

20 October 2015

BUY
Unchanged

Market Data: October, 19

Closing Price (HK\$)	7.14
Price Target (HK\$)	8.90
HSCCI	10,688
HSCCI	4,286
52-week High/Low (HK\$)	8.57/5.81
Market Cap (US\$m)	5,444
Market Cap (HK\$m)	42,200
Shares Outstanding (m)	5,908
Exchange Rate (Rmb-HK\$)	1.22

Price Performance Chart:



Source: Bloomberg

Analyst

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Related Reports

"Solid growth –CSPC Pharmaceutical Group (1093:HK)" August 26, 2015

"Finished product –CSPC Pharmaceutical Group (1093:HK)" July 13, 2015

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三季度业绩前瞻

CSPC PHARMACEUTICAL GROUP (1093:HK)

Financial summary and valuation

	2013	2014	2015E	2016E	2017E
Revenue (HK\$ m)	9,949.10	10,955.08	11,797.00	13,287.93	14,938.98
YoY (%)	139.94	10.11	7.69	12.64	12.43
Net income (HK\$ m)	972.75	1,268.45	1,640.98	2,025.84	2,431.07
YoY (%)	(55.01)	30.40	29.37	23.45	20.00
EPS (HK\$)	0.17	0.21	0.28	0.34	0.41
Diluted EPS (HK\$)	0.17	0.21	0.27	0.34	0.41
ROE (%)	13.02	15.76	18.31	20.13	21.34
Debt/asset (%)	37.73	34.79	36.47	34.23	32.11
Dividend Yield (%)	2.06	1.52	1.75	2.16	2.59
PE (x)	22.18	30.64	25.71	20.82	17.35
PB (x)	2.84	4.77	4.66	4.15	3.67
EV/Ebitda (x)	8.89	16.78	15.14	12.56	10.65

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

三季度业绩前瞻。我们预计石药集团将于 11 月底公布三季度业绩。我们估计公司的第三季度净利润将增长 22.3%，对全年净利润的贡献比例为 24%。我们预计收入增长 8%至 30 亿港元。

拳头产品将持续高增长。我们统计了公司拳头产品的中标价数据。根据我们的估算，恩必普、欧来宁和玄宁在今年的招标当中降价幅度有限。年初以来，恩必普注射液、恩必普胶囊以及玄宁分散片的价格基本保持稳定；而欧来宁胶囊、欧来宁注射剂和玄宁普通片剂的平均中标价分别下降了 2.3%、10.5%以及 11.3%。由于恩必普为专利期内的 1.1 类新药，我们认为恩必普的价格将继续保持坚挺。同时，考虑到竞争因素，我们预计今年下半年欧来宁和玄宁的均价将有 5 到 10 个百分点的下降。我们预计恩必普、欧来宁、玄宁的销售收入将分别于今年下半年增长 32%、19%和 28%。

肿瘤药将受益于招标进程加快。根据卫计委的要求，所有省份必须在今年 11 月之前开始新一轮的药品招标。目前，大约有 15 个省份已经启动了招标。由于招标工作通常需要花费 5 到 10 个月的时间，我们预计大部分招标将于明年上半年完成。因此，肿瘤药的收入增长有望自明年下半年提速。公司肿瘤药都是在 2012 年之后上市的新品种，我们预计新一轮的招标将给肿瘤药带来进入新市场的机会。我们估计多美素、津优力和艾利能的销售收入将分别于今年下半年增长 99%、93%和 48%。同时，我们预计今年 3 月份新上市的诺利宁将于今年下半年实现 1600 万港币的销售收入（上半年收入为 400 万港币）。我们估计这四个核心肿瘤药品种的合计销售额将于今年下半年达到约 2.5 亿港元，贡献约 4%的销售收入。

原料药和中间体将经历季节性波动。由于三季度通常是抗生素类原料药的淡季，我们估算 7-ACA 的平均售价于 3 季度环比下跌 5.5%。我们预计 7-ACA 的售价有望在 4 季度旺季有所回升。维生素 C 和咖啡因的价格在三季度基本保持平稳。考虑到行业产能过剩问题仍未解决，维生素 C 售价或将继续在低位徘徊，我们认为维生素 C 业务今年全年仍将录得约 5 千万港币的亏损。

维持买入评级。我们维持盈利预测不变，预计 EPS 将于 15 年、16 年、17 年分别增长 30%、23%以及 20%。根据分部加总估值法，我们维持 8.9 港币的目标价不变，对应 16 年 26 倍市盈率以及 25%的上涨空间。维持买入评级。

投资要点：

We expect CSPC to report 3Q15 net profit of HK\$396m (+22.3% YoY), accounting for 24% of our full-year earnings forecast, and revenue of HK\$3.0bn (+8.0% YoY). We expect CSPC to announce its 3Q15 results at end-November.

