

# CSPC Pharmaceutical (1093 HK)

## Earnings decline amid pricing pressure

- **FY24 net profit to decline.** CSPC released profit warning for FY24. Mgmt expects its FY24 attributable net profit to decline by 26% YoY to RMB4.35bn, which was 11% below our previous estimate. The worse-than-expected earnings was mainly due to weak finished drug sales. Sales from finished drugs in FY24 decreased by 7% YoY to RMB23.84bn, 2% below our previous estimate. Based on our calculation, in 4Q24, sales from finished drugs fell by 19.3% YoY and 2.4% QoQ, while net profit for the quarter dropped by 58.8% YoY and 25.0% QoQ. The significant decline in net profit may be due to margin erosion caused by the large price cuts of Jinyouli and Duomeisu under the "3+N" Alliance provincial VBP program, in our view.
- **Legacy drugs remain pressured.** The decline of finished drug sales in FY24 was mainly due to a 28% decline in oncology revenue and a 15% fall in cardiovascular drugs. Oncology sales were hit by price cuts for Jinyouli (-58%) and Duomeisu (-32%) since Mar 2024. Duomeisu has experienced a further 89% price cut in the national VBP effective from Mar 2025. This has led to inventory adjustments during 2H24. Additionally, the decline in cardiovascular drug sales in FY24 was mainly due to the exclusion of Xuanning from previous VBP rounds. In 3Q24, CNS sales (mainly NBP) declined by 21% QoQ due to stricter hospital controls on medical insurance fund spending, a trend likely to continue in 4Q24 and beyond. Additionally, prices of NBP injection and capsule were cut by 12.5% and 3.6%, respectively, in the 2024 NRDL renewal, which may negatively impact 4Q24 CNS sales due to inventory adjustments. Overall, CSPC's legacy products remain challenging.
- **New products to partly offset the pressure from legacy products.** CSPC's sales of new products in FY24 was expected to meet the RMB2.0bn target. For FY25, mgmt. targets to double the revenue from new products, while growth will be mainly driven by Mingfule (rhTNK-tPA), Kelingda (Omalizumab), Glumetinib, and Duoenyi (irinotecan liposome). With the contribution of these new products, mgmt. anticipates to resume positive sales and net profit growth in 2025. Recently, CSPC has successfully out-licensed several innovative assets, including YS2302018 (a lipoprotein-a inhibitor), SYH2039 (a MAT2A inhibitor), and SYS6005 (a ROR1 ADC). With multiple assets in clinical trials, such as EGFR ADC, B7-H3 ADC, HER-3 ADC, and several GLP-1 compounds, among others, we expect additional out-licensing deals to materialize this year. Notably, the Company may present the Ph1 data of its EGFR ADC at the upcoming AACR meeting in April.
- **Maintain BUY.** We anticipate CSPC's sales to continue to face pressure in 1Q25 and beyond. Considering the payment from out-licensing deals, in FY25/26, we forecast CSPC's revenue and attributable net profit to increase by 4.6%/3.0% and 14.7%/1.6% YoY, respectively. We maintain our TP unchanged at 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  | 29,040  | 30,388  | 31,300  |
| YoY growth (%)       | 11.0    | 1.7     | (7.7)   | 4.6     | 3.0     |
| Net profit (RMB mn)  | 6,232.1 | 6,072.7 | 4,404.9 | 5,053.5 | 5,135.5 |
| YoY growth (%)       | 9.6     | (2.6)   | (27.5)  | 14.7    | 1.6     |
| EPS (Reported) (RMB) | 0.51    | 0.49    | 0.38    | 0.43    | 0.44    |
| P/E (x)              | 9.2     | 9.5     | 12.4    | 10.8    | 10.6    |
| Net gearing (%)      | (44.1)  | (37.3)  | (40.7)  | (44.5)  | (47.2)  |

