

WuXi AppTec (603259 CH)

Impressive order growth despite geopolitical uncertainties

WuXi AppTec reported 1H24 revenue of RMB17.24bn, down 8.6% YoY, attributable recurring net profit of RMB4.41bn, down 8.3% YoY, and attributable adjusted non-IFRS net profit of RMB4.37bn, down 14.2% YoY. 1H24 revenue / attributable adjusted non-IFRS net income accounted for 45.3%/ 46.0% of our 2024 full-year estimates and 43.8%/ 44.7% of Bloomberg consensus, both of which were largely in line with its historical range. The non-COVID D&M revenue (within the Chemistry segment) experienced a slight decline of 2.7% YoY in 1H24, following a relatively high base in 1H23. Notably, WuXi AppTec's backlog, excluding COVID-19 commercial projects, increased by 33.2% YoY in 1H24, indicating strong customer demand amid geopolitical uncertainties. Mgt. has reiterated its revenue guidance of RMB38.3-40.5bn for 2024, forecasting YoY growth of 2.7% to 8.6% for revenues excluding COVID-19 commercial projects. Mgt. expects the adjusted non-IFRS net profit margin to align with the 2023 level.

■ **Impressive order growth driven by solid demand.** As of June 2024, WuXi AppTec's backlog reached RMB43.1bn, marking a robust YoY increase of 33.2% excluding COVID-19 commercial projects. Revenue from its global Top20 pharmaceutical clients reached RMB6.59bn, contributing 38.2% of the total revenue and increasing by 11.9% YoY excluding COVID-19 commercial projects. Mgt. highlighted that over 80% of the backlog was expected to convert into revenue within the next 18 months, which should alleviate market concerns about clients' early bookings due to geopolitical considerations (with the ATU segment being an exception). Additionally, mgt. indicated that new orders signed in 1H24 increased by ~25% YoY. The strong order growth demonstrates the resilient demand for WuXi AppTec's high-quality services, indicating a positive outlook for FY25 growth.

■ **TIDES business continued to be a major growth engine.** Revenue of TIDES business reached RMB2.08bn in 1H24, demonstrating robust YoY growth of 57.2%, following a significant 64.4% YoY increase in 2023. As of June 2024, the TIDES backlog grew substantially by 147% YoY. In January 2024, the Company's new peptide production facilities commenced operation, which expanded its total capacity to 32,000 liters, positioning the Company as a leader in global TIDES CDMO. With the robust backlog and readily available production capacity, mgt. expects TIDES revenue to grow by over 60% YoY in 2024 and to maintain the strong momentum in 2025. Our model projects TIDES revenue to exceed RMB8.6bn in 2025, contributing ~20% to WuXi AppTec's total revenue, a significant increase from ~4% in 2022.

■ **Maintain BUY.** Factoring in the positive trend of customer demand, we lift our TP from RMB53.23 to RMB54.27 (based on a 10-year DCF model with WACC of 10.38% and terminal growth of 2.0%). We forecast revenue to grow by -4.4%/ +10.9%/ +10.8% YoY and adjusted non-IFRS net income to grow by -8.3%/ +11.6%/ +12.1% YoY in 2024E/ 25E/ 26E, respectively.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	39,355	40,341	38,558	42,745	47,353
YoY growth (%)	71.8	2.5	(4.4)	10.9	10.8
Adjusted net profit (RMB m)	9,399	10,854	9,953	11,110	12,450
YoY growth (%)	83.2	15.5	(8.3)	11.6	12.1
EPS (Adjusted) (RMB)	3.21	3.70	3.42	3.82	4.28
Consensus EPS (RMB)	na	na	3.37	3.66	4.01
P/E (Adjusted) (x)	12.7	11.0	11.9	10.7	9.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB54.27
 (Previous TP RMB53.23)
Up/Downside 33.4%
Current Price RMB40.69

China Healthcare

Jill WU, CFA
 (852) 3900 0842
 jillwu@cmbi.com.hk

Benchen HUANG, CFA
 huangbenchen@cmbi.com.hk

Stock Data

Mkt Cap (RMB mn)	118,486.3
Avg 3 mths t/o (RMB mn)	2,227.0
52w High/Low (RMB)	90.88/36.87
Total Issued Shares (mn)	2911.9

Source: FactSet

Shareholding Structure

HK investors	16.8%
Ge Li and concerted parties	14.0%

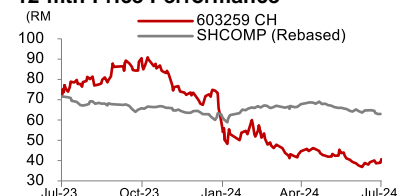
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	3.8%	7.0%
3-mth	-6.8%	0.5%
6-mth	-28.4%	-29.6%

