

CSPC Pharmaceutical (1093 HK)

Product sales under pressure

- 3Q24 results missed.** In 9M24, CSPC's total revenue decreased by 3.5% YoY to RMB22.69bn and attributable net profit fell by 15.9% YoY to RMB3.78bn, accounting for 71% and 64% of our previous full-year estimates, respectively. In 3Q24, total revenue was RMB6.40bn (-17.8% YoY) and attributable net profit was RMB758mn (-50.4% YoY). GP margin decreased to 67.7% in 3Q24 (vs 70.6% in 2Q24 and 72.3% in 1Q24), mainly due to the price cuts of Jinyouli and Duomeisu as a result of the "3+N" Alliance provincial VBP. Selling expense ratio slightly decreased to 29.2% in 9M24 vs 29.5% in 9M23. R&D expenses reached RMB3.88bn in 9M24 (+5.5% YoY).
- Pressure on sales of legacy products continues.** Sales from finished drugs in 3Q24 was RMB5.21bn, a 18.9% YoY decrease primarily due to the declines in CNS, oncology products, cardiovascular drugs, and respiratory disease products, which fell by 15.8%, 31.2%, 26.8%, and 35.1% YoY to RMB2.00bn, RMB1.13bn, RMB402mn, and RMB185mn, respectively. We think the tightened controls of medical insurance fund expenditures resulted in a significant 21.0% QoQ, or 15.8% YoY decline in CNS drugs (mainly NBP). CSPC is actively promoting NBP Capsules in the self-paid retail pharmacy market to mitigate the decline in hospital sales. Additionally, the anticipated price reduction for NBP in the NRDL renewal is expected to be manageable. In addition, the significant drop in oncology sales was largely due to a 58% price cut for Jinyouli and a 32% reduction for Duomeisu following the implementation of provincial VBP in Mar 2024. Looking ahead, Duomeisu is expected to be included in the national VBP from Mar 2025, which will likely lead to further price reductions and continued sales pressure. The decrease in cardiovascular drug sales can be attributed to Xuanning's exclusion from previous VBP rounds. Overall, the sales outlook of CSPC's legacy products remains challenging.
- New products to partly offset the pressure of legacy products.** Amidst regulatory pressure of medical insurance, mgmt targets to achieve a total of RMB2.0bn sales from new products in 2024E, and forecasts the sales of new products to grow by RMB2.0bn in 2025E, mainly driven by sales of Mingfule (rhTNK-tPA), Duoenyi (irinotecan liposome), Kelingda (Omalizumab), and Glumetinib. With these new products, mgmt anticipates a return to positive overall sales growth in 2025. Furthermore, CSPC has recently out-licensed the global rights for YS2302018, a pre-clinical stage lipoprotein(a) inhibitor, to AstraZeneca for an upfront payment of US\$100mn and potential additional payments up to US\$1.92bn. Mgmt expects to secure around two out-licensing deals annually over the next few years, which could provide additional sources of profit once finalized.
- Maintain BUY.** Given the ongoing pressure of sales performance, in FY24E/25E, we anticipate CSPC's revenue and attributable net profit to decline by 6.3%/2.0% and 17.1%/ 5.8% YoY, respectively. We revised down our DCF-based TP from HK\$6.21 to HK\$5.97 (WACC 11.78%, terminal growth 2.0%).

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	30,937	31,450	29,469	28,892	29,759
YoY growth (%)	11.0	1.7	(6.3)	(2.0)	3.0
Net profit (RMB mn)	6,232.1	6,072.7	4,917.6	4,631.3	4,975.8
YoY growth (%)	9.6	(2.6)	(19.0)	(5.8)	7.4
EPS (Reported) (RMB)	0.51	0.49	0.42	0.39	0.42
P/E (x)	9.3	9.6	11.4	12.2	11.3
Net gearing (%)	(44.1)	(37.3)	(41.8)	(45.9)	(48.3)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$5.97
(Previous TP)	HK\$6.21)
Up/Downside	16.3%
Current Price	HK\$5.13

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Stock Data

Mkt Cap (HK\$ mn)	61,135.3
Avg 3 mths t/o (HK\$ mn)	705.8
52w High/Low (HK\$)	7.33/4.55
Total Issued Shares (mn)	11917.2

