22 earnings update, TP revision

BUY

Previous	BUY
Price (Aug 18, 2022)	HKD71.7
12-month Target Price (Potential up/downside)	HKD118 (+65%)
Previous	HKD171

Price Performance



Source: Bloomberg

%	1m	6m	12m
2269 HK	(7.5)	14.6	(37.0)
HSI	(4.3)	(18.8)	(21.9)

Source: Bloomberg

Sector: Pharmaceutical & Healthcare

Hang Seng Index (Aug 18, 2022)	19,764
HSCEI (Aug 18, 2022)	6,700

Key Data

52-week range (HKD)	40.3-127.3
Market cap (HKD mn)	305,760
Avg. daily traded value (HKD mn)	1,566
BVPS (HKD)	11.5

Shareholding Structure

Founders and management	20.7%
Capital Group	6.8%
BlackRock	5.9%
Free float	66.6%

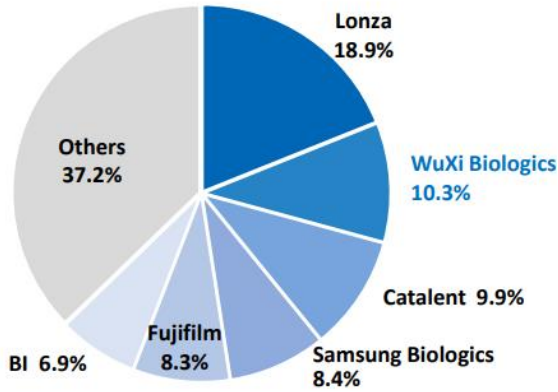
Source: Bloomberg

Related Research

1. Wuxi Biologics (2269 HK) – Strong momentum, more resilient in tightening cycle (BUY) (Jun 16, 2022)
2. Wuxi Biologics (2269 HK) – Co. shows resilience amid Omicron wave in China (BUY) (May 23, 2022)
3. Wuxi Biologics (2269 HK) – Strong momentum into 2022E (BUY) (March 23, 2022)
4. Wuxi Biologics (2269 HK) – The addition to UVL see little impacts on its business (BUY) (February 9, 2022)

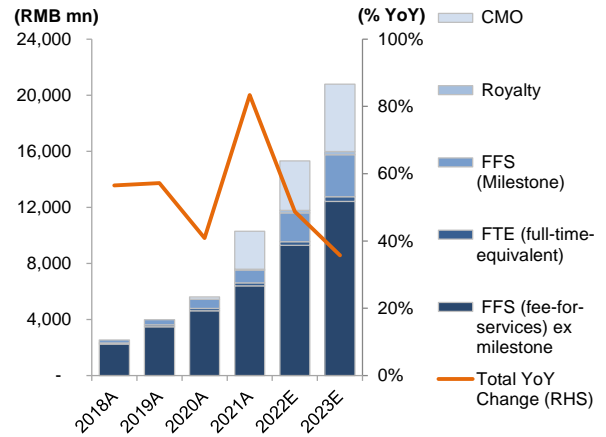
Focus charts

Figure 1: Market share of global biologics outsourcing services market by revenue in 2021



Source: Frost & Sullivan

Figure 2: Revenue breakdown and forecasts



Source: Company data

Figure 3: Global network



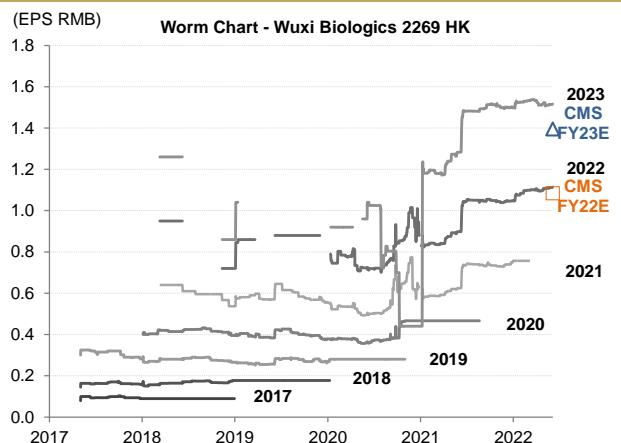
Sources: Company, CMS (HK) estimates

Figure 4: P/E band



Sources: Bloomberg, CMS (HK) estimates

Figure 5: Consensus worms



Sources: Bloomberg, CMS (HK) estimates

Figure 6: DCF details (RMB mn)

