CMS 招商證券國際

Tuesday, February 14, 2023

Company Report

China Merchants Securities (HK) Co., Ltd.
Hong Kong Equity Research

Wuxi Biologics (2269 HK)

Upbeat FY23E unchanged; eyes for two upside potential

- **Co. reported positive profit alert for FY22E, rev up ~48.4% yoy and adj. NP up ~47% yoy, both in line with our estimates**
- **We maintain our total rev projection of over 30% yoy for 2023E; funding recovery and new BD deals could provide upside potential**
- **We maintain DCF-based TP at HKD118. Maintain BUY on its leading position in biologics CXO space and resilient track record**

Strong FY22E as expected; upbeat FY23E unchanged

The strong FY22E growth was primarily driven by 1) continued successful "Follow and Win the Molecule" strategies in 2022 (+136 new integrated projects, o/w 11 external transferred projects); 2) growing CMO projects (17 by end-FY22E) and upward revision its number of CMO projects in 2025E to 32-38 (vs. 28-34 from its prior prediction in1H22); 3) unique CRDMO business model to drive rapid growth in non-COVID sector, such as ADC and BsAb; 4) managed utilization rate of existing and newly expanded capacities; 5) efficient "Business Continuity Plan" to address the COVID impacts. We believe Co. is still on track to deliver another good year in 2023E, given prior upbeat rev guidance for FY23E (~60% yoy) and limited COVID impacts in 2023E with China reopening.

Funding recovery and new BD could be upside potential

We will keep an eye on two things for a potential better 2023E, 1) global funding recovery trajectory: per our monthly funding report, Jan global VC/PE funding remained bottomed. We continue to project a ~20% funding recovery in 2023E, and we think a faster-than-expected recovery could help to improve CXO demand; 2) more out-licence opportunities to unlock new revenue streams: under its recent GSK deal, Co. will receive USD40mn upfront and up to USD1.46bn milestone payment as well as low-single digit royalty. The upfront income should partly offset the uncertainty outlook of its COVID sector. Should we see more such BD deals (Co. is confident to deliver more deals from its CD3-based BiTE platform), the related upfront and milestone income could offer further upside potential for 2023E and beyond.

Maintain BUY with DCF TP unchanged at HKD118

We maintain FY23E forecast ~60% yoy growth for non-COVID, supported by robust increase in non-COVID projects and growing CXO demand for AD and new modalities. Despite tight funding condition, we believe Co.'s leading platform is well positioned to gain market share. Maintain BUY. **Investment risk:** lower-than-expected growth, tighter biotech funding, geopolitical risk.

RMB mn	2019	2020	2021	2022E	2023E
Consolidated revenue	3,984	5,612	10,290	15,307	20,778
yoy change	57%	41%	83%	49%	36%
Adjusted net profit	1,208	1,708	3,344	4,878	6,282
yoy change	85%	41%	96%	46%	29%
Adj EPS fully diluted (HKD)	0.3	0.5	0.9	1.3	1.7
PER adj (x)	185.2	137.7	68.6	47.9	37.2
PBR (x)	18.2	11.9	7.2	6.3	5.4

Sources: Company data, CMS (HK) estimates, closing price as of Feb 14, 2023

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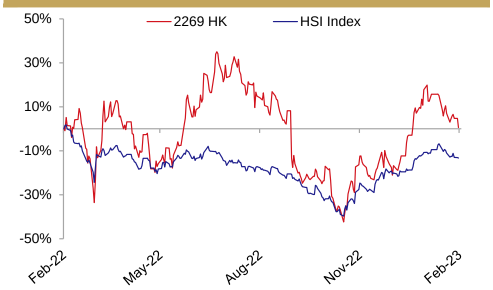
WHAT'S NEW

Event updates

BUY

Previous	BUY
Price (Feb 14, 2023)	HKD62.0
12-month Target Price (Potential up/downside)	HKD118 (+90%)
Previous	HKD118

Price Performance



Source: Bloomberg

%	1m	6m	12m
2269 HK	(14.6)	(11.1)	0.6
HSI	(2.9)	6.0	(13.3)

