

Company Report

3S Bio (1530 HK)

Mandi led growth in FY22E, NRDL renewal de-risked

■ We expect Co.'s total rev. to grow by 8% yoy and to reach ~RMB6.9bn in FY22E, led by Mandi growth; modest adj. NP growth

■ We think TPO & Cipterbin's price reduction concerns were de-risked as we reckon NRDL policy & result become more predictable

■ Co. trades at 11X/9X FY22E/23E PER, near the lowest quantile within its historical PER band. Maintain BUY and TP at HKD11.0

Mandi led growth in 22E; autoimmune's worst may be behind

We expect alopecia product **Mandi** to deliver ~50% yoy sales growth and to reach >RMB900mn in FY22E (vs 41% yoy in 1H22), thanks to its continued omnichannel distribution (i.e. pharmacies & e-commerce) despite omicron disruptions. We expect Co.'s core product **TPO** to deliver modest growth, given its CIT label and its continued penetration in lower-tier market, however hospital restrictions persisted in higher-tier cities throughout 2022. We expect **EPIAO/SEPO** sales remain largely flat compared to FY21, given pandemic impact and ASP erosions due to competition. In addition, Co.'s subsidiary Sunshine Guojian (688336 SH, NR) has recently published its FY22 preview ([link](#)), w/ total rev to decrease by ~8.5%-13.9% yoy, mainly due to **YSP** softness (we modelled a >20% yoy sales drop), however partly offset by strong **Cipterbin** sales (+100% yoy as per SSGJ) and revenue contribution from the SIGO CDMO platform. We think YSP's worst are in the rear mirror as outpatient traffic returns to normalcy.

Predictable NRDL policy likely to de-risk TPO & Cipterbin

We think TPO & Cipterbin's price reduction concerns were de-risked as we reckon NRDL policy and result proved to be more predictable (see our report, [link](#)). In addition, Cipterbin's NRDL reimbursement restriction was lifted, meaning that it can be used with more chemo combo choices (vs prev. w/ vinorelbine). We believe this reimbursement expansion signals a much desired balance between innovation and reimbursement, and Co. is likely to benefit from govt.'s continued stance of encouraging innovation transformation of the pharma/biotech industry.

Maintain BUY and SOTP-based TP at HKD11.0

We maintain our FY22E/23E earnings projections and SOTP-based TP at HKD11.0. We think Co.'s risk/reward is attractive given 1) Co. trades at 11X/9X FY22E/23E PER, near the lowest quantile within its historical PER band; and 2) in-house pipeline upgrades to trigger potential re-rate (10+ potential NDA approvals/label expansions in 2023E-25E); 3) rich-cash position (~RMB6.5bn cash as of June 30) to support BD (10+ deals in past 3-5 years). **Key risks:** ASP erosions from regional VBPs/competitions and reimbursement risks etc.

RMB mn	2019	2020	2021	2022E	2023E
Revenue	5,318	5,588	6,382	6,861	8,254
Growth	16%	5%	14%	8%	20%
Adj. net income	1,202	1,451	1,769	1,814	2,093
Growth	-17%	21%	22%	3%	15%
Adj. EPS (HKD)	0.54	0.66	0.80	0.82	0.95
P/E (x)	16.0	13.2	10.8	10.6	9.2
P/B (x)	1.8	1.5	1.3	1.2	1.1

Sources: Company, CMS (HK) estimates, Notes: derived from reported NP after excl. one-off items & CB interest expenses; closing price as of Jan 31, 2022

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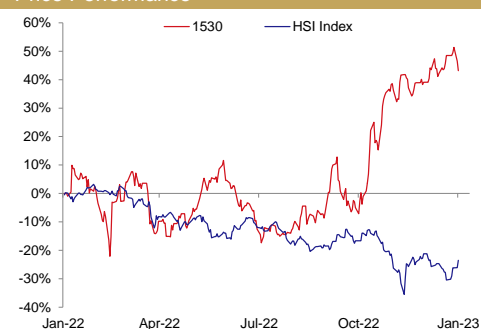
WHAT'S NEW

FY22 results preview

BUY

Previous	BUY
Price (Jan 31, 2023)	HKD8.5
12-month Target Price (Potential up/downside)	HKD11.0 (+29%)
Previous	HKD11.0

Price Performance



Source: Bloomberg

%	1m	6m	12m
1530 HK	5.3	74.8	46.5
HSI	(6.2)	(16.3)	(26.1)

