

# CSPC Pharmaceutical (1093 HK)

## Promising clinical progress of mRNA COVID-19 vaccine candidate

CSPC reported 9M22 revenue of RMB23.5bn, up by 13.8% YoY (+15.6% YoY for 3Q22), and attributable net profit of RMB4.5bn, up by 3.1% YoY (+18.0% YoY for 3Q22), accounting for 76% and 74% of our full year estimates, respectively. 9M22 sales of the finished drugs increased by 10.8% YoY to RMB18.6bn, mainly driven by the steady performance of nervous system drugs (+9.2% YoY), as well as the strong growth of anti-infective drugs (+25.1% YoY) and other new products. In addition, bulk product sales delivered a YoY growth of 20.1% in 9M22, thanks to the increased sales volume of vitamin C, while functional food and other business booked a strong YoY growth of 47.6%, propelled by both volume and pricing rises of caffeine products. Besides its acquisition of 51% equity interest of Guangzhou Recomgen Biotech in Feb 2022 and the out-license deal of SYSA1801, a Claudin 18.2 ADC, to Elevation Oncology in Jul 2022, CSPC has entered into an exclusive in-license deal with Harbour Biomed in Oct 2022 for batoclimab (HBM9161) in Greater China, a step to further move forward its active BD strategy.

### ■ Promising clinical development of COVID-19 mRNA vaccine candidate.

CSPC has initiated six clinical trials in evaluating the safety and immunogenicity of SYS6006. Notably, the Company has submitted to China CDE the primary analysis on adult group from a Ph II study (SYS6006-003) evaluating immunogenicity and safety of SYS6006 as well as the primary analysis (14-day safety) from a study (SYS6006-007) testing SYS6006 as heterologous booster on people with inactivated COVID-19 vaccination. On 29 Jul, China CDC disclosed to initiate an IIT study (ChiCTR2200062207) assessing 14 new COVID variant targeted vaccine candidates, including SYS6006. We believe results of this study will be critical for potential EUA approvals in China. CSPC has already completed a production line with capacity of 500mn doses/ year and the construction of 2<sup>nd</sup> phase production lines is in progress with targeted total capacity of 1.5bn doses/ year.

### ■ Smooth marketing and R&D progress of new products.

CSPC submitted a new indication application of Mingfule for the thrombolytic treatment in patients with acute ischemic stroke in Nov 2022, which the Company expected to be approved in Dec 2023. Management indicated that Mingfule has penetrated into more than 2,000 hospitals as of Oct 2022 and expected the product sale to exceed RMB100mn in 2022E. Meanwhile, with the marketing approval in Jan 2022, Duoenda experienced fast ramp-up and is in progress to reach a full year sales of RMB150mn in 2022E, which could be further doubled in 2023E, according to management.

### ■ Maintain BUY.

We currently do not factor in potential revenue contribution from SYS6006. We expect CSPC's revenue to grow 12.5%/ 13.6% YoY and attributable net profit to grow 6.9%/ 17.8% YoY in FY22E/ 23E. We revised our DCF-based TP to HK\$13.52 (WACC 11.78%, Terminal growth 3.0%).

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	24,942	27,867	31,354	35,630	39,944
YoY growth (%)	12.8	11.7	12.5	13.6	12.1
Net profit (RMB mn)	5,160	5,605	5,990	7,059	7,991
YoY growth (%)	38.9	8.6	6.9	17.8	13.2
EPS (Reported) (RMB)	0.43	0.47	0.50	0.59	0.67
Consensus EPS (RMB)	na	na	0.51	0.61	0.64
P/E (x)	18.4	16.8	17.4	14.8	13.0
Net gearing (%)	(38.0)	(40.9)	(50.9)	(57.9)	(63.6)

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** **HK\$13.52**

(Previous TP) **HK\$12.88**

**Up/Downside** **41.3%**

**Current Price** **HK\$9.57**

### China Healthcare

**Jill WU, CFA**

(852) 3900 0842

jillwu@cmbi.com.hk

**Benchen HUANG, CFA**

huangbenchen@cmbi.com.hk

### Stock Data

Mkt Cap (HK\$ mn)	114,200.9
Avg 3 mths t/o (HK\$ mn)	8.3
52w High/Low (HK\$)	10.18/7.00
Total Issued Shares (mn)	11933.2

