

Lijun Intl Pharmaceutical

FY14 strong as expected; Improving product mix and vertical soft bags to deliver stronger net profit growth

Lijun Group reported total FY2014 sales of HK\$2,091mn from continued operations of Shijiazhuang No.4 Pharma, excluding Xi'an Lijun contributions. Net profit was HK\$492mn (+33.1% Y/Y). We are encouraged by this set of strong numbers, but even more so by the bullish outlook management spelled out at the analyst briefing. This reinforces our conviction that Lijun represents one of the most attractive small cap China health names. Reiterate OW.

- IV infusion solution sales continued strong momentum:** Sales of non-PVC soft bag infusion solution, including vertical soft bags, reached HK\$1,139mn (+37.0%), representing 48.3% of total sales, up from 30.3% in 2013. PP plastic bottle sales were HK\$555.8mn, up +23.2% Y/Y. In 2014, the ASP for non-PVC went down by 5% and the ASP for PP bottles went down by 11%. Glass bottle sales were HK\$245.7mn, +4.7% Y/Y, with ASP up by +12.6% as sales came more from high GM therapeutic solutions.
- Solid net profit growth:** Overall GM went up from 44.9% to 48.3% due to a high proportion of sales of non-PVC soft bags and proactive cost control. The SG&A ratio went down from 24.8% to 23.2%, hence overall OPM went up from 27.5% to 29.7%, leading to overall net profit growth of 33.1% against top-line growth of 21.4%. Accounting for Xi'an Lijun operations, Lijun would have recorded a gain on divesture of Xi'an Lijun of HK\$61mn and total net profit of HK\$603mn, in line with consensus.
- Bright FY2015 outlook:** The oil price decline should mean lower raw material cost for Lijun in FY2015, which should help the company shoulder expected price cuts from tenders. Lijun sees upside from fewer tenders and more direct online procurement of large volume solutions which should benefit manufacturers with scale. While vertical soft bag sales did not meet expectations in 2014, tenders in 2015 should greatly bolster sales. Lijun believes the replacement of PP bottles by single-tube soft bags and single-tube bags by double-outlet soft bags in some provinces and the inclusion of single-tube soft bags into Hebei EDL should further bolster sales of high GM products. Lijun may receive GMP certification for PP ampoule manufacturing facilities in May and launch PP ampoules by YE2015.

Overweight

2005.HK, 2005 HK

Price: HK\$3.53

Price Target: HK\$5.20

China

Healthcare

Sean Wu ^{AC}

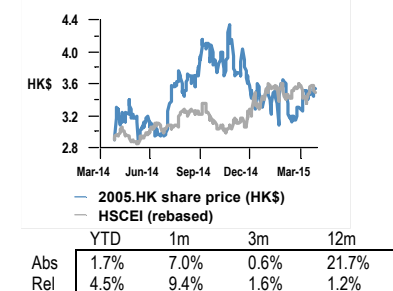
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Price Performance



Lijun International Pharmaceutical (Holding) Co., Ltd. (Reuters: 2005.HK, Bloomberg: 2005 HK)

| HK\$ in mn, year-end Dec | FY12A | FY13A | FY14A | FY15E | FY16E |
|--------------------------|----------|---------|-------|-------|-------|
| Revenue (HK\$ mn) | 2,431 | 1,723 | 2,091 | 2,820 | 3,645 |
| Net Profit (HK\$ mn) | 281 | 369 | 492 | 701 | 880 |
| EPS (HK\$) | 0.10 | 0.13 | 0.17 | 0.24 | 0.30 |
| DPS (HK\$) | 0.04 | 0.04 | 0.14 | 0.14 | 0.06 |
| Revenue growth (%) | 12.8% | (29.1%) | 21.4% | 34.9% | 29.3% |
| EPS growth (%) | (774.6%) | 31.6% | 32.4% | 42.7% | 25.5% |
| ROCE | 10.2% | 10.7% | 13.3% | 18.0% | 19.4% |
| ROE | 11.7% | 13.8% | 17.8% | 23.8% | 24.6% |
| P/E (x) | 36.8 | 28.0 | 21.1 | 14.8 | 11.8 |
| P/BV (x) | 4.2 | 3.6 | 3.9 | 3.2 | 2.6 |
| EV/EBITDA (x) | 20.5 | 18.1 | 13.8 | 10.3 | 8.3 |
| Dividend Yield | 1.0% | 1.1% | 3.9% | 4.0% | 1.6% |