Sector: Pharmaceutical & Healthcare

Hang Seng Index (Jan 31, 2023)	21,842
HSCEI (Jan 31, 2023)	7,425

Key Data

52-week range (HKD)	4.7-9.1
Market cap (HKD mn)	20,828
Avg. daily traded value (HKD mn)	122.7
BVPS (HKD)	7.2

Shareholding Structure

Founder and management	27.5%
CITIC PE	11.0%
BlackRock	9.0%
Free float	52.5%

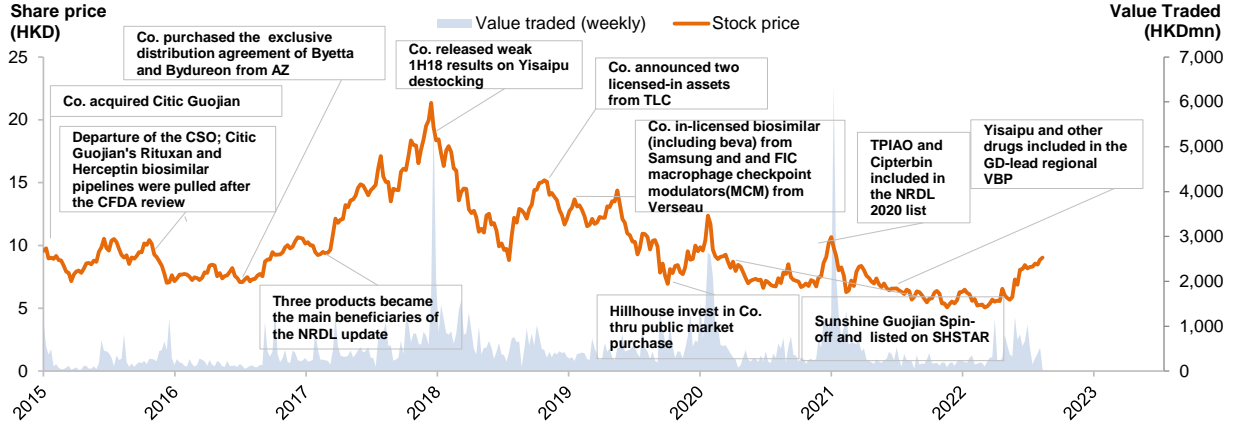
Sources: Company, Bloomberg

Related Research

- 3SBio (1530 HK) – Omicron wave weighed on sales in 1H22 (BUY) (Aug 26, 2022)
- 3SBio (1530 HK) – COVID-19 to weigh on sales in 2Q22 (BUY) (Jul 25, 2022)
- 3SBio (1530 HK) – Regional VBPs to weigh on YSP, eyes on Mandi growth (BUY) (May 5, 2022)

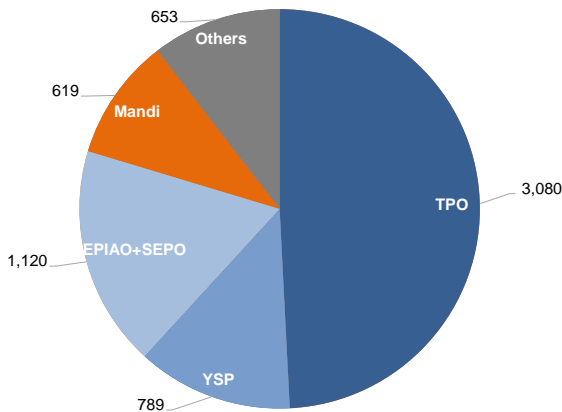
Focus charts

Figure 1: 3S Bio's historical price performance



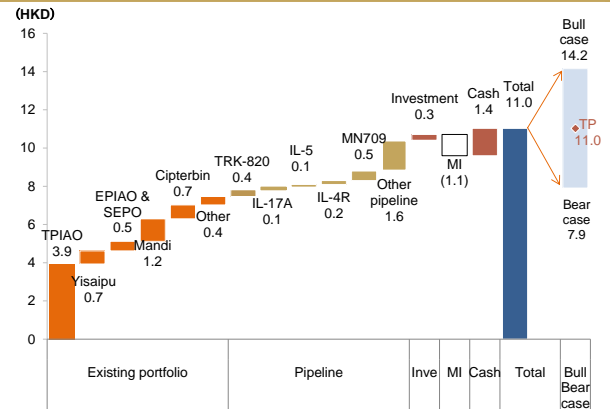
Sources: Bloomberg, CMS (HK)

