

CSPC Pharmaceutical (1093 HK)

Accelerating growth in finished drug sales

- Strong double-digit growth in 1Q24. CSPC reported 1Q24 revenue of RMB8.98bn (+11.5% YoY, +18.4% QoQ) and attributable net profit of RMB1.61bn (+12.9% YoY, +17.0% QoQ), regaining double-digit growth, and representing 26% and 20% of our previous full-year estimates, respectively. The GP margin in 1Q24 increased to 72.3% (vs 68.5% in 1Q23), mainly due to a higher proportion of revenue from finished drugs (84.2% in 1Q24 vs 79.7% in 1Q23). Selling expense ratio increased to 33.0% in 1Q24 (vs 30.9% in 1Q23), due to the higher proportion of revenue from finished drugs, in our view. Admin expenses ratio increased from 3.3% in 1Q23 to 3.7% in 1Q24. R&D expenses reached RMB3.68bn in 1Q24 (+16.0% YoY, +1.5% QoQ).
- Accelerating growth in finished drug sales. Sales of finished drugs in 1Q24 increased 17.7% YoY to RMB7.56bn, driven by the strong sales growth of CNS products (+27.4% YoY), oncology products (+11.6% YoY), anti-infection drugs (+9.8% YoY) and cardiovascular drugs (+22.3% YoY). We think NBP performed well in Q1 driven by the strong growth from retail pharmacy channels. CSPC has established a dedicated sales force focusing on retail pharmacy channels to promote the sales of NBP and several generics.
- New products to drive growth. We expect CSPC's sales of new products to ramp up quickly, including Mingfule (rhTNK-tPA), Duoenyi (irinotecan liposome), Duoenda (mitoxantrone), Ouyuexin (desvenlafaxine), Yiluoda (nintedanib), Anfulike (amphotericin B), duvelisib (PI3K), and glumetinib (MET). Mingfule was approved for acute ischemic stroke in Feb 2024, bringing additional sales potential in acute ischemic stroke. We expect the NRDL to add this new indication during the negotiation at end-2024. CSPC has seven new NDAs under review, including PD-1, omalizumab, DDP4, liposomal amphotericin B, and two NDAs under US FDA review (Anfulike and Duoenyi), further expanding the Company's commercial product portfolio. Management maintained the forecast of new products contributing RMB3.5-3.6bn of reported revenue in 2024. Additionally, TG103 (GLP-1RA) completed enrolment for Ph3 obesity study in China in Jan 2024 and is enrolling for the Ph3 diabetes trial since Apr 2024. The semaglutide injection is currently enrolling for Ph3 diabetes in China as well since Feb 2024. The EGFR ADC and Nectin-4 ADC are going through Ph1 studies, with data readout expected in 2H24.
- Maintain BUY. Based on the strong double-digit growth in 1Q24, we expect CSPC's revenue and attributable net profit to grow 11.5%/ 11.1% and 13.1%/ 9.5% YoY in FY24E/25E, respectively. We revise up our DCF-based TP from HK\$7.76 to HK\$8.51 (WACC 11.78%, terminal growth 2.0%).
- **Risks**: Sustainability of strong growth; Duomeisu's potential national centralised procurement

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E						
Revenue (RMB mn)	30,937	31,450	35,065	38,970	43,325						
YoY growth (%)	11.0	1.7	11.5	11.1	11.2						
Net profit (RMB mn)	6,232	6,073	6,867	7,516	8,650						
YoY growth (%)	9.6	(2.6)	13.1	9.4	15.1						
EPS (Reported) (RMB)	0.51	0.49	0.56	0.61	0.70						
P/E (x)	12.8	13.2	11.7	10.7	9.3						
Net gearing (%)	(44.1)	(37.3)	(41.8)	(47.1)	(51.2)						
Source: Company data, Bloom	Source: Company data, Bloomberg, CMBIGM estimates										

BUY (Maintain)

Target Price HK\$8.51

(Previous TP HK\$7.76)
Up/Downside 21.0%
Current Price HK\$7.03

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Stock Data

Mkt Cap (HK\$ mn)	83,777.9
Avg 3 mths t/o (HK\$ mn)	273.1
52w High/Low (HK\$)	7.33/5.29
Total Issued Shares (mn)	11917.2
Source: FactSet	

Shareholding Structure

Ondi cholding Othactare	
Massive Giant Group Ltd	10.3%
Cai Dongchen	10.0%

Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	6.5%	-0.1%
3-mth	15.2%	1.3%
6-mth	-1.1%	-8.8%

Source: FactSet

12-mth Price Performance



Source: FactSet



DCF Valuation (in RMB mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	8,325	9,112	9,750	10,384	11,007	11,667	12,309	12,925	13,377
Tax rate	17.82%	17.82%	17.82%	17.82%	17.82%	17.82%	17.82%	17.82%	17.82%
EBIT*(1-tax rate)	6,841	7,489	8,013	8,534	9,046	9,588	10,116	10,622	10,993
+ D&A	1,114	1,114	1,192	1,270	1,346	1,427	1,505	1,580	1,636
- Change in working capital	(890)	(398)	(425)	(453)	(480)	(509)	(537)	(564)	(584)
- Capex	(1,624)	(1,624)	(1,624)	(1,624)	(1,624)	(1,624)	(1,624)	(1,624)	(1,624)
FCFF	5,442	6,581	7,156	7,727	8,288	8,882	9,460	10,014	10,422
Terminal value									108,663

