

WuXi Biologics (2269 HK)

On the road to recovery

WuXi Bio recently announced better-than-expected number of projects signed in 2023 despite the challenging macro environment in the global pharmaceutical industry. The company added 132 integrated projects to its pipeline in 2023, largely in line with the record highs during the COVID pandemic. Notably, it signed 71 new projects in 4Q23, which mgt. attributed to clients' sentiment improvement during Nov-Dec 2023. Mgt. also expected a business turnaround from 2Q24.

- 132 new projects signed in 2023, laying the ground for business recovery in 2024.** Among the 132 new projects signed in 2023, 71 were added in 4Q23 and 41 were added in Dec 2023. The better-than-expected project number growth was across all geographic regions with a significant rebound in China market. Chinese customers accounted for c. 25% of total new projects signed in 2023, while we estimate that ~15 out of the 41 new projects signed in Dec 2023 came from Chinese customers. Mgt. raised the new project number target of 2024 from 80 to 110 to reflect the expected recovery in drug development needs.
- Global CXO peers remain cautious on industry trends.** Mgt. of Lonza (mainly biologics CDMO) saw biotech funding stabilizing in the last few months but admitted its flattish 2024 guidance not to reflect a recovery. Mgt. of Catalent (CDMO) indicated that the funding constraints continue to affect early-stage R&D demand while expecting improvements in 2H24 thanks to lower interest rates. Catalent also highlighted its ambitious capacity expansion plan to meet the continuous demand rise of GLP-1 drugs. While mgt. of Thermo Fisher (life science + CXO) pointed out that the macro situation in 2023 was more challenging than expected, it expected the company's 2H24 earnings growth to face less pressure than 1H24. Encouragingly, Thermo Fisher has witnessed positive progress regarding customer destocking given lead time is returning to normal. Mgt. of ICON (clinical CRO) indicated that the biotech environment was stabilizing but challenges remained. In the last 3-6 months, ICON has seen more muted response on request-for-proposals from biotech clients whereas demand from large pharma remained solid.
- Maintain BUY.** We revise our TP from HK\$44.66 to HK\$39.65, based on a 10-year DCF model with WACC of 10.46% and terminal growth of 3.0%, to factor in both the positive outlook given by WuXi Bio mgt. and the lasting macro uncertainties in the global pharmaceutical market. We forecast WuXi Bio's revenue to grow by 10.2%/ 14.5%/ 29.0% YoY and attributable adj. net income to change by -6.0%/13.5%/27.8% YoY in 2023E/24E/25E, respectively.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	10,290	15,269	16,827	19,274	24,855
YoY growth (%)	83.3	48.4	10.2	14.5	29.0
Adjusted net profit (RMB mn)	3,316	4,925	4,628	5,252	6,714
YoY growth (%)	92.6	48.5	-6.0	13.5	27.8
EPS (Adjusted) (RMB)	0.79	1.18	1.09	1.23	1.58
Consensus EPS (RMB)	na	na	1.00	1.22	1.63
P/E (x) (Adjusted)	34.5	23.2	25.2	22.2	17.4

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$39.65
(Previous TP)	HK\$44.66
Up/Downside	30.2%
Current Price	HK\$30.45

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Stock Data

Mkt Cap (HK\$ mn)	129,640.9
Avg 3 mths t/o (HK\$ mn)	1,129.8
52w High/Low (HK\$)	71.40/26.35
Total Issued Shares (mn)	4257.5

Source: FactSet

Shareholding Structure

WuXi Biologics Holdings	13.8%
JP Morgan	6.0%

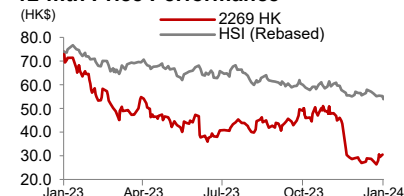
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	3.2%	9.2%
3-mth	-37.9%	-30.9%
6-mth	-25.6%	-8.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: What did management of global CXO peers say at JPM healthcare conference?

