

Company Report

Wuxi AppTec (2359 HK)

Raise FY22E guidance on strong 3Q22 results

- 3Q22 adj. Non-IFRS NP grew 82% yoy, beating our est by 4%
- Mgmt. raises FY22E revenue growth guidance slightly to +70-72% yoy from prior +68-72% yoy as they gain further visibility
- We cut FY23E EPS by 3% despite our earnings forecast upgrades by 6% as RMB depreciation. Maintain BUY w/ trimmed TP of HKD191

3Q22 results driven by strong Chemistry segment

3Q22 total revenue grew 78% yoy to RMB10,638mn, primarily driven by **Chemistry** (+115% yoy to RMB7,843mn). CDMO (RMB5,950mn, +164% yoy) and CRO (RMB1,897mn, +36% yoy) in Chemistry segment was largely driven by the COVID project and sustained new projects growth (+219 new molecules into pipeline in 3Q, vs. +217/+256 in 1Q/2Q and avg. of +183/qtr in 2021). **Testing** (+28% yoy to RMB1,575mn) partly recovered from COVID restriction in 2Q, o/w Lab Testing remain robust +58% yoy but clinical CRO (-15% yoy) remains in face of COVID adversities. **Biology** (3Q +37% yoy to RMB689mn vs 2Q/1Q +26%/12% yoy) also recovered from 3Q as COVID wanes in Shanghai. In addition, **WuXi ATU** growth remains modest (+8% yoy to RMB306mn in 3Q) and GP was negative due to under-utilized capacities of new Shanghai Lingang site and Philadelphia site. Co. expects WuXi ATU GP to turn profitable in the next 1-2 qtrs after utilization ramps up. **DDSU** remained weak (-30% yoy to RMB217mn) as decreased demand for me-too drug projects. Overall 9M22 GPM was stable at 36.9% and Mgmt. expects GPM to be stable over the course of next couple of quarters.

Global funding weakness remains broad-based concerns

According to VBdata and our proprietary analysis, 9M22 global funding dropped -36% yoy. We project FY22E global funding to decline 35-40% yoy. We reckon the depressed funding flows will likely lead to a broad-based slowdown in demand or an escalation in project delays. That said, we think Co. is more resilient in the potential industry downturn (top 20 MNCs now represented 45.5% of its revenue).

Maintain BUY, SOTP TP revised down to HKD191

We raised FY22E/23E earnings forecast by 3%/6% but cut FY23E EPS by 3% to reflect RMB depreciation. We cut SOTP TP to HKD191 from HKD214 to reflect RMB depreciation and we applied more conservative multiples for its investment business. Stock now trades at ~19x FY23 PER, below 1x PEG, which is lower than its global peers avg. of 1.3-1.8x PEG. **Investment risk:** pandemic risks, geo-political risk, etc.

RMB mn	2019	2020	2021	2022E	2023E
Consolidated revenue	12,872	16,535	22,902	38,998	45,233
yoy change	34%	28%	39%	70%	16%
Adj. net profit (non-IFRS)	2,407	3,637	5,131	8,069	9,412
yoy change	41%	51%	41%	57%	17%
Adj. EPS fully diluted (HKD)	1.01	1.48	2.05	3.20	3.48
PER adj (x)	65.5	44.5	32.1	20.6	19.0
PBR (x)	9.1	5.0	4.3	3.8	3.5

Sources: Company, CMS (HK) estimates; Note*: adj. net profit excluded one-off items

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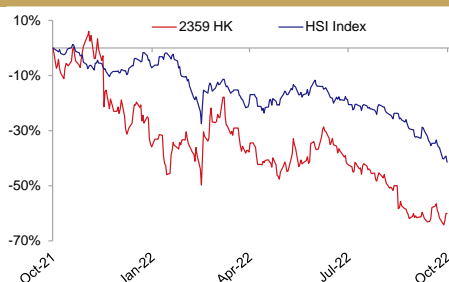
WHAT'S NEW