Source: FactSet

### Shareholding Structure

Dongchen Cai	23.7%
UBS	6.9%

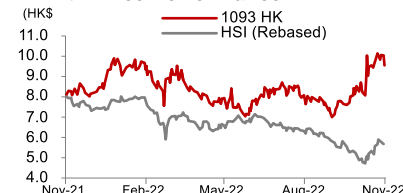
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	12.2%	4.4%
3-mth	19.8%	34.1%
6-mth	20.5%	41.6%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

**Figure 1: CMBIGM earnings revisions**

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	31,354	35,630	39,944	30,827	35,032	39,276	1.7%	1.7%	1.7%
Gross profit	22,753	25,475	28,360	22,295	24,873	27,886	2.1%	2.4%	1.7%
Operating profit	7,414	8,675	9,825	7,306	8,460	9,662	1.5%	2.5%	1.7%
Net profit	5,990	7,059	7,991	5,901	6,884	7,858	1.5%	2.5%	1.7%
EPS (RMB)	0.50	0.59	0.67	0.49	0.58	0.66	1.5%	2.5%	1.7%
Gross margin	72.57%	71.50%	71.00%	72.32%	71.00%	71.00%	+0.25ppt	+0.50ppt	0.00ppt
Operating margin	23.65%	24.35%	24.60%	23.70%	24.15%	24.60%	-0.05ppt	+0.20ppt	0.00ppt
Net margin	19.10%	19.81%	20.01%	19.14%	19.65%	20.01%	-0.04ppt	+0.16ppt	0.00ppt

Source: Company data, CMBIGM estimates

**Figure 2: CMBIGM estimates vs consensus**

RMB mn	CMBI			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	31,354	35,630	39,944	31,458	35,762	38,529	-0.3%	-0.4%	3.7%
Gross profit	22,753	25,475	28,360	23,276	26,658	28,729	-2.2%	-4.4%	-1.3%
Operating profit	7,414	8,675	9,825	7,347	8,393	9,133	0.9%	3.4%	7.6%
Attributable net profit	5,990	7,059	7,991	6,084	6,823	7,620	-1.5%	3.5%	4.9%
EPS (RMB)	0.50	0.59	0.67	0.51	0.61	0.64	-1.2%	-2.5%	5.5%
Gross margin	72.57%	71.50%	71.00%	73.99%	74.54%	74.57%	-1.42ppt	-3.04ppt	-3.57ppt
Operating margin	23.65%	24.35%	24.60%	23.35%	23.47%	23.70%	+0.29ppt	+0.88ppt	+0.89ppt
Net margin	19.10%	19.81%	20.01%	19.34%	19.08%	19.78%	-0.24ppt	+0.73ppt	+0.23ppt

Source: Company data, Bloomberg, CMBIGM estimates

**Figure 3: Risk-adjusted DCF valuation**

DCF Valuation (in RMB mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
EBIT	7,414	8,675	9,825	11,299	12,881	14,556	16,302	18,096	19,905	21,697
Tax rate	17.81%	17.81%	17.81%	17.81%	17.81%	17.81%	17.81%	17.81%	17.81%	17.81%
EBIT*(1-tax rate)	6,094	7,130	8,075	9,287	10,587	11,963	13,399	14,873	16,360	17,832
+ D&A	864	864	864	985	1,113	1,246	1,383	1,522	1,659	1,791
- Change in working capital	370	(141)	(225)	(256)	(289)	(324)	(360)	(396)	(431)	(466)
- Capx	(800)	(800)	(800)	(800)	(800)	(800)	(800)	(800)	(800)	(800)
<b>FCFF</b>	<b>6,527</b>	<b>7,053</b>	<b>7,915</b>	<b>9,215</b>	<b>10,610</b>	<b>12,085</b>	<b>13,622</b>	<b>15,198</b>	<b>16,787</b>	<b>18,358</b>
Terminal value										215,480
<b>Terminal growth rate</b>	<b>3.00%</b>									
<b>WACC</b>	<b>11.78%</b>									
Cost of Equity	15.00%									
Cost of Debt	5.00%									
Equity Beta	1.00									
Risk Free Rate	3.00%									
Market Risk Premium	12.00%									
Target Debt to Asset ratio	30.00%									
Effective Corporate Tax Rate	15.00%									
Terminal value (RMB mn)	70,788									
Total PV (RMB mn)	130,805									
Net debt (RMB mn)	(15,351)									
Minority interests (RMB mn)	933									
Equity value (RMB mn)	145,222									
# of shares (mn)	11,933									
<b>DCF per share (in HK\$)</b>	<b>13.52</b>									