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data

| | |
|------------------------------|-----------|
| Shares O/S (mn) | 2,930 |
| Market Cap (HK\$ mn) | 10,343 |
| Market Cap (\$ mn) | 1,334 |
| Price (HK\$) | 3.53 |
| Date Of Price | 27 Mar 15 |
| Free Float(%) | - |
| 3M - Avg daily vol (mn) | 7.24 |
| 3M - Avg daily val (HK\$ mn) | 24.56 |
| 3M - Avg daily val (\$ mn) | 3.2 |
| HSCEI | 1,1898.09 |
| Exchange Rate | 7.75 |
| Price Target End Date | 31-Dec-15 |

See page 9 for analyst certification and important disclosures, including non-US analyst disclosures.

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| Key catalysts for the stock price: | Upside risks to our view: | Downside risks to our view: |
|--|--|--|
| <ul style="list-style-type: none"> Divesting Xi'an Lijun Winning tenders in major provinces for both EDL and non-EDL tenders Clinical progress of therapeutic infusion solutions Announcement of major M&A | <ul style="list-style-type: none"> Better ramp-up of sales of standing PP soft bags Recovery of antibiotics sales with selective relaxing of restrictions by the government Winning a higher proportion of tenders from competitors Kelun potentially makes another unexpected bid | <ul style="list-style-type: none"> Delayed launch of standing PP soft bags Unexpected large price cuts of non-PVC soft bags Crackdown on the use of infusion solutions Perceived dilutive non-value add acquisitions |

| Key financial metrics | FY13 | FY14 | FY15E | FY16E |
|-----------------------------|--------|-------|-------|-------|
| Revenues (LC) | 1723 | 2091 | 2820 | 3645 |
| Revenue growth (%) | -29.1% | 21.4% | 34.9% | 29.3% |
| EBITDA (LC) | 619 | 801 | 1114 | 1386 |
| EBITDA margin (%) | 35.9% | 38.3% | 39.5% | 38.0% |
| Tax rate (%) | 16.5% | 15.3% | 17.5% | 18.5% |
| Net profit (LC) | 369 | 492 | 701 | 880 |
| EPS (LC) | 0.13 | 0.17 | 0.24 | 0.30 |
| EPS growth (%) | 32% | 32% | 43% | 26% |
| DPS (LC) | 0.04 | 0.14 | 0.14 | 0.06 |
| BVPS (LC) | 0.98 | 0.91 | 1.10 | 1.34 |
| Operating cash flow (LC mn) | 649 | 1032 | 791 | 1165 |
| Free cash flow (LC mn) | -228 | 517 | 94 | 251 |
| Interest cover (x) | 19.5 | 19.4 | 20.7 | 25.4 |
| Net margin (%) | 21.4% | 23.5% | 24.9% | 24.2% |
| Sales/assets (X) | 0.4 | 0.4 | 0.5 | 0.6 |
| Debt/equity (%) | 41.4% | 44.5% | 36.8% | 30.3% |
| Net debt/equity (%) | 29.7% | 27.4% | 35.3% | 29.0% |
| ROE (%) | 13.8% | 17.8% | 23.8% | 24.6% |

| Key model assumptions | FY13 | FY14 | FY15E | FY16E |
|--------------------------------------|------|------|-------|-------|
| non-PVC soft bag price cut | | | 5% | 0% |
| Standing PP soft bag cap utilization | | | 67% | 78% |
| Lijunsha volume change | | | 0% | 0% |

Source: Company and J.P. Morgan estimates.

| Sensitivity analysis | EBITDA | | EPS | |
|--------------------------------------|--------|-------|-------|--------|
| Sensitivity to | FY15E | FY16E | FY15E | FY16E |
| 5% change on non-PVC price | -3.0% | -3.5% | -2.5% | -3.2% |
| 5% cut on ASP for infusion solutions | -10.0% | -9.0% | -8.0% | -10.0% |
| 5% cut on ASP for antibiotics | -1.0% | -0.8% | -1.0% | -0.8% |
| 5% Labor cost inflation | -2.0% | -1.8% | -1.5% | -1.5% |

Source: J.P. Morgan estimates.

