



Rating
Hold

Asia
China

Health Care
Health Care

Company
**Sino
Biopharmaceutical**

Reuters 1177.HK Bloomberg 1177 HK Exchange HKG Ticker 1177

Date
27 March 2015

Results

Price at 26 Mar 2015 (HKD)	7.29
Price target - 12mth (HKD)	7.00
52-week range (HKD)	8.30 - 5.91
HANG SENG INDEX	24,528

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Mixed picture ahead

More pricing pressure ahead; Ganmei/Kaishi volume growth recovery continues

SBP reported HKD 3.2bn/0.073 for revenue and non-GAAP EPS for 4Q14, beating consensus of HKD 3.08bn/0.052 and our estimate of HKD 3.11bn/0.051. These represent 29.5% and 76% YoY growth respectively. The top upside was driven by growth recovery of Ganmei and continuous strength of Runzhong, while the profit upside was largely driven by much higher than expected contribution from Tide since EBIT margin eroded YoY. SBP did not give 2015 guidance but offered growth outlook for flagship products.

Flagship product performed well in 4Q14

Runzhong, Ganmei, Kaishi, Kaifen and Mingzheng achieved 36%, 28%, 10.7%, 26% and -9% YoY growth in 4Q14, vs. 40%, 10%, 1.7%, 28% and -4% YoY growth respectively for the full year. These data points are nearly perfectly correlated with hospital data we track, which also suggested strong growth recovery for Ganmei, Ganping, Kaishi and Kaifen. While we expect this trend to continue, we expect more price cuts for all five products in the coming tenders which would impair growth in 2H15 and 2016.

Margin decline due to seasonality and higher administrative expenses

GM declined to 72% in 4Q14 from 78% in 3Q14 and 75% in 4Q13, which we believe is due to seasonality. Additionally, OPM dropped to 19% in 4Q14 from 25% in 3Q14 and 23% in 4Q13 due to higher administrative expenses which we construe various cross-allocation of expenses occurred. We expect modest cost savings going forward as price cuts intensify. Additionally the company expects 5-10 new product approvals in 2015.

Maintaining target price of HKD7; risks

We anticipate this name to be volatile in the near term due to anticipated pricing pressure on flagship products, despite volume growth recovery of Ganmei and Kaishi/Kaifen which is likely to lead to robust earnings for 1H15. Our target price of HKD7 is based on 18x 2016E EPS of HKD0.385; we believe this 18x is justified, as its HK-traded drug peers are trading at 18x 2016E EPS, with 20% EPS growth, vs. 12% for SBP. We believe an in-line multiple with lower growth is reasonable with SBP's strong pipeline and existing portfolio with superior therapeutic value. Key upside risks include better-than-expected risk management tactics; fewer-than-expected price cuts; faster-than-expected new product ramp-up. Key downside risks include larger-than-expected price cuts; slow oncology product ramp-up.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-2.4	6.3	-0.1
HANG SENG INDEX	-1.5	5.0	12.1

Source: Deutsche Bank

Forecasts And Ratios

Year End Dec 31	2013A	2014A	2015E	2016E	2017E
Sales (HKDm)	9,901.2	12,378.4	15,025.6	17,480.1	20,287.8
Reported EPS FD(HKD)	0.21	0.31	0.35	0.38	0.44
DB EPS growth (%)	22.6	38.7	15.4	11.5	13.3
PER (x)	23.8	23.4	21.1	18.9	16.7

Source: Deutsche Bank estimates, company data

¹ DB EPS is fully diluted and excludes non-recurring items

² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Deutsche Bank AG/Hong Kong

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Model updated: 26 March 2015

Running the numbers

Asia
Hong Kong
Health Care

Sino Biopharmaceutical

Reuters: 1177.HK Bloomberg: 1177.HK

Hold

Price (26 Mar 15)	HKD 7.29
Target Price	HKD 7.00
52 Week range	HKD 5.91 - 8.30
Market Cap (m)	HKDm 36,023 USDm 4,645

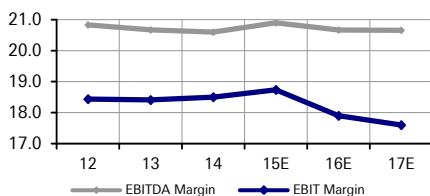
Company Profile

Sino Biopharmaceutical, as a holding company and through its subsidiaries, is engaged in the R&D and production of hepatitis B and cardio-cerebral vascular (CCV) drugs in China. The company's products are in the chemical and modern Chinese medicine format. Additionally, its product portfolio serves other therapeutics such as analgesic, orthopedic, anti-infective and oncology.

