

Equities

Hong Kong/China

Company Update

Company Report

Jintian Pharmaceutical (2211 HK)

19 March 2015

2014 Results Review

Jintian reported solid results with revenue increasing 31% YoY to Rmb4,356m, though this slightly missed our expectation due to lower growth in revenue per store. We revise down our FY15E/FY16E EPS by 3%/7%. Target price is lowered to HK\$3.70 from HK\$3.80. Maintain Buy.

- Solid results.** Jintian reported solid results with revenue increasing 31% YoY to Rmb4,356m, though this slightly missed our expectation due to lower growth in revenue per store. Both retail and distribution segments posted strong growth at 30% YoY and 32% YoY in FY14. Net profit was up 33% YoY to Rmb473m. Jintian declared a final DPS of HK\$3.2 for a full-year DPS of HK\$6.0 and payout of 20%. GPM improved by 0.9 ppts to 29.1% on a better product mix. At the end of FY14, Jintian had 414 (vs. 412 in FY13) licensed products and 2,392 (vs. ~950) products with exclusive distribution rights.
- Operations remain solid.** The company plans to further optimize its product portfolio and increase sales under the direct-supply model. Pharmaceutical-sector reform has accelerated and the government aims to reduce the cost of drugs for patients. We expect more middlemen to be eliminated and leading pharmaceutical distributors to benefit. Revenue and gross profit generated through the direct-supply model accounted for 40.1% and 59.9% of total revenue and gross profit respectively in FY14.
- Valuation.** The shares trade at 8.4x FY15E P/E, which is compelling compared with national pharmaceutical distributors at 15x. We revise down our FY15E/FY16E EPS by 3%/7% to reflect lower than expected growth in revenue per store. Target price is lowered to HK\$3.70 from HK\$3.80 based on 11x FY15E EPS. Maintain Buy.
- Risks.** Unable to renew licensing rights or exclusive distribution rights. Unable to fully integrate newly acquired stores as expected. Quality issues with self-licensed products. Unfavourable government policies.

Investment Summary

FY-end 31 Dec	2013	2014	2015E	2016E	2017E
Turnover (Rmb m)	3,323.5	4,355.8	5,437.7	6,048.2	6,691.5
Growth (%)	42.9	31.1	24.8	11.2	10.6
Net profit (Rmb m)	355.1	472.7	535.2	592.9	656.9
Growth (%)	66.1	33.1	13.2	10.8	10.8
EPS (Rmb fen)	21.9	23.8	26.8	29.6	32.8
Growth (%)	64.0	8.5	12.6	10.8	10.8
P/E (x)	10.3	9.5	8.4	7.6	6.8
OCF/Share (Rmb fen)	23.9	29.8	21.2	36.4	41.5
P/B (x)	1.9	1.7	1.5	1.3	1.1
EV/EBITDA (x)	6.2	4.8	3.9	3.3	3.0
DPS (Rmb fen)	-	4.7	5.3	5.9	6.6
Yield (%)	-	2.1	2.4	2.6	2.9

Sources: Bloomberg, CER estimates

HK & China / Pharmaceutical

BUY

Share Price	Target Price	Upside
HK\$2.81	HK\$3.70	31.7%

(As of 18 March 2015)

Eva Yip, CFA(852) 2530 8226
eva.yip@ebscn.hk

52 week price range (HK\$)	1.88-3.65
Div yield %	2.10

Latest Key Data

FF no. of shares (m)	919
FF (%)	45.95
FF market cap (HK\$ m)	2,583
12M daily turnover (HK\$ m)	27.28
12M volatility (%)	N/A
12M Hi/Lo (HK\$)	1.88-3.65
PEG FY14-16E (x)	0.81
RoAE FY15E (%)	19.03
P/B FY15E (x)	1.49
Net debt/equity FY15E (%)	Net cash

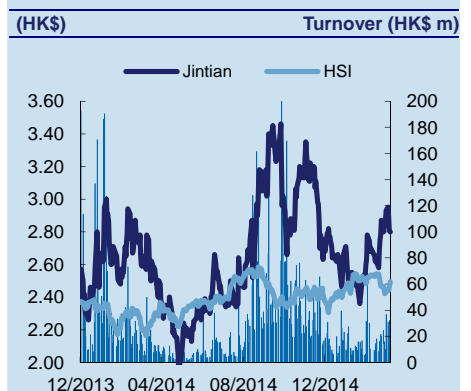
Performance (%)

	1M	YTD	12M
Absolute	3.7	5.3	6.1
Relative to HSCEI	3.3	4.2	(23.3)

Major Shareholders (%)

