



Rating
Hold

Asia
China

Health Care
Health Care

Company
**Shanghai
Pharmaceuticals**

Reuters 2607.HK Bloomberg 2607 HK Exchange HSI Ticker 2607

Date
10 March 2015

Company Update

Price at 9 Mar 2015 (HKD)	17.54
Price target - 12mth (HKD)	16.00
52-week range (HKD)	19.98 - 13.36
HANG SENG INDEX	24,164

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Marching into online business

Impact: positive for the long term

We believe the proposed e-platform, SPH Yunshang, would help Shanghai Pharma defend its market share during incoming re-distribution of market share when online distributors are allowed to compete in the prescription drug market. However, in the near term, we believe the impact on P&L would be quite limited. We also believe it is a smart move to separate the online platform from the core operations of Shanghai Pharma, because 1) the online platform would require the same level of cash to support substantial working capital requirement; 2) the start-up would have to face two issues, relatively higher procurement prices and lower selling prices compared with the traditional business. However the potential upside is the operating efficiency versus the existing business model. We believe it is too early to predict the profitability of the start-up.

What's New? Shanghai Pharma starts online platform

Shanghai Pharma announced that it had established an online platform named SPH Yunshang through a 70:30 JV which Shanghai Pharma owns 70%. The other 30% is owned by the general manager of one of its largest subsidiaries on the distribution side. SPH Yunshang aims at establishing three online platforms for online prescription, drug data and patients' data, and three off-line networks for professional pharmacies, pharmacies managed by hospitals and retail pharmacies. We think the new business would be much better positioned than other start-ups as Shanghai Pharma could leverage its infrastructure, expertise, and existing client and supplier networks. While traditional drug distributors are poised to lose market share when online players tiptoe into this field, setting up a JV to tap the business opportunity might help Shanghai Pharma mitigate the risks.

Implication: we expect large e-players to join

We expect that large players such as Alibaba or JD to join this new platform to provide an online platform and external financing in the near/mid term with Shanghai Pharma providing infrastructure and expertise. While the street could view this event positive, we believe the impact on the P&L of Shanghai Pharma would be limited in the near term. In the mid/long term, we believe SPH Yunshang would seek separate listing as business ramps up.

Key data

FYE 12/31	2013A	2014E	2015E
Sales (CN¥m)	78,223	93,036	107,478
Net Profit (CN¥m)	2,242.9	2,496.3	2,399.9
DB EPS (CN¥)	0.77	0.88	0.89
PER (x)	16.5	16.0	15.9
Yield (net) (%)	2.6	0.3	0.3

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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