Source: FactSet

Shareholding Structure

Massive Giant Group Ltd	10.2%
Cai Dongchen	10.0%

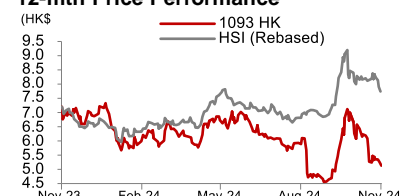
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-18.1%	-14.3%
3-mth	-12.9%	-23.3%
6-mth	-23.8%	-25.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	6,258	5,896	6,191	6,469	6,728	6,997	7,242	7,459	7,646
Tax rate	19.72%	19.72%	19.72%	19.72%	19.72%	19.72%	19.72%	19.72%	19.72%
EBIT*(1-tax rate)	5,023	4,733	4,970	5,193	5,401	5,617	5,814	5,988	6,138
+ D&A	1,114	1,114	1,170	1,223	1,271	1,322	1,369	1,410	1,445
- Change in working capital	-19	265	278	291	303	315	326	335	344
- Capex	-1,624	-1,624	-1,624	-1,624	-1,624	-1,624	-1,624	-1,624	-1,624
FCFF	4,495	4,489	4,794	5,083	5,351	5,630	5,884	6,110	6,303
Terminal value									65,719
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)	21,575								
Total PV (RMB mn)	49,346								
Net debt (RMB mn)	-15,288								
Minority interests (RMB mn)	1,839								
Equity value (RMB mn)	62,795								
# of shares (mn)	11,696								
DCF per share (in HK\$)	5.97								

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

		WACC				
		10.78%	11.28%	11.78%	12.28%	12.78%
Terminal growth rate	3.00%	6.87	6.53	6.22	5.95	5.70
	2.50%	6.69	6.37	6.09	5.83	5.60
	2.00%	6.52	6.23	5.97	5.73	5.51
	1.50%	6.38	6.10	5.86	5.63	5.43
	1.00%	6.25	5.99	5.76	5.55	5.35