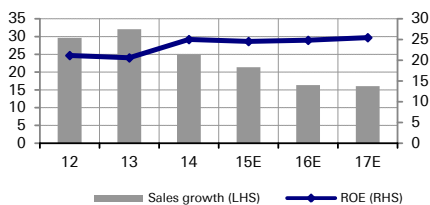
Price Performance



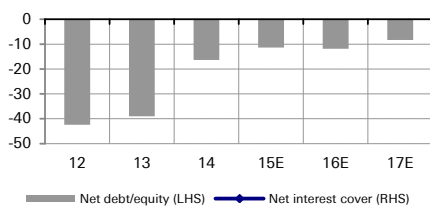
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (HKD)	0.18	0.22	0.30	0.35	0.38	0.44
Reported EPS (HKD)	0.18	0.21	0.31	0.35	0.38	0.44
DPS (HKD)	0.05	0.05	0.14	0.21	0.23	0.26
BVPS (HKD)	0.9	1.1	1.3	1.5	1.6	1.8
Weighted average shares (m)	4,941	4,941	4,941	4,941	4,941	4,941
Average market cap (HKDm)	13,279	25,358	34,528	36,023	36,023	36,023
Enterprise value (HKDm)	11,826	23,907	33,036	35,450	35,815	36,772
Valuation Metrics						
P/E (DB) (x)	15.3	23.8	23.4	21.1	18.9	16.7
P/E (Reported) (x)	14.9	24.5	22.8	21.1	18.9	16.7
P/BV (x)	3.99	5.54	5.25	4.94	4.49	4.05
FCF Yield (%)	7.9	4.2	4.4	3.1	5.3	4.4
Dividend Yield (%)	1.9	1.0	2.0	2.9	3.2	3.6
EV/Sales (x)	1.6	2.4	2.7	2.4	2.0	1.8
EV/EBITDA (x)	7.6	11.7	13.0	11.3	9.9	8.8
EV/EBIT (x)	8.6	13.1	14.4	12.6	11.4	10.3
Income Statement (HKDm)						
Sales revenue	7,497	9,901	12,378	15,026	17,480	20,288
Gross profit	5,886	7,673	9,458	11,434	13,162	15,054
EBITDA	1,562	2,047	2,550	3,140	3,613	4,191
Depreciation	176	207	248	308	467	604
Amortisation	4	17	11	17	17	17
EBIT	1,382	1,823	2,290	2,815	3,129	3,571
Net interest income/(expense)	45	66	70	119	114	125
Associates/affiliates	240	238	337	383	433	485
Exceptionals/extraordinary	48	-4	88	56	56	56
Other pre-tax income/(expense)	7	14	16	11	11	11
Profit before tax	1,723	2,137	2,801	3,384	3,743	4,247
Income tax expense	305	355	440	558	618	701
Minorities	527	745	848	1,120	1,223	1,392
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	891	1,037	1,513	1,706	1,902	2,155
DB adjustments (including dilution)	-22	29	-36	0	0	0
DB Net profit	869	1,065	1,478	1,706	1,902	2,155
Cash Flow (HKDm)						
Cash flow from operations	1,358	1,576	2,621	2,453	3,466	3,419
Net Capex	-312	-502	-1,114	-1,352	-1,573	-1,826
Free cash flow	1,046	1,074	1,507	1,101	1,893	1,593
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-198	-247	-705	-1,029	-1,160	-1,294
Net inc/(dec) in borrowings	-44	21	0	0	0	0
Other investing/financing cash flows	2	-453	-525	-365	-529	-578
Net cash flow	807	396	277	-293	204	-279
Change in working capital	149	-115	454	-226	415	-128
Balance Sheet (HKDm)						
Cash and other liquid assets	2,495	2,890	3,167	2,874	3,078	2,799
Tangible fixed assets	1,717	2,107	2,340	3,343	4,449	5,672
Goodwill/intangible assets	978	1,458	1,974	2,340	2,756	3,224
Associates/investments	202	372	2,256	2,256	2,256	2,256
Other assets	2,309	3,141	4,426	5,238	5,724	6,727
Total assets	7,701	9,969	14,164	16,052	18,265	20,679
Interest bearing debt	41	74	1,724	1,724	1,724	1,724
Other liabilities	1,875	2,670	3,622	4,208	5,109	5,984
Total liabilities	1,916	2,744	5,346	5,932	6,833	7,708
Shareholders' equity	4,582	5,487	6,611	7,287	8,029	8,890
Minorities	1,203	1,738	2,208	2,833	3,403	4,081
Total shareholders' equity	5,785	7,225	8,819	10,120	11,432	12,971
Net debt	-2,454	-2,816	-1,443	-1,150	-1,354	-1,076
Key Company Metrics						
Sales growth (%)	29.7	32.1	25.0	21.4	16.3	16.1
DB EPS growth (%)	38.4	22.6	38.7	15.4	11.5	13.3
EBITDA Margin (%)	20.8	20.7	20.6	20.9	20.7	20.7
EBIT Margin (%)	18.4	18.4	18.5	18.7	17.9	17.6
Payout ratio (%)	27.7	23.8	46.6	60.3	61.0	60.0
ROE (%)	21.2	20.6	25.0	24.5	24.8	25.5
Capex/sales (%)	4.6	5.3	9.0	9.0	9.0	9.0
Capex/depreciation (x)	1.9	2.3	4.3	4.2	3.3	2.9
Net debt/equity (%)	-42.4	-39.0	-16.4	-11.4	-11.8	-8.3
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