High growth phase								
FY	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E
EBIT adjusted	3,997	5,829	7,478	10,377	13,592			
yoy								
NOPAT (EBIT*(1-t))	3,397	4,955	6,357	8,821	11,553			
Add: depreciation and amortization	630	1,048	1,291	1,575	1,845			
Less: capital expenditures	(6,500)	(5,500)	(6,500)	(6,500)	(3,000)			
Less: net working capital	(1,136)	(659)	(862)	(1,783)	(2,256)			
FCFE	(3,609)	(157)	285	2,113	8,142	11,398	15,388	20,004
yoy		-96%	-282%	641%	285%	40%	35%	30%
PV	(3,609)	(157)	260	1,752	6,150	7,842	9,642	11,416
Transitional growth phase								
FY	2029	2030	2031	2032	2033	2034	2035	2036
yoy growth	27%	24%	21%	18%	14%	11%	8%	5%
EBIT*(1-t)								
Add: depreciation and amortization								
Less: capital expenditures								
Less: net working capital								
FCFE	25,380	31,408	37,886	44,516	50,915	56,643	61,246	64,308
PV	12,014	13,540	14,875	15,918	16,581	16,800	16,544	15,821
Stable growth phase								
FY	2037							
FCFE in terminal year =	64,308							
Price at the end of growth phase =	1,406,733							
Present value of FCFE in high growth phase =	37,062							
Present value of FCFE in transition phase =	122,093							
Present value of terminal price =	287,059							
Intrinsic value =	446,215							

Source: CMS (HK) estimates

Figure 7: DCF summary

DCF summary results	
Enterprise value (RMB mn)	446,215
Net cash (RMB mn) in FY22E	7,529
Equity value (RMB mn)	453,745
FX rate (HKD/RMB)	1.17
Equity value (HKD mn)	530,881
Shares outstanding (mn)	4,501
Value per share (HKD)	118

Source: CMS (HK) estimates

Financial Summary

Balance Sheet

RMB mn	2019	2020	2021	2022E	2023E
Non-current assets	7,930	14,759	24,503	28,955	34,165
PP&E	6,338	11,996	18,065	22,572	27,830
Deferred tax assets	36	80	221	221	221
Loan and account receivables	458	874	1,690	1,690	1,690
Intangible assets	416	392	601	547	497
Deposits and prepayments	45	49	57	57	57
Goodwill	185	185	1,530	1,530	1,530
Others	452	1,182	2,338	2,338	2,338
Current assets	9,672	14,204	19,530	20,823	23,092
Inventories	399	1,084	1,687	1,778	2,344
Account receivables	1,335	2,333	3,124	4,403	5,693
Prepayments & other receivables	402	918	1,747	1,747	1,747
Service work in progress	324	416	1,138	1,138	1,138
Others	0	3	9	9	9
Financial assets	574	553	1,455	1,455	1,455
Restricted cash	432	1,801	1,366	1,366	1,366
Total cash and cash equivalents	6,205	7,096	9,003	8,926	9,340
Total assets	17,602	28,964	44,033	49,779	57,257
Current liabilities	2,871	4,498	8,256	8,967	9,960
Trade and bills payables	186	646	1,734	2,445	3,438
Advance from customers	-	-	-	-	-
Other payables	2,037	2,834	3,842	3,842	3,842
Income tax payable	142	251	558	558	558
ST bank debt	506	767	2,122	2,122	2,122
Non-current liabilities	1,835	3,566	3,071	3,071	3,071
Deferred government grants	149	214	224	224	224
Long-term payables	-	660	653	653	653
Deferred tax liabilities	25	188	124	124	124
LT bank loans	1,395	1,838	641	641	641
Obligation under a finance lease	266	667	1,429	1,429	1,429
Shareholders' funds	12,896	20,899	32,706	37,741	44,225
Minorities	112	335	428	584	787
Total liability and equity	17,602	28,964	44,033	49,779	57,257