Figure 2: 2021 revenue breakdown (RMB mn)



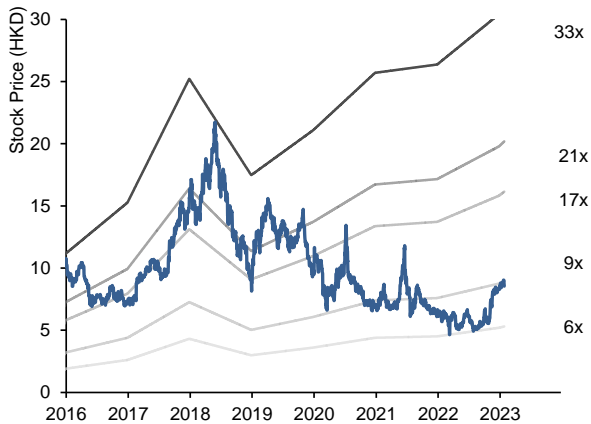
Sources: Company data, CMS (HK)

Figure 3: End-FY22E NAV breakdown



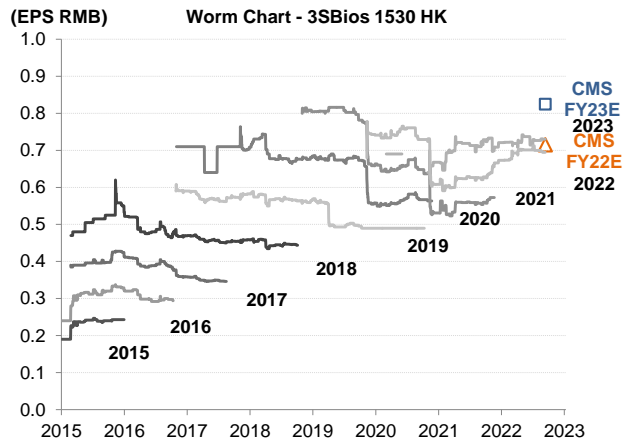
Sources: Company data, CMS (HK) estimates

Figure 4: P/E band



Sources: Bloomberg, CMS (HK)

Figure 5: Consensus worms



Sources: Bloomberg, CMS (HK) estimates

Valuation

Figure 6: SOTP valuation

(RMB mn)

Core portfolio drug (rNPV)

Existing portfolio	16,055
TPIAO (TPO)	8,455
Yisaipu (YSP)	1,480
EPIAO/SEPO (EPO)	1,075
Mandi	2,529
Cipterbin (HER-2 mAb)	1,560
Others	956

Pipeline portfolio

Pipeline portfolio	6,335
TRK-820 (Nalfurafine hydrochloride)	761
608 (IL17A)	296
610 (IL5)	291
611 (IL4R)	446
MN709 (Minoxidil foam)	1,077
Other pipeline	3,464

Add: investment	651
Less: MI	(2,395)
Add: Net cash	3,079

Equity value (RMB mn) 23,723

Equity value (HKD mn) 27,993

TP (HKD) 11.0

Sources: Company data, CMS (HK) estimates

Financial Summary

Balance Sheet

RMB mn	2019	2020	2021	2022E	2023E
Total cash and time deposits	2,083	3,091	2,868	3,580	5,177
ST receivables	1,018	983	1,379	1,353	1,425
Inventories	528	620	691	752	968
Other current assets	945	1,861	2,669	2,669	2,669
Total current assets	4,596	6,680	7,791	8,539	10,423
Property, plant & equipment	1,989	2,621	3,440	4,096	4,487
Other assets	1,784	2,340	2,008	1,958	1,898
Other intangible assets	6,311	5,817	5,693	5,527	5,375
Deferred tax assets	129	219	280	280	280
Total non-current asset	10,213	10,998	11,422	11,861	12,040
Total assets	14,809	17,678	19,213	20,400	22,464
Trade and other payables	150	203	230	256	330
Bank loans	484	360	150	150	150
Tax payable	21	58	74	74	74
Other current liabilities	957	830	966	966	966
Total current liabilities	1,612	1,451	1,420	1,446	1,520
Bank loans	13	53	164	164	164
Convertible bond	2,305	2,461	2,272	2,272	2,272
Deferred income	242	308	397	397	397
Deferred tax liabilities	268	272	264	264	264
Other liabilities	10	38	38	38	38
Total non-current liabilities	2,838	3,134	3,135	3,135	3,135
Total liabilities	4,450	4,585	4,555	4,581	4,654
Reserves	5,317	6,391	8,075	9,502	11,527
Share premium	4,308	4,298	4,152	4,152	4,152
Minority interest	734	2,404	2,430	2,395	2,360
Treasury shares	-	-	-	(230)	(230)
Total equity	10,359	13,093	14,658	15,819	17,809
Total liabilities & equity	14,809	17,678	19,213	20,400	22,464

