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CMB International Global Markets | Equity Research | Company Update

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Pharmaron Beijing (300759 CH)

Guidance raised on robust CDMO growth

Pharmaron delivered robust 1H26 results, with revenue rising 17.9% YoY to RMB7.6bn and non-IFRS net profit up 20.3% YoY to RMB909mn. Earnings growth in 2Q26 clearly accelerated over 1Q26. 1H26 revenue accounted for 46.2% of our full-year forecast, higher than the historical range of 43-45%, while non-IFRS net profit in 1H26 represented 42.1% of our full-year forecast, in-line with the historical range of 40-45%. New bookings increased by more than 30% YoY, led by the >50% YoY growth of CDMO business. Reflecting strong order growth and improving execution, mgmt. raised full-year revenue growth guidance to 15-20% (from 12-18%), coupled with faster growth of non-IFRS net profit.

- **Commercial breakthroughs and margin expansion of CDMO segment**. CDMO segment was the standout performer, generating 1H26 revenue of RMB1.88bn (+32.8% YoY) and a gross profit margin (GPM) of 25.7% (+2.6ppt YoY). Growth was fueled by robust small-molecule demand and the progression of late-stage projects. The company secured a landmark commercial drug-product manufacturing agreement for Eli Lilly's oral GLP-1 product (Orforglipron), while its Ningbo facility passed its first China innovative drug API PAI Inspection. Its CDMO services encompass a broad range of modalities and high-potential targets, with several products already in mid-to-late-stage clinical or commercialization stage, poised for near-term volume ramp-up. The company is also stepping up capacity expansion, advancing small-molecule CDMO facilities in Shaoxing and Hangzhou, as well as facilities for peptide and conjugation. Driven by robust demand coupled with rising utilization, we expect CDMO segment to serve as the main contributor to the Company's overall GPM expansion going forward.
- **Clinical services close to bottoming-out**. Clinical services revenue grew 13.8% YoY in 1H26, higher than the single-digit growth seen in 2024/25. 2Q26 segment GPM rebounded sharply by ~5.0ppts QoQ to 12.1%, as pricing pressure eased with signals of price hikes. New orders climbed >30% YoY, creating more evidence of demand recovery in China clinical market. Mgmt. expected continued margin improvement through 2H26 and into 2027.
- **Resilient early-stage demand with AI momentum building**. Lab services revenue increased 13.7% YoY in 1H26, with bioscience contributing over 60% of segment revenue. Segment bookings rose 20%+ YoY, underscoring sustained early-stage R&D demand from both MNCs and biotech clients. Specifically, new modalities revenue within bioscience grew over 40% YoY, aligning with the trend seen in past few years. Note that AI-driven drug discovery (AIDD) revenue now exceeds 7% of the lab segment, with AIDD order growth consistently outpacing the overall lab average.
- **Maintain BUY.** To factor in the solid demand growth and expected margin expansion, we raise our forecast on Pharmaron's earnings, expecting revenue to grow by 18.3%/ 19.6%/ 17.0% YoY and non-IFRS net profit to increase by 22.5%/ 23.2%/ 20.0% YoY in 2026E/ 27E/ 28E, respectively. Hence, we raise our DCF-based TP from RMB39.00 to RMB56.00 (WACC of 9.32%; terminal growth of 2.0%; both unchanged).

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	12,276	14,095	16,680	19,941	23,321
YoY growth (%)	6.4	14.8	18.3	19.6	17.0
Adjusted net profit (RMB mn)	1,607	1,816	2,225	2,742	3,290
YoY growth (%)	(15.6)	13.0	22.5	23.2	20.0
EPS (Adjusted) (RMB)	0.91	1.03	1.21	1.49	1.79
Consensus EPS (RMB)	na	na	1.11	1.40	1.77
P/E (Adjusted) (x)	52.8	46.5	39.6	32.1	26.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**RMB56.00**
(Previous TP	RMB39.00)
Up/Downside	**16.7%**
Current Price	**RMB47.98**

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Stock Data

Mkt Cap (RMB mn)	88,152.9
Avg 3 mths t/o (RMB mn)	2,476.3
52w High/Low (RMB)	51.15/21.72
Total Issued Shares (mn)	1837.3