3Q22 earnings updates

BUY

Previous	BUY
Price (Oct 28, 2022)	HKD66.1
12-month Target Price (Potential up/downside)	HKD191 (+189%)
Previous	HKD 214

Price Performance



Source: Bloomberg

%	1m	6m	12m
2359 HK	3.9	(39.0)	(60.0)
HSI	(13.8)	(29.5)	(41.4)

Sector: Pharmaceutical & Healthcare

Hang Seng Index (Oct 28, 2022) 14,863

HSCEI (Oct 28, 2022) 5,029

Key Data

52-week range (HKD) 57.9-179.2

Market cap (HKD mn) 243,618

Avg. daily traded value (HKD mn) 223.9

BVPS (HKD) 17.6

Shareholding Structure

Founders and management 27.1%

BlackRock 11.1%

AL Rayyan 10.8%

Wellington 5.9%

Free float 45.1%

Sources: Company, Bloomberg

Related Research

1. WuXi AppTec (2359 HK) – 2Q22 results remained solid (BUY) (Jul 27, 2022)
2. WuXi AppTec (2359 HK) – Strong 1Q22 growth, valuation becomes attractive (BUY) (Apr 26, 2022)
3. WuXi AppTec (2359 HK) – Growth acceleration into 2022 (BUY) (Mar 24, 2022)
4. WuXi AppTec (2359 HK) – Buy the high-quality on the dip (BUY) (Jan 11, 2022)