Comparative metrics

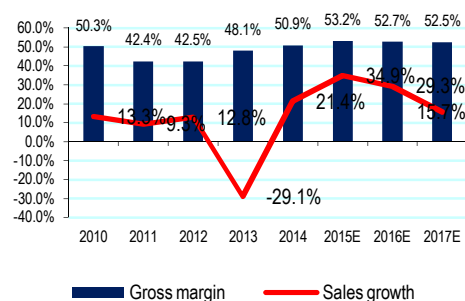
| | CMP LC | Mkt Cap \$Mn | P/E (x) | | EV/EBITDA (x) | | P/BV (x) | | YTD Stock perf. |
|-----------------------|-----------|--------------------|---------|-------|---------------|-------|----------|-------|--------------------|
| | | | FY14E | FY15E | FY14E | FY15E | FY14E | FY15E | |
| LIJUN INT'L (OW) | 3.53 | 1,352 | 14.2 | 11.6 | 10.0 | 8.5 | 3.0 | 1.4 | (0.8) |
| SICHUAN KELUN-A (NC) | 40.93 | 4,741 | 27.4 | 22.3 | | | 2.7 | 16.7 | 40.0 |
| CHINA RESOURCE-A (NC) | 27.17 | 2,499 | 24.9 | 21.6 | 15.7 | 13.9 | | 12.3 | 34.1 |
| QINGDAO HUAREN-A (NC) | 7.7 | 833 | 42.8 | 38.5 | | | 3.4 | 2.4 | 8.0 |
| SOUTHWEST PHAR-A (NC) | 11.36 | 1,212 | 9.6 | 9.1 | 5.7 | 5.4 | 1.4 | 7.2 | (3.6) |
| CHINA SHINWAY (NC) | 6.33 | 4,823 | 22.3 | 17.6 | 14.2 | 11.6 | | 1.8 | (7.5) |
| CSPC PHARMACEUTI (OW) | 1.71 | 1,084 | 15.5 | 12.2 | 8.0 | 6.3 | | | (10.1) |
| HUA HAN BIO-PHAR (NC) | 18.84 | 8,832 | 14.3 | 12.8 | 12.9 | 11.8 | | 12.1 | 7.7 |
| SHANGHAI PHARM-H (N) | 21.29 | 994 | | | | | | | 76.5 |
| THE UNITED LABOR (NC) | 3.23 | 678 | 8.0 | 8.5 | 7.9 | 7.5 | | 4.8 | (28.7) |

Source: Bloomberg; Price as of 03/29/2015

Valuation and price target basis

Our Dec-15 price target of HK\$5.20 is based on DCF valuation that assumes a market risk premium of 6.0% and a risk-free rate of 4.2%. We assume a beta of 1.0, much higher than adjusted beta of 0.327 by Bloomberg. We estimate free cash flow for Lijun until 2017 and assume a terminal growth rate of 4.0%

Product mix in 2014E



Source: Bloomberg, Company and J.P. Morgan estimates.

JPM vs. consensus, change in estimates

| EPS (LC) | FY15E | FY16E |
|-----------|-------|-------|
| JPM old | 0.254 | 0.299 |
| JPM new | 0.238 | 0.299 |
| % chg | -6% | 0% |
| Consensus | 0.249 | 0.305 |

Source: Bloomberg, J.P. Morgan estimates.

