

# WuXi AppTec (603259 CH)

## Best effort to ensure business continuity

WuXi AppTec reported revenue of RMB40.3bn in 2023, up 2.5% YoY, attributable recurring net income of RMB9.7bn, up 16.8% YoY, and attributable adjusted non-IFRS net income of RMB10.9bn, up 15.5% YoY. Revenue was in-line with Bloomberg consensus while attributable adjusted non-IFRS net income beat the consensus by 6.3%. Excluding revenue from the COVID-19 commercial project, the Company delivered impressive revenue growth of 25.6% YoY in 2023, despite the challenging environment in global CXO industry. For 2024E, management expected the reported revenue of WuXi AppTec to fall in the range of RMB38.3-40.5bn, representing a decline of 5.1% YoY to growth of 0.4% YoY. Excluding revenues from commercial projects related to COVID-19, the revenue is expected to rise by 2.7% to 8.6% YoY. Furthermore, management anticipates the adjusted non-IFRS net income margin will remain approximately on par with the 2023 level, thanks to the company's ongoing efforts to enhance operational efficiency, new capacity coming online, and the impact of FX fluctuations.

■ **Solid business development in 2023.** With a solid phase synthesizer capacity of 32k L for peptide production, TIDES revenue remarkably grew by 64.4% YoY in 2023, on top of 337% YoY growth in 2022. Notably, backlog of TIDES as of Dec 2023 dramatically increased by 226% YoY. Drug safety assessment and SMO business experienced revenue growth of 27.3% and 26.1% YoY, further solidifying the leading positions in their respective markets. ATU is working on two commercial projects and is advancing another two potential commercial projects. Starting to receive royalty income in 2023, DDSU obtained NMPA approvals for three new drugs developed for its customers with another two in NDA review stage.

■ **WuXi AppTec is actively cooperating with its customers to ensure business continuity.** The management of WuXi AppTec has reaffirmed their position, stressing that the company is not involved in the human genomics sector and maintains no ties with any political entities, governments, or military organizations, thereby not posing national security threats to any nation. The management also emphasized that WuXi AppTec's client relationships remain robust, evidenced by several customers entering into discussions for long-term contracts for their advanced-stage projects. These negotiations are made possible by the utilization of the "Grandfather Clause" incorporated in a revised draft bill brought before the US Senate.

■ **Share buyback to show confidence in the Company.** WuXi AppTec has already cancelled RMB1.2bn H-shares under its 2023 H-share Award Scheme. Following the completion of RMB1bn A-share repurchase in Feb 2023, the Company is in progress to repurchase another RMB1bn A-share.

■ **Maintain BUY.** To factor in the uncertainties from geopolitical risks, we cut our TP from RMB116.01 to RMB67.53 (based on a 10-year DCF model with WACC of 10.73% and terminal growth of 2.0%). We forecast revenue to grow by -3.0%/ +10.3%/ +11.1% YoY and adjusted non-IFRS net income to grow by -5.5%/ +10.8%/ +12.9% YoY in 2024E/ 25E/ 26E, respectively.

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	39,355	40,341	39,126	43,135	47,940
YoY growth (%)	71.8	2.5	(3.0)	10.2	11.1
Adjusted net profit (RMB mn)	9,399	10,854	10,256	11,364	12,828
YoY growth (%)	83.2	15.5	(5.5)	10.8	12.9
EPS (Adjusted) (RMB)	3.21	3.70	3.50	3.87	4.37
Consensus EPS (RMB)	na	na	3.95	4.77	5.18
P/E (x)	15.8	13.7	14.5	13.1	11.6

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price	RMB67.53
(Previous TP)	RMB116.01
Up/Downside	32.9%
Current Price	RMB50.81

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### Stock Data

Mkt Cap (RMB mn)	149,036.1
Avg 3 mths t/o (RMB mn)	3,449.3
52w High/Low (RMB)	90.88/48.23
Total Issued Shares (mn)	2933.2

Source: FactSet

### Shareholding Structure

HK investors	23.2%
Ge Li and concerted parties	15.0%

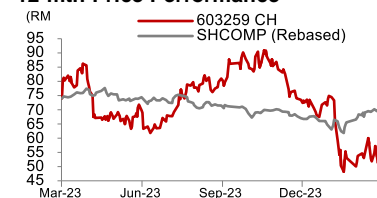
Source: Company

### Share Performance

	Absolute	Relative
1-mth	1.5%	-3.5%
3-mth	-30.3%	-33.3%
6-mth	-36.8%	-35.5%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