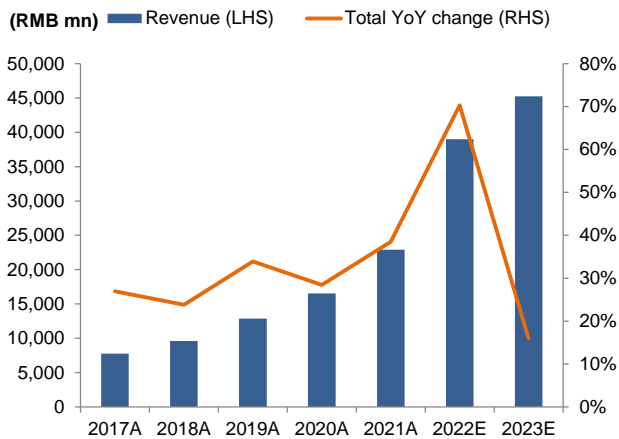
Focus charts

Figure 1: Expanding capacity worldwide



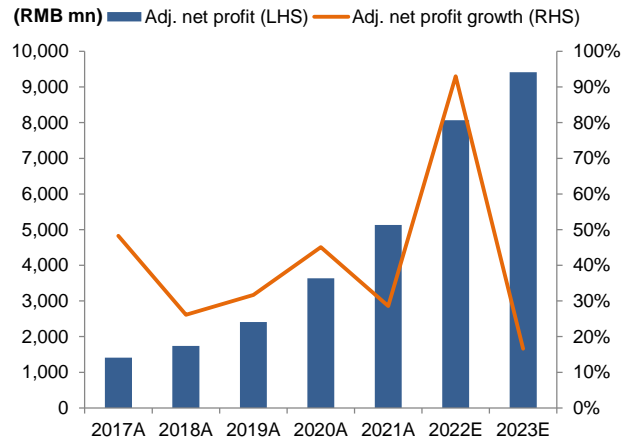
Source: Company

Figure 2: Revenue and growth forecasts



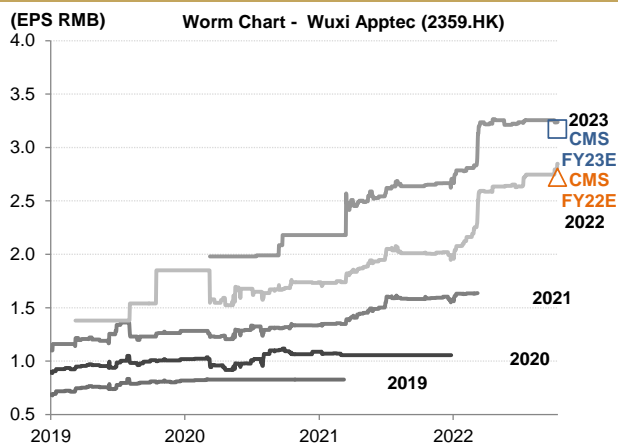
Sources: Company, CMS (HK) estimates

Figure 3: Adj. net profit and growth trend



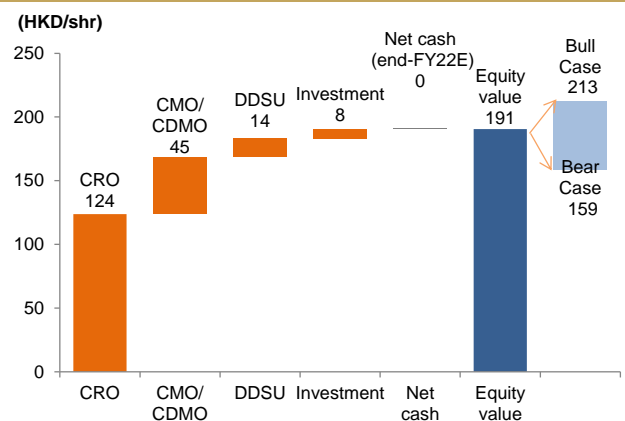
Sources: Company, CMS (HK) estimates

Figure 4: Worm chart - Core EPS consensus vs. CMS estimates



Source: Bloomberg, CMS (HK) estimates

Figure 5: Our SOTP-based valuation bridge



Source: CMS (HK) estimates

Forecast revision

Figure 6: Earnings revisions

(RMB mn)	2022E			2023E		
	Before	After	% Chg	Before	After	% Chg
Income statement						
Consolidated revenue	38,383	38,998	1.6%	43,166	45,233	4.8%
COGS	(24,537)	(24,852)	1.3%	(27,588)	(28,802)	4.4%
Gross profit	13,846	14,146	2.2%	15,577	16,431	5.5%
(-) Total SG&A expense	(3,762)	(3,705)	-1.5%	(4,101)	(4,207)	2.6%
Administrative expenses	(2,917)	(2,925)	0.3%	(3,194)	(3,302)	3.4%
Selling and distribution costs	(844)	(780)	-7.6%	(906)	(905)	-0.2%
(+/-) Other income/loss	100	100	0.0%	100	100	0.0%
(-) R&D	(1,535)	(1,560)	1.6%	(1,727)	(1,809)	4.8%
EBITDA adjusted	11,906	12,253	2.9%	14,175	14,892	5.1%
(-) Total depreciation and amortisation	(2,297)	(2,297)	0.0%	(3,246)	(3,246)	0.0%
OW: Stock-based comp	(960)	(975)	1.6%	(1,079)	(1,131)	4.8%
EBIT adjusted	9,609	9,956	3.6%	10,929	11,646	6.6%
(+/-) Finance (expense)/income - net	20	(10)	-151.4%	(32)	(74)	128.4%
(+/-) Profit from JV&Asso.	(100)	(100)	0.0%	(100)	(100)	0.0%
(+/-) Other income/expense, gains/losses	100	100	0.0%	100	100	0.0%
Profit before tax	8,669	8,971	3.5%	9,818	10,441	6.4%
(-) Tax	(1,685)	(1,741)	3.3%	(1,907)	(2,025)	6.2%
(+/-) Minority interest	36	36	1.9%	34	35	5.3%
Net profit attributable to shareholders	6,949	7,194	3.5%	7,877	8,381	6.4%
Adjusted net profit	7,808	8,069	3.3%	8,856	9,412	6.3%
Adj EPS fully diluted (RMB)	2.64	2.72	3.3%	2.99	3.17	6.1%
Adj EPS fully diluted (HKD)	3.17	3.20	0.8%	3.60	3.48	-3.2%
Margins (%)			p.p.			p.p.
Gross margin	36%	36%	0.2	36%	36%	0.2
Adjusted EBITDA margin	31%	31%	0.4	33%	33%	0.1
Adjusted net profit margin	20%	21%	0.3	21%	21%	0.3
yoy growth (%)						
Consolidated revenue	68%	70%	2.7	12%	16%	3.5
Gross profit	68%	71%	3.6	13%	16%	3.7
Adjusted EBITDA	79%	84%	5.2	19%	22%	2.5
Adjusted net profit	52%	57%	5.1	13%	17%	3.2