Earnings update

Highlights of Lijun FY2014 earnings

- **Net revenue** – HK\$2,091mn, +21.4% Y/Y; including discontinued operations, net revenue would be HK\$2,923mn, +6.5% Y/Y
- **Operating profit** – HK\$474mn, +31.2% Y/Y
- **Net profit** – HK\$492mn +33.1% Y/Y; including gain on asset disposal of HK\$61mn and net profit of \$50mn from Xi'an Lijun for the first 10 months of 2014, net profit would be HK\$602.9mn, +46.4% Y/Y
- **Fully diluted EPS** – HK\$ 0.1669, +32.4% Y/Y
- Lijun declared a special dividend of HK\$0.172 and no final dividend of FY14. The total dividend for 2014 was HK\$0.232 per share.

Table 1: Lijun Intl. – FY14 variance analysis

| Year to Dec (HKDm) | FY13A | FY14A | FY14E* | Growth | Variance | Consensus | Variance |
|--------------------|-------|-------|--------|---------|----------|-----------|----------|
| Turnover | 1,723 | 2,091 | 3,347 | 21.4% | -37.5% | 3058.5 | -31.6% |
| Gross profit | 829 | 1,065 | 1,595 | 28.6% | -33.2% | | |
| GPM | 48.1% | 50.9% | 47.6% | 2.9 ppt | 3.3 ppt | | |
| EBIT | 474 | 622 | 781 | 31.1% | -20.4% | | |
| Net profit | 369 | 492 | 606 | 33.1% | -18.9% | | |
| EPS (HKD) | 0.126 | 0.167 | 0.206 | 32.4% | -19.0% | 0.198 | -15.7% |

Source: Company reports and J.P. Morgan estimates. FY14E and Consensus figures accounted for Xi'an Lijun operations

Sales revenue and mix

Table 2: Lijun - infusion solutions sales

| Year to Dec (HK\$ million) | 2011 | 2012 | 2013 | 2014 |
|---|-------|---------|---------|----------|
| Infusion | | | | |
| PP 塑瓶输液 (PP Bottle Infusion) | 386.5 | 442 | 451.3 | 555.8 |
| Y/Y | 31.2% | 14.4% | 2.1% | 23.2% |
| 非 PVC 软袋输液 (Non-PVC Soft Bag/ Plastic Bag Infusion) | 366.5 | 577.8 | 831.5 | 1,139.20 |
| Y/Y | 49.0% | 57.7% | 43.9% | 37.0% |
| 玻璃瓶输液 (Glass Bottle Infusion) | 193.5 | 218.8 | 234.6 | 245.7 |
| Y/Y | 11.4% | 13.1% | 7.2% | 4.7% |
| Total | 946.5 | 1,238.6 | 1,517.4 | 1,940.7 |
| Y/Y | 32.5% | 30.9% | 22.5% | 27.9% |

Source: Company reports

Glass bottles sales increased Y/Y by 4.7% in FY14. Recall that product volume was down a bit in 1H14, leading to a sales decline of **22.6%** in 1H14. Full-year growth of 4.7% is quite impressive, in our view. The ASP for glass bottles was up by +12.6%, leading to an improvement of GM by 7ppt to 43%. Management expects continued strong growth of glass bottle solution sales as the company ramps up sales of therapeutic solutions, initially for others and eventually of their own.

Sales of soft bag infusion solutions, including sales from non-PVC soft bags and vertical soft bags, increased Y/Y by +37% Y/Y in full year 2014 compared to +41.4% in 1H14, which implies slower sales growth of non-PVC soft bag sales in 2H14. Soft bag GM was up by about 1ppt to 57%, despite the ASP decline of soft bags from HK\$3.0 to \$2.85, mostly due to price cuts for single-outlet soft bag infusion solutions and overall lower prices for vertical soft bags. The GM increase was helped by lower manufacturing cost and by relatively stronger GM of vertical soft bags.

PP bottles sales were HK\$555.8mn, +23.2% Y/Y in FY14, compared to 20% in 1H14. ASP went down by 9% to HK\$1.43/bottle, leading to a drop of GM from 43% in FY13 to 42% in FY14.

Margin trend and net profit picture

Overall GM went up from 44.9% to 48.3% due to a high proportion sales of non-PVC soft bags and proactive cost control. The SG&A ratio went down from 24.8% to 23.2%, hence overall OPM went up from 27.5% to 29.7%, leading to overall net profit growth of 33.1% against top-line growth of 21.4%.