Source: Bloomberg

Sector: Pharmaceutical & Healthcare	
Hang Seng Index (Feb 14, 2023)	21,114
HSCEI (Feb 14, 2023)	7,110
Key Data	
52-week range (HKD)	35.0-87.0
Market cap (HKD mn)	262,178
Avg. daily traded value (HKD mn)	1,694
BVPS (HKD)	11.5
Shareholding Structure	
Founders and management	20.7%
Capital Group	6.8%
BlackRock	5.9%
Free float	66.6%

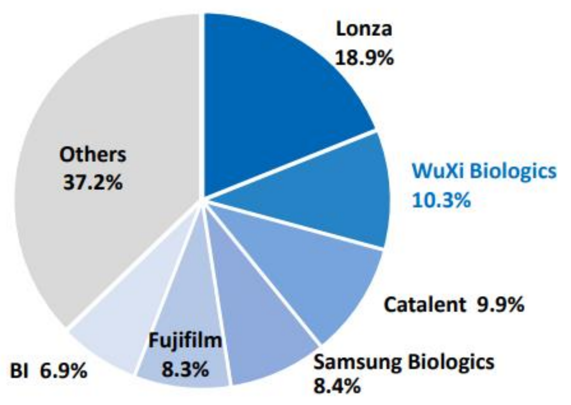
Source: Bloomberg

Related Research

1. Wuxi Biologics (2269 HK) – 2023E outlook remains upbeat (BUY) (Jan 12, 2023)
2. Wuxi Biologics (2269 HK) – One of two related sites has been removed from the UVL (BUY) (Oct 10, 2022)
3. Wuxi Biologics (2269 HK) – Solid 1H22 results; more resilient in tightening cycle (BUY) (Aug 18, 2022)
4. Wuxi Biologics (2269 HK) – Strong momentum, more resilient in tightening cycle (BUY) (Jun 16, 2022)

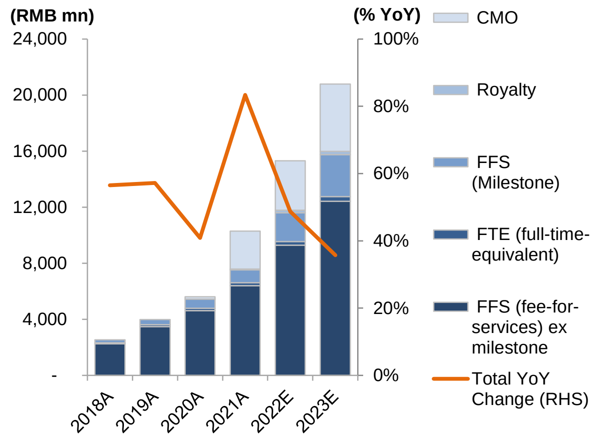
Focus charts

Figure 1: Market share of global biologics outsourcing services market by revenue in 2021



Source: Frost & Sullivan

Figure 2: Revenue breakdown and forecasts



Source: Company data

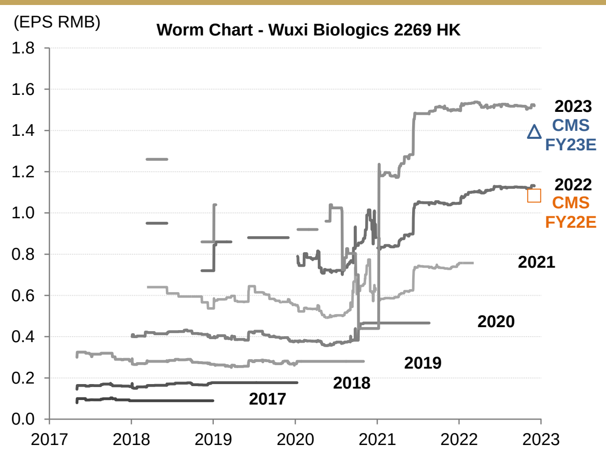
Figure 3: Global network

Sources: Company, CMS (HK) estimates

Figure 4: P/E band

Sources: Bloomberg, CMS (HK) estimates

Figure 5: Consensus worms



Sources: Bloomberg, CMS (HK) estimates

Figure 6: DCF details (RMB mn)

