

Company Report

CR Pharmaceutical (3320 HK)

1H22 results solidifies a positive FY22E

■ 1H22 revenue up 10% yoy and adj. NP grew 24% yoy, in line with CMS estimates

■ The strong 1H22 results reflects Co. remains on uptrend trajectory, which should continue to drive stock re-rate

■ We maintain SOTP-based TP at HKD9.7. Valuation attractive with positive FY22E outlook & potential M&A deals. Maintain BUY

1H22 results revealed growth recovery on pace

Despite Omicron disruption in 2Q22, 1H22 manufacturing grew 18% yoy to ~HKD22bn, mainly driven by CR Boya's consolidation and CR Jiangzhong's high growth (+50% yoy, fuelled by Haisi consolidation). Distribution grew at 8.4% to ~HKD104bn. Co. highlighted medical device distribution (up 39% yoy to HKD14.3bn) is one of the key growth drivers in this segment. Retail grew 13% yoy to ~HKD4bn thanks to rapid DTP growth (+15% yoy). Overall GPM up 0.5ppt to 15.8% mainly due to sales mix shifting towards higher GPM manufacturing. Of note, finance cost down 22% yoy to RMB932mn, thanks to lower effective interest rate (from 3.1% to 3.0%) despite higher net gearing ratio (up to 61% from 52%). We expect Co. to continue benefiting from eased monetary environment in China. Negative OCF increased to RMB3.2bn from RMB1.3bn due to longer AR cycle for hospital due to Omicron impacts in 2Q. But we noticed A/R days remained stable at 101d. As a result, adj. NP grew 24% yoy to RMB3bn, reflecting strong recovery momentum.

Remain in M&A mode, COVID business is a plus

Co. continued to deliver 1-2 M&A deals each year in the past few years, including Aonuo acquired by CR Sanjiu in 2020, Haisi Pharma acquired by CR Jiangzhong and CR Boya acquisition in 2021. We reckon Co. is still well positioned to pursue M&A opportunities, backed by its SOE background and healthy balance sheet. In addition, Co.'s major subsidiary, CR Double-Crane has entered a 10-yr Strategic Cooperation Agreement with Genuine Biotech for CMO service of Azvudine. We think the CMO order should serve as another growth driver for Co.

Valuation remains attractive, maintain BUY

We maintained FY22E/23E earnings estimates unchanged. SOTP-based TP is unchanged at HKD9.7. Co. now trades at ~5x 23E PER, at the lowest quantile in its historical PER band. We expect positive FY22E outlook and potential M&A deals should continue to drive a re-rate. **Investment risks:** clinical failure, lower-than-expected sales.

HKD mn	2019	2020	2021	2022E	2023E
Revenue	204,454	200,423	236,806	261,120	285,043
Growth	7.8%	-2.0%	18.2%	10.3%	9.2%
Adj. net profit	2,809	3,259	3,766	5,155	5,681
Growth	-29.3%	16.0%	15.6%	36.9%	10.2%
Diluted EPS (HKD)	0.45	0.52	0.60	0.82	0.90
DPS (HKD)	0.13	0.11	0.12	0.16	0.18
Dividend yield	2.5%	2.1%	2.3%	3.2%	3.5%
P/E (X)	11.5	9.9	8.6	6.3	5.7
P/B (X)	0.5	0.4	0.3	0.3	0.3

Sources: Company data, CMS (HK) estimates, share price as of Aug 29, 2022.

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WHAT'S NEW

1H22 earnings update

BUY

Previous	BUY
Price (Aug 29, 2022)	HKD5.2
12-month Target Price (Potential up/downside)	HKD9.7 (+88%)
Previous	HKD9.7

Price Performance



%	1m	6m	12m
3320 HK	16.2	37.8	32.0
HSI	1.7	(12.1)	(20.9)

Sector: Pharmaceutical & Healthcare

Hang Seng Index (Aug 29, 2022)	20,023
HSCEI (Aug 29, 2022)	6,872

Key Data

52-week range (HKD)	3.2-5.6
Market cap (HKD mn)	32,418
3M avg. daily turnover (HKD mn)	60.1
BVPS (HKD)	16.5

Shareholding Structure

China Resources National Corporation	53.0%
Beijing Pharmaceutical Investment Ltd	17.4%
Beijing Equity Investment	3.2%
Free float	26.4%