The administrative expense ratio stayed largely unchanged, at 10.6% vs 10.4% in FY13, while selling expenses ratio went down significantly from 14.4% to 12.6%. Low sales marketing expenses ratio is due to improved efficiency coming from scale.

CF/BS analysis

As at 31 December 2014, Lijun had cash and cash equivalents aggregated to HK\$325mn, down from HK\$337mn at YE2013. The cash balance is comprised of HK\$137.6mn denominated in RMB, HK\$182.6mn in HKD and HK\$5.06mn in other currencies. Lijun carried debt of HK\$871.9mn as at YE2014. The gearing ratio decreased to 14.4% as at YE2014 from 22.9% at YE2013. For 2014, Lijun paid an interim dividend of HK\$0.03 per share and declared no final dividend and special dividend of HK\$2.02. The dividend is expected to be paid out in May 2015 upon AGM approval.

Lijun's inventory days went down from 97 in 2013 to 98 and accounts receivables days from 123 to 105 while accounts payable days went up from 89 days to 128 days, indicating much improved working capital management.

Other update and 2015 Outlook

We expect sales growth to be strong in 2015 with additional capacities, especially for high-GM vertical soft bags, to come online. Beyond 2016, Lijun may see approvals for PP ampoules and therapeutic solutions qualitatively transform the company from a manufacturer of low-price ok-margin infusion solutions to high-valued added injectable drugs, packaged as large infusion solutions or small-volume injections in PP ampoules.

Tender update

Shijiazhuang No.4 Pharma has won tenders in Gansu, Ningxia, Qinghai and Hainan, where the company has never won tenders before. The company has also won tender in Hunan, Jilin and Zhejiang. Lijun won a tender in Hunan for the first time and the winning product, single-outlet non-PVC soft bags, carry good gross margins and the prices offered are attractive. The company has won tenders in Anhui for its vertical soft bags and double-outlet soft bag infusion solutions, which carry higher GM than other products.

GM may inch up with increased tender prices (some provinces raise infusion solution prices by 15% to ensure quality) and lower cost.

Sales and GM may improve

Management indicated the company is taking several initiatives to enhance sales of existing products and gain access to new markets:

1. The company is trying to convince Shanghai and Beijing, two of the wealthiest cities, and Hebei, to substantially increase the proportion of the use of double-outlet soft bag solutions.
2. The company wants to have Hebei government include soft bags in the EDL list which is currently dominated by PP bottles.
3. Lijun generated a substantial amount of sales from Henan, one of the poorest provinces in China. Lijun intends to facilitate the switch of PP bottles to non-PVC soft bags and vertical soft bags there.
4. Fujian government has mandated the procurement of IV infusion solutions from local companies which may not have capacities to produce the amount demanded. Lijun has been pursued by local players to provide OEM products at attractive prices. Recall that Lijun has had a contract with Southwestern Pharma for supplying up to 20mn bags of IV infusion solutions in Chongqing.

Other unknown factors

Lijun has signed up an agreement with an Australia company to supply large volume of 5 liter solution to the US market. The products are in high demand but Baxter and Fresenius have somehow refused to supply them. The demand may be up to 20-30mn bags and the ASP is estimated to be around US\$26/bag with total cost for manufacturing and transportation less than \$10.

Lijun has been approached by a company for producing levornidazole, a Class 1.1 antibiotics in high demand in China. The other company does not have the capacity to produce the product. Lijun is expected to apply for a manufacturing certificate by September.

PP ampoules progressing

Lijun has acquired a manufacturer which specializes in the production of glass ampoules in preparation for the launch of PP ampoules. While Lijun sees the largest volume of sales for PP ampoules to come with distilled water as the content, it has files for clinical trials of many small-volume injections that will be packed in plastic ampoules. The company has maintained constant communications with regulatory authorities and gained support from the government of Hebei Province. It expects to receive GMP inspection by May 2015 and to have product approval by YE2015. PP ampoules are expected to carry GM higher than 70% .

