

Company Report

CSPC PHARMA (1093 HK)

2Q22 net profit in-line, but oncology faces pressure

■ 2Q22 adj. NP grew 13% yoy, in line with est.; but 2Q22 oncology products sales saw weakness in 2Q22 (down 9% yoy)

■ We believe CSPC's R&D and BD progress remained the major re-rate catalysts

■ We cut SOTP TP to HKD14.4 from HKD14.8. Maintain BUY on Co. pipeline upgrade progress and strong capital flexibilities

2Q22 results in-line with our expectation

Finished drug sales in 2Q22 grew to RMB5,991mn (+4% yoy), thanks to strong sales in anti-infective products (+19% yoy to RMB853mn) and robust sales in nervous system products (+7% yoy to RMB1,938mn). But oncology drug sales declined to RMB1,898mn (-9% yoy, -12% qoq), due to Omicron disruption in 2Q22. We noted Keaili had sharp ASP reduction (down 80%) at Henan-led 13 provinces regional VBP in June, which should continue to weigh on Co.'s oncology portfolio. Functional food and other business (+63% yoy to RMB540mn) thanks to favourable price trend. Bulk products sales grew 20% yoy to RMB1,206mn, thanks to increased production capacity offsetting decreasing Vitamin C price. Overall GPM contracted by 3.9ppt to 71.5% due to changes in sales mix and declined ASP of Vitamin C products. Adj. net profit, excluding non-recurring items (e.g. fair value gain on financial assets) grew 13% yoy (vs. 13.5% yoy in 1Q22), which is broadly in line with our full year FY22E estimates of mid-teen growth.

Continued validation on its mRNA platform

Co. now has 6 ongoing clinical for SYS6006 (Co.'s COVID mRNA vaccine candidate). Co. on Aug 23 announced a clinical study of SYS6006 (COVID mRNA vaccine) for heterologous booster (prior 2 doses of inactivated vaccine or 3 doses of recombinant protein vaccine) has met expectation on safety and immunogenicity. The study shows SYS6006 as heterologous booster has superior immunogenicity against Omicron BA.2 strain comparing to conventional vaccines, and has well-tolerated safety profile. We believe these clinical progresses should serve as validation of the strength of CSPC's mRNA platform.

Maintain BUY w/ SOTP-based TP revised to HKD14.4

We cut FY22E/23E earnings estimates by 2%/4% to reflect weaker Keaili sales outlook and revised SOTP TP to HKD14.4 from HKD14.8. But we retain 30% premium on top of the SOTP valuation justified by its better position for pursuing BD opportunities. Stock is also trading a ~45% discounted PER to its large pharma peers (~21x), providing a wide margin of safety amid ongoing turbulent market.

RMB mn	2019	2020	2021	2022E	2023E
Revenue	22,103	24,942	27,867	32,170	35,572
Growth	25%	13%	12%	15%	11%
Adj. net profit	3,691	4,331	5,307	5,983	6,635
Growth	26%	17%	23%	13%	11%
EPS (HKD)	0.35	0.41	0.52	0.60	0.67
P/E (x)	21.9	18.8	14.7	12.7	11.5
P/B (x)	5.6	4.5	3.9	3.4	2.9
Dividend yield (%)	1.1	1.7	1.8	2.0	2.2

Sources: Company data, CMS (HK) estimates

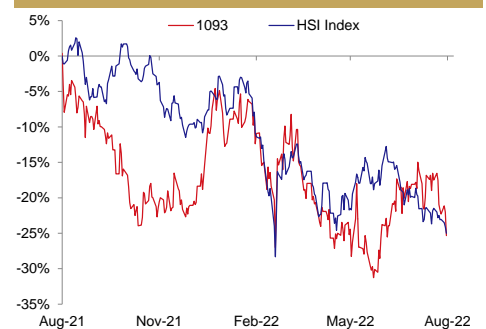
WHAT'S NEW

2Q22 result updates; TP revision

BUY

Previous	BUY
Price (Aug 24, 2022)	HKD7.7
12-month Target Price (Potential up/downside)	HKD14.4 (+88%)
Previous	HKD14.8

Price Performance



Source: Bloomberg

%	1m	6m	12m
1093 HK	(9.1)	(16.2)	(25.3)
HSI	(7.8)	(15.4)	(25.0)

Pharmaceutical & Healthcare	
Hang Seng Index (Aug 24, 2022)	19,269
HSCEI (Aug 24, 2022)	6,566
Key Data	
52-week range (HKD)	7.0-10.9
Market cap (HKD mn)	91,289
Avg. daily traded value (HKD mn)	294.0
BVPS (HKD)	2.63
Shareholding Structure	
Management	29.7%
Free float	70.3%