High growth phase								
FY	**2021**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**
EBIT adjusted	3,997	5,829	7,478	10,377	13,592			
yoy								
NOPAT (EBIT*(1-t))	3,397	4,955	6,357	8,821	11,553			
Add: depreciation and amortization	630	1,048	1,291	1,575	1,845			
Less: capital expenditures	(6,500)	(5,500)	(6,500)	(6,500)	(3,000)			
Less: net working capital	(1,136)	(659)	(862)	(1,783)	(2,256)			
FCFE	**(3,609)**	**(157)**	**285**	**2,113**	**8,142**	**11,398**	**15,388**	**20,004**
yoy		*-96%*	*-282%*	*641%*	*285%*	*40%*	*35%*	*30%*
PV	(3,609)	(157)	260	1,752	6,150	7,842	9,642	11,416

Transitional growth phase								
FY	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**
yoy growth	*27%*	*24%*	*21%*	*18%*	*14%*	*11%*	*8%*	*5%*
EBIT*(1-t)								
Add: depreciation and amortization								
Less: capital expenditures								
Less: net working capital								
FCFE	**25,380**	**31,408**	**37,886**	**44,516**	**50,915**	**56,643**	**61,246**	**64,308**
PV	12,014	13,540	14,875	15,918	16,581	16,800	16,544	15,821

Stable growth phase	
FY	**2037**
FCFE in terminal year =	**64,308**
Price at the end of growth phase =	1,406,733
Present value of FCFE in high growth phase =	**37,062**
Present value of FCFE in transition phase =	**122,093**
Present value of terminal price =	**287,059**
Intrinsic value =	**446,215**

Source: CMS (HK) estimates

Figure 7: DCF summary

DCF summary results	
Enterprise value (RMB mn)	**446,215**
Net cash (RMB mn) in FY22E	7,529
Equity value (RMB mn)	**453,745**
FX rate (HKD/RMB)	1.17
Equity value (HKD mn)	**530,881**
Shares outstanding (mn)	4,501
Value per share (HKD)	**118**

Source: CMS (HK) estimates

Financial Summary

Balance Sheet

RMB mn	2019	2020	2021	2022E	2023E
Non-current assets	**7,930**	**14,759**	**24,503**	**28,955**	**34,165**
PP&E	6,338	11,996	18,065	22,572	27,830
Deferred tax assets	36	80	221	221	221
Loan and account receivables	458	874	1,690	1,690	1,690
Intangible assets	416	392	601	547	497
Deposits and prepayments	45	49	57	57	57
Goodwilll	185	185	1,530	1,530	1,530
Others	452	1,182	2,338	2,338	2,338
Current assets	**9,672**	**14,204**	**19,530**	**20,823**	**23,092**
Inventories	399	1,084	1,687	1,778	2,344
Account receivables	1,335	2,333	3,124	4,403	5,693
Prepayments & other receivables	402	918	1,747	1,747	1,747
Service work in progress	324	416	1,138	1,138	1,138
Others	0	3	9	9	9
Financial assets	574	553	1,455	1,455	1,455
Restricted cash	432	1,801	1,366	1,366	1,366
Total cash and cash equivalents	6,205	7,096	9,003	8,926	9,340
Total assets	**17,602**	**28,964**	**44,033**	**49,779**	**57,257**
Current liabilities	**2,871**	**4,498**	**8,256**	**8,967**	**9,960**
Trade and bills payables	186	646	1,734	2,445	3,438
Advance from customers	-	-	-	-	-
Other payables	2,037	2,834	3,842	3,842	3,842
Income tax payable	142	251	558	558	558
ST bank debt	506	767	2,122	2,122	2,122
Non-current liabilities	**1,835**	**3,566**	**3,071**	**3,071**	**3,071**
Deferred government grants	149	214	224	224	224
Long-term payables	-	660	653	653	653
Deferred tax liabilities	25	188	124	124	124
LT bank loans	1,395	1,838	641	641	641
Obligation under a finance lease	266	667	1,429	1,429	1,429
Shareholders' funds	**12,896**	**20,899**	**32,706**	**37,741**	**44,225**
Minorities	**112**	**335**	**428**	**584**	**787**
Total liability and equity	**17,602**	**28,964**	**44,033**	**49,779**	**57,257**