Therapeutic infusion solutions to emerge as key drivers

Management made it clear that Lijun is very serious with the plan to upgrade product offering with 20% accounted for by therapeutic solutions to 50% in the future. To this end, the company has invested heavily in building up a strong R&D pipeline of Class 3.1 injectable drugs. The company highlighted key products addressing various conditions. Based on its strength as a producer of large volume infusion solutions, its pipeline focuses mostly on Class 3.1 drugs addressing the conditions below:

- Diseases caused to air pollution – anti-virals and respiratory
- Aging - drugs for the elderly, oncology and CCV
- Social stress – CNS and psychiatry
- Supplementary large-volume use infusion solutions and ampoules
- Others with major unmet medical needs

Management is especially bullish on ibuprofen injections and sees multiple Class 3.1 drugs to be approved starting in 2016. Ibuprofen injections are only approved in the US, per management so Lijun intends to be the first one to come out with a generic in China. In 2014, the company has already filed for clinical trials of eight Class 3.1 products and it intends to be one of the first three to come out with a Class 3.1 generic.

Model revisions

We have revised sales forecasts after the FY14 results. Given pricing pressure and likely lower-than-expected sales contribution of high GM PP vertical soft bags, we have taken down by GM by 1.4ppt. We have also fined tuned our expense ratio forecasts; our revisions are summarized below.

Table 2: Lijun Intl. - Model revisions

| Year to Dec (HK\$ 'mn) | New | | Old | | Change | |
|------------------------|-------|-------|-------|-------|--------|--------|
| | FY15E | FY16E | FY15E | FY16E | FY15E | FY16E |
| Turnover | 2,820 | 3,645 | 3,049 | 4,146 | -7.5% | -12.1% |
| Gross profit | 1,500 | 1,921 | 1,666 | 2,162 | -9.9% | -11.1% |
| EBIT | 904 | 1,135 | 960 | 1,133 | -5.8% | 0.2% |
| Net profit | 701 | 880 | 747 | 879 | -6.1% | 0.2% |
| EPS (HKD) | 0.238 | 0.299 | 0.254 | 0.299 | -6.2% | 0.1% |
| Gross margin | 53.2% | 52.7% | 54.6% | 52.1% | -1.4% | 0.6% |

Source: Company data; Bloomberg

Investment Thesis, Valuation and Risks

Lijun Group *(Overweight; Price Target: HK\$5.20)*

Investment Thesis

Lijun International Pharma (02005 HK) is one of the largest makers of infusion products in China. The company was a pioneer of producing non-PVC softbag injections and operates the largest “single factory” production facility for large-volume infusion products, which gives it a cost advantage over many competitors.

Valuation

Our Dec-15 price target of HK\$5.2 is based on a DCF valuation that assumes a market risk premium of 6.0% and a risk-free rate of 4.2%. We assume a beta of 1.0, much higher than the Bloomberg adjusted beta of 0.33. We estimate free cash flow for Lijun until 2017 and assume a terminal growth rate of 4.0%.

Risks to Rating and Price Target

Risks to our rating and price target include:

- Slower-than-expected sales ramp-up of vertical PP soft bags
- Unexpected large price cut for non-PVC soft bags
- Crackdown on the use of infusion solutions
- Perceived dilutive non-value-added acquisitions