Sources: Company, CMS (HK) estimates

SOTP valuation

Figure 7: SOTP valuation

(RMB mn)	Previous	Revised	Changed
CRO business			
Core net profit	8,856	9,412	6%
Adjustment:			
(-) Profit from CMO/CDMO	3,318	3,492	5%
CRO business profit	5,538	5,919	7%
Valuation for CRO business			
DCF-based (see Figure 8)	352,098	334,143	-5%
CMO/CDMO business			
STA pharma profit	3,351	3,527	5%
Valuation for CMO/CDMO business			
35x forward PER (excluding MI)	114,955	120,991	5%
DDSU business			
Accumulated CTA at end-2023E	172	172	0%
Total peak sales (assuming RMB2bn per project) (RMB mn)	257,250	257,250	0%
Risk adj. peak sales (assuming 21% success rate with 5% royalty)	54,698	54,698	0%
Valuation for DDSU business			
5x P/peak sales	39,070	39,070	0%
Investment business			
Book value of			
JV&Asso	478	478	0%
FVTPL	8,714	9,714	11%
Valuation for investment business			
2x P/B (prior 3x P/B)	27,577	20,585	-26%
SOTP enterprise value	534,001	514,788	-4%
Net cash at end FY22E	(4)	(165)	4133%
Equity value (RMB mn)	533,997	514,623	-4%
Equity value (HKD mn)	632,786	565,520	-11%
Total outstanding shares (mn)	2,963	2,968	0%
Target price (HKD/shr)	214	191	-11%

Source: CMS (HK) estimates

Figure 8: CRO business DCF details (RMB mn)

High growth phase

Year	1	2	3	4	5	6	7	8	9
FY	2022	2023	2024	2025	2026	2027	2028	2029	2030
EBIT adjusted (excl: CDMO)	6,472	7,570	9,670	11,957					
% yoy									
NOPAT (EBIT*(1-t))	5,436	6,359	8,123	10,044					
Add: depreciation and amortization	1,493	2,110	2,686	2,590					
Less: capital expenditures	(5,850)	(6,175)	(1,950)	(1,950)					
Less: net working capital	(1,958)	(1,205)	(2,206)	(2,447)					
FCFE	(879)	1,089	6,653	8,237	10,168	12,514	15,358	18,792	22,926
% yoy		-224%	511%	24%	23%	23%	23%	22%	22%
PV	(798)	899	4,993	5,618	6,302	7,049	7,861	8,741	9,691

Transitional growth phase

Year	10	11	12	13	14	15	16	17	18
FY	2031	2032	2033	2034	2035	2036	2037	2038	2039
% yoy growth	20%	18%	16%	14%	12%	10%	8%	6%	4%
EBIT*(1-t)									
Add: depreciation and amortization									
Less: capital expenditures									
Less: net working capital									
FCFE	27,511	32,463	37,657	42,929	48,081	52,889	57,120	60,547	62,969
PV	10,568	11,333	11,947	12,376	12,597	12,592	12,359	11,905	11,252

Stable growth phase

Year	19
FY	2040
FCFE in terminal year =	62,969
Price at the end of growth phase =	1,084,234
PV of FCFE in high growth phase =	51,154
PV of FCFE in transition phase =	106,929
PV of terminal price =	176,061
Intrinsic value =	334,143