**Figure 1: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	39,126	43,135	47,940	47,407	58,566	na	-17.47%	-26.35%	na
Gross Profit	15,595	17,093	19,035	19,279	23,975	na	-19.11%	-28.70%	na
Operating Profit	10,515	11,558	12,955	13,577	17,019	na	-22.55%	-32.09%	na
Non-IFRS net profit	10,260	11,364	12,828	12,747	15,897	na	-19.51%	-28.52%	na
Non-IFRS EPS (RMB)	3.50	3.87	4.37	4.29	5.35	na	-18.54%	-27.65%	na
Gross Margin	39.86%	39.63%	39.71%	40.67%	40.94%	na	-0.81ppt	-1.31ppt	na
Operating Margin	26.88%	26.80%	27.02%	28.64%	29.06%	na	-1.76ppt	-2.27ppt	na
Net Margin	26.22%	26.34%	26.76%	26.89%	27.14%	na	-0.67ppt	-0.8ppt	na

Source: Company data, CMBIGM estimates

**Figure 2: CMBIGM estimates vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	39,126	43,135	47,940	46,424	56,395	61,533	-15.72%	-23.51%	-22.09%
Gross Profit	15,595	17,093	19,035	18,652	22,798	25,163	-16.39%	-25.02%	-24.35%
Operating Profit	10,515	11,558	12,955	13,222	16,207	17,640	-20.47%	-28.68%	-26.56%
Non-IFRS net profit	10,260	11,364	12,828	11,497	13,975	15,076	-10.76%	-18.69%	-14.91%
Non-IFRS EPS (RMB)	3.50	3.87	4.37	3.95	4.77	5.18	-11.54%	-18.85%	-15.60%
Gross Margin	39.86%	39.63%	39.71%	40.18%	40.43%	40.89%	-0.32ppt	-0.8ppt	-1.19ppt
Operating Margin	26.88%	26.80%	27.02%	28.48%	28.74%	28.67%	-1.61ppt	-1.94ppt	-1.64ppt
Net Margin	26.22%	26.34%	26.76%	24.77%	24.78%	24.50%	+1.46ppt	+1.56ppt	+2.26ppt

Source: Company data, Bloomberg, CMBIGM estimates

**Figure 3: Valuation on risk-adjusted DCF valuation**

DCF Valuation (in Rmb mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
EBIT	11,101	12,256	13,794	16,553	19,615	22,950	26,507	30,218	33,996	37,735
Tax rate	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
EBIT*(1-tax rate)	9,436	10,418	11,725	14,070	16,673	19,508	22,531	25,686	28,896	32,075
+ D&A	2,257	2,555	2,824	3,248	3,686	4,128	4,562	4,972	5,345	5,666
- Change in working capital	760	(725)	(867)	(997)	(1,131)	(1,267)	(1,400)	(1,526)	(1,641)	(1,739)
- Capex	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)	(8,000)
<b>FCFF</b>	<b>4,454</b>	<b>4,248</b>	<b>5,682</b>	<b>8,321</b>	<b>11,228</b>	<b>14,369</b>	<b>17,693</b>	<b>21,132</b>	<b>24,601</b>	<b>28,002</b>
<b>Terminal value</b>										<b>327,359</b>
<b>Terminal growth rate</b>	<b>2.00%</b>									
<b>WACC</b>	<b>10.73%</b>									
Cost of Equity	13.50%									
Cost of Debt	5.00%									
Equity Beta	1.00									
Risk Free Rate	3.00%									
Market Risk Premium	10.50%									
Target Debt to Asset ratio	30.00%									
Effective Corporate Tax Rate	15.00%									
PV of terminal value (RMB mn)	118,186									
Total PV (RMB mn)	187,908									
Net debt (RMB mn)	(10,163)									
Equity value (RMB mn)	198,071									
# of shares (mn)	2,933									
Price per share (RMB per share)	<b>67.53</b>									