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4Q14 recap



Growth outlook

SBP offered growth guidance for flagship products in 2015, highlighting 20% YoY growth for Runzhong already included assumptions for price cuts in Zhejiang and Guangdong, as well as potential outcome from Fujian while we had assumed that SBP would exit this market. However, the assumption did not include any further price cuts from other provinces.

Figure 1: Growth targets for 2015

Products	4Q14	4Q13	YoY	9m14	9m13	YoY	2015 Guidance/DB comments
Hepatitis							
Mingzheng	161	177	-9%	588	602	-2%	SBP targets -5% to 5% growth in 2015, citing this is a stable product
Tiangqingganmei	454	353	28%	1,471	1,395	5%	SBP targets 15-25% growth in 2015 , suggesting volume growth recovery is on track. This is consistent with what we observed since 3Q14 from hospital data.
Ganlixin	33	36	-7%	126	137	-8%	
Tianqingganping	111	85	30%	321	293	10%	SBP targets 15-25% growth in 2015. Similar to Ganmei, the volume growth recovery is well on track.
Runzhong	591	433	36%	1,749	1,236	41%	SBP budgets at least 20% growth for 2015 , included price cuts in Guangdong, Zhejiang and Fujian. Re. Fujian strategy, SBP declined to comment due to competitive reasons. We believe further downside is likely to occur in 2016 due to the emergence of new nadirs on pricing.
CCV							
Kaishi	426	385	11%	1,213	1,226	-1%	SBP targets 5-10% growth in 2015, indicating all products from Tide's products are on track for volume growth recovery. This is consistent with what we saw from hospital data since 3Q14.
Tianqingning	38	44	-13%	160	175	-9%	
Yilunping	109	94	16%	373	294	27%	
Tuotuo	86	53	62%	255	156	64%	Expect robust growth from this product.
Beiqian	54	40	36%	149	107	40%	
Analgesic Medicines							
Kaifen	253	201	26%	710	554	28%	SBP targets 25-35% growth in 2015, citing growth recovery is on track. We believe lower end is likely.
Orthopedics Medicines							
New ossified estriol capsules	157	142	11%	541	421	29%	SBP expects at least 20% growth.
Anti-infectious Medicines							
Tiance	128	81	59%	428	336	27%	SBP expects 20-30% growth in 2015. Despite tightening of the antibiotic usage, fourth generation high-end antibiotics are growing well above industry average growth.
Oncology Medicines							
Zhiruo	70	46	53%	213	161	32%	
Tianqingyitai	48	41	16%	152	160	-5%	
Anorectal Medicines							
Getai	38	35	9%	155	138	12%	

Source: Deutsche Bank, company data

We also highlight that Tide's flagship products, along with Ganmei, continue to exhibit volume growth recovery, which could be a positive surprise. However, we remain cautious on intensified pricing pressure in incoming drug tenders.