Source: CMS (HK) estimates

Figure 9: Valuation comparison among global and domestic CXOs

Ticker	Name	中文名	List curr	Last Price	Mkt Cap (USD mn)	P/E Ratio			P/B Ratio			P/Sales Ratio			PEG
						21A	22E	23E	21A	22E	23E	21A	22E	23E	
CRO - Overseas															
IQV US	IQVIA HOLDINGS I	IQVIA控股股份有限公司	USD	200.4	37,226	51.0	19.8	18.2	8.9	6.6	5.6	3.9	2.6	2.4	1.5
ICLR US	ICON PLC	ICON公共有限公司	USD	191.8	15,635	135.8	16.6	15.1	3.1	1.8	1.7	3.8	2.0	1.9	1.0
DGX US	QUEST DIAGNOSTIC	Quest Diagnostics股份有限公司	USD	142.7	16,246	12.7	14.6	16.8	3.2	2.6	2.5	2.0	1.7	1.8	1.1
CRL US	CHARLES RIVER LA	查理斯河实验室国际有限公司	USD	209.0	10,629	43.9	19.4	17.4	7.4	3.6	3.0	5.2	2.7	2.5	1.2
SYNH US	SYNEOS HEALTH IN	Syneos健康公司	USD	49.5	5,084	36.3	10.0	9.5	3.1	1.5	1.3	2.0	0.9	0.9	1.0
MEDP US	MEDPACE HOLDINGS	Medpace控股股份有限公司	USD	216.2	6,724	45.2	32.5	29.3	8.2	14.3	10.2	6.8	4.6	4.0	1.8
CDMO US	AVID BIOSERVICES	Avid Bioservices股份有限公司	USD	17.1	1,064	383.4	55.6	115.7	N.A.	18.6	6.2	13.0	9.1	7.4	n.a.
CRO - Overseas average					13,230	60.4	19.1	18.8	6.4	5.2	4.2	3.9	2.5	2.3	1.3
CRO - China															
2359 HK	WUAPTEC CO LT-H	药明康德	HKD	66.1	31,044	32.1	20.6	19.0	4.3	3.8	3.5	8.9	5.2	4.5	0.5
2269 HK	WUXI BIOLOGICS C	药明生物	HKD	38.8	21,110	42.9	29.9	23.3	4.5	3.9	3.4	13.4	9.0	7.3	0.6
3759 HK	PHARMARON BEI-H	康龙化成	HKD	29.2	8,411	67.3	16.8	12.2	11.1	2.6	2.4	15.1	5.9	4.5	0.3
3347 HK	HANGZHOU TIGER-H	泰格医药	HKD	56.6	9,757	17.7	16.7	13.3	2.2	2.2	1.9	12.7	9.8	7.8	0.5
6821 HK	ASYMCHAM LABOR-H	凯莱英	HKD	88.2	7,384	21.8	10.2	11.2	2.3	1.9	1.7	12.5	5.0	4.6	15.7
6127 HK	JOINN LABORATO-H	昭衍新药	HKD	27.8	4,092	76.4	18.1	14.0	6.2	1.8	1.5	28.1	13.4	9.7	0.4
1521 HK	FRONTAGE HOLDING	方达控股	CNY	1.7	456	1.7	14.6	10.4	0.3	1.3	1.2	0.2	1.8	1.3	0.2
1873 HK	VIVA BIOTECH HOL	维亚生物	CNY	1.2	301	1.2	N.A.	N.A.	0.2	N.A.	N.A.	0.1	N.A.	N.A.	N.A.
CRO - China average					10,319	37.8	21.1	17.7	4.7	3.2	2.9	12.3	7.2	5.8	1.9
CMO - Overseas															
LONN SE	LONZA GROUP -REG	龙沙集团股份有限公司	CHF	511.2	37,983	83.9	33.8	28.7	5.8	3.6	3.3	10.5	6.1	5.4	1.4
207940 KS	SAMSUNG BIOLOGIC	三星Biologics有限公司	KRW	876,000	43,730	151.8	96.8	79.4	12.0	7.1	7.1	38.1	22.2	18.5	2.1
068270 KS	CELLTRION INC	Celltrion股份有限公司	KRW	187,500	18,516	47.6	43.6	36.3	7.0	6.0	5.3	14.4	11.3	10.3	1.8
CTLT US	CATALENT INC	康泰伦特股份有限公司	USD	66.3	11,922	23.7	17.4	17.7	4.7	2.5	2.2	4.5	2.5	2.3	1.8
CMO - Overseas average					28,038	98.0	58.2	48.5	8.3	5.3	5.0	21.3	12.8	11.0	1.8
CMO - China															
2359 HK	WUAPTEC CO LT-H	药明康德	HKD	66.1	31,044	32.1	20.6	19.0	4.3	3.8	3.5	8.9	5.2	4.5	0.5
2269 HK	WUXI BIOLOGICS C	药明生物	HKD	38.8	21,110	42.9	29.9	23.3	4.5	3.9	3.4	13.4	9.0	6.6	0.6
3759 HK	PHARMARON BEI-H	康龙化成	HKD	29.2	8,411	32.1	20.6	19.0	4.3	3.8	3.5	8.9	5.2	4.5	0.5
6821 HK	ASYMCHAM LABOR-H	凯莱英	HKD	88.2	7,384	21.8	10.2	11.2	2.3	1.9	1.7	12.5	5.0	4.6	15.7
300363 CH	PORTON PHARMA -A	博腾股份	CNY	44.2	3,314	92.2	13.1	15.0	12.2	4.2	3.3	15.7	3.3	3.2	44.0
CMO - China average					11,993	37.1	22.0	19.2	4.5	3.6	3.3	10.8	6.2	5.1	4.2