Source: CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec (RMB mn)</b>						
<b>Revenue</b>	<b>22,103</b>	<b>24,942</b>	<b>27,867</b>	<b>31,354</b>	<b>35,630</b>	<b>39,944</b>
Cost of goods sold	(6,192)	(6,257)	(6,732)	(8,601)	(10,154)	(11,584)
<b>Gross profit</b>	<b>15,911</b>	<b>18,685</b>	<b>21,135</b>	<b>22,753</b>	<b>25,475</b>	<b>28,360</b>
Selling expense	(8,712)	(9,378)	(10,443)	(10,842)	(12,114)	(13,501)
Admin expense	(749)	(946)	(1,010)	(1,147)	(1,265)	(1,398)
R&D expense	(2,000)	(2,890)	(3,433)	(3,852)	(4,026)	(4,314)
Others	150	585	546	503	605	678
<b>Operating profit</b>	<b>4,600</b>	<b>6,057</b>	<b>6,795</b>	<b>7,414</b>	<b>8,675</b>	<b>9,825</b>
Gain/loss on financial assets at FVTPL	0	0	0	0	0	0
Share of (losses)/profits of associates/JV	58	347	60	2	60	60
<b>Net Interest income/(expense)</b>	<b>(32)</b>	<b>(12)</b>	<b>(8)</b>	<b>(2)</b>	<b>2</b>	<b>6</b>
<b>Pre-tax profit</b>	<b>4,626</b>	<b>6,391</b>	<b>6,847</b>	<b>7,414</b>	<b>8,737</b>	<b>9,892</b>
Income tax	(893)	(1,162)	(1,159)	(1,320)	(1,556)	(1,762)
Minority interest	19	69	83	104	122	138
<b>Net profit</b>	<b>3,733</b>	<b>5,229</b>	<b>5,688</b>	<b>6,094</b>	<b>7,181</b>	<b>8,130</b>
Gross dividends	965	1,528	1,691	1,797	2,118	2,397
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec (RMB mn)</b>						
<b>Current assets</b>	<b>13,697</b>	<b>15,921</b>	<b>20,337</b>	<b>26,293</b>	<b>32,791</b>	<b>39,839</b>
Cash & equivalents	4,118	7,259	9,284	13,902	18,777	24,237
Account receivables	2,826	2,883	3,890	4,295	4,881	5,472
Inventories	2,536	1,861	2,480	3,063	3,617	4,126
Prepayment	0	0	0	0	0	0
ST bank deposits	1,838	1,535	1,443	1,443	1,443	1,443
Other current assets	2,379	2,382	3,240	3,589	4,073	4,561
<b>Non-current assets</b>	<b>12,621</b>	<b>14,149</b>	<b>14,405</b>	<b>14,341</b>	<b>14,278</b>	<b>14,214</b>
PP&E	8,459	7,770	8,529	8,629	8,729	8,828
Deferred income tax	35	117	43	43	43	43
Intangibles	1,136	509	468	442	417	392
Goodwill	823	1,164	1,035	897	759	621
Financial assets at FVTPL	1,078	1,877	1,979	1,979	1,979	1,979
Other non-current assets	1,091	2,711	2,351	2,351	2,351	2,351
<b>Total assets</b>	<b>26,318</b>	<b>30,070</b>	<b>34,742</b>	<b>40,634</b>	<b>47,068</b>	<b>54,053</b>
<b>Current liabilities</b>	<b>6,237</b>	<b>6,302</b>	<b>7,226</b>	<b>8,835</b>	<b>10,218</b>	<b>11,482</b>
Short-term borrowings	23	99	0	(99)	(198)	(297)
Account payables	4,803	4,759	6,162	7,776	9,181	10,473
Tax payable	259	379	261	261	261	261
Other current liabilities	1,152	1,065	803	897	974	1,046
<b>Non-current liabilities</b>	<b>563</b>	<b>667</b>	<b>687</b>	<b>687</b>	<b>687</b>	<b>687</b>
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	563	667	687	687	687	687
<b>Total liabilities</b>	<b>6,800</b>	<b>6,969</b>	<b>7,913</b>	<b>9,522</b>	<b>10,905</b>	<b>12,169</b>
Share capital	10,899	10,899	10,899	10,899	10,899	10,899
Other reserves	7,562	11,433	15,087	19,280	24,221	29,815
<b>Total shareholders equity</b>	<b>18,462</b>	<b>22,332</b>	<b>25,987</b>	<b>30,180</b>	<b>35,121</b>	<b>40,715</b>
Minority interest	1,056	769	842	933	1,043	1,169
<b>Total equity and liabilities</b>	<b>26,318</b>	<b>30,070</b>	<b>34,742</b>	<b>40,634</b>	<b>47,068</b>	<b>54,053</b>