Strong pipeline supports long-term growth

SBP expects 5-10 new product approvals in 2015, vs. eight in 2014. The 30/50/20 rule applies to new products, with 30% innovative products, 50% as first-three/five-to-market, and 20% generics.

54 new products were added to SBP's pipeline in 4Q14; we highlight that 13 of them were oncology products which have high margins. We believe new products launches would be the best strategy to mitigate risk and support margin. We summarize the number of compounds in the following figure.

Figure 2: SBP's R&D items

	2014	9M2014
Product approvals / applications		
Production approvals	8	4
Clinical approvals	11	NA
Products new applications	12	NA
Clinical applications after completion	6	NA
Clinical applications	57	18
Production applications	64	8
New products (accumulated)		
Pharmaceutical products (completed clinic research, under clinical trial or applying production approval)	238	184
Cardio-cerebral medicines	36	33
Hepatitis medicines	13	11
Oncology medicines	96	83
Respiratory system medicines	16	6
Diabetic medicines	17	11
Other medicines	60	40
Patent applications		
Patent applications	97 (95 invention patents)	29 (28 invention patents)
Patent license notices	62 (54 invention patents)	13 (11 invention patents)
Apparel design patents	9	3
Patent approvals (accumulated)		
Invention patent approvals (accumulated)	394	378
Utility model patent approvals (accumulated)	4	4
Apparel design patent approvals (accumulated)	50	50

Source: Deutsche Bank, Company data

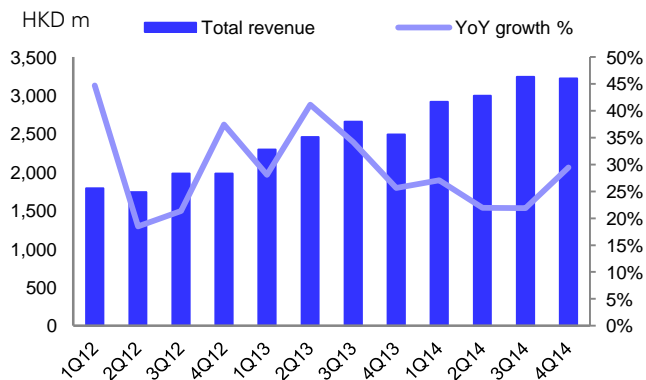
Growth acceleration in 4Q14

Total revenue in 4Q14 was RMB3.2bn, representing 29% growth compared with 22%/22%/27% growth in 3Q14/2Q14/1Q14 respectively. Hepatitis segment demonstrated growth acceleration with 27% in 4Q14 vs. 16% in 9m14. This segment contributed 51% of the total revenue vs. 45% in 9m14.

Runzhong, Ganmei and Mingzheng accounted for 18%/14%/5% of total revenue vs. 19%/16%/6% in 9m14. We would like to remind investors to keep track of the combined revenue of these three key products as a percentage of the total revenue, as an indication for margin trend, as these three products have the highest OPM when they are combined.

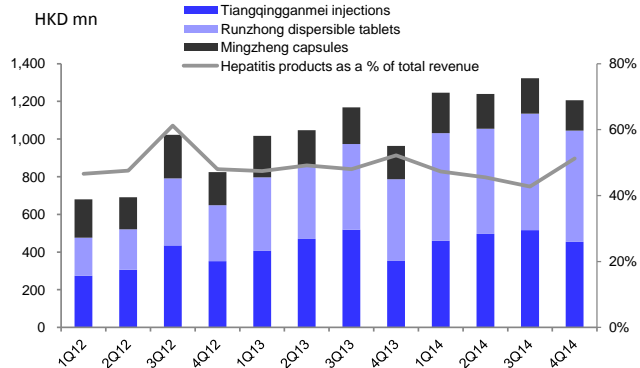


Figure 2: Total revenue and growth rate (1Q12-4Q14)



Source: Deutsche Bank, Company data

Figure 3: Three hepatitis products' revenue growth (1Q12-4Q14)