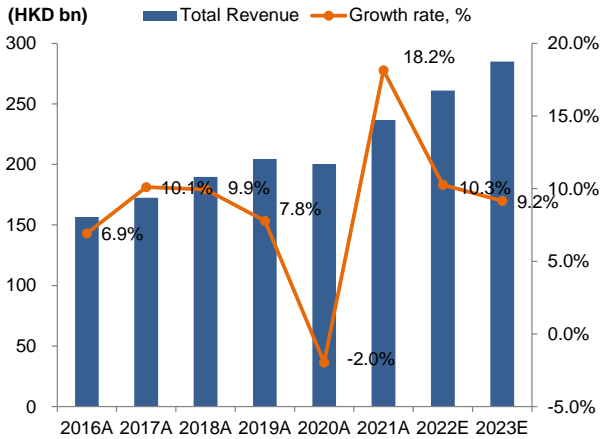
Sources: Bloomberg

Related Research

1. CR Pharmaceutical (3320 HK) – An overlooked COVID-19 player (BUY) (May 10, 2022)
2. CR Pharmaceutical (3320 HK) – A solid recovery play (BUY) (Mar 28, 2021)
3. CR Pharmaceutical (3320 HK) – Attractive recovery play (BUY) (Feb 24, 2021)

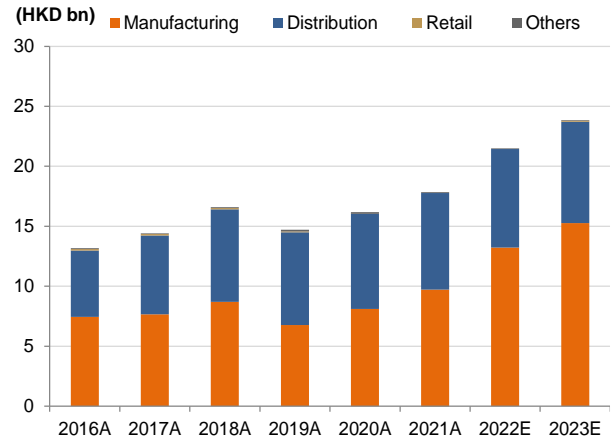
Focus charts

Figure 1: Total sales and growth (HKD bn)



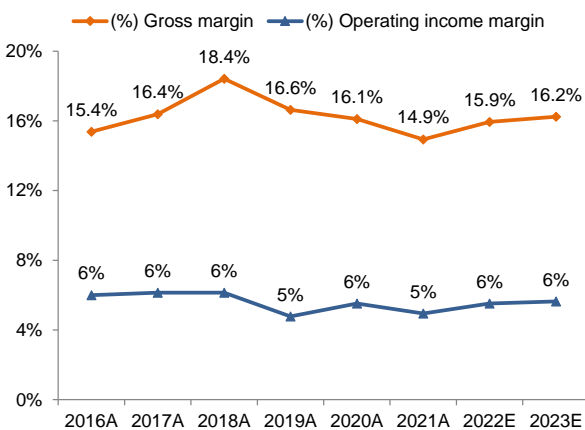
Sources: Company, CMS (HK) estimates

Figure 2: Segment results breakdown (HKD bn)



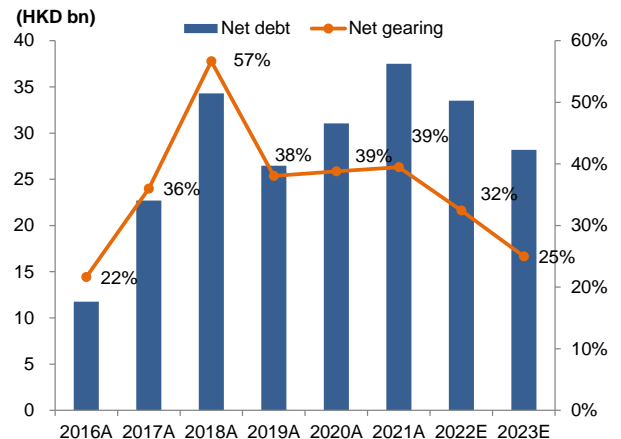
Sources: Company, CMS (HK) estimates

Figure 3: Gross margin trend



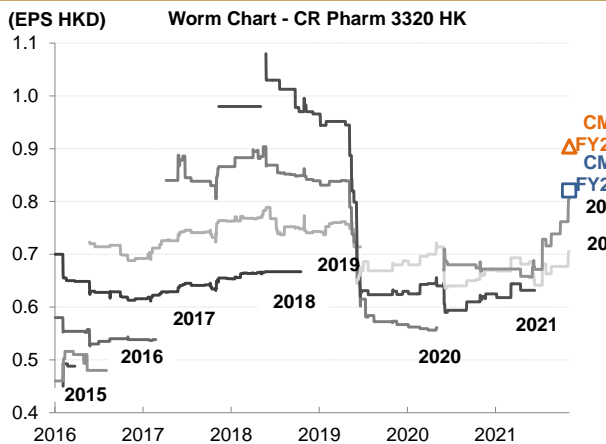
Sources: Company, CMS (HK) estimates

Figure 4: Net debt and net gearing



Sources: Company, CMS (HK) estimates

Figure 5: Consensus worm chart



Sources: Bloomberg, CMS (HK) estimates

Figure 6: Historical P/E band



Sources: Bloomberg, CMS (HK)