Source: Bloomberg, CMS (HK) estimates; Note: Closing price as of October 28, 2022 (US equity as of October 27, 2022)

Financial Summary

Balance Sheet

RMB mn	2019	2020	2021	2022E	2023E
Non-current assets	16,576	23,232	33,142	40,755	46,919
PP&E	7,666	10,137	15,849	22,630	28,962
Intangible assets	496	585	890	822	754
Deposits and prepayments	1,564	1,520	1,780	1,780	1,780
Deferred tax assets	262	301	390	390	390
Interests in JV & associates	794	765	678	578	478
Financial assets at FVTPL	4,009	6,717	8,714	9,714	9,714
Goodwill	1,362	1,392	1,926	1,926	1,926
Others	423	1,815	2,916	2,916	2,916
Current assets	12,663	23,059	21,986	22,277	23,161
Inventories	1,208	1,934	4,555	5,107	5,918
Contract cost	180	250	595	595	595
Trade and other receivables	3,556	4,338	5,968	8,547	9,914
Contract assets	379	542	773	1,317	1,528
Others	56	639	573	573	573
Financial assets	1,706	4,627	591	591	591
Total cash and cash equivalents	5,223	10,228	8,175	4,792	3,287
Total assets	29,239	46,291	55,127	63,031	70,079
Current liabilities	6,634	7,920	12,985	13,104	13,429
Trade and other payables	3,393	4,550	6,856	6,975	7,300
Income tax payable	261	340	459	459	459
ST bank debt	1,810	1,230	2,261	2,261	2,261
Others	1,170	1,800	3,408	3,408	3,408
Non-current liabilities	5,195	5,652	3,385	5,385	5,385
Deferred revenue	667	682	771	771	771
Deferred tax liabilities	231	283	324	324	324
Others	232	219	7	7	7
LT bank loans	762	-	-	2,000	2,000
Shareholders' funds	17,410	32,718	38,757	44,542	51,266
Minorities	97	225	266	302	338
Total liability and equity	29,239	46,291	55,127	63,031	70,079