Source: FactSet

Shareholding Structure

HK investors	22.4%
De Facto Controllers	17.6%

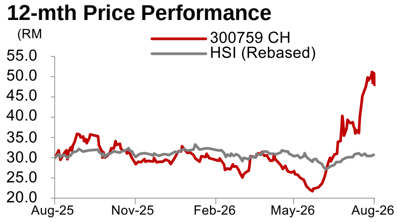
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	21.9%	17.8%
3-mth	79.8%	75.5%
6-mth	60.5%	63.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

	New			Old			Diff (%)		
RMB mn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	16,680	19,941	23,321	16,426	19,084	21,930	1.55%	4.49%	6.34%
Gross profit	5,782	7,166	8,645	5,837	6,921	8,139	-0.95%	3.54%	6.22%
Operating profit	2,562	3,187	3,817	2,467	2,882	3,333	3.84%	10.59%	14.51%
Non-IFRS net profit	2,225	2,742	3,290	2,158	2,541	2,950	3.14%	7.91%	11.50%
Non-IFRS EPS (RMB)	1.21	1.49	1.79	1.17	1.38	1.61	3.14%	7.91%	11.50%
Gross margin	34.66%	35.94%	37.07%	35.24%	36.19%	36.96%	-0.58ppt	-0.25ppt	+0.11ppt
Operating margin	15.36%	15.98%	16.37%	15.02%	15.10%	15.20%	+0.34ppt	+0.88ppt	+1.17ppt
Net margin	13.34%	13.75%	14.11%	13.14%	13.31%	13.45%	+0.21ppt	+0.44ppt	+0.65ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMB mn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	16,680	19,941	23,321	16,526	19,292	22,427	0.93%	3.37%	3.99%
Gross profit	5,782	7,166	8,645	5,809	6,955	8,253	-0.47%	3.04%	4.75%
Operating profit	2,562	3,187	3,817	2,469	3,081	3,787	3.76%	3.46%	0.78%
Non-IFRS net profit	2,225	2,742	3,290	2,016	2,545	3,198	10.38%	7.75%	2.86%
Non-IFRS EPS (RMB)	1.21	1.49	1.79	1.11	1.40	1.77	8.82%	6.53%	0.93%
Gross margin	34.66%	35.94%	37.07%	35.15%	36.05%	36.80%	-0.49ppt	-0.11ppt	+0.27ppt
Operating margin	15.36%	15.98%	16.37%	14.94%	15.97%	16.89%	+0.42ppt	+0.01ppt	-0.52ppt
Net margin	13.34%	13.75%	14.11%	12.20%	13.19%	14.26%	+1.14ppt	+0.56ppt	-0.15ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	2,789	3,487	4,117	5,226	6,556	8,126	9,950	12,035	14,376	16,956
Tax rate	21.26%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%
EBIT*(1-tax rate)	2,196	2,790	3,293	4,181	5,245	6,501	7,960	9,628	11,501	13,565
+ D&A	1,325	1,562	1,752	2,102	2,490	2,912	3,361	3,830	4,307	4,779
- Change in working capital	-250	-593	-615	-738	-874	-1,022	-1,180	-1,345	-1,512	-1,677
- Capex	-3,500	-3,500	-3,000	-3,000	-3,000	-3,000	-3,000	-3,000	-3,000	-3,000
FCFF	**-228**	**259**	**1,430**	**2,545**	**3,860**	**5,390**	**7,142**	**9,114**	**11,296**	**13,666**
Terminal value										**190,564**

Terminal growth rate	**2.00%**
WACC	**9.32%**
Cost of Equity	12.50%
Cost of Debt	4.00%
Equity Beta	1.05
Risk Free Rate	2.00%
Market Risk Premium	10.00%
Target Debt to Asset ratio	35.00%
Effective Corporate Tax Rate	15.00%

PV of terminal value (RMB mn)	78,207
Total PV (RMB mn)	105,698
Net debt (RMB mn)	2,244
Minority interest (RMBmn)	567
Equity value (RMB mn)	102,887
# of shares (mn)	1,837
Price per share (RMB per share)	**56.00**

Source: CMBIGM estimates

Figure 4: Sensitivity analysis of DCF model (RMB)