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

|                      |                 |
|----------------------|-----------------|
| <b>Target Price</b>  | <b>HK\$5.97</b> |
| (Previous TP)        | HK\$5.97)       |
| <b>Up/Downside</b>   | <b>18.8%</b>    |
| <b>Current Price</b> | <b>HK\$5.03</b> |

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### Stock Data

|                          |           |
|--------------------------|-----------|
| Mkt Cap (HK\$ mn)        | 59,943.5  |
| Avg 3 mths t/o (HK\$ mn) | 318.7     |
| 52w High/Low (HK\$)      | 7.12/4.34 |
| Total Issued Shares (mn) | 11917.2   |

Source: FactSet

### Shareholding Structure

|                         |       |
|-------------------------|-------|
| Massive Giant Group Ltd | 10.6% |
| Cai Dongchen            | 10.4% |

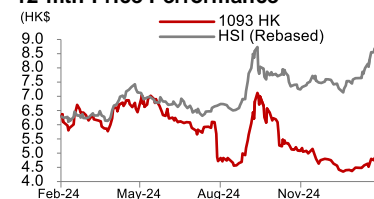
Source: Bloomberg

### Share Performance

|       | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 13.8%    | -0.9%    |
| 3-mth | -1.0%    | -17.7%   |
| 6-mth | 6.6%     | -18.5%   |

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                        | 5,619  | 6,422  | 6,743  | 7,046  | 7,328  | 7,621  | 7,888  | 8,125  | 8,328  |
| Tax rate                    | 19.72% | 19.72% | 19.72% | 19.72% | 19.72% | 19.72% | 19.72% | 19.72% | 19.72% |
| EBIT*(1-tax rate)           | 4,511  | 5,155  | 5,413  | 5,657  | 5,883  | 6,118  | 6,332  | 6,522  | 6,685  |
| + D&A                       | 1,114  | 1,114  | 1,170  | 1,223  | 1,271  | 1,322  | 1,369  | 1,410  | 1,445  |
| - Change in working capital | 321    | -101   | -106   | -111   | -116   | -120   | -124   | -128   | -131   |
| - Capx                      | -1,624 | -1,624 | -1,624 | -1,624 | -1,624 | -1,624 | -1,624 | -1,624 | -1,624 |
| FCFF                        | 4,322  | 4,544  | 4,853  | 5,144  | 5,415  | 5,697  | 5,953  | 6,180  | 6,375  |
| Terminal value              |        |        |        |        |        |        |        |        | 66,472 |

|                              |        |
|------------------------------|--------|
| 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)     | 21,822  |
| Total PV (RMB mn)           | 48,687  |
| Net debt (RMB mn)           | -17,312 |
| Minority interests (RMB mn) | 1,859   |
| Equity value (RMB mn)       | 64,140  |
| # of shares (mn)            | 11,544  |

DCF per share (in HK\$) 5.97

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

|                      |       | WACC   |        |        |        |
|----------------------|-------|--------|--------|--------|--------|
|                      |       | 10.78% | 11.28% | 11.78% | 12.28% |
| Terminal growth rate | 3.00% | 6.86   | 6.52   | 6.23   | 5.96   |
|                      | 2.50% | 6.68   | 6.37   | 6.09   | 5.85   |
|                      | 2.00% | 6.51   | 6.23   | 5.97   | 5.75   |
|                      | 1.50% | 6.37   | 6.10   | 5.87   | 5.65   |
|                      | 1.00% | 6.24   | 5.99   | 5.77   | 5.56   |