Terminal growth rate	2.00%
WACC	11.78%
Cost of equity	15.08%
Cost of debt	5.00%
Equity beta	1.15
Risk free rate	3.00%
Market risk premium	10.50%
Target debt to asset ratio	30.00%
Effective corporate tax rate	18.00%
Terminal value (RMB mn)	35,673
Total PV (RMB mn)	77,452
Net debt (RMB mn)	(15,835)
Minority interests (RMB mn)	2,014
Equity value (RMB mn)	91,273
# of shares (mn)	11,923

DCF per share (in HK\$)
Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

8.51

				WACC		
		10.78%	11.28%	11.78%	12.28%	12.78%
	3.00%	9.97	9.41	8.92	8.48	8.09
	2.50%	9.67	9.16	8.70	8.29	7.93
Terminal growth rate	2.00%	9.40	8.93	8.51	8.12	7.78
	1.50%	9.17	8.73	8.33	7.97	7.64
	1.00%	8.95	8.54	8.17	7.83	7.52

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates revision

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	NEW			OLD			Diff (%)			
RMB mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	
Revenue	35,065	38,970	43,325	34,797	38,188	41,619	0.8%	2.0%	4.1%	
Gross profit	25,301	27,764	31,194	24,462	26,770	29,133	3.4%	3.7%	7.1%	
Operating profit	8,325	9,112	10,479	8,359	9,193	10,081	-0.4%	-0.9%	3.9%	
Attributable net profit	6,642	7,269	8,366	6,677	7,364	8,065	-0.5%	-1.3%	3.7%	
EPS (RMB)	0.56	0.61	0.70	0.56	0.62	0.68	-0.7%	-1.4%	3.6%	
Gross margin	72.15%	71.25%	72.00%	70.30%	70.10%	70.00%	+1.85ppt	+1.15ppt	+2ppt	
Operating margin	23.74%	23.38%	24.19%	24.02%	24.07%	24.22%	-0.28ppt	-0.69ppt	-0.04ppt	
Net margin	18.94%	18.65%	19.31%	19.19%	19.28%	19.38%	-0.25ppt	-0.63ppt	-0.07ppt	

Source: Company data, CMBIGM estimates



Figure 4: CMBIGM estimates vs consensus

	СМВІ			Consensus			Diff (%)		
RMB mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	35,065	38,970	43,325	34,833	37,617	40,830	0.7%	3.6%	6.1%
Gross profit	25,301	27,764	31,194	25,048	27,133	29,643	1.0%	2.3%	5.2%
Operating profit	8,325	9,112	10,479	8,182	8,765	9,610	1.7%	4.0%	9.0%
Attributable net profit	6,642	7,269	8,366	6,673	7,280	7,972	-0.5%	-0.1%	4.9%
EPS (RMB)	0.56	0.61	0.70	0.56	0.62	0.67	-0.5%	-1.5%	4.7%
Gross margin	72.15%	71.25%	72.00%	71.91%	72.13%	72.60%	+0.24ppt	-0.88ppt	-0.6ppt
Operating margin	23.74%	23.38%	24.19%	23.49%	23.30%	23.54%	+0.25ppt	+0.08ppt	+0.65ppt
Net margin	18.94%	18.65%	19.31%	19.16%	19.35%	19.52%	-0.22ppt	-0.7ppt	-0.21ppt