Cashflow Statement

RMB mn	2019	2020	2021	2022E	2023E
Cash flow from operating	2,477	4,024	4,507	6,949	10,765
Pretax profit	2,337	3,369	6,016	8,971	10,441
OP before WC changes	3,695	6,108	9,544	12,343	14,982
Net working capital change	(755)	(1,505)	(4,029)	(3,555)	(2,064)
Income tax paid	(411)	(383)	(880)	(1,741)	(2,025)
Interest paid	(52)	(196)	(128)	(98)	(128)
Cash flow from investing	(4,588)	(8,630)	(4,628)	(9,912)	(9,446)
Purchase of PPE	(2,449)	(3,031)	(6,936)	(9,000)	(9,500)
Purchase/disposal of subsidiaries	(785)	-	-	-	-
Purchase/disposal of JV & asso.	(147)	(2,500)	-	-	-
Purchase/disposal of FVTPL	(1,567)	(3,000)	-	(1,000)	-
Repayment from related parties, net	-	-	-	-	-
Pledged bank deposit, net	(1)	-	-	-	-
Interest received	84	92	192	88	54
Others	277	(191)	2,116	-	-
Cash flow from financing	1,610	9,692	(1,852)	(421)	(2,823)
Proceeds from capital raising	729	13,030	-	-	-
Dividends	(679)	(890)	(1,529)	(2,421)	(2,823)
Net bank borrowings	2,431	(1,300)	-	2,000	-
Paid/repaid from sister companies	-	-	-	-	-
Bond	2,079	-	-	-	-
Others	(2,939)	(1,149)	(323)	-	-
Beginning cash	5,758	5,223	10,228	8,175	4,792
Net change in cash	(501)	5,086	(1,974)	(3,384)	(1,505)
End cash	5,223	10,228	8,175	4,792	3,287

Sources: Company data, CMS (HK) estimates

Profit & Loss

RMB mn	2019	2020	2021	2022E	2023E
Consolidated revenue	12,872	16,535	22,902	38,998	45,233
Cost of goods sold	(7,866)	(10,280)	(14,637)	(24,852)	(28,802)
Gross profit	5,006	6,255	8,266	14,146	16,431
(+/-) Other income/expense	147	207	249	100	100
(-) Total SG&A expense	(1,948)	(2,458)	(2,953)	(3,705)	(4,207)
Administrative expenses	(1,509)	(1,870)	(2,254)	(2,925)	(3,302)
Selling and distribution costs	(439)	(588)	(699)	(780)	(905)
(-) R&D expenses	(590)	(693)	(942)	(1,560)	(1,809)
Adjusted EBITDA	3,767	5,043	6,643	12,253	14,892
Total depreciation and amortisa.	(979)	(1,145)	(1,484)	(2,297)	(3,246)
SBC	(173)	(588)	(540)	(975)	(1,131)
EBIT	2,615	3,311	4,619	8,981	10,515
(+/-) Finance costs, net	(19)	(515)	(76)	(10)	(74)
(+/-) Profit from JV&Asso.	(21)	(91)	(117)	(100)	(100)
(+/-) Other gain/loss, net	(238)	664	1,590	100	100
(-) Listing expense	-	-	-	-	-
Profit before tax	2,337	3,369	6,016	8,971	10,441
(-) Tax	(426)	(383)	(880)	(1,741)	(2,025)
Net profit	1,911	2,986	5,136	7,230	8,416
(+/-) Minority interest	57	26	39	36	35
NP attributable to shareholders	1,855	2,960	5,097	7,194	8,381
Adjusted net profit	2,407	3,637	5,131	8,069	9,412
Adj. EPS fully diluted (RMB)	0.88	1.29	1.75	2.72	3.17
Adj. EPS fully diluted (HKD)	1.01	1.48	2.05	3.20	3.48

Financial Ratios

	2019	2020	2021	2022E	2023E
Growth					
Consolidated revenue	34%	28%	39%	70%	16%
Gross profit	33%	25%	32%	71%	16%
Adjusted net profit	41%	51%	41%	57%	17%
Profitability					
Gross margin	39%	38%	36%	36%	36%
Adj. net profit margin	19%	22%	22%	21%	21%
ROE	13%	13%	12%	20%	20%
ROA	9%	9%	8%	14%	14%
Efficiency					
Inventory days	48	56	81	71	70
Accounts receivable days	86	87	82	68	74
Accounts payable days	22	27	36	29	28
Cash cycle days	112	116	127	110	116
Liquidity					
FCF (RMB mn)	28	993	(2,429)	(2,051)	1,265
Net gearing (%)	(12)	(31)	(13)	0	3

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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