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

| RMB mn                  | CMBI   |        |        | Consensus |        |        | Diff (%) |         |          |
|-------------------------|--------|--------|--------|-----------|--------|--------|----------|---------|----------|
|                         | FY24E  | FY25E  | FY26E  | FY24E     | FY25E  | FY26E  | FY24E    | FY25E   | FY26E    |
| Revenue                 | 29,040 | 30,388 | 31,300 | 30,200    | 30,795 | 32,741 | -3.8%    | -1.3%   | -4.4%    |
| Gross profit            | 20,010 | 20,778 | 21,727 | 21,321    | 21,673 | 23,134 | -6.2%    | -4.1%   | -6.1%    |
| Operating profit        | 5,619  | 6,422  | 6,511  | 6,415     | 6,754  | 7,175  | -12.4%   | -4.9%   | -9.3%    |
| Attributable net profit | 4,360  | 5,002  | 5,083  | 5,301     | 5,376  | 5,733  | -17.8%   | -7.0%   | -11.3%   |
| EPS (RMB)               | 0.38   | 0.43   | 0.44   | 0.46      | 0.47   | 0.50   | -17.7%   | -7.4%   | -12.1%   |
| Gross margin            | 68.90% | 68.37% | 69.42% | 70.60%    | 70.38% | 70.66% | -1.7ppt  | -2ppt   | -1.24ppt |
| Operating margin        | 19.35% | 21.13% | 20.80% | 21.24%    | 21.93% | 21.91% | -1.89ppt | -0.8ppt | -1.11ppt |
| Net margin              | 15.01% | 16.46% | 16.24% | 17.55%    | 17.46% | 17.51% | -2.54ppt | -1ppt   | -1.27ppt |

Source: Company data, Bloomberg, CMBIGM estimates

## Financial Summary

| INCOME STATEMENT                           | 2021A         | 2022A         | 2023A         | 2024E         | 2025E         | 2026E         |
|--------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| YE 31 Dec (RMB mn)                         |               |               |               |               |               |               |
| <b>Revenue</b>                             | <b>27,867</b> | <b>30,937</b> | <b>31,450</b> | <b>29,040</b> | <b>30,388</b> | <b>31,300</b> |
| Cost of goods sold                         | (6,732)       | (8,680)       | (9,273)       | (9,031)       | (9,610)       | (9,573)       |
| <b>Gross profit</b>                        | <b>21,135</b> | <b>22,256</b> | <b>22,177</b> | <b>20,010</b> | <b>20,778</b> | <b>21,727</b> |
| Selling expense                            | (10,443)      | (10,337)      | (9,141)       | (8,540)       | (8,504)       | (9,017)       |
| Admin expense                              | (1,010)       | (1,173)       | (1,190)       | (1,129)       | (1,078)       | (1,127)       |
| R&D expense                                | (3,433)       | (3,987)       | (4,830)       | (5,029)       | (5,096)       | (5,404)       |
| Others                                     | 546           | 815           | 421           | 308           | 322           | 332           |
| <b>Operating profit</b>                    | <b>6,795</b>  | <b>7,574</b>  | <b>7,437</b>  | <b>5,619</b>  | <b>6,422</b>  | <b>6,511</b>  |
| 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)         |
| <b>Net Interest income/(expense)</b>       | <b>(8)</b>    | <b>(25)</b>   | <b>(26)</b>   | <b>(28)</b>   | <b>(27)</b>   | <b>(13)</b>   |
| <b>Pre-tax profit</b>                      | <b>6,847</b>  | <b>7,582</b>  | <b>7,389</b>  | <b>5,487</b>  | <b>6,295</b>  | <b>6,397</b>  |
| Income tax                                 | (1,159)       | (1,350)       | (1,317)       | (1,082)       | (1,241)       | (1,262)       |
| Minority interest                          | 83            | 141           | 199           | 45            | 51            | 52            |
| <b>Net profit</b>                          | <b>5,688</b>  | <b>6,232</b>  | <b>6,073</b>  | <b>4,405</b>  | <b>5,053</b>  | <b>5,136</b>  |
| Gross dividends                            | 1,691         | 2,097         | 2,726         | 2,180         | 1,501         | 1,525         |
| Net dividends                              | 9             | 9             | (4)           | (26)          | 15            | 2             |