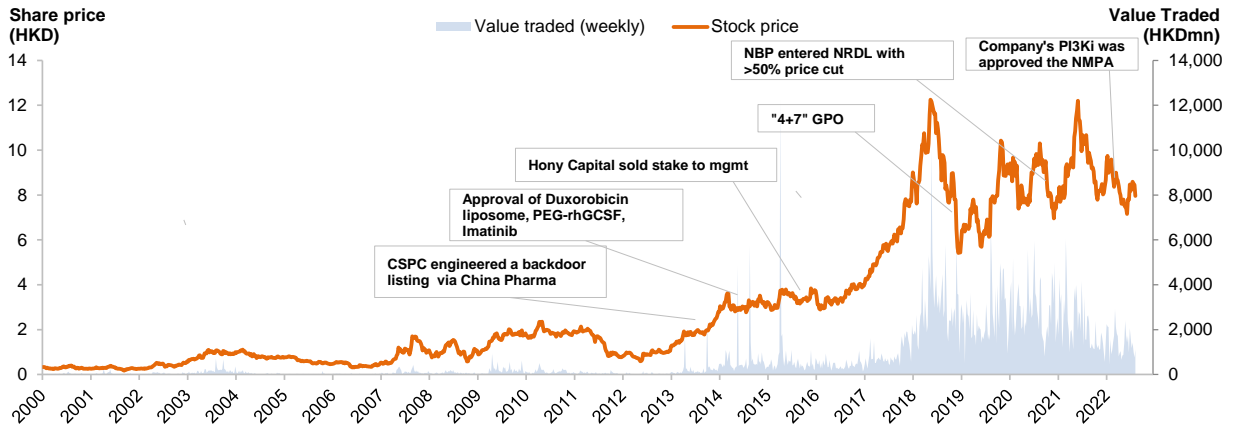
Sources: Company, Bloomberg

Related Research

1. CSPC (1093 HK) – Steady 1Q22 results (BUY) (May 25, 2022)
2. CSPC (1093 HK) – Our top-pick defensive play in a volatile 2022 (BUY) (Mar 22, 2022)
3. CSPC (1093 HK) – A solid defensive play amid market turbulence (BUY) (Feb 4, 2022)
4. CSPC (1093 HK) – Weak 3Q21 results; full year guidance intact (BUY) (Nov 19, 2021)

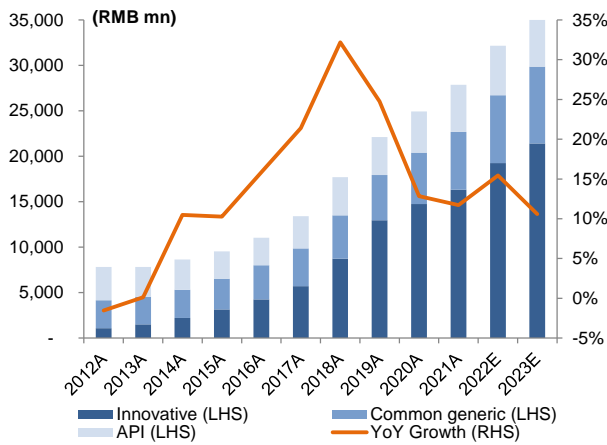
Focus charts

Figure 1: CSPC's share price performance since 2012



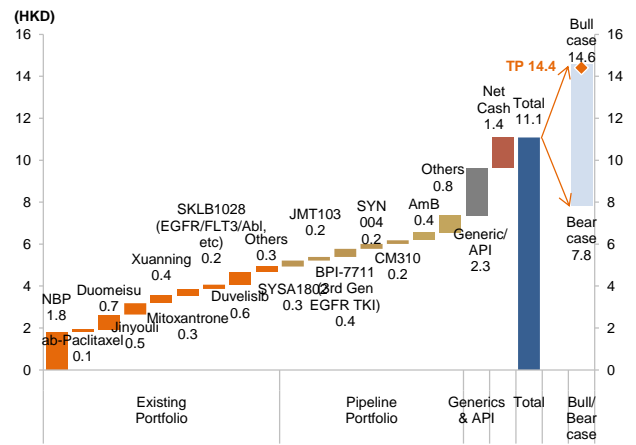
Sources: Bloomberg, CMS (HK)