Lijun Intl Pharmaceutical: Summary of Financials

| Income Statement | | | | | | Cash flow statement | | | | | |
|--------------------------------|---------|-------|-------|-------|-------|--------------------------------|---------|-------|-------|-------|---------|
| HK\$ in millions, year end Dec | FY13 | FY14 | FY15E | FY16E | FY17E | HK\$ in millions, year end Dec | FY13 | FY14 | FY15E | FY16E | FY17E |
| Revenues | 1,723 | 2,091 | 2,820 | 3,645 | 4,219 | EBIT | 474 | 622 | 904 | 1,135 | 1,311 |
| % change Y/Y | (29.1%) | 21.4% | 34.9% | 29.3% | 15.7% | Depr. & amortization | 145 | 179 | 210 | 251 | 297 |
| Gross Profit | 829 | 1,065 | 1,500 | 1,921 | 2,217 | Change in working capital | (110) | 345 | (181) | (17) | (2) |
| % change Y/Y | (19.8%) | 28.6% | 40.8% | 28.0% | 15.4% | Taxes | (68) | (73) | (89) | (149) | (200) |
| EBITDA | 619 | 801 | 1,114 | 1,386 | 1,609 | Cash flow from operations | 649 | 1,032 | 791 | 1,165 | 1,352 |
| % change Y/Y | 18.2% | 29.3% | 39.1% | 24.4% | 16.1% | Capex | (903) | (550) | (742) | (959) | (1,109) |
| EBIT | 474 | 622 | 904 | 1,135 | 1,311 | Net Interest | (32) | (41) | (54) | (55) | (55) |
| % change Y/Y | 27.3% | 31.1% | 45.5% | 25.5% | 15.5% | Other | 21 | 0 | 0 | 0 | 0 |
| EBIT Margin | 27.5% | 29.7% | 32.1% | 31.1% | 31.1% | Free cash flow | (228) | 517 | 94 | 251 | 287 |
| Net Interest | (32) | (41) | (54) | (55) | (55) | Equity raised/(repaid) | 0 | 0 | 0 | 0 | 0 |
| Earnings before tax | 442 | 580 | 850 | 1,080 | 1,257 | Debt raised/(repaid) | 345 | 82 | 15 | 13 | 10 |
| % change Y/Y | 31.4% | 31.2% | 46.6% | 27.1% | 16.3% | Other | (26) | 0 | 0 | 0 | 0 |
| Tax | (73) | (89) | (149) | (200) | (245) | Dividends paid | (117) | (403) | (417) | (165) | (198) |
| as % of EBT | 16.5% | 15.3% | 17.5% | 18.5% | 19.5% | Beginning cash | 412 | 337 | 457 | 50 | 50 |
| Net income (reported) | 369 | 492 | 701 | 880 | 1,011 | Ending cash | 337 | 457 | 50 | 50 | 50 |
| % change Y/Y | 31.4% | 33.1% | 42.7% | 25.5% | 14.9% | DPS | 0.04 | 0.14 | 0.14 | 0.06 | 0.07 |
| Shares outstanding | 2,930 | 2,930 | 2,930 | 2,930 | 2,930 | | | | | | |
| EPS (reported) | 0.13 | 0.17 | 0.24 | 0.30 | 0.34 | | | | | | |
| % change Y/Y | 31.6% | 32.4% | 42.7% | 25.5% | 14.9% | | | | | | |
| Balance sheet | | | | | | Ratio Analysis | | | | | |
| HK\$ in millions, year end Dec | FY13 | FY14 | FY15E | FY16E | FY17E | HK\$ in millions, year end Dec | FY13 | FY14 | FY15E | FY16E | FY17E |
| Cash and cash equivalents | 337 | 457 | 50 | 50 | 50 | Gross margin | 48.1% | 50.9% | 53.2% | 52.7% | 52.5% |
| Accounts receivable | 934 | 703 | 948 | 1,226 | 1,419 | EBITDA margin | 35.9% | 38.3% | 39.5% | 38.0% | 38.1% |
| Inventories | 405 | 280 | 312 | 342 | 360 | Operating margin | 27.5% | 29.7% | 32.1% | 31.1% | 31.1% |
| Others | 235 | 76 | 503 | 473 | 457 | Net margin | 21.4% | 23.5% | 24.9% | 24.2% | 24.0% |
| Current assets | 1,911 | 1,515 | 1,814 | 2,091 | 2,286 | Sales per share growth | (29.0%) | 20.8% | 34.9% | 29.3% | 15.7% |
| LT investments | 0 | 0 | 0 | 0 | 0 | Sales growth | (29.1%) | 21.4% | 34.9% | 29.3% | 15.7% |
| Net fixed assets | 2,438 | 2,804 | 3,334 | 4,045 | 4,862 | Net profit growth | 31.4% | 33.1% | 42.7% | 25.5% | 14.9% |
| Total Assets | 5,057 | 5,073 | 5,922 | 6,931 | 7,966 | EPS growth | 31.6% | 32.4% | 42.7% | 25.5% | 14.9% |
| Liabilities | | | | | | Interest coverage (x) | 19.5 | 19.4 | 20.7 | 25.4 | 29.5 |
| Short-term loans | 733 | 614 | 495 | 471 | 448 | Net debt to equity | 29.7% | 27.4% | 35.3% | 29.0% | 24.1% |
| Payables | 490 | 595 | 803 | 1,038 | 1,201 | Working Capital to Sales | 0.1 | NM | NM | NM | NM |
| Others | 492 | 517 | 588 | 653 | 716 | Sales/assets | 0.4 | 0.4 | 0.5 | 0.6 | 0.6 |
| Total current liabilities | 1,715 | 1,726 | 1,886 | 2,162 | 2,364 | Assets/equity | 1.7 | 1.8 | 1.9 | 1.8 | 1.7 |
| Long-term debt | 455 | 574 | 693 | 716 | 740 | ROE | 13.8% | 17.8% | 23.8% | 24.6% | 23.4% |
| Other liabilities | 20 | 102 | 117 | 130 | 140 | ROCE | 10.7% | 13.3% | 18.0% | 19.4% | 19.2% |
| Total Liabilities | 2,190 | 2,402 | 2,696 | 3,009 | 3,244 | | | | | | |
| Shareholders' equity | 2,866 | 2,670 | 3,225 | 3,921 | 4,721 | | | | | | |
| BVPS | 0.98 | 0.91 | 1.10 | 1.34 | 1.61 | | | | | | |