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	38,558	42,745	47,353	38,074	41,877	47,124	1.27%	2.07%	0.49%
Gross profit	15,268	17,241	19,265	14,623	16,141	18,511	4.41%	6.81%	4.08%
Operating profit	10,006	11,664	13,087	9,517	10,577	12,320	5.14%	10.28%	6.23%
Non-IFRS net profit	9,953	11,110	12,450	9,503	10,503	12,225	4.73%	5.78%	1.85%
Non-IFRS EPS (RMB)	3.42	3.82	4.28	3.24	3.58	4.17	5.50%	6.55%	2.60%
Gross margin	39.60%	40.33%	40.68%	38.41%	38.55%	39.28%	+1.19ppt	+1.79ppt	+1.40ppt
Operating margin	25.95%	27.29%	27.64%	25.00%	25.26%	26.14%	+0.95ppt	+2.03ppt	+1.49ppt
Net margin	25.81%	25.99%	26.29%	24.96%	25.08%	25.94%	+0.85ppt	+0.91ppt	+0.35ppt

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	38,558	42,745	47,353	39,472	42,383	45,823	-2.32%	0.86%	3.34%
Gross profit	15,268	17,241	19,265	15,943	17,218	18,473	-4.23%	0.13%	4.29%
Operating profit	10,006	11,664	13,087	11,269	12,392	13,624	-11.21%	-5.87%	-3.94%
Non-IFRS net profit	9,953	11,110	12,450	9,806	10,584	11,650	1.50%	4.97%	6.87%
Non-IFRS EPS (RMB)	3.42	3.82	4.28	3.37	3.66	4.01	1.49%	4.30%	6.62%
Gross margin	39.60%	40.33%	40.68%	40.39%	40.63%	40.31%	-0.79ppt	-0.29ppt	+0.37ppt
Operating margin	25.95%	27.29%	27.64%	28.55%	29.24%	29.73%	-2.60ppt	-1.95ppt	-2.09ppt
Net margin	25.81%	25.99%	26.29%	24.84%	24.97%	25.42%	+0.97ppt	+1.02ppt	+0.87ppt

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	10,135	12,164	13,787	15,304	16,758	18,182	19,546	20,816	21,961	22,949
Tax rate	15.22%	15.22%	15.22%	15.22%	15.22%	15.22%	15.22%	15.22%	15.22%	15.22%
EBIT*(1-tax rate)	8,592	10,312	11,688	12,974	14,206	15,414	16,570	17,647	18,618	19,456
+ D&A	2,257	2,554	2,824	3,134	3,432	3,724	4,003	4,263	4,498	4,700
- Change in working capital	142	-244	-852	-946	-1,036	-1,124	-1,208	-1,286	-1,357	-1,418
- Capex	-5,000	-5,000	-5,000	-5,000	-5,000	-5,000	-5,000	-5,000	-5,000	-5,000
FCFF	5,992	7,622	8,660	10,163	11,603	13,014	14,365	15,624	16,759	17,738
Terminal value										216,029
Terminal growth rate										2.00%
WACC										10.38%
Cost of equity										13.00%
Cost of debt										5.00%
Equity beta										1.00
Risk free rate										3.00%
Market risk premium										10.00%
Target debt to asset ratio										30.00%
Effective corporate tax rate										15.00%
PV of terminal value (RMB mn)										80,502
Total PV (RMB mn)										147,549
Net debt (RMB mn)										-10,474
Equity value (RMB mn)										158,023
# of shares (mn)										2,912
Price per share (RMB per share)										54.27

Source: CMBIGM estimates

Figure 4: Sensitivity analysis of DCF model

		WACC				
		9.38%	9.88%	10.38%	10.88%	11.38%
Terminal growth rate	3.00%	68.01	62.81	58.32	54.42	50.99
	2.50%	64.91	60.24	56.17	52.60	49.44
	2.00%	62.23	57.99	54.27	50.98	48.05
	1.50%	59.89	56.01	52.58	49.53	46.81
	1.00%	57.83	54.25	51.08	48.23	45.68