Valuation

Figure 7: SOTP valuation – CMS methodology

Valuation (HKD mn)	Multiples	Current
Pharma manufacturing	10x 2023E NOPAT	86,950
Pharma distribution & retail	10x 2023E NOPAT	41,626
Net debt		(33,515)
Financial assets		1,887
Less: Minorities valuation	10x 2023E NOPAT	(36,027)
Equity value		60,921
# of shares (mn)		6,283
TP (HKD)		9.7

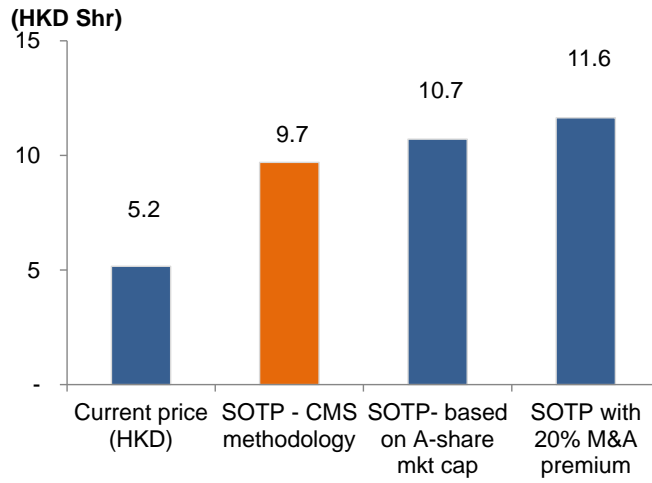
Sources: Company, CMS (HK) estimates

Figure 8: SOTP valuation – based on A-share market cap for reference

Main A share assets	Ticker	Market cap (RMBmn)	% of stake by CR Pharm	CR Pharm's shr of mkt value (HKDmn)
Dong-e Ejiao	000423 CH	22,642	22.3%	5,830
CR Sanjiu	000999 CH	40,325	63.6%	29,598
CR Double Crane	600062 CH	19,540	60.0%	13,528
Jiangzhong Pharma	600750 CH	10,251	21.9%	2,596
Boya	300294 CH	17,160	28.9%	5,715
Total pharma manufacturing		109,918		57,267
Pharma distribution & retail	10x NOPAT			41,626
Net debt at end-FY22E				(33,515)
Financial assets at end-FY22E				1,887
Equity value				67,265
# of shares (m)				6,283
TP (HKD)				10.7

Sources: Company, Bloomberg, CMS (HK) estimates, Closing price as of Aug 29 '22

Figure 9: SOTP valuation – based on A-share market cap for reference



Sources: Company, Bloomberg, CMS (HK) estimates

Financial Summary

Balance Sheet

HKD mn	2019	2020	2021	2022E	2023E
Cash and cash equivalents	12,548	11,231	17,526	23,517	30,847
Pledged bank deposits	4,590	6,492	7,802	7,802	7,802
Short term receivables	63,772	67,703	77,613	84,454	91,232
Inventories	22,332	24,585	29,688	33,535	36,477
Other current assets	29,699	37,098	43,981	43,981	43,981
Total current assets	132,943	147,109	176,610	193,290	210,340
Property, plant & equipment	16,322	17,324	19,677	20,406	21,069
Goodwill	19,306	21,072	24,902	24,902	24,902
Deferred tax assets	856	970	1,310	1,310	1,310
Other assets	20,598	22,896	26,065	24,675	23,500
Total non-current asset	57,082	62,263	71,953	71,292	70,780
Total assets	190,025	209,372	248,562	264,581	281,120
Trade and other payables	60,077	66,467	75,551	81,203	86,285
Bank and other loans	29,775	40,282	47,851	49,851	51,851
Current taxation	453	671	894	894	894
Other current liabilities	16,367	15,199	17,026	17,026	17,026
Total current liabilities	106,672	122,620	141,323	148,974	156,056
Long term debt	9,243	2,008	7,181	7,181	7,181
Deferred taxes	1,507	1,669	1,965	1,965	1,965
Others	3,022	3,046	3,109	3,109	3,109
Total non-current liabilities	13,772	6,723	12,255	12,255	12,255
Total liabilities	120,443	129,342	153,578	161,230	168,311
Minority interest	28,870	33,560	44,003	48,246	53,159
Common equity	40,711	46,470	50,981	55,105	59,650
Total equity	69,582	80,029	94,984	103,351	112,808
Total equity & liabilities	190,025	209,372	248,562	264,581	281,120