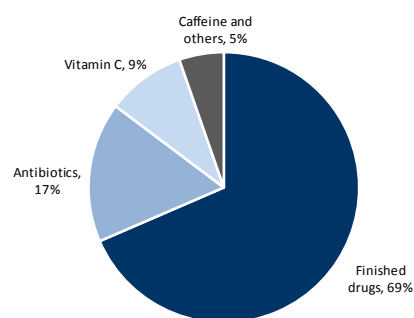
Flagship drugs may continue to deliver solid growth. CSPC's flagship drugs, including *NBP*, *Oulaining* and *Xuanning*, experienced limited declines in price in recent tenders, according to our calculations. *NBP injection*, *NBP capsule* and *Xuanning dispersible capsule* prices remained flattish during this year's tenders, while *Oulaining capsule* price fell 2.3%, *Oulaining injection* fell 10.5% and *Xuanning tablet* dropped 11.3%. We forecast continued strong pricing power for *NBP* in 2H15 thanks to its exclusivity, and anticipate a 5-10% reduction in average selling price for *Oulaining* and *Xuanning* products in 2H15. Nevertheless, we expect sales for all three products to expand significantly, with *NBP* sales up 32% YoY in 2H15, *Oulaining* sales up 19% YoY and *Xuanning* sales up 28% YoY.

Oncology drugs will benefit from accelerating tender processes. As required by the National Health and Family Planning Commission (NHFPC), all regional health authorities must conduct the latest-round of drug purchases through open tenders by November 2015. To date, approximately 50% of Chinese regions have launched tenders. We believe this emphasis on procurement through tenders will allow the company's oncology drugs to penetrate more regional markets. As the tender process typically lasts five to 10 months, we expect most tenders to be completed in 1H16. As a result, we expect growth in oncology drugs to pick up from 2H16. We forecast sales of *Duomeisu* to increase 99% YoY, *Jinyouli* to grow 93% and *Ailineng* to expand 48% YoY. Meanwhile, we expect sales of *Nuolining* to reach HK\$16m in 2H15, vs HK\$4m in 1H15. Combined sales of the company's top four oncology drugs are likely to top HK\$247m in 2H15 as a result, contributing 4% of the company's total sales.

Bulk medicine and intermediates may experience seasonal fluctuations. As 3Q is the low season for antibiotics sales, we anticipate a 5.5% QoQ decline in the average price of 7-ACA. We expect 7-ACA price to rebound with the return of seasonal sales strength in 4Q15. Prices of vitamin C and caffeine remained largely stable in 3Q15. We expect the full-year net loss of the company's vitamin C business to be around HK\$50m given industry oversupply.

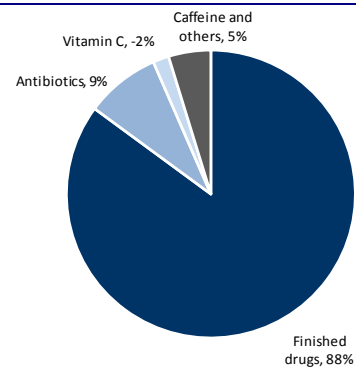
Maintain Buy. We maintain our EPS forecasts of HK\$0.28 in 15E (+30% YoY), HK\$0.34 in 16E (+23% YoY) and HK\$0.41 in 17E (+20% YoY). Based on SOTP valuation, we maintain our target price of HK\$8.90, implying 26x 16E PE. With 25% upside, we maintain our BUY rating.

Figure 1: Revenue breakdown (2H15E)



Source: SWS Research

Figure 2: Ebit breakdown (2H15E)