Jin Dongtao	45.14
Free float	45.95

Price Chart



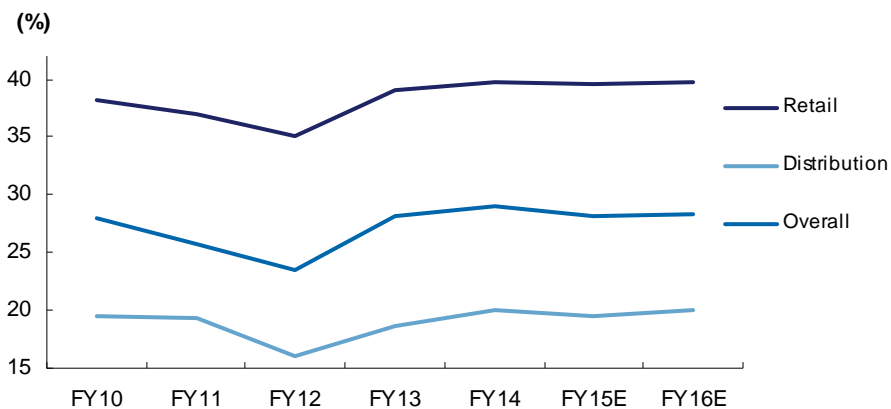
Sources: Bloomberg, CER estimates

Jintian results highlights

Rmb m	FY14	FY13	YoY
Revenue	4,355.8	3,323.5	31.1%
COS	(3,088.4)	(2,387.1)	29.4%
Gross profit	1,267.5	936.4	35.4%
Selling and marketing expenses	(502.5)	(332.7)	51.0%
Administrative expenses	(89.7)	(83.0)	8.0%
Other income	0.5	0.3	54.8%
Other gains/(losses)	0.6	(1.5)	N/A
Operating profit	676.3	519.5	30.2%
Finance income - net	4.5	(1.2)	N/A
Share of profit of JV	1.2	1.5	-21.2%
PBT	682.1	519.8	31.2%
Tax expenses	(178.7)	(134.8)	32.6%
PAT	503.3	385.1	30.7%
Owners of company	472.7	355.1	33.1%
Non-controlling interests	30.6	30.0	2.2%
EPS (Rmb fen)	23.8	21.9	8.5%
Final DPS (HK cents)	3.20	0	N/A
Interim DPS (HK cents)	2.80	0	N/A
Gross margin - %	29.1	28.2	0.9 ppt
Operating margin - %	15.5	15.6	-0.1 ppt
Selling and marketing expenses to revenue - %	11.5	10.0	1.5 ppts
Administrative expenses to revenue - %	2.1	2.5	-0.4 ppt

Sources: Company and CER

Jintian gross margin trend



Sources: Company and CER estimates

Company Description

Jintian is the leading pharmaceutical distributor and drugstore operator in Northeastern China. As at the end of 2014, it operated 940 drugstores in China and was the largest chain drugstore in terms of number of self-operated drugstores in three northeastern provinces of China. Products and services included prescription drugs (Rx) and over-the-counter (OTC) drugs, pharmacy services, health supplements and medical devices.

Profit & Loss (Consolidated)

FY-end 31 Dec (Rmb m)	2013	2014	2015E	2016E	2017E
Sales	3,323	4,356	5,438	6,048	6,692
Cost of sales	(2,387)	(3,088)	(3,911)	(4,354)	(4,815)
Gross profit	936	1,267	1,526	1,694	1,876
Other income	(1)	1	0	0	0
Operating expenses	(416)	(592)	(745)	(829)	(917)
Operating profit	519	676	782	866	960
Finance cost, net	(1)	5	3	3	3
Share of P/L of asso. & JCE	2	1	2	2	2
Pre-tax profit	520	682	786	871	965
Tax	(135)	(179)	(204)	(226)	(251)
Minorities	(30)	(31)	(47)	(52)	(57)
Net profit	355	473	535	593	657
EBITDA	547	713	875	1,020	1,149
EBIT	519	676	782	866	960
EPS (Rmb fen)	21.9	23.8	26.8	29.6	32.8
DPS (Rmb fen)	0.0	4.7	5.3	5.9	6.6

Sources: Company and CER estimates

Cash Flow (Consolidated)

FY-end 31 Dec (Rmb m)	2013	2014	2015E	2016E	2017E
Operating cash flow	387	592	424	729	830
Net profit	355	473	535	593	657
Depreciation & amortization	27	37	93	154	190
Change in working capital	(39)	61	(249)	(68)	(72)
Others	43	22	45	50	55
Investment cash flow	(53)	(1,008)	(450)	(300)	(300)
Net capex	(165)	(407)	(450)	(300)	(300)
Disposals	0	0	0	0	0
Change in LT investment	-	-	-	-	-
Free cash flow	222	185	(26)	429	530
Financing cash flow	775	201	(106)	(118)	(132)
Change in share capital	856	0	0	0	0
Net change in debt	0	296	0	0	0
Dividend paid	(86)	(95)	(106)	(118)	(132)
Net cash flow	1,109	(215)	(132)	311	398

Sources: Company and CER estimates

Balance Sheet (Consolidated)