<b>CASH FLOW</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	4,626	6,391	6,847	7,414	8,737	9,892
Depreciation & amortization	692	809	865	864	864	864
Tax paid	(867)	(1,061)	(1,141)	(1,320)	(1,556)	(1,762)
Change in working capital	(485)	1,680	(1,388)	370	(141)	(225)
Others	(182)	(1,079)	(547)	0	0	0
<b>Net cash from operations</b>	<b>3,784</b>	<b>6,740</b>	<b>4,637</b>	<b>7,327</b>	<b>7,904</b>	<b>8,769</b>
<b>Investing</b>						
Capital expenditure	(1,883)	(1,356)	(1,410)	(800)	(800)	(800)
Acquisition of subsidiaries/ investments	(508)	0	0	0	0	0
Others	(67)	(773)	773	0	0	0
<b>Net cash from investing</b>	<b>(2,457)</b>	<b>(2,130)</b>	<b>(637)</b>	<b>(800)</b>	<b>(800)</b>	<b>(800)</b>
<b>Financing</b>						
Dividend paid	(965)	(1,528)	(1,691)	(1,797)	(2,118)	(2,397)
Net borrowings	23	169	0	0	0	0
Proceeds from share issues	1,224	0	0	0	0	0
Share repurchases	(101)	0	(264)	0	0	0
Others	(1,726)	(112)	(242)	(112)	(112)	(112)
<b>Net cash from financing</b>	<b>(1,546)</b>	<b>(1,471)</b>	<b>(2,197)</b>	<b>(1,908)</b>	<b>(2,229)</b>	<b>(2,509)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	4,336	4,118	7,259	9,284	13,902	18,777
Exchange difference	1	2	(2)	0	0	0
Others	0	0	0	0	0	0
<b>Cash at the end of the year</b>	<b>4,118</b>	<b>7,259</b>	<b>9,060</b>	<b>13,902</b>	<b>18,777</b>	<b>24,237</b>
<b>GROWTH</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Revenue	24.8%	12.8%	11.7%	12.5%	13.6%	12.1%
Gross profit	35.3%	17.4%	13.1%	7.7%	12.0%	11.3%
Operating profit	19.6%	31.7%	12.2%	9.1%	17.0%	13.3%
Net profit	21.1%	40.1%	8.8%	7.1%	17.8%	13.2%
<b>PROFITABILITY</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Gross profit margin	72.0%	74.9%	75.8%	72.6%	71.5%	71.0%
Operating margin	20.8%	24.3%	24.4%	23.6%	24.3%	24.6%
Return on equity (ROE)	22.3%	25.6%	23.5%	21.7%	22.0%	21.4%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.3)	(0.4)	(0.4)	(0.5)	(0.6)	(0.6)
Current ratio (x)	2.2	2.5	2.8	3.0	3.2	3.5
Receivable turnover days	81.9	73.4	92.9	91.3	91.3	91.3
Inventory turnover days	149.5	108.6	134.5	130.0	130.0	130.0
Payable turnover days	315.9	294.5	352.4	348.2	348.2	348.2
<b>VALUATION</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
P/E	22.2	18.4	16.8	17.4	14.8	13.0
P/E (diluted)	22.2	18.4	16.8	17.4	14.8	13.0
P/B	4.2	4.1	3.5	3.3	2.9	2.5
P/CFPS	21.8	14.1	20.3	14.2	13.2	11.9
Div yield (%)	1.2	1.6	1.8	1.7	2.0	2.3

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

# 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.

## CMBIGM 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 CMBIGM

**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 Global Markets Limited*

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

**CMB International Global Markets Limited ("CMBIGM") 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. CMBIGM 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. CMBIGM 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 CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM 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 CMBIGM 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. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM 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. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM 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 CMBIGM 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 CMBIGM 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 CMBIGM.

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 CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM 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.