Company	Core business	Management comment
Lonza	CDMO	<ul style="list-style-type: none"> • 过去几个月看已到早期融资在企稳。 • 业绩指引并未假设有业绩复苏。 • 未来 3-5 年内生物药 CDMO 行业产能供给将小于需求，基于管线内的分子数量以及未来将会上线的产能情况。 • 小规模产能 (例如 1000&2000L 反应器) 可能供大于求，大规模商业化产能仍供给不足。 • 现在的定价是稳定的，Lonza 不会仅仅通过价格来竞争订单。 • 连续生产技术：并没有建设太多商业化连续生产产能，因为现在的相关需求低，但是有能力在需要的时候建设这些产能。 • 2022 年新冠 mRNA 疫苗收入约 CHF5 亿。
Catalent	CDMO	<ul style="list-style-type: none"> • 2023 的融资环境极具挑战，仍继续影响早期业务，相信看到融资复苏仍需要几个月时间。 • 随着融资成本走低或者伴随几个大型 IPO 事件，预计下半年融资情况会好转。 • GLP-1 预充针需求非常大，此业务领域的无菌罐装业务增速将显著高于其他业务领域。 • 公司拥有行业领先的 GLP-1 产能，相关收入将超过 5 亿美金。
Thermo Fisher	Life science + CXO	<ul style="list-style-type: none"> • 2023 年比预想的更具有挑战性，更艰难的宏观环境导致客户更谨慎的支出以及中国经济放缓都影响了公司业绩。 • 由于基数原因，预计 24 年上半年的增长压力大于下半年。 • Bioproduction 下游客户正在解决库存问题，购货周期已经恢复正常水平。 • 由于竞争格局的原因，我们没有大规模生物药 DS 生产业务。
ICON	Clinical CRO	<ul style="list-style-type: none"> • Biotech 融资正在企稳，但融资仍有挑战。 • 整体 RFP 情况是具有建设性的，过去 12 个月保持上涨。 • 在过去 3-6 个月内看到 biotech 询单量 (RFP) 进一步走弱。 • Pharma 的 R&D 需求十分稳健。

Source: Bloomberg, CMBIGM

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	16,827	19,274	24,855	16,827	19,423	25,048	0.00%	-0.77%	-0.77%
Gross Profit	6,728	8,033	10,688	6,728	8,061	10,771	0.00%	-0.35%	-0.77%
Operating Profit	4,257	4,757	6,310	4,320	4,893	6,407	-1.44%	-2.77%	-1.52%
Adjusted net profit	4,628	5,252	6,714	4,535	5,127	6,517	2.05%	2.43%	3.01%
Adjusted EPS (RMB)	1.09	1.23	1.58	1.07	1.20	1.53	1.99%	2.37%	2.96%
Gross Margin	39.98%	41.68%	43.00%	39.98%	41.50%	43.00%	0.00ppt	+0.18ppt	0.00ppt
Operating Margin	25.30%	24.68%	25.39%	25.67%	25.19%	25.58%	-0.37ppt	-0.51ppt	-0.19ppt
Adjusted net margin	27.50%	27.25%	27.01%	26.95%	26.40%	26.02%	+0.55ppt	+0.85ppt	+0.99ppt