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	22,902	39,355	40,341	38,558	42,745	47,353
Cost of goods sold	(14,592)	(24,677)	(23,729)	(23,290)	(25,504)	(28,088)
Gross profit	8,310	14,678	16,612	15,268	17,241	19,265
Operating expenses	(3,898)	(5,372)	(5,318)	(5,262)	(5,577)	(6,178)
Selling expense	(699)	(732)	(701)	(800)	(801)	(887)
Admin expense	(2,203)	(2,826)	(2,879)	(2,711)	(2,920)	(3,235)
R&D expense	(942)	(1,614)	(1,441)	(1,423)	(1,535)	(1,700)
Others	(54)	(200)	(297)	(328)	(321)	(356)
Operating profit	4,412	9,306	11,294	10,006	11,664	13,087
Gain/loss on financial assets at FVTPL	(93)	770	(38)	(199)	100	200
Investment gain/loss	1,356	188	234	45	100	200
Net interest income/(expense)	(84)	248	338	768	481	544
Other income/expense	425	106	4	283	300	300
Pre-tax profit	6,016	10,618	11,832	10,903	12,645	14,331
Income tax	(880)	(1,716)	(2,132)	(1,530)	(1,897)	(2,150)
After tax profit	5,136	8,903	9,700	9,373	10,749	12,181
Minority interest	(39)	(89)	(94)	(90)	(103)	(117)
Net profit	5,097	8,814	9,607	9,283	10,646	12,065
Adjusted net profit	5,131	9,399	10,854	9,953	11,110	12,450
Gross dividends	1,529	2,644	2,882	2,785	3,194	3,619
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	21,986	23,997	30,422	33,028	38,624	45,373
Cash & equivalents	8,239	7,986	13,764	16,526	21,420	26,782
Account receivables	4,668	6,047	7,922	7,395	7,612	8,433
Inventories	5,905	5,669	4,736	5,106	5,592	6,158
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
Non-current assets	33,142	40,693	43,247	45,615	48,032	50,380
PP&E	8,554	14,171	17,190	20,311	23,139	25,697
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	8,483	8,683	9,083
Other non-current assets	11,280	12,265	11,164	10,712	10,259	9,807
Total assets	55,127	64,690	73,669	78,643	86,656	95,753
Current liabilities	12,985	14,499	14,756	15,342	15,800	16,335
Short-term borrowings	2,261	3,874	3,667	4,267	4,267	4,267
Account payables	1,931	1,659	1,645	1,631	2,089	2,624
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
Non-current liabilities	3,385	3,264	3,396	3,396	3,396	3,396
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
Total liabilities	16,370	17,764	18,152	18,737	19,196	19,731
Share capital	2,956	2,961	2,969	2,969	2,969	2,969
Capital surplus	25,732	26,512	28,401	34,899	42,351	50,796
Other reserves	9,804	17,118	23,753	21,553	21,553	21,553
Total shareholders equity	38,492	46,590	55,122	59,421	66,873	75,318
Minority interest	266	337	395	485	588	705
Total equity and liabilities	55,127	64,690	73,669	78,643	86,656	95,753

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	6,016	10,618	11,832	10,903	12,645	14,331
Depreciation & amortization	1,363	1,718	2,288	2,261	2,559	2,828
Tax paid	(880)	(1,716)	(2,132)	(1,530)	(1,897)	(2,150)
Change in working capital	(1,151)	(298)	(105)	142	(244)	(852)
Others	(759)	294	1,504	(397)	(457)	(720)
Net cash from operations	4,589	10,616	13,387	11,380	12,606	13,438
Investing						
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)	0	0	0
Others	189	355	299	0	0	0
Net cash from investing	(4,839)	(9,690)	(7,561)	(5,000)	(5,000)	(5,000)
Financing						
Dividend paid	(916)	(1,598)	(2,756)	(2,017)	(2,712)	(3,075)
Net borrowings	1,071	1,668	178	600	0	0
Proceeds from share issues	104	150	247	0	0	0
Others	(1,983)	(1,497)	(1,610)	(2,200)	0	0
Net cash from financing	(1,724)	(1,278)	(3,941)	(3,617)	(2,712)	(3,075)
Net change in cash						
Cash at the beginning of the year	10,228	8,175	7,984	13,764	16,526	21,420
Exchange difference	(79)	161	132	0	0	0
Cash at the end of the year	8,175	7,984	10,001	16,526	21,420	26,782
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	38.5%	71.8%	2.5%	(4.4%)	10.9%	10.8%
Gross profit	32.3%	76.6%	13.2%	(8.1%)	12.9%	11.7%
Operating profit	41.1%	110.9%	21.4%	(11.4%)	16.6%	12.2%
Net profit	72.2%	72.9%	9.0%	(3.4%)	14.7%	13.3%
Adj. net profit	41.1%	83.2%	15.5%	(8.3%)	11.6%	12.1%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	36.3%	37.3%	41.2%	39.6%	40.3%	40.7%
Operating margin	19.3%	23.6%	28.0%	26.0%	27.3%	27.6%
Adj. net profit margin	22.4%	23.9%	26.9%	25.8%	26.0%	26.3%
Return on equity (ROE)	14.4%	20.7%	18.9%	16.2%	16.9%	17.0%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)
Current ratio (x)	1.7	1.7	2.1	2.2	2.4	2.8
Receivable turnover days	66.4	49.7	63.2	70.0	65.0	65.0
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
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E (adjusted)	23.1	12.7	11.0	11.9	10.7	9.5
P/B	3.1	2.5	2.2	2.0	1.8	1.6
P/CFPS	25.8	11.2	8.9	10.4	9.4	8.8
Div yield (%)	1.3	2.2	2.4	2.4	2.7	3.1

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM. Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.