		WACC				
		8.32%	**8.82%**	**9.32%**	**9.82%**	**10.32%**
	4.00%	95.16	82.99	73.17	65.09	58.35
	3.50%	86.44	76.19	67.77	60.73	54.77
Terminal growth rate	**2.00%**	68.56	61.79	**56.00**	51.00	46.64
	2.50%	73.49	65.83	59.35	53.80	49.00
	2.00%	68.56	61.79	56.00	51.00	46.64

Source: CMBIGM estimates

Risks:

1) Lower-than-expected probabilities of success in winning late- and commercial-stage CDMO projects in the global market; 2) uncertainties in the demand recovery sustainability in early-stage R&D; 3) slower-than-expected margin improvement of clinical services; 4) geopolitical uncertainties.

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	**11,538**	**12,276**	**14,095**	**16,680**	**19,941**	**23,321**
Cost of goods sold	(7,414)	(8,073)	(9,185)	(10,898)	(12,775)	(14,676)
Gross profit	**4,124**	**4,203**	**4,910**	**5,782**	**7,166**	**8,645**
Operating expenses	**(2,390)**	**(2,422)**	**(2,765)**	**(3,220)**	**(3,979)**	**(4,828)**
Selling expense	(253)	(258)	(306)	(372)	(485)	(614)
Admin expense	(1,607)	(1,585)	(1,736)	(2,061)	(2,524)	(3,021)
R&D expense	(448)	(469)	(576)	(650)	(797)	(978)
Others	(83)	(110)	(146)	(137)	(174)	(215)
Operating profit	**1,734**	**1,781**	**2,145**	**2,562**	**3,187**	**3,817**
Gain/loss on financial assets at FVTPL	19	2	66	107	100	100
Investment gain/loss	45	542	(102)	57	100	100
Net Interest income/(expense)	**(5)**	**(143)**	**(156)**	**(278)**	**(100)**	**(90)**
Other income/expense	45	(90)	(40)	63	100	100
Pre-tax profit	**1,838**	**2,091**	**1,913**	**2,511**	**3,388**	**4,027**
Income tax	(256)	(377)	(358)	(534)	(678)	(805)
After tax profit	**1,582**	**1,714**	**1,555**	**1,977**	**2,710**	**3,221**
Minority interest	19	79	109	107	147	174
Net profit	**1,601**	**1,793**	**1,664**	**2,084**	**2,857**	**3,395**
Adjusted net profit	**1,903**	**1,607**	**1,816**	**2,225**	**2,742**	**3,290**
Gross dividends	357	354	366	417	571	679

