



Rating
Buy

Asia
China

Health Care
Health Care

Company
**Sihuan
Pharmaceutical**

Reuters 0460.HK	Bloomberg 460 HK	Exchange HSI	Ticker 0460
ADR Ticker SHPHY	ISIN US82674Q1058		

Date
29 March 2015

Company Update

Price at 27 Mar 2015 (HKD)	4.41
Price target - 12mth (HKD)	7.00
52-week range (HKD)	6.44 - 4.14
HANG SENG INDEX	24,486

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Fundamentals remain solid

What's new? Annual results delayed

Comments from the Chairman last Friday and the CEO over the weekend, after Sihuan announced that annual results would be delayed Friday morning, expressed continued optimism on the growth prospects of the company's inline products, with the pipeline progressing on schedule. Additionally, Sihuan continues to seek M&A opportunities on the drug front. With 100% coverage on tier 1 hospital and 30% coverage on tier 2/county level hospitals, Sihuan's network represents one of its most competitive advantages.

We remain confident on business fundamentals

We highlight that the hospital data we track are nearly perfectly correlated to company reports for all flagship products for SBP, CSPC, Fosun and Sihuan. As we re-examine hospital data for 2H14, we expect robust results for 2H14 on the top line. We highlight our note published on Feb 16. Hospital data indicated that 1) Oudimei grew 17% in 4Q14 vs. 26% in 3Q14, vs. 28% in 1H14; 2) Kelinao had 14% growth in 4Q14, vs. 23% growth in 3Q14, vs. 13% in 1H14; 3) QKLD also exhibited 54% growth in 4Q14 vs. 60% growth in 3Q14, vs. 58% in 1H14; 4) Guhong maintained growth momentum with 24% growth, vs. 32% growth in 3Q14, vs. 33% in 1H14; 5) ABQL had 27% growth in 4Q14, vs. 37% growth in 3Q14, vs. 53% in 1H14. Therefore, we expect 29% profit growth for 2H14 vs. 33% for 1H14.

Pricing pressure is manageable

Management expects price cuts to continue as tender is moving forward. However the magnitude of price erosion for exclusive drugs should be much less vs. non-exclusive drugs. Additionally, pricing pressure should be shared with outsourced sales agents. As such, Sihuan is likely to absorb only half of the price erosion, at mid- to high-single digits. With most of the flagship product being exclusive and numerous new product launches, Sihuan is likely to be best positioned for the drug tender, in our opinion.

Stock data

Market cap (HKDm)	45,644
Market cap (USDm)	5,886
Shares outstanding (m)	10,362.5
Major shareholders	VALUE PARTNERS GROUP LTD (4.99%)
Free float (%)	28
Avg daily value traded (USDm)	20.8

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	4,733	4,506	5,578
Net Profit (CNYm)	1,303.0	1,715.2	2,189.2
DB EPS (CNY)	0.13	0.17	0.21
PER (x)	15.2	21.3	16.7
Yield (net) (%)	2.6	1.9	2.4

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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