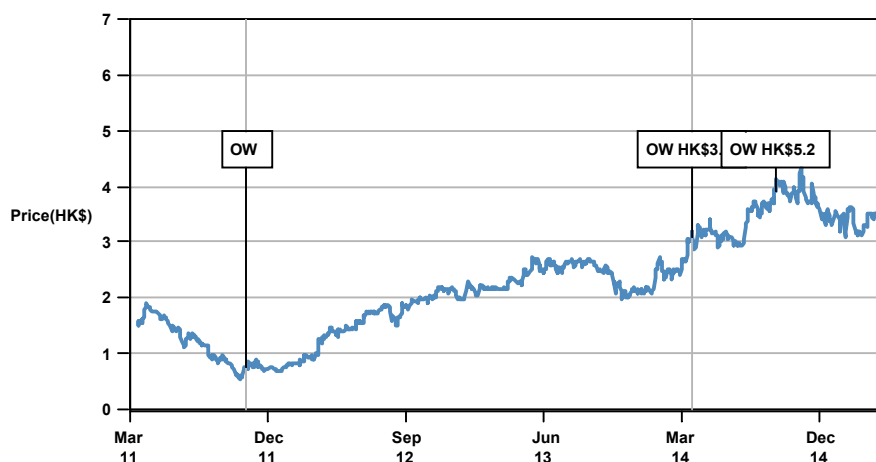
Source: Company reports and J.P. Morgan estimates.

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Lijun Intl Pharmaceutical (2005.HK, 2005 HK) Price Chart



| Date | Rating | Share Price (HK\$) | Price Target (HK\$) |
|-----------|--------|--------------------|---------------------|
| 18-Oct-11 | OW | 0.76 | -- |
| 19-Mar-14 | OW | 3.09 | 3.90 |
| 01-Sep-14 | OW | 3.90 | 5.20 |

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Break in coverage Oct 18, 2011 - Mar 19, 2014.

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(601607.CH), Shanghai Pharmaceutical - H (2607.HK), Sihuan Pharmaceutical Holdings (0460.HK), Sino Biopharmaceutical (1177.HK), Sinopharm (1099.HK)

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| | Overweight (buy) | Neutral (hold) | Underweight (sell) |
|---|---------------------|-------------------|-----------------------|
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| IB clients* | 56% | 49% | 33% |
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| IB clients* | 75% | 67% | 52% |

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