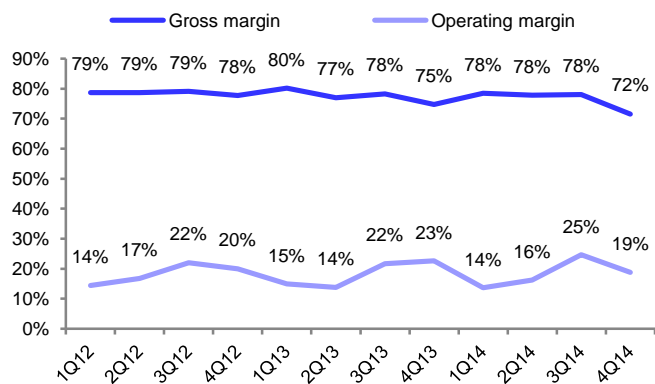
Source: Deutsche Bank, Company data

Margin declined due to seasonality and higher administrative expenses

GM declined to 72% in 4Q14 from 78% in 3Q14 and 75% in 4Q13, which we believe is due to seasonality. Additionally, OPM dropped to 19% in 4Q14 from 25% in 3Q14 and 23% in 4Q13 due to higher administrative expenses which we construe various cross-allocation of expenses occurred. We expect modest cost savings going forward as price cuts intensify.

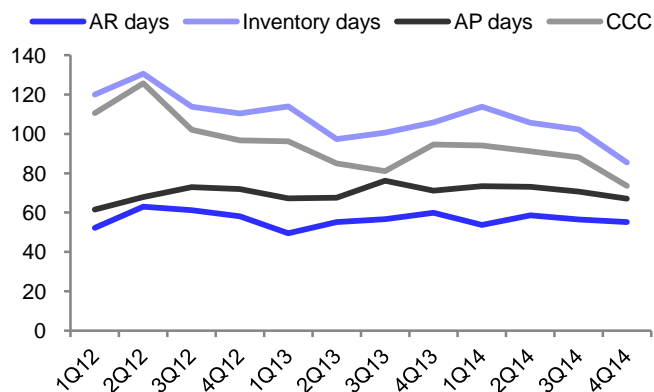
CCC was 74 days in 4Q14 vs. 88 days in 3Q14 and 95 days in 4Q13, showing significant improvement which comes mainly from a decline in inventory days to 86 days in 4Q14 from 102 days in 3Q14 and 106 days in 4Q13. AR and AP days both decreased to 55/67 days in 4Q14 from 57/71 days in 3Q14 and 57/76 days in 4Q13.

Figure 4: GM and OPM (1Q12-4Q14)



Source: Deutsche Bank, Company data

Figure 5: AR days, inventory days, AP days and CCC (1Q12-4Q14)