Cashflow Statement

RMB mn	2019	2020	2021E	2022E	2023E
Cash flow from operating	**1,208**	**1,881**	**3,400**	**5,319**	**6,811**
Pretax profit	1,127	1,966	3,993	4,955	6,330
OP before WC changes	1,502	2,385	4,831	6,720	8,612
Net working capital change	(216)	(367)	(907)	(659)	(862)
Income tax paid	(78)	(94)	(485)	(687)	(884)
Interest paid	-	(43)	(39)	(55)	(55)
Cash flow from investing	**(4,494)**	**(7,216)**	**(6,442)**	**(5,396)**	**(6,397)**
Purchase of PPE	(3,211)	(6,025)	(6,500)	(5,500)	(6,500)
Option fee received	-	-	-	-	-
Pledged bank deposit, net	(406)	(1,494)	-	-	-
Interest received	54	79	58	104	103
Others	(929)	225	-	-	-
Cash flow from financing	**5,413**	**6,566**	**4,950**	**-**	**-**
Proceeds from equity issue	3,575	5,610	10,899	-	-
Proceeds/repayment of bank loans	1,910	870	-	-	-
Paid/repaid from sister companies	-	-	-	-	-
Others	(72)	85	(5,949)	-	-
Beginning cash	**4,084**	**6,206**	**7,096**	**9,003**	**8,926**
Net change	*2,127*	*1,231*	*1,908*	*(77)*	*414*
End cash	**6,206**	**7,096**	**9,003**	**8,926**	**9,340**

Sources: Company data, CMS (HK) estimates

Profit & Loss Statement

RMB mn	2019	2020	2021	2022E	2023E
Consolidated revenue	**3,984**	**5,612**	**10,290**	**15,307**	**20,778**
Cost of goods sold	(2,325)	(3,079)	(5,461)	(8,114)	(11,410)
Gross profit	**1,659**	**2,533**	**4,829**	**7,193**	**9,368**
(+/–) Other income/expense	102	138	138	152	167
(–) Total SG&A expense	(444)	(606)	(1,001)	(1,515)	(2,057)
Administrative expenses	(367)	(511)	(876)	(1,301)	(1,766)
Selling and distribution costs	(77)	(94)	(125)	(214)	(291)
(–) R&D expenses	(260)	(304)	(502)	(765)	(1,039)
Adjusted EBITDA	**1,582**	**2,121**	**3,928**	**6,877**	**8,769**
Depreciation	(315)	(400)	(582)	(994)	(1,241)
SBC	(204)	(276)	(532)	(765)	(1,039)
EBIT	**1,057**	**1,762**	**3,465**	**5,064**	**6,439**
(+/–) Finance cost- net	38	(53)	(14)	48	48
(+/–) Profit from JV & Asso.	(3)	3	-	-	-
(+/–) Other income/losses	8	228	542	(157)	(157)
(–) Listing expense	-	-	-	-	-
Profit before tax	**1,127**	**1,966**	**3,993**	**4,955**	**6,330**
(–) Tax	(116)	(273)	(485)	(687)	(884)
Net Profit	**1,010**	**1,693**	**3,509**	**4,269**	**5,446**
(+/–) Minority interest	(3)	4	120	156	203
NP attri. to shareholders	**1,014**	**1,689**	**3,388**	**4,113**	**5,243**
Adjusted net profit	**1,208**	**1,708**	**3,344**	**4,878**	**6,282**
Adj EPS fully diluted (RMB)	0.30	0.41	0.76	1.08	1.40
Adj EPS fully diluted (HKD)	**0.33**	**0.45**	**0.90**	**1.30**	**1.67**

Financial Ratios

	2019	2020	2021E	2022E	2023E
Growth					
Consolidated revenue	57%	41%	83%	49%	36%
Gross profit	63%	53%	91%	49%	30%
Adjusted net profit	85%	41%	96%	46%	29%
Profitability					
Gross margin	42%	45%	47%	47%	45%
Adj. net profit margin	30%	30%	32%	32%	30%
ROE	12%	10%	13%	14%	16%
ROA	9%	7%	9%	10%	12%
Efficiency					
Inventory days	49	88	93	78	66
Accounts receivable days	96	119	97	90	89
Accounts payable days	32	49	80	94	94
Cash cycle days	113	158	110	74	61
Liquidity					
FCF (RMB mn)	(2,003)	(4,144)	(3,100)	(181)	311
Net gearing (%)	(37)	(30)	(23)	(20)	(18)

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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