Figure 2: Revenue breakdown



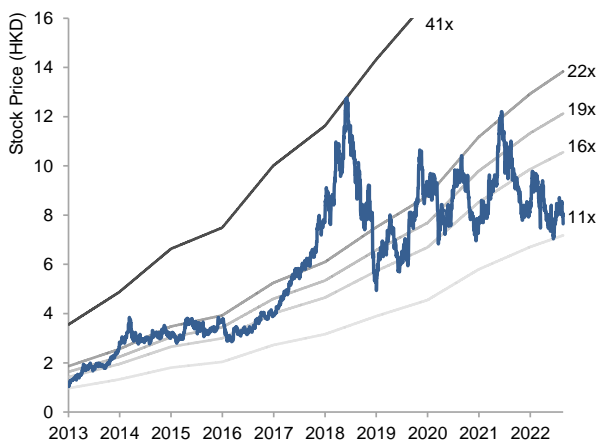
Sources: Company data, CMS (HK) estimates

Figure 3: NAV per share breakdown



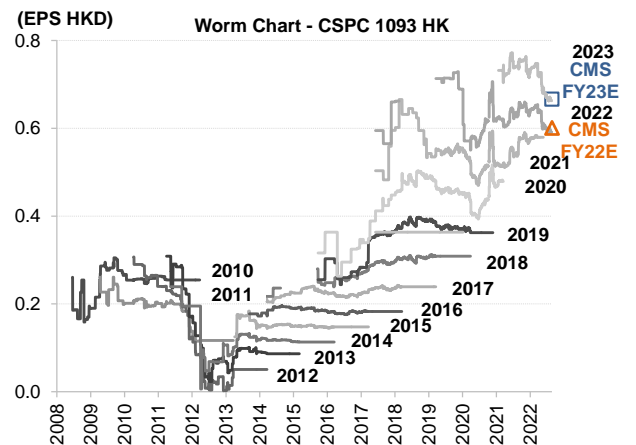
Sources: Company data, CMS (HK) estimates

Figure 4: P/E band



Sources: Bloomberg, CMS (HK) estimates

Figure 5: Worm chart



Sources: Bloomberg, CMS (HK) estimates

Figure 6: Forecast revision

Income statement (RMB mn)	2022E			2023E		
	Before	After	% Chg	Before	After	% Chg
Consolidated revenue	32,555	32,170	-1.2%	37,687	35,572	-5.6%
Cost of goods sold	(8,347)	(8,309)	-0.5%	(9,996)	(9,656)	-3.4%
Gross profit	24,208	23,861	-1.4%	27,691	25,916	-6.4%
(-) Total SG&A expense	(13,575)	(13,415)	-1.2%	(15,508)	(14,460)	-6.8%
Administrative expenses	(1,205)	(1,190)	-1.2%	(1,376)	(1,298)	-5.6%
Selling and distribution costs	(12,371)	(12,224)	-1.2%	(14,132)	(13,162)	-6.9%
EBIT	10,632	10,446	-1.8%	12,183	11,456	-6.0%
Total Depreciation and amortisation	(1,030)	(1,030)	0.0%	(1,128)	(1,128)	0.0%
EBITDA	11,663	11,477	-1.6%	13,311	12,584	-5.5%
(+/-) Finance (expense)/income - net	139	139	0.0%	187	187	0.1%
(+/-) Profit from JV&Asso.	50	50	0.0%	50	50	0.0%
(+/-) R&D expense	(3,563)	(3,493)	-2.0%	(4,141)	(3,768)	-9.0%
(+/-) Other income	163	161	-1.2%	188	178	-5.6%
Profit before tax	7,422	7,304	-1.6%	8,467	8,102	-4.3%
(-) Tax	(1,299)	(1,278)	-1.6%	(1,482)	(1,418)	-4.3%
Net Profit	6,123	6,026	-1.6%	6,985	6,684	-4.3%
(+/-) Minority interest	(61)	(60)	-1.6%	(70)	(67)	-4.3%
Net profit attributable to shareholders	6,062	5,965	-1.6%	6,916	6,617	-4.3%
Adjusted net profit	6,080	5,983	-1.6%	6,933	6,635	-4.3%
Growth			p.p.			p.p.
Consolidated revenue	17%	15%	-1	16%	11%	-5
Gross profit	15%	13%	-2	14%	9%	-6
Adjusted net profit	15%	13%	-2	14%	11%	-3
Profitability						
Gross margin	74.4%	74.2%	0	73.5%	72.9%	-1
Adj. net profit margin	18.7%	18.6%	0	18.4%	18.7%	0