Source: CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	16,827	19,274	24,855	16,880	21,032	27,081	-0.31%	-8.36%	-8.22%
Gross Profit	6,728	8,033	10,688	6,755	8,807	11,643	-0.40%	-8.79%	-8.21%
Operating Profit	4,257	4,757	6,310	4,779	5,965	7,942	-10.92%	-20.25%	-20.55%
Adjusted net profit	4,628	5,252	6,714	4,473	5,484	7,251	3.46%	-4.23%	-7.41%
Adjusted EPS (RMB)	1.09	1.23	1.58	1.00	1.22	1.63	9.14%	1.28%	-3.20%
Gross Margin	39.98%	41.68%	43.00%	40.02%	41.87%	42.99%	-0.04ppt	-0.20ppt	+0.01ppt
Operating Margin	25.30%	24.68%	25.39%	28.31%	28.36%	29.33%	-3.01ppt	-3.68ppt	-3.94ppt
Adjusted net margin	27.50%	27.25%	27.01%	26.50%	26.07%	26.78%	+1.00ppt	+1.17ppt	+0.24ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	4,033	4,707	6,300	8,064	10,241	12,903	16,129	20,000	24,600	30,012
Tax rate	12.93%	14.92%	14.92%	14.92%	14.92%	14.92%	14.92%	14.92%	14.92%	14.92%
EBIT*(1-tax rate)	3,512	4,005	5,360	6,860	8,713	10,978	13,722	17,016	20,929	25,534
+ D&A	1,057	1,197	1,333	1,639	2,000	2,420	2,903	3,455	4,077	4,770
- Change in working capital	565	(606)	(1,479)	(1,819)	(2,219)	(2,685)	(3,223)	(3,835)	(4,525)	(5,294)
- Capex	(5,000)	(5,000)	(5,000)	(4,500)	(4,050)	(3,645)	(3,281)	(2,952)	(2,657)	(2,391)
FCFF	133	(405)	213	2,180	4,443	7,067	10,123	13,683	17,824	22,618
Terminal value										312,390
Terminal growth rate		3.00%								
WACC		10.46%								
Cost of Equity		13.80%								
Cost of Debt		5.00%								
Equity Beta		0.90								
Risk Free Rate		3.00%								
Market Risk Premium		12.00%								
Target Debt to Asset ratio		35.00%								
Effective Corporate Tax Rate		15.00%								
Terminal value (RMB mn)		115,543								
Total PV (RMB mn)		150,417								
Net debt (RMB mn)		(1,505)								
Equity value (RMB mn)		151,921								
# of shares (mn)		4,258								
Price per share (RMB per share)		35.68								
Price per share (HK\$ per share)		39.65								

Source: CMBIGM estimates. HK\$/RMB=0.90

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	5,612	10,290	15,269	16,827	19,274	24,855
Cost of goods sold	(3,079)	(5,461)	(8,545)	(10,099)	(11,241)	(14,167)
Gross profit	2,533	4,829	6,724	6,728	8,033	10,688
Operating expenses	(689)	(1,306)	(1,810)	(2,471)	(3,275)	(4,378)
Selling expense	(94)	(125)	(163)	(355)	(479)	(671)
Admin expense	(511)	(876)	(1,270)	(1,597)	(2,026)	(2,610)
R&D expense	(304)	(502)	(683)	(842)	(1,040)	(1,367)
Others	220	197	305	323	270	270
Operating profit	1,844	3,523	4,914	4,257	4,757	6,310
Share of (losses)/profits of associates/JV	3	0	0	0	0	0
Net interest income/(expense)	(43)	(39)	(64)	(158)	(65)	(65)
Others	162	509	508	(74)	100	140
Pre-tax profit	1,966	3,993	5,358	4,025	4,792	6,384
Income tax	(273)	(485)	(808)	(520)	(715)	(953)
After tax profit	1,693	3,509	4,550	3,505	4,077	5,432
Minority interest	(4)	(120)	(130)	(107)	(111)	(136)
Net profit	1,689	3,388	4,420	3,398	3,965	5,296
Adjusted net profit	1,722	3,316	4,925	4,628	5,252	6,714
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	14,204	19,530	18,470	17,980	18,719	21,676
Cash & equivalents	7,096	9,003	6,395	5,622	5,289	5,574
Account receivables	3,242	4,857	5,610	5,630	6,290	7,907
Inventories	1,084	1,687	2,281	2,345	2,610	3,290
ST bank deposits	1,272	1,148	304	304	304	304
Financial assets at FVTPL	112	976	2,015	2,015	2,015	2,015
Other current assets	1,398	1,859	1,864	2,064	2,210	2,586
Non-current assets	14,759	24,503	31,095	35,038	38,841	42,508
PP&E	11,996	18,065	24,171	28,253	32,195	36,002
Deferred income tax	80	221	223	223	223	223
Investment in JVs & assos	188	752	1,582	1,582	1,582	1,582
Intangibles	392	601	549	492	435	378
Goodwill	185	1,530	1,530	1,530	1,530	1,530
Financial assets at FVTPL	759	1,356	1,086	1,086	1,086	1,086
Other non-current assets	1,159	1,978	1,955	1,873	1,791	1,709
Total assets	28,964	44,033	49,564	53,018	57,560	64,184
Current liabilities	4,498	8,256	9,319	10,167	10,632	11,825
Short-term borrowings	767	2,122	1,321	1,321	1,321	1,321
Account payables	2,729	3,698	3,269	4,117	4,583	5,776
Tax payable	251	558	774	774	774	774
Other current liabilities	691	1,775	3,805	3,805	3,805	3,805
Lease liabilities	61	104	149	149	149	149
Non-current liabilities	3,566	3,071	4,033	4,033	4,033	4,033
Long-term borrowings	1,838	641	1,462	1,462	1,462	1,462
Obligations under finance leases	667	1,429	1,490	1,490	1,490	1,490
Deferred income	214	224	238	238	238	238
Other non-current liabilities	848	777	844	844	844	844
Total liabilities	8,064	11,326	13,351	14,199	14,665	15,858
Share capital	0	0	0	0	0	0
Capital surplus	20,564	32,278	35,047	37,545	41,511	46,807
Total shareholders equity	20,564	32,279	35,047	37,546	41,511	46,807
Minority interest	335	428	1,166	1,272	1,384	1,520
Total equity and liabilities	20,899	32,706	36,213	38,818	42,895	48,327