Cash Flow Statement

HKD mn	2019	2020	2021	2022E	2023E
PBT	6,640	7,076	8,408	11,748	13,242
OP before change in WC	12,018	13,465	14,555	16,960	18,413
Change in working capital	(2,012)	(3,762)	300	(5,037)	(4,639)
Tax paid	(1,865)	(1,496)	(2,013)	(2,350)	(2,648)
Cash from operating activities	8,141	8,206	12,843	9,574	11,126
Capital expenditure	(1,557)	(1,755)	(2,152)	(2,500)	(2,500)
Others	3,003	(148)	(6,437)	894	2,399
Cash from investing activities	1,009	(2,255)	(9,191)	(1,606)	(1,301)
Bank borrowings, net	(16,990)	2,056	8,468	2,000	2,000
Corporate bond, net	(2,233)	(2,263)	(2,038)	-	-
Net proceeds from issue equities	-	-	-	-	-
Interest paid	(3,615)	(2,852)	(2,656)	(2,945)	(3,359)
Others	9,828	(3,356)	(769)	(1,031)	(5,632)
Cash from financing activities	(13,010)	(6,415)	3,005	(1,976)	(2,495)
Net Change in cash	(3,860)	(463)	6,657	5,991	7,330
Net Cash - beginning balance	16,636	12,548	11,231	17,526	23,517
Net Cash - ending balance	12,548	11,231	17,526	23,517	30,847

Sources: Company, CMS (HK) estimates

Profit & Loss Statement

HKD mn	2019	2020	2021	2022E	2023E
Revenue	204,454	200,423	236,806	261,120	285,043
Cost of sales	(170,436)	(168,129)	(201,426)	(219,504)	(238,760)
Gross profit	34,018	32,294	35,380	41,616	46,283
Selling expenses	(19,189)	(16,029)	(17,531)	(20,122)	(22,423)
Administrative expenses	(5,204)	(5,564)	(6,236)	(6,789)	(7,411)
R&D expense	(1,154)	(1,318)	(1,689)	(2,058)	(2,287)
Operating profit	9,755	11,064	11,699	14,413	16,072
Profit from JV&Asso.	140	207	314	200	200
Financial cost, net	(3,106)	(2,417)	(1,896)	(2,052)	(2,160)
Other incomes/expenses	1,134	(97)	66	953	1,040
PBT	6,640	7,076	8,408	11,748	13,242
Income tax	(1,542)	(1,752)	(1,761)	(2,350)	(2,648)
Minority interest	(1,811)	(2,027)	(2,879)	(4,244)	(4,913)
Net Profit	3,286	3,297	3,769	5,155	5,681
Adj. net profit	2,809	3,259	3,766	5,155	5,681
EPS (HKD) - Basic	0.45	0.52	0.60	0.82	0.90
Adj. EPS (HKD) - Diluted	0.45	0.52	0.60	0.82	0.90
DPS (HKD)	0.13	0.11	0.12	0.16	0.18

Financial Ratios

	2019	2020	2021	2022E	2023E
Growth (yoy)					
Revenue	7.8%	-2.0%	18.2%	10.3%	9.2%
Gross profit	-2.6%	-5.1%	9.6%	17.6%	11.2%
Operating profit	-16.3%	13.4%	5.7%	23.2%	11.5%
Net profit	-17.4%	0.3%	14.3%	36.8%	10.2%
Adj. net profit	-29.3%	16.0%	15.6%	36.9%	10.2%
Diluted EPS	-29.3%	16.0%	15.6%	36.9%	10.2%

Margin

Gross margin	16.6%	16.1%	14.9%	15.9%	16.2%
Operating margin	4.8%	5.5%	4.9%	5.5%	5.6%
Net profit margin	1.6%	1.6%	1.6%	2.0%	2.0%

Efficiency

Inventory days	47.2	52.6	53.1	55.0	55.0
Trade receivable days	89.0	101.3	95.6	97.3	97.7
Account payable days	90.3	97.6	93.4	95.0	95.0

Financial Ratios

Current ratio (x)	1.2	1.2	1.2	1.3	1.3
Quick ratio (x)	0.8	0.7	0.7	0.8	0.8
Net debt/equity	38.0%	38.8%	39.5%	32.4%	25.0%
ROA	2.8%	2.7%	2.9%	3.7%	3.9%
ROE	8.2%	7.6%	7.7%	9.7%	9.9%

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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