Sources: Bloomberg, CMS (HK) estimates

Valuation Summary

Figure 7: rNPV-based SOTP valuation and main assumptions

(RMB mn)	Target	Regulatory Status	Major indication	Launch date	Peak sales	PoS	Previous rNPV	Revised rNPV	% Change
Core portfolio drugs (rNPV)							76,337	73,353	-4%
Existing portfolio									
NBP		Approved	mild to moderate ischemic stroke	2005	7,596	100%	18,048	18,048	0%
Paclitaxel injection (albumin bound)		Approved	BC, NSCLC, pancreatic cancer	2018	2,890	100%	4,145	1,162	-72%
Duomeisu (doxorubicin liposome)		Approved	1L leukemia, lymphoma, MM, OC and BC, 2L AIDS-related Kaposi's sarcoma	2012	4,099	100%	7,051	7,051	0%
Jinyouli (PEG-rhG-CSF)		Approved	Leucopenia, chemotherapy induced infection	2012	3,153	100%	5,424	5,424	0%
Xuanning (Levamlodipine)		Approved	Hypertension	2020	2,637	100%	3,606	3,606	0%
Mitoxantrone liposome	New preparation	Approved	Metastatic BC, AML, NHL, 2L prostate cancer, etc.	2021	2,092	100%	3,176	3,176	0%
Copiktra (duvelisib)	PI3K-gamma/delta	P3	3L CLL, FL	2022	700	85%	2,029	2,029	0%
Others		Approved					6,116	6,116	0%
Pipeline candidates									
SYSA1802 (PD-1/Nab Paclitaxel)	PD-1 mAb	P3	TNBC	2023	1,500	70%	2,497	2,497	0%
JMT103	RANKL mAb	P3	Hypercalcemia/Giant-cell tumor of bone/Osteoporosis/Bone metastasis	2023	1,228	70%	2,799	2,799	0%
SKLB1028	EGFR/FLT3/Abl,etc	P3	AML (FLT3-ITD mutation) & NSCLC	2023	806	70%	1,753	1,753	0%
BPI-7711	3rd Gen EGFR TKI	P3	NSCLC	2022	1,559	85%	3,862	3,862	0%
SYN004 Omalizumab	IgE	P3	Asthma, hives	2024	1,500	60%	2,353	2,353	0%
CM310	IL-4Rα	P2	Asthma, COPD	2025	2,500	30%	1,726	1,726	0%
Amphotericin B	New preparation	NDA	Anti-fungal	2022	2,030	100%	3,575	3,575	0%
Others							8,178	8,178	0%
Common generic (10x 23E NOPAT)							13,842	13,678	-1%
API (13x 23E NOPAT)							8,979	8,979	0%
Net cash (YE22E)							14,378	14,369	0%
Valuation (RMB mn)							113,536	110,379	-3%
Valuation per share (HKD)							11.4	11.1	-3%
Capital allocation premium							30%	30%	0 ppt
TP (HKD)							14.8	14.4	-3%

Sources: Company data, CMS (HK) estimates

Financial Summary

Balance Sheet

RMB mn	2019	2020	2021	2022E	2023E
Non-current assets	12,621	14,149	14,405	14,925	15,347
PP&E	8,459	7,770	8,529	9,029	9,431
Lease prepayment for LUR	823	1,199	1,068	1,068	1,068
Goodwill	189	150	150	150	150
Intangible assets	1,136	509	468	438	408
Interests in associates	558	1,591	1,197	1,247	1,297
Others	1,456	2,930	2,992	2,992	2,992
Current assets	13,697	15,921	20,337	24,110	29,157
Inventories	2,536	1,861	2,480	2,908	3,862
Trade receivables	4,252	4,388	6,408	6,112	6,759
Prepayments and other receivables	707	629	681	681	681
Others	59	212	40	40	40
Short-term deposits	2,024	1,572	1,443	1,443	1,443
Total cash and cash equivalents	4,118	7,259	9,284	12,925	16,372
Total assets	26,318	30,070	34,742	39,034	44,503
Current liabilities	6,237	6,302	7,226	7,265	8,017
Trade and bills payables	1,427	1,242	1,623	1,662	2,414
Other payables	3,692	3,555	4,681	4,681	4,681
Income tax payable	259	379	261	261	261
ST bank debt	23	99	-	-	-
Others	836	1,028	662	662	662
Non-current liabilities	563	667	687	687	687
Deferred government grants	259	347	306	306	306
LT bank loans	-	-	-	-	-
Others	304	320	381	381	381
Shareholders' funds	18,462	22,332	25,987	30,180	34,830
Minorities	1,056	769	842	902	969
Total liability and equity	26,318	30,070	34,742	39,034	44,503