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates new vs old

RMB mn	NEW			OLD			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	29,469	28,892	29,759	31,853	32,278	33,782	-7.5%	-10.5%	-11.9%
Gross profit	20,752	20,065	20,980	22,864	23,079	24,154	-9.2%	-13.1%	-13.1%
Operating profit	6,258	5,896	6,312	7,560	7,443	7,908	-17.2%	-20.8%	-20.2%
Attributable net profit	4,868	4,584	4,925	5,903	5,814	6,194	-17.5%	-21.1%	-20.5%
EPS (RMB)	0.42	0.39	0.42	0.50	0.49	0.52	-16.4%	-20.0%	-19.4%
Gross margin	70.42%	69.45%	70.50%	71.78%	71.50%	71.50%	-1.36ppt	-2.05ppt	-1ppt
Operating margin	21.23%	20.41%	21.21%	23.74%	23.06%	23.41%	-2.5ppt	-2.65ppt	-2.2ppt
Net margin	16.52%	15.87%	16.55%	18.53%	18.01%	18.33%	-2.01ppt	-2.14ppt	-1.78ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	29,469	28,892	29,759	31,398	32,310	34,247	-6.1%	-10.6%	-13.1%
Gross profit	20,752	20,065	20,980	22,320	22,891	24,375	-7.0%	-12.3%	-13.9%
Operating profit	6,258	5,896	6,312	7,198	7,292	7,899	-13.1%	-19.1%	-20.1%
Attributable net profit	4,868	4,584	4,925	5,714	5,849	6,347	-14.8%	-21.6%	-22.4%
EPS (RMB)	0.42	0.39	0.42	0.48	0.49	0.53	-13.5%	-20.0%	-20.1%
Gross margin	70.42%	69.45%	70.50%	71.09%	70.85%	71.17%	-0.67ppt	-1.4ppt	-0.67ppt
Operating margin	21.23%	20.41%	21.21%	22.93%	22.57%	23.06%	-1.69ppt	-2.16ppt	-1.86ppt
Net margin	16.52%	15.87%	16.55%	18.20%	18.10%	18.53%	-1.68ppt	-2.24ppt	-1.98ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	27,867	30,937	31,450	29,469	28,892	29,759
Cost of goods sold	(6,732)	(8,680)	(9,273)	(8,717)	(8,827)	(8,779)
Gross profit	21,135	22,256	22,177	20,752	20,065	20,980
Selling expense	(10,443)	(10,337)	(9,141)	(8,614)	(8,436)	(8,690)
Admin expense	(1,010)	(1,173)	(1,190)	(1,145)	(1,069)	(1,086)
R&D expense	(3,433)	(3,987)	(4,830)	(5,047)	(4,969)	(5,208)
Others	546	815	421	312	306	315
Operating profit	6,795	7,574	7,437	6,258	5,896	6,312
Gain/loss on financial assets at FVTPL	0	0	0	0	0	0
Share of (losses)/profits of associates/JV	60	33	(21)	(103)	(100)	(100)
Net interest income/(expense)	(8)	(25)	(26)	(28)	(27)	(13)
Pre-tax profit	6,847	7,582	7,389	6,126	5,769	6,198
Income tax	(1,159)	(1,350)	(1,317)	(1,208)	(1,138)	(1,222)
Minority interest	83	141	199	50	47	51
Net profit	5,688	6,232	6,073	4,918	4,631	4,976
Gross dividends	1,691	2,097	2,726	1,460	1,375	1,478
Net dividends	9	9	(4)	(17)	(6)	7
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	20,337	23,957	26,745	29,106	31,905	34,793
Cash & equivalents	9,284	10,298	12,015	14,890	17,848	20,457
Account receivables	3,890	4,631	6,542	6,459	6,332	6,522
Inventories	2,480	2,555	3,139	2,950	2,988	2,971
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	3,730	3,660	3,765
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
Intangibles	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	49,153	52,461	55,859
Current liabilities	7,226	8,958	10,183	9,622	9,700	9,626
Short-term borrowings	0	153	450	422	395	367
Account payables	6,162	6,864	8,404	7,900	8,000	7,956
Tax payable	261	262	379	379	379	379
Other current liabilities	803	1,679	948	920	926	923
Non-current liabilities	687	1,170	1,082	1,082	1,082	1,082
Long-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	10,704	10,781	10,707
Share capital	10,899	10,899	10,899	10,899	10,899	10,899
Other reserves	15,087	19,298	22,304	25,711	28,920	32,368
Total shareholders equity	25,987	30,198	33,203	36,610	39,819	43,267
Minority interest	842	1,444	1,815	1,839	1,860	1,885
Total equity and liabilities	34,742	41,770	46,282	49,153	52,461	55,859

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	6,847	7,582	7,389	6,126	5,769	6,198
Depreciation & amortization	865	1,048	1,114	1,114	1,114	1,114
Tax paid	(1,141)	(1,335)	(1,309)	(1,208)	(1,138)	(1,222)
Change in working capital	(1,388)	798	(3,032)	(19)	265	(326)
Others	(547)	(467)	16	0	0	0
Net cash from operations	4,637	7,627	4,179	6,013	6,011	5,764
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)	(1,460)	(1,375)	(1,478)
Net borrowings	0	486	0	0	0	0
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)	(1,514)	(1,429)	(1,531)
Net change in cash						
Cash at the beginning of the year	7,259	9,060	10,298	12,015	14,890	17,848
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	14,890	17,848	20,457
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	11.7%	11.0%	1.7%	(6.3%)	(2.0%)	3.0%
Gross profit	13.1%	5.3%	(0.4%)	(6.4%)	(3.3%)	4.6%
Operating profit	12.2%	11.5%	(1.8%)	(15.9%)	(5.8%)	7.0%
Net profit	8.8%	9.6%	(2.6%)	(19.0%)	(5.8%)	7.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	75.8%	71.9%	70.5%	70.4%	69.4%	70.5%
Operating margin	24.4%	24.5%	23.6%	21.2%	20.4%	21.2%
Return on equity (ROE)	23.5%	22.2%	19.2%	14.1%	12.1%	12.0%
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	3.3	3.6
Receivable turnover days	92.9	87.7	120.5	124.6	124.6	124.6
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	10.2	9.3	9.6	11.4	12.2	11.3
P/E (diluted)	10.2	9.3	9.6	11.4	12.2	11.3
P/B	2.1	1.8	1.6	1.4	1.3	1.2
P/CFPS	12.3	7.4	13.5	9.3	9.3	9.7
Div yield (%)	3.0	3.7	4.8	2.6	2.5	2.7

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

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