FY-end 31 Dec (Rmb m)	2013	2014	2015E	2016E	2017E
Total assets	2,744	3,414	3,777	4,333	4,947
Current assets	2,206	2,469	2,473	2,882	3,384
Cash & ST investments	1,564	1,349	1,217	1,528	1,926
Marketable securities	-	-	-	-	-
Account & notes receivable	362	374	447	497	550
Inventories	272	363	427	475	525
Others	9	383	383	383	383
Non-current assets	538	945	1,303	1,451	1,563
Net fixed assets	520	924	1,281	1,427	1,537
Others	18	21	22	24	26
Total liabilities	288	789	676	706	738
Current liabilities	265	738	625	655	687
Account payable	217	381	268	298	330
ST borrowings	0	296	296	296	296
Others	49	62	62	62	62
Non-current liabilities	23	51	51	51	51
Long-term debts	0	0	0	0	0
Others	23	51	51	51	51
Total equity	2,456	2,625	3,101	3,627	4,209
Shareholders' equity	2,355	2,598	3,027	3,502	4,027
Minority shareholders	101	27	74	125	182
Total liabilities + equity	2,744	3,414	3,777	4,333	4,947
Net cash / (debt)	1,564	1,054	921	1,232	1,630
Working capital	1,941	1,731	1,848	2,227	2,697
Total capital employed	2,479	2,676	3,152	3,678	4,260
Shareholders' equity + Minorities	2,456	2,625	3,101	3,627	4,209
Net gearing (%)	NC	NC	NC	NC	NC

Sources: Company and CER estimates

Financial Summary

FY-end 31 Dec	2013	2014	2015E	2016E	2017E
Growth (%)					
Revenue	43	31	25	11	11
EBITDA	73	30	23	17	13
EBIT	72	30	16	11	11
Net profit	66	33	13	11	11
EPS	64	8	13	11	11
Margins (%)					
Gross	28	29	28	28	28
EBITDA	16	16	16	17	17
EBIT	16	16	14	14	14
Net	11	11	10	10	10
Others (%)					
Effective tax rate	26	26	26	26	26
Payout ratio	0	20	20	20	20
RoCE	33	26	27	25	24
Average RoE	24	19	19	18	17
Average RoA	18	16	16	16	15
Interest cover (x)	NC	NC	NC	NC	NC

Sources: Company and CER estimates

China Everbright Research Limited Rating System

Buy	Expected to outperform the benchmark index by >15% over the next six months
Accumulate	Expected to outperform the benchmark index by 5 - 15% over the next six months
Hold	Expected to outperform or underperform the benchmark index by <5% over the next six months
Reduce	Expected to underperform the benchmark index by 5 - 15% over the next six months
Sell	Expected to underperform the benchmark index by >15% over the next six months

Analyst Certification

The research analyst(s) primarily responsible for the preparation of this report hereby certify that –

- (1) All of the views expressed in this report accurately reflect his or her or their personal views about the subject company or companies and its/theirs securities;
- (2) No part of his or her or their compensation was/were, is/are or will be directly or indirectly, related to the specific recommendations or views expressed in this report or any specific investment banking function;
- (3) He/she/they are not directly supervised by, and do not directly report to, investment banking functions;
- (4) He/she/they has/have not breach the quiet period restriction of dealing in the securities covered in this report;
- (5) He/she/they is/are not an officer and do(es) not hold any directorship in the company or companies this report covered.

Disclosure

Our firm does not have financial interests (including stock holding) that equal 1% or more of the market capitalization of the listed company under review at the date this report is published; does not have investment banking relationship with the listed company under review within the past 12 months; and does not have market-making activities in the stock. None of our staff is an officer of the listed company.

Disclaimer

This report has been prepared by China Everbright Research Ltd. China Everbright Research Limited does not guarantee, either expressed or implied, the completeness, reliability and accuracy of the materials contained in the report.

This report has been prepared for general reference and no part of this report is to be constructed as an offer, invitation, advertisement or inducement whatsoever, or form to buy or sell any securities or financial instruments whether referred to herein or otherwise. Opinions in this report are subject to change by the original writer without notice. China Everbright Research Limited does not accept any liability whatsoever, directly, indirectly, consequential or incidental that may arise from the use of or reliance on the contents of this report.

China Everbright Research Limited and its affiliates and their respective associates, directors, employees or officers may from time to time have long or short positions in securities, warrants, futures, options, derivatives or any other interests and/or underwriting commitments in the securities or financial instruments referred to in this report.

Reports by China Everbright Research Limited do not have regard to the specific investment objectives, financial situation, risk tolerance or the particular needs of any investor. Before entering into any investment contract, individual should exercise judgment or seek for professional advice when necessary. The information contained herein is believed to be reliable. Its completeness and accuracy are, however, not guaranteed.

All copyrights are reserved by China Everbright Research Limited. This report or any part of its contents must not be reproduced in whole or in part without the prior written approval of China Everbright Research Limited.

China Everbright Research Limited is licensed by the Securities and Futures Commission (SFC) and is governed under the rules and regulations of the SFC and the Securities and Futures Ordinances and its subsidiary legislation.

Address: 17/F., Far East Finance Center, No. 16 Harcourt Road, Hong Kong.

Contact No.: (852) 2860-1101