| BALANCE SHEET                       | 2021A         | 2022A         | 2023A         | 2024E         | 2025E         | 2026E         |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| YE 31 Dec (RMB mn)                  |               |               |               |               |               |               |
| <b>Current assets</b>               | <b>20,337</b> | <b>23,957</b> | <b>26,745</b> | <b>28,174</b> | <b>31,719</b> | <b>34,730</b> |
| Cash & equivalents                  | 9,284         | 10,298        | 12,015        | 13,998        | 16,886        | 19,599        |
| Account receivables                 | 3,890         | 4,631         | 6,542         | 6,365         | 6,660         | 6,860         |
| Inventories                         | 2,480         | 2,555         | 3,139         | 3,056         | 3,253         | 3,240         |
| 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         | 3,678         | 3,842         | 3,954         |
| <b>Non-current assets</b>           | <b>14,405</b> | <b>17,813</b> | <b>19,537</b> | <b>20,047</b> | <b>20,556</b> | <b>21,066</b> |
| 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         |
| <b>Total assets</b>                 | <b>34,742</b> | <b>41,770</b> | <b>46,282</b> | <b>48,221</b> | <b>52,275</b> | <b>55,796</b> |
| <b>Current liabilities</b>          | <b>7,226</b>  | <b>8,958</b>  | <b>10,183</b> | <b>9,922</b>  | <b>10,450</b> | <b>10,386</b> |
| Short-term borrowings               | 0             | 153           | 450           | 422           | 395           | 367           |
| Account payables                    | 6,162         | 6,864         | 8,404         | 8,184         | 8,710         | 8,676         |
| Tax payable                         | 261           | 262           | 379           | 379           | 379           | 379           |
| Other current liabilities           | 803           | 1,679         | 948           | 936           | 966           | 964           |
| <b>Non-current liabilities</b>      | <b>687</b>    | <b>1,170</b>  | <b>1,082</b>  | <b>1,082</b>  | <b>1,082</b>  | <b>1,082</b>  |
| Long-term borrowings                | 0             | 0             | 0             | 0             | 0             | 0             |
| Other non-current liabilities       | 687           | 1,170         | 1,082         | 1,082         | 1,082         | 1,082         |
| <b>Total liabilities</b>            | <b>7,913</b>  | <b>10,128</b> | <b>11,264</b> | <b>11,004</b> | <b>11,531</b> | <b>11,467</b> |
| Share capital                       | 10,899        | 10,899        | 10,899        | 10,899        | 10,899        | 10,899        |
| Other reserves                      | 15,087        | 19,298        | 22,304        | 24,484        | 27,985        | 31,543        |
| <b>Total shareholders equity</b>    | <b>25,987</b> | <b>30,198</b> | <b>33,203</b> | <b>35,383</b> | <b>38,885</b> | <b>42,443</b> |
| Minority interest                   | 842           | 1,444         | 1,815         | 1,834         | 1,859         | 1,885         |
| <b>Total equity and liabilities</b> | <b>34,742</b> | <b>41,770</b> | <b>46,282</b> | <b>48,221</b> | <b>52,275</b> | <b>55,796</b> |