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,966	3,993	5,358	4,025	4,792	6,384
Depreciation & amortization	304	482	801	1,057	1,197	1,333
Tax paid	(94)	(350)	(586)	(520)	(715)	(953)
Change in working capital	(367)	(963)	(974)	565	(606)	(1,479)
Others	73	270	943	147	65	65
Net cash from operations	1,881	3,431	5,542	5,273	4,733	5,351
Investing						
Capital expenditure	(6,025)	(6,508)	(5,868)	(5,000)	(5,000)	(5,000)
Acquisition of subsidiaries/ investments	(6)	(2,535)	(281)	0	0	0
Others	(1,186)	(559)	241	11	0	0
Net cash from investing	(7,216)	(9,602)	(5,908)	(4,989)	(5,000)	(5,000)
Financing						
Net borrowings	870	(53)	(174)	0	0	0
Proceeds from share issues	5,585	10,978	0	0	0	0
Others	110	(2,715)	(2,418)	(1,058)	(65)	(65)
Net cash from financing	6,566	8,209	(2,592)	(1,058)	(65)	(65)
Net change in cash						
Cash at the beginning of the year	6,205	7,096	9,003	6,395	5,622	5,289
Exchange difference	(340)	(132)	350	0	0	0
Cash at the end of the year	7,096	9,003	6,395	5,622	5,289	5,574
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	40.9%	83.3%	48.4%	10.2%	14.5%	29.0%
Gross profit	52.7%	90.6%	39.2%	0.1%	19.4%	33.1%
Operating profit	62.5%	91.1%	39.5%	(13.4%)	11.7%	32.6%
Net profit	66.6%	100.6%	30.5%	(23.1%)	16.7%	33.5%
Adj. net profit	42.5%	92.6%	48.5%	(6.0%)	13.5%	27.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	45.1%	46.9%	44.0%	40.0%	41.7%	43.0%
Operating margin	32.8%	34.2%	32.2%	25.3%	24.7%	25.4%
Adj. net profit margin	30.7%	32.2%	32.3%	27.5%	27.2%	27.0%
Return on equity (ROE)	10.1%	12.8%	13.1%	9.4%	10.0%	12.0%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.2)	(0.1)	(0.0)	(0.0)	(0.0)
Current ratio (x)	3.2	2.4	2.0	1.8	1.8	1.8
Receivable turnover days	161.9	143.6	125.1	122.1	119.1	116.1
Inventory turnover days	87.9	92.6	84.8	84.8	84.8	84.8
Payable turnover days	271.0	214.8	148.8	148.8	148.8	148.8
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E (adjusted)	62.9	34.5	23.2	25.2	22.2	17.4
P/B	8.9	11.9	6.1	3.1	2.8	2.5
P/CFPS	98.4	113.0	39.8	22.5	25.1	22.2

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

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