Cashflow Statement

RMB mn	2019	2020	2021E	2022E	2023E
Cash flow from operating	1,208	1,881	3,400	5,319	6,811
Pretax profit	1,127	1,966	3,993	4,955	6,330
OP before WC changes	1,502	2,385	4,831	6,720	8,612
Net working capital change	(216)	(367)	(907)	(659)	(862)
Income tax paid	(78)	(94)	(485)	(687)	(884)
Interest paid	-	(43)	(39)	(55)	(55)
Cash flow from investing	(4,494)	(7,216)	(6,442)	(5,396)	(6,397)
Purchase of PPE	(3,211)	(6,025)	(6,500)	(5,500)	(6,500)
Option fee received	-	-	-	-	-
Pledged bank deposit, net	(406)	(1,494)	-	-	-
Interest received	54	79	58	104	103
Others	(929)	225	-	-	-
Cash flow from financing	5,413	6,566	4,950	-	-
Proceeds from equity issue	3,575	5,610	10,899	-	-
Proceeds/repayment of bank loans	1,910	870	-	-	-
Paid/repaid from sister companies	-	-	-	-	-
Others	(72)	85	(5,949)	-	-
Beginning cash	4,084	6,206	7,096	9,003	8,926
Net change	2,127	1,231	1,908	(77)	414
End cash	6,206	7,096	9,003	8,926	9,340

Sources: Company data, CMS (HK) estimates

Profit & Loss Statement

RMB mn	2019	2020	2021	2022E	2023E
Consolidated revenue	3,984	5,612	10,290	15,307	20,778
Cost of goods sold	(2,325)	(3,079)	(5,461)	(8,114)	(11,410)
Gross profit	1,659	2,533	4,829	7,193	9,368
(+/-) Other income/expense	102	138	138	152	167
(-) Total SG&A expense	(444)	(606)	(1,001)	(1,515)	(2,057)
Administrative expenses	(367)	(511)	(876)	(1,301)	(1,766)
Selling and distribution costs	(77)	(94)	(125)	(214)	(291)
(-) R&D expenses	(260)	(304)	(502)	(765)	(1,039)
Adjusted EBITDA	1,582	2,121	3,928	6,877	8,769
Depreciation	(315)	(400)	(582)	(994)	(1,241)
SBC	(204)	(276)	(532)	(765)	(1,039)
EBIT	1,057	1,762	3,465	5,064	6,439
(+/-) Finance cost- net	38	(53)	(14)	48	48
(+/-) Profit from JV & Asso.	(3)	3	-	-	-
(+/-) Other income/losses	8	228	542	(157)	(157)
(-) Listing expense	-	-	-	-	-
Profit before tax	1,127	1,966	3,993	4,955	6,330
(-) Tax	(116)	(273)	(485)	(687)	(884)
Net Profit	1,010	1,693	3,509	4,269	5,446
(+/-) Minority interest	(3)	4	120	156	203
NP attri. to shareholders	1,014	1,689	3,388	4,113	5,243
Adjusted net profit	1,208	1,708	3,344	4,878	6,282
Adj EPS fully diluted (RMB)	0.30	0.41	0.76	1.08	1.40
Adj EPS fully diluted (HKD)	0.33	0.45	0.90	1.30	1.67

Financial Ratios

	2019	2020	2021E	2022E	2023E
Growth					
Consolidated revenue	57%	41%	83%	49%	36%
Gross profit	63%	53%	91%	49%	30%
Adjusted net profit	85%	41%	96%	46%	29%
Profitability					
Gross margin	42%	45%	47%	47%	45%
Adj. net profit margin	30%	30%	32%	32%	30%
ROE	12%	10%	13%	14%	16%
ROA	9%	7%	9%	10%	12%
Efficiency					
Inventory days	49	88	93	78	66
Accounts receivable days	96	119	97	90	89
Accounts payable days	32	49	80	94	94
Cash cycle days	113	158	110	74	61
Liquidity					
FCF (RMB mn)	(2,003)	(4,144)	(3,100)	(181)	311
Net gearing (%)	(37)	(30)	(23)	(20)	(18)

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
HOLD	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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