Cash flow Statement

RMB mn	2019	2020	2021	2022E	2023E
PBT	1,223	979	1,869	2,149	2,328
Cash generated before WC change	1,898	1,900	2,198	2,303	2,725
Working capital	344	(302)	(332)	(10)	(214)
Cash generated from operations	2,243	1,599	1,865	2,292	2,512
Tax paid	(355)	(254)	(287)	(301)	(337)
Interest paid	(38)	(196)	(6)	45	73
Cash from operating activities	1,849	1,148	1,572	2,036	2,247
Capital expenditure	(471)	(893)	(1,029)	(1,000)	(800)
Interest received	68	35	89	122	151
Others	(731)	(1,012)	(346)	-	-
Cash from investing activities	(1,134)	(1,869)	(1,287)	(878)	(649)
Issue of shares	7	1	(220)	-	-
Change in bank borrowing	1,230	502	270	-	-
Dividends paid to the owners	(16)	-	-	(446)	-
Others	(1,637)	1,244	(525)	-	-
Cash from financing activities	(416)	1,747	(475)	(446)	-
Effect of FX rate changes	(9)	(18)	(33)	-	-
Net Change in cash	299	1,026	(189)	712	1,598
Cash - beginning balance	1,793	2,083	3,091	2,868	3,580
Cash - ending balance	2,083	3,091	2,868	3,580	5,177

Sources: Company data, CMS (HK) estimates

Profit & Loss Statement

RMB mn	2019	2020	2021	2022E	2023E
Revenue	5,318	5,588	6,382	6,861	8,254
Cost of sales	(925)	(1,063)	(1,106)	(1,248)	(1,606)
Gross profit	4,393	4,525	5,276	5,614	6,648
Other income	20	(456)	47	164	-
Selling expenses	(1,951)	(2,020)	(2,324)	(2,470)	(2,971)
Admin expenses	(676)	(453)	(371)	(432)	(495)
Research and development	(527)	(590)	(754)	(720)	(867)
Operating profit	1,260	1,462	1,826	1,991	2,315
EBITDA	1,866	2,034	2,374	2,758	3,140
Financial expenses	(26)	3	32	45	73
Associates	(11)	(30)	(37)	(50)	(60)
Other gain & loss	134	94	231	287	-
PBT	1,223	979	1,869	2,149	2,328
Income tax	(243)	(208)	(241)	(301)	(337)
Minority interest	(7)	65	24	35	35
Adj. net income*	1,202	1,451	1,769	1,814	2,093
Adj. EPS (RMB)	0.47	0.57	0.70	0.71	0.82
Adj. EPS (HKD)	0.54	0.66	0.80	0.82	0.95
DPS (HKD)	0.01	-	-	0.18	-
Dividend yield	0.1%	0.0%	0.0%	3.4%	0.0%

Notes: * derived from reported net profit after excluding one-off items and CB interest expense.

Financial Ratios

	2019	2020	2021	2022E	2023E
Growth (YoY)					
Revenue	16%	5%	14%	8%	20%
Gross profit	19%	3%	17%	6%	18%
Operating profit	-23%	16%	25%	9%	16%
Adj. net income	-17%	21%	22%	3%	15%
Adj. EPS	-28%	21%	22%	3%	15%
Margin					
Gross margin	83%	81%	83%	82%	81%
Operating margin	24%	26%	29%	29%	28%
Adj. net profit margin	18%	15%	26%	27%	25%
Efficiency					
Inventory days	208	213	228	220	220
Trade receivable days	70	64	79	72	63
Account payable days	59	70	76	75	75
Financial ratio					
Current ratio (x)	2.9	4.6	5.5	5.9	6.9
Quick ratio (x)	1.9	2.9	3.1	3.5	4.5
Net debt/equity	-16%	-21%	-19%	-22%	-28%
Dividend payout ratio	2%	0%	0%	24%	0%
ROA	7%	5%	9%	9%	9%
ROE	9%	6%	11%	12%	11%

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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