Source: CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
<b>YE 31 Dec (RMB mn)</b>						
<b>Revenue</b>	<b>22,902</b>	<b>39,355</b>	<b>40,341</b>	<b>39,126</b>	<b>43,135</b>	<b>47,940</b>
Cost of goods sold	(14,592)	(24,677)	(23,729)	(23,531)	(26,041)	(28,905)
<b>Gross profit</b>	<b>8,310</b>	<b>14,678</b>	<b>16,612</b>	<b>15,595</b>	<b>17,093</b>	<b>19,035</b>
<b>Operating expenses</b>	<b>(3,898)</b>	<b>(5,372)</b>	<b>(5,318)</b>	<b>(5,079)</b>	<b>(5,535)</b>	<b>(6,080)</b>
Selling expense	(699)	(732)	(701)	(641)	(685)	(737)
Admin expense	(2,203)	(2,826)	(2,879)	(2,772)	(3,035)	(3,349)
R&D expense	(942)	(1,614)	(1,441)	(1,378)	(1,497)	(1,640)
Others	(54)	(200)	(297)	(289)	(318)	(354)
<b>Operating profit</b>	<b>4,412</b>	<b>9,306</b>	<b>11,294</b>	<b>10,515</b>	<b>11,558</b>	<b>12,955</b>
Gain/loss on financial assets at FVTPL	(93)	770	(38)	86	198	339
Investment gain/loss	1,356	188	234	200	200	200
<b>Net interest income/(expense)</b>	<b>(84)</b>	<b>248</b>	<b>338</b>	<b>434</b>	<b>492</b>	<b>573</b>
Other income/expense	425	106	4	300	300	300
<b>Pre-tax profit</b>	<b>6,016</b>	<b>10,618</b>	<b>11,832</b>	<b>11,536</b>	<b>12,749</b>	<b>14,368</b>
Income tax	(880)	(1,716)	(2,132)	(1,730)	(1,912)	(2,155)
<b>After tax profit</b>	<b>5,136</b>	<b>8,903</b>	<b>9,700</b>	<b>9,805</b>	<b>10,837</b>	<b>12,213</b>
Minority interest	(39)	(89)	(94)	(95)	(104)	(118)
<b>Net profit</b>	<b>5,097</b>	<b>8,814</b>	<b>9,607</b>	<b>9,711</b>	<b>10,732</b>	<b>12,095</b>
<b>Adjusted net profit</b>	<b>5,131</b>	<b>9,399</b>	<b>10,854</b>	<b>10,260</b>	<b>11,364</b>	<b>12,828</b>
Gross dividends	1,529	2,644	2,882	2,913	3,220	3,628
<b>BALANCE SHEET</b>						
<b>YE 31 Dec (RMB mn)</b>						
<b>Current assets</b>	<b>21,986</b>	<b>23,997</b>	<b>30,422</b>	<b>31,549</b>	<b>36,071</b>	<b>41,761</b>
Cash & equivalents	8,239	7,986	13,764	15,615	18,893	23,123
Account receivables	4,668	6,047	7,922	6,774	7,468	8,300
Inventories	5,905	5,669	4,736	5,159	5,709	6,337
Prepayment	303	291	244	244	244	244
Financial assets at FVTPL	527	2	11	11	11	11
Other current assets	2,344	4,003	3,746	3,746	3,746	3,746
<b>Non-current assets</b>	<b>33,142</b>	<b>40,693</b>	<b>43,247</b>	<b>47,048</b>	<b>50,663</b>	<b>54,150</b>
PP&E	8,554	14,171	17,190	20,315	23,142	25,700
Deferred income tax	390	492	367	367	367	367
Investment in JVs & assos	678	1,203	2,216	2,216	2,216	2,216
Intangibles	1,600	1,785	1,864	1,706	1,548	1,390
Goodwill	1,926	1,822	1,821	1,821	1,821	1,821
Financial assets at FVTPL	8,714	8,954	8,626	9,912	11,311	12,850
Other non-current assets	11,280	12,265	11,164	10,712	10,259	9,807
<b>Total assets</b>	<b>55,127</b>	<b>64,690</b>	<b>73,669</b>	<b>78,597</b>	<b>86,734</b>	<b>95,911</b>
<b>Current liabilities</b>	<b>12,985</b>	<b>14,499</b>	<b>14,756</b>	<b>14,792</b>	<b>15,312</b>	<b>15,905</b>
Short-term borrowings	2,261	3,874	3,667	3,667	3,667	3,667
Account payables	1,931	1,659	1,645	1,681	2,201	2,794
Tax payable	536	882	1,374	1,374	1,374	1,374
Other current liabilities	8,256	8,084	8,070	8,070	8,070	8,070
<b>Non-current liabilities</b>	<b>3,385</b>	<b>3,264</b>	<b>3,396</b>	<b>3,396</b>	<b>3,396</b>	<b>3,396</b>
Long-term borrowings	0	279	687	687	687	687
Bond payables	607	502	0	0	0	0
Obligations under finance leases	1,019	984	1,099	1,099	1,099	1,099
Other non-current liabilities	1,759	1,499	1,610	1,610	1,610	1,610