Cashflow Statement

RMB mn	2019	2020	2021	2022E	2023E
Cash flow from operating activities	3,784	6,738	4,637	6,931	6,931
Pretax profit	4,626	6,391	6,847	7,304	8,102
OP before WC changes	5,168	6,729	5,693	8,163	9,011
Net working capital change	(485)	1,072	86	(92)	(849)
Income tax paid	(867)	(1,061)	(1,141)	(1,278)	(1,418)
Interest paid	(32)	(2)	(1)	139	187
Cash flow from investing activities	(2,457)	(2,130)	(637)	(1,500)	(1,500)
Purchase of PPE	(1,883)	(1,356)	(1,410)	(1,500)	(1,500)
Purchase of land use rights	-	(199)	(9)	-	-
Purchase of intangible assets	(66)	(21)	(339)	-	-
Purchase/disposal of subsidiaries	-	-	-	-	-
Purchase/disposal of JV & Asso.	(539)	(150)	457	-	-
Interest received	-	-	-	-	-
Others	31	(402)	664	-	-
Cash flow from financing	(1,546)	(1,469)	(2,196)	(1,790)	(1,985)
Proceeds from IPO, net	1,224	-	-	-	-
Dividends	(965)	(1,528)	(1,691)	(1,790)	(1,985)
Bank borrowings, net	(1,552)	169	-	-	-
Paid/repaid from sister companies	(18)	-	-	-	-
Others	(234)	(110)	(505)	-	-
Beginning cash	4,336	4,118	7,259	9,060	12,702
Forex	1	2	(2)	-	-
End cash	4,118	7,259	9,060	12,702	16,148

Profit & Loss

RMB mn	2019	2020	2021	2022E	2023E
Consolidated revenue	22,103	24,942	27,867	32,170	35,572
Cost of goods sold	(6,192)	(6,257)	(6,732)	(8,309)	(9,656)
Gross profit	15,911	18,685	21,135	23,861	25,916
(-) Total SG&A expense	(9,461)	(10,323)	(11,453)	(13,415)	(14,460)
Administrative expenses	(749)	(946)	(1,010)	(1,190)	(1,298)
Selling and distribution costs	(8,712)	(9,378)	(10,443)	(12,224)	(13,162)
EBIT	6,450	8,362	9,682	10,446	11,456
Total Depreciation and amortization	(692)	(809)	(865)	(1,030)	(1,128)
EBITDA	7,142	9,171	10,547	11,477	12,584
(+/-) Finance income, net	32	91	176	139	187
(+/-) Profit from JV & Asso.	58	14	22	50	50
(+/-) Other income/expense, net	(1,934)	(1,948)	(2,997)	(3,332)	(3,591)
Profit before tax	4,608	6,518	6,883	7,304	8,102
(-) Tax	(893)	(1,162)	(1,159)	(1,278)	(1,418)
Net Profit	3,715	5,356	5,724	6,026	6,684
(-/+) Minority interest	(19)	(69)	(83)	(60)	(67)
Net profit to shareholders	3,696	5,287	5,641	5,965	6,617
Adjusted net profit	3,691	4,331	5,307	5,983	6,635
EPS Fully diluted (HKD)	0.35	0.41	0.52	0.60	0.67
DPS (HKD)	0.07	0.12	0.13	0.14	0.15

Financial Ratios

	2019	2020	2021	2022E	2023E
Growth (%)					
Consolidated revenue	25%	13%	12%	15%	11%
Gross profit	36%	17%	13%	13%	9%
Adjusted net profit	26%	17%	23%	13%	11%
Profitability (%)					
Gross margin (%)	72%	75%	76%	74%	73%
Adj. net profit margin (%)	17%	17%	19%	19%	19%
ROE	20%	19%	20%	20%	19%
ROA	14%	17%	16%	15%	15%
Efficiency					
Inventory days	(164)	(128)	(118)	(118)	(128)
Accounts receivable days	63	63	71	71	66
Accounts payable days	(139)	(78)	(78)	(72)	(77)
Cash cycle days	37	13	31	25	15
Liquidity					
FCF (RMB mn)	1,835	5,161	2,878	5,431	5,431
Net gearing (%)	(30)	(38)	(40)	(46)	(50)

Sources: Company data, CMS (HK) estimates

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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Hong Kong

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