| CASH FLOW                                | 2021A          | 2022A          | 2023A          | 2024E          | 2025E          | 2026E          |
|------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>YE 31 Dec (RMB mn)</b>                |                |                |                |                |                |                |
| <b>Operating</b>                         |                |                |                |                |                |                |
| Profit before taxation                   | 6,847          | 7,582          | 7,389          | 5,487          | 6,295          | 6,397          |
| Depreciation & amortization              | 865            | 1,048          | 1,114          | 1,114          | 1,114          | 1,114          |
| Tax paid                                 | (1,141)        | (1,335)        | (1,309)        | (1,082)        | (1,241)        | (1,262)        |
| Change in working capital                | (1,388)        | 798            | (3,032)        | 321            | (101)          | (335)          |
| Others                                   | (547)          | (467)          | 16             | 0              | 0              | 0              |
| <b>Net cash from operations</b>          | <b>4,637</b>   | <b>7,627</b>   | <b>4,179</b>   | <b>5,840</b>   | <b>6,066</b>   | <b>5,915</b>   |
| <b>Investing</b>                         |                |                |                |                |                |                |
| 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              |
| <b>Net cash from investing</b>           | <b>(637)</b>   | <b>(6,796)</b> | <b>607</b>     | <b>(1,624)</b> | <b>(1,624)</b> | <b>(1,624)</b> |
| <b>Financing</b>                         |                |                |                |                |                |                |
| Dividend paid                            | (1,691)        | (2,097)        | (2,726)        | (2,180)        | (1,501)        | (1,525)        |
| 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)           |
| <b>Net cash from financing</b>           | <b>(2,197)</b> | <b>(1,904)</b> | <b>(2,301)</b> | <b>(2,234)</b> | <b>(1,554)</b> | <b>(1,579)</b> |
| <b>Net change in cash</b>                |                |                |                |                |                |                |
| Cash at the beginning of the year        | 7,259          | 9,060          | 10,298         | 12,015         | 13,998         | 16,886         |
| Exchange difference                      | (2)            | 14             | 5              | 0              | 0              | 0              |
| Others                                   | 0              | 0              | 0              | 0              | 0              | 0              |
| <b>Cash at the end of the year</b>       | <b>9,060</b>   | <b>8,001</b>   | <b>12,015</b>  | <b>13,998</b>  | <b>16,886</b>  | <b>19,599</b>  |
| GROWTH                                   | 2021A          | 2022A          | 2023A          | 2024E          | 2025E          | 2026E          |
| <b>YE 31 Dec</b>                         |                |                |                |                |                |                |
| Revenue                                  | 11.7%          | 11.0%          | 1.7%           | (7.7%)         | 4.6%           | 3.0%           |
| Gross profit                             | 13.1%          | 5.3%           | (0.4%)         | (9.8%)         | 3.8%           | 4.6%           |
| Operating profit                         | 12.2%          | 11.5%          | (1.8%)         | (24.4%)        | 14.3%          | 1.4%           |
| Net profit                               | 8.8%           | 9.6%           | (2.6%)         | (27.5%)        | 14.7%          | 1.6%           |
| PROFITABILITY                            | 2021A          | 2022A          | 2023A          | 2024E          | 2025E          | 2026E          |
| <b>YE 31 Dec</b>                         |                |                |                |                |                |                |
| Gross profit margin                      | 75.8%          | 71.9%          | 70.5%          | 68.9%          | 68.4%          | 69.4%          |
| Operating margin                         | 24.4%          | 24.5%          | 23.6%          | 19.3%          | 21.1%          | 20.8%          |
| Return on equity (ROE)                   | 23.5%          | 22.2%          | 19.2%          | 12.8%          | 13.6%          | 12.6%          |
| GEARING/LIQUIDITY/ACTIVITIES             | 2021A          | 2022A          | 2023A          | 2024E          | 2025E          | 2026E          |
| <b>YE 31 Dec</b>                         |                |                |                |                |                |                |
| Net debt to equity (x)                   | (0.4)          | (0.4)          | (0.4)          | (0.4)          | (0.4)          | (0.5)          |
| Current ratio (x)                        | 2.8            | 2.7            | 2.6            | 2.8            | 3.0            | 3.3            |
| 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          |
| <b>YE 31 Dec</b>                         |                |                |                |                |                |                |
| P/E                                      | 10.0           | 9.2            | 9.5            | 12.4           | 10.8           | 10.6           |
| P/E (diluted)                            | 10.0           | 9.2            | 9.5            | 12.4           | 10.8           | 10.6           |
| P/B                                      | 2.1            | 1.8            | 1.6            | 1.5            | 1.3            | 1.2            |
| P/CFPS                                   | 12.1           | 7.3            | 13.3           | 9.3            | 8.9            | 9.2            |
| Div yield (%)                            | 3.0            | 3.8            | 4.9            | 4.0            | 2.8            | 2.8            |

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

# Disclosures & Disclaimers

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## 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

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