<b>Total liabilities</b>	<b>16,370</b>	<b>17,764</b>	<b>18,152</b>	<b>18,187</b>	<b>18,707</b>	<b>19,300</b>
Share capital	2,956	2,961	2,969	2,969	2,969	2,969
Capital surplus	25,732	26,512	28,401	35,199	42,711	51,177
Other reserves	9,804	17,118	23,753	21,753	21,753	21,753
<b>Total shareholders equity</b>	<b>38,492</b>	<b>46,590</b>	<b>55,122</b>	<b>59,920</b>	<b>67,432</b>	<b>75,899</b>
Minority interest	266	337	395	490	594	712
<b>Total equity and liabilities</b>	<b>55,127</b>	<b>64,690</b>	<b>73,669</b>	<b>78,597</b>	<b>86,734</b>	<b>95,911</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>6,016</b>	<b>10,618</b>	<b>11,832</b>	<b>11,536</b>	<b>12,749</b>	<b>14,368</b>
Depreciation & amortization	1,363	1,718	2,288	2,261	2,559	2,828
Tax paid	(880)	(1,716)	(2,132)	(1,730)	(1,912)	(2,155)
Change in working capital	(1,151)	(298)	(105)	760	(725)	(867)
Others	(759)	294	1,504	(496)	(667)	(889)
<b>Net cash from operations</b>	<b>4,589</b>	<b>10,616</b>	<b>13,387</b>	<b>12,331</b>	<b>12,004</b>	<b>13,285</b>
<b>Investing</b>						
Capital expenditure	(6,936)	(9,966)	(5,517)	(5,000)	(5,000)	(5,000)
Acquisition of subsidiaries/ investments	(858)	(161)	(22)	0	0	0
Net proceeds from disposal of short-term investments	2,766	82	(2,321)	(1,000)	(1,000)	(1,000)
Others	189	355	299	0	0	0
<b>Net cash from investing</b>	<b>(4,839)</b>	<b>(9,690)</b>	<b>(7,561)</b>	<b>(6,000)</b>	<b>(6,000)</b>	<b>(6,000)</b>
<b>Financing</b>						
Dividend paid	(916)	(1,598)	(2,756)	(2,479)	(2,727)	(3,055)
Net borrowings	1,071	1,668	178	0	0	0
Proceeds from share issues	104	150	247	0	0	0
Others	(1,983)	(1,497)	(1,610)	(2,000)	0	0
<b>Net cash from financing</b>	<b>(1,724)</b>	<b>(1,278)</b>	<b>(3,941)</b>	<b>(4,479)</b>	<b>(2,727)</b>	<b>(3,055)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	10,228	8,175	7,984	13,764	15,615	18,893
Exchange difference	(79)	161	132	0	0	0
<b>Cash at the end of the year</b>	<b>8,175</b>	<b>7,984</b>	<b>10,001</b>	<b>15,615</b>	<b>18,893</b>	<b>23,123</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	38.5%	71.8%	2.5%	(3.0%)	10.2%	11.1%
Gross profit	32.3%	76.6%	13.2%	(6.1%)	9.6%	11.4%
Operating profit	41.1%	110.9%	21.4%	(6.9%)	9.9%	12.1%
Net profit	72.2%	72.9%	9.0%	1.1%	10.5%	12.7%
Adj. net profit	41.1%	83.2%	15.5%	(5.5%)	10.8%	12.9%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	36.3%	37.3%	41.2%	39.9%	39.6%	39.7%
Operating margin	19.3%	23.6%	28.0%	26.9%	26.8%	27.0%
Adj. net profit margin	22.4%	23.9%	26.9%	26.2%	26.3%	26.8%
Return on equity (ROE)	14.4%	20.7%	18.9%	16.9%	16.9%	16.9%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Current ratio (x)	1.7	1.7	2.1	2.1	2.4	2.6
Receivable turnover days	66.4	49.7	63.2	63.2	63.2	63.2
Inventory turnover days	107.4	85.6	80.0	80.0	80.0	80.0
Payable turnover days	107.8	75.5	75.6	75.6	75.6	75.6
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E (adjusted)	28.9	15.8	13.7	14.5	13.1	11.6
P/B	10.1	5.8	4.1	2.5	2.2	1.9
P/CFPS	85.5	25.8	17.2	12.1	12.4	11.2
Div yield (%)	0.4	1.0	1.3	2.0	2.2	2.4

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

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<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIGM
<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
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