Source: Company data, Bloomberg, CMBIGM estimates



Financial Summary

Total equity and liabilities

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	27,867	30,937	31,450	35,065	38,970	43,325
Cost of goods sold	(6,732)	(8,680)	(9,273)	(9,765)	(11,206)	(12,131)
Gross profit	21,135	22,256	22,177	25,301	27,764	31,194
Selling expense	(10,443)	(10,337)	(9,141)	(11,399)	(12,081)	(13,214)
Admin expense	(1,010)	(1,173)	(1,190)	(1,315)	(1,442)	(1,581)
R&D expense	(3,433)	(3,987)	(4,830)	(4,731)	(5,651)	(6,499)
Others	546	815	421	469	521	579
Operating profit	6,795	7,574	7,437	8,325	9,112	10,479
Gain/loss on financial assets at FVTPL	0	0	0	0	0	0
Share of (losses)/profits of associates/JV	60	33	(21)	60	60	60
Net Interest income/(expense)	(8)	(25)	(26)	(28)	(27)	(13)
Pre-tax profit	6,847	7,582	7,389	8,356	9,146	10,526
Income tax	(1,159)	(1,350)	(1,317)	(1,489)	(1,630)	(1,876)
Minority interest	83	141	199	225	247	284
Net profit	5,688	6,232	6,073	6,867	7,516	8,650
Gross dividends	1,691	2,097	2,726	1,993	2,181	2,510
Net dividends	9	9	(4)	13	9	15
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	20,337	23,957	26,745	31,527	37,678	44,141
Cash & equivalents	9,284	10,298	12,015	15,437	19,811	24,523
Account receivables	3,890	4,631	6,542	7,294	8,106	9,012
nventories	2,480	2,555	3,139	3,305	3,793	4,106
Prepayment	0	0	0	0	0	0
ST bank deposits	1,443	3,575	1,077	1,077	1,077	1,077
Other current assets	3,240	2,898	3,972	4,414	4,891	5,423
Non-current assets	14,405	17,813	19,537	20,047	20,556	21,066
PP&E	8,529	9,582	10,417	11,173	11,929	12,686
Deferred income tax	43	113	187	187	187	187
ntangibles	468	1,908	2,199	2,116	2,033	1,950
Goodwill	1,035	1,395	1,226	1,062	898	734
Financial assets at FVTPL	1,979	2,126	2,387	2,387	2,387	2,387
Other non-current assets	2,351	2,689	3,122	3,122	3,122	3,122
Total assets	34,742	41,770	46,282	51,573	58,234	65,206
Current liabilities	7,226	8,958	10,183	10,625	11,977	12,835
Short-term borrowings	0	153	450	422	395	367
Account payables	6,162	6,864	8,404	8,850	10,156	10,994
Tax payable	261	262	379	379	379	379
Other current liabilities	803	1,679	948	974	1,047	1,094
Non-current liabilities	687	1,170	1,082	1,082	1,082	1,082
ong-term borrowings	0	0	0	0	0	0
Other non-current liabilities	687	1,170	1,082	1,082	1,082	1,082
Total liabilities	7,913	10,128	11,264	11,707	13,058	13,916
Share capital	10,899	10,899	10,899	10,899	10,899	10,899
Other reserves	15,087	19,298	22,304	26,953	32,041	37,898
Total shareholders equity	25,987	30,198	33,203	37,852	42,941	48,797
Minority interest	842	1,444	1,815	2,014	2,235	2,493
Total aquity and liabilities	24 742	44 770	46 202	E4 E72	E0 224	6E 206

41,770

46,282

51,573

58,234

34,742

65,206



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CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	6,847	7,582	7,389	8,356	9,146	10,526
Depreciation & amortization	865	1,048	1,114	1,114	1,114	1,114
Tax paid	(1,141)	(1,335)	(1,309)	(1,489)	(1,630)	(1,876)
Change in working capital	(1,388)	798	(3,032)	(890)	(398)	(865)
Others	(547)	(467)	16	0	0	0
Net cash from operations	4,637	7,627	4,179	7,092	8,232	8,899
Investing						
Capital expenditure	(1,410)	(2,220)	(1,624)	(1,624)	(1,624)	(1,624)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	773	(4,576)	2,231	0	0	0
Net cash from investing	(637)	(6,796)	607	(1,624)	(1,624)	(1,624)
Financing						
Dividend paid	(1,691)	(2,097)	(2,726)	(1,993)	(2,181)	(2,510)
Net borrowings	0	486	0	0	O O	, o
Proceeds from share issues	0	0	0	0	0	0
Share repurchases	(264)	(14)	(200)	0	0	0
Others	(242)	(279)	626	(54)	(54)	(54)
Net cash from financing	(2,197)	(1,904)	(2,301)	(2,046)	(2,235)	(2,564)
Net change in cash						
Cash at the beginning of the year	7,259	9,060	10,298	12,015	15,437	19,811
Exchange difference	(2)	14	5	0	0	0
Others	0	0	0	0	0	0
Cash at the end of the year	9,060	8,001	12,015	15,437	19,811	24,523
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	11.7%	11.0%	1.7%	11.5%	11.1%	11.2%
Gross profit	13.1%	5.3%	(0.4%)	14.1%	9.7%	12.4%
Operating profit	12.2%	11.5%	(1.8%)	11.9%	9.5%	15.0%
Net profit	8.8%	9.6%	(2.6%)	13.1%	9.4%	15.1%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	75.8%	71.9%	70.5%	72.2%	71.2%	72.0%
Operating margin	24.4%	24.5%	23.6%	23.7%	23.4%	24.2%
Return on equity (ROE)	23.5%	22.2%	19.2%	19.3%	18.6%	18.9%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)
Current ratio (x)	2.8	2.7	2.6	3.0	3.1	3.4
Receivable turnover days	92.9	87.7	120.5	120.5	120.5	120.5
Inventory turnover days	134.5	107.4	123.5	123.5	123.5	123.5
Payable turnover days	352.4	319.6	349.4	349.4	349.4	349.4
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	13.9	12.8	13.2	11.7	10.7	9.3
P/E (diluted)	13.9	12.8	13.2	11.7	10.7	9.3
P/B	2.9	2.5	2.2	2.0	1.7	1.5
P/CFPS	16.8	10.2	18.5	11.0	9.4	8.7
Div yield (%)	2.2	2.7	3.5	2.6	2.8	3.2

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



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