Source: Deutsche Bank, Company data



Figure 6: Income statement

Income Statement (HK\$ m)	2010	2011	2012	2013	2014	2015E	2016E	2017E
Hepatitis	1,806	2,631	3,827	4,871	5,781	6,732	7,513	8,315
Cardio-cerebral	842	1,047	771	980	1,188	1,451	1,704	1,988
Oncology	282	434	613	832	1,126	1,597	2,092	2,685
Antibiotics	84	221	366	465	681	833	986	1,151
Others	1,072	1,450	1,932	2,753	3,602	4,412	5,185	6,149
Other acquisitions	-	-	(8)	30	-	-	-	-
Revenue	4,086	5,782	7,497	9,901	12,378	15,026	17,480	20,288
Revenue - reported	4,086	5,782	7,497	9,901	12,378			
Cost of sales	(785)	(1,243)	(1,611)	(2,228)	(2,921)	(3,592)	(4,318)	(5,234)
Gross profit	3,301	4,539	5,886	7,673	9,458	11,434	13,162	15,054
Other income/(expense), net	11	24	29	80	101	75	105	122
Selling and distribution costs	(1,677)	(2,485)	(3,323)	(4,414)	(5,343)	(6,440)	(7,429)	(8,419)
Administrative expenses	(540)	(569)	(670)	(638)	(825)	(962)	(1,119)	(1,298)
Research and development costs	(230)	(361)	(540)	(878)	(1,101)	(1,292)	(1,591)	(1,887)
EBIT - non-GAAP	865	1,148	1,382	1,823	2,290	2,815	3,129	3,571
Non-recurring income/(expenses)	200	(188)	48	(4)	88	56	56	56
EBIT - GAAP	1,065	959	1,430	1,832	2,394	2,882	3,196	3,638
Depreciation and amortization	86	136	179	224	259	325	484	621
Depreciation of PPE	82	132	176	207	248	308	467	604
Amortization	3	4	4	17	11	17	17	17
EBITDA - GAAP	1,151	1,095	1,610	2,056	2,653	3,207	3,680	4,258
EBITDA - non-GAAP	951	1,284	1,562	2,047	2,550	3,140	3,613	4,191
Interest net	13	26	45	66	70	119	114	125
Interest income	19	37	55	69	114	141	136	147
Finance cost	(6)	(11)	(10)	(3)	(43)	(22)	(22)	(22)
Dividend income	11	15	7	14	16	11	11	11
Share of profit from an associate	(1)	(4)	-	-	-	-	-	-
Share of profit from a jointly-controlled entity			240	238	337	383	433	485
				-1%	42%	14%	13%	12%
Profit before taxation - GAAP	1,088	996	1,723	2,137	2,801	3,384	3,743	4,247
Profit before taxation - non-GAAP	888	1,184	1,675	2,127	2,697	3,317	3,676	4,180
Taxation	(228)	(167)	(305)	(355)	(440)	(558)	(618)	(701)
Tax rate	21%	17%	18%	16.59%	16%	17%	17%	17%
Net profit - GAAP	859	829	1,417	1,782	2,361	2,826	3,125	3,547
Non-controlling interests	(292)	(366)	(527)	(745)	(848)	(1,120)	(1,223)	(1,392)
Net income attributable to Equity holders - GAAP	567	463	891	1,037	1,513	1,706	1,902	2,155
Net income attributable to Equity holders - non-GAAP	429	629	869	1,065	1,478	1,706	1,902	2,155

Source: Company data, Deutsche Bank estimates



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Sino Biopharmaceutical	1177.HK	7.29 (HKD) 26 Mar 15	NA

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/Disclosure.egsr?ricCode=1177.HK>

Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Jack Hu

Historical recommendations and target price: Sino Biopharmaceutical (1177.HK)

(as of 3/26/2015)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9,2002

1.	23/05/2013:	Buy, Target Price Change HKD5.60	6.	26/08/2014:	Buy, Target Price Change HKD7.60
2.	26/07/2013:	Buy, Target Price Change HKD6.25	7.	07/09/2014:	Buy, Target Price Change HKD8.20
3.	05/09/2013:	Buy, Target Price Change HKD6.50	8.	18/11/2014:	Buy, Target Price Change HKD9.00
4.	09/12/2013:	Buy, Target Price Change HKD7.10	9.	18/01/2015:	Buy, Target Price Change HKD8.40
5.	30/01/2014:	Buy, Target Price Change HKD7.50	10.	20/03/2015:	Downgrade to Hold, Target Price Change HKD7.00



Equity rating key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

1. Newly issued research recommendations and target prices always supersede previously published research.

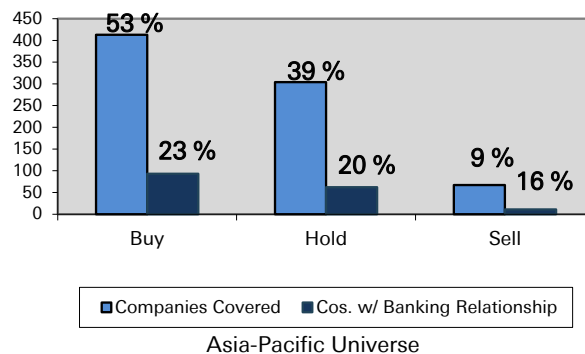
2. Ratings definitions prior to 27 January, 2007 were:

Buy: Expected total return (including dividends) of 10% or more over a 12-month period

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period

Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships





Regulatory Disclosures

1. Important Additional Conflict Disclosures

Aside from within this report, important conflict disclosures can also be found at <https://gm.db.com/equities> under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

2. Short-Term Trade Ideas

Deutsche Bank equity research analysts sometimes have shorter-term trade ideas (known as SOLAR ideas) that are consistent or inconsistent with Deutsche Bank's existing longer term ratings. These trade ideas can be found at the SOLAR link at <http://gm.db.com>.

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