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	**10,874**	**7,608**	**7,778**	**8,814**	**9,580**	**11,443**
Cash & equivalents	5,919	1,690	1,017	1,673	1,580	2,560
Account receivables	2,242	2,414	2,722	3,039	3,633	4,249
Inventories	1,013	1,117	1,472	1,536	1,800	2,068
Financial assets at FVTPL	622	1,120	714	714	714	714
Other current assets	684	810	1,387	1,387	1,387	1,387
Contract assets	394	458	466	466	466	466
Non-current assets	**15,602**	**16,319**	**19,316**	**21,657**	**23,795**	**25,242**
PP&E	6,497	7,809	8,933	11,420	13,666	15,222
Right-of-use assets	776	560	499	342	186	29
Deferred income tax	153	193	263	263	263	263
Intangibles	789	791	1,197	1,134	1,072	1,009
Goodwill	2,781	2,761	3,586	3,586	3,586	3,586
Long-term investments	723	649	640	640	640	640
Other non-current assets	3,884	3,557	4,199	4,271	4,383	4,494
Total assets	**26,477**	**23,927**	**27,094**	**30,471**	**33,375**	**36,686**
Current liabilities	**3,654**	**4,224**	**8,364**	**8,995**	**9,760**	**10,529**
Short-term borrowings	577	765	1,265	1,765	2,265	2,765
Account payables	412	477	607	737	1,003	1,271
Tax payable	238	219	207	207	207	207
Other current liabilities	1,686	1,928	5,324	5,324	5,324	5,324
Contract liabilities	741	835	961	961	961	961
Non-current liabilities	**9,584**	**5,481**	**2,991**	**2,991**	**2,991**	**2,991**
Long-term borrowings	4,308	4,377	1,772	1,772	1,772	1,772
Bond payables	3,892	0	0	0	0	0
Obligations under finance leases	585	401	379	379	379	379
Other non-current liabilities	799	702	840	840	840	840
Total liabilities	**13,239**	**9,705**	**11,355**	**11,986**	**12,751**	**13,520**
Share capital	1,787	1,778	1,779	2,965	2,965	2,965
Capital surplus	5,222	5,008	4,950	4,950	4,950	4,950
Retained earnings	5,205	6,443	7,679	9,346	11,631	14,348
Other reserves	343	390	656	656	656	656
Total shareholders equity	**12,557**	**13,619**	**15,064**	**17,917**	**20,203**	**22,919**
Minority interest	681	604	674	567	421	247
Total equity and liabilities	**26,477**	**23,927**	**27,094**	**30,471**	**33,375**	**36,686**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**1,838**	**2,091**	**1,913**	**2,511**	**3,388**	**4,027**
Depreciation & amortization	1,009	1,145	1,270	1,325	1,562	1,752
Tax paid	(256)	(377)	(358)	(534)	(678)	(805)
Change in working capital	64	(117)	(10)	(250)	(593)	(615)
Others	100	(166)	406	111	(100)	(110)
Net cash from operations	**2,754**	**2,577**	**3,221**	**3,164**	**3,579**	**4,248**
Investing						
Capital expenditure	(2,865)	(2,041)	(2,669)	(3,500)	(3,500)	(3,000)
Acquisition of subsidiaries/ investments	(2,113)	(3,197)	(5,120)	(4,000)	(3,000)	(3,000)
Net proceeds from disposal of short-term investments	2,720	3,227	3,409	4,000	3,000	3,000
Others	7	(13)	6	0	0	0
Net cash from investing	**(2,251)**	**(2,024)**	**(4,374)**	**(3,500)**	**(3,500)**	**(3,000)**
Financing						
Dividend paid	(458)	(548)	(531)	(695)	(671)	(769)
Net borrowings	3,612	(3,771)	1,096	500	500	500
Proceeds from share issues	971	11	17	1,186	0	0
Others	(209)	(488)	(204)	0	0	0
Net cash from financing	**3,915**	**(4,797)**	**377**	**991**	**(171)**	**(269)**
Net change in cash						
Cash at the beginning of the year	1,360	5,789	1,623	1,017	1,673	1,580
Exchange difference	11	78	(4)	0	0	0
Cash at the end of the year	**5,789**	**1,623**	**843**	**1,673**	**1,580**	**2,560**

GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	12.4%	6.4%	14.8%	18.3%	19.6%	17.0%
Gross profit	9.4%	1.9%	16.8%	17.8%	23.9%	20.6%
Operating profit	2.5%	2.7%	20.4%	19.4%	24.4%	19.7%
Net profit	16.5%	12.0%	(7.2%)	25.3%	37.1%	18.9%
Adj. net profit	3.8%	(15.6%)	13.0%	22.5%	23.2%	20.0%

PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	35.7%	34.2%	34.8%	34.7%	35.9%	37.1%
Operating margin	15.0%	14.5%	15.2%	15.4%	16.0%	16.4%
Adj. net profit margin	16.5%	13.1%	12.9%	13.3%	13.8%	14.1%
Return on equity (ROE)	13.9%	13.7%	11.6%	12.6%	15.0%	15.7%

GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Net debt to equity (x)	0.2	0.3	0.1	0.1	0.1	0.1
Current ratio (x)	3.0	1.8	0.9	1.0	1.0	1.1
Receivable turnover days	65.2	69.2	66.5	66.5	66.5	66.5
Inventory turnover days	50.6	48.1	51.4	51.4	51.4	51.4
Payable turnover days	58.0	50.4	51.6	51.6	51.6	51.6

VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E (adjusted)	44.7	52.8	46.5	39.6	32.1	26.8
P/B	6.4	6.0	5.4	4.8	4.3	3.8
P/CFPS	30.9	33.0	26.2	27.9	24.6	20.7
Div yield (%)	0.4	0.4	0.4	0.5	0.6	0.8

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

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