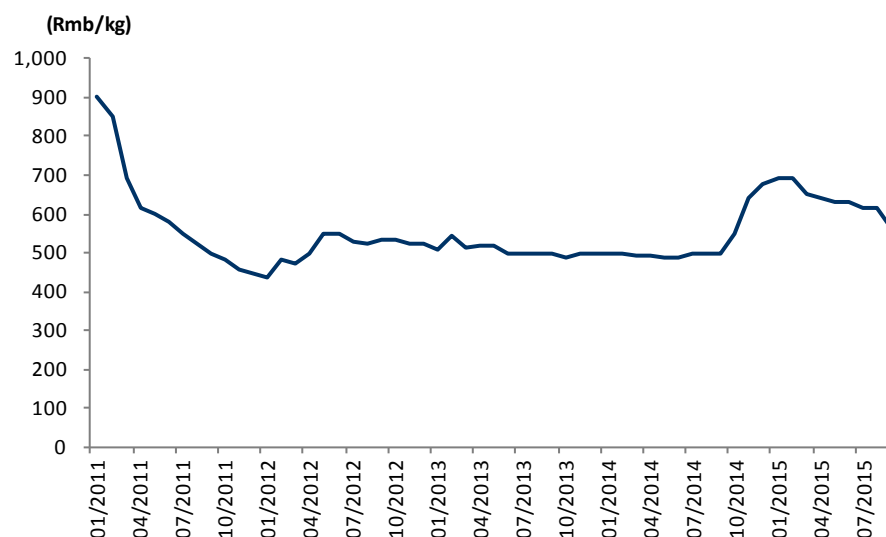
Source: SWS Research

Figure 3: Tender price changes of flagship drugs

Generic name	Trade name	Manufacturer	Formulation	Dose	Median bid price (in Rmb)		Average % of price change
					YTD	2012-2014	
Butylphthalide	NBP	CSPC	Capsule	100mg	9.02	9.02	0.0%
Butylphthalide	NBP	CSPC	Injection	25mg	304.19	302.60	0.5%
Oxiracetam	Oulaining	CSPC	Capsule	400mg	4.07	4.17	-2.3%
Oxiracetam	Oulaining	CSPC	Injection	1.0g	58.77	65.67	-10.5%
Oxiracetam	Beiqingxing	Guangdong Sencee	Injection	1.0g	57.66	58.75	-1.9%
Oxiracetam	Oulantong	Harbin Medisan	Injection	1.0g	52.76	61.14	-13.7%
Oxiracetam	Jianlangxing	Hunan Jianlang	Capsule	400mg	4.18	4.20	-0.4%
Levoamlodipine Maleate	Xuanning	CSPC	Dispersible tablet	2.5mg	2.69	2.70	-0.33%
Levoamlodipine Maleate	Xuanning	CSPC	Common tablet	2.5mg	2.66	3.00	-11.3%
Levamlodipine Besylate	Shihuida	Shihuida	Common tablet	2.5mg	2.46	2.63	-6.6%
Levamlodipine Besylate	Zuoyi	Zhejiang Anglikang	Common tablet	2.5mg	1.67	1.94	-14.2%

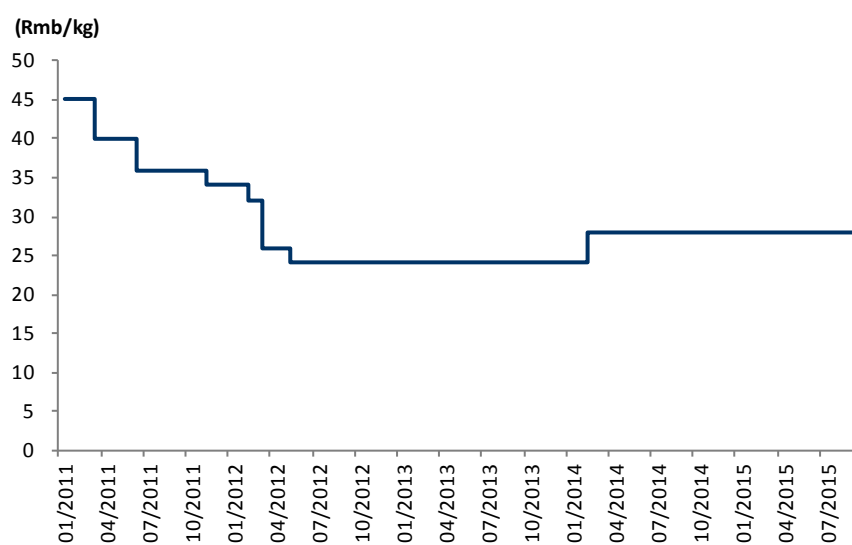
Source: Yaozhi.com, Healthoo.com, SWS Research

Figure 4: 7-ACA price



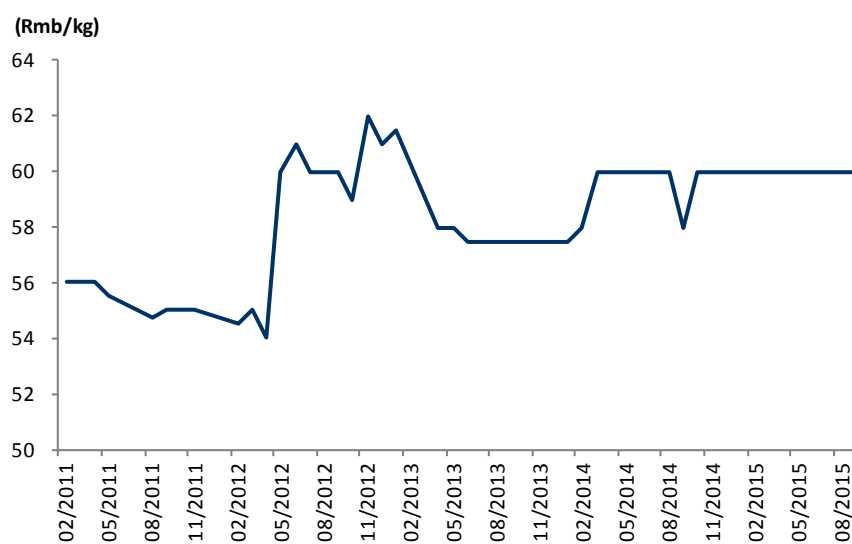
Source: WIND, SWS Research

Figure 5: Vitamin C price



Source: WIND, SWS Research

Figure 6: Caffeine price (Rmb per kg)



Source: WIND, SWS Research

APPENDIX

Consolidated Income Statement

(HK\$m)	2013	2014	2015E	2016E	2017E
Revenue	9,949	10,955	11,797	13,288	14,939
Cost of Sales	(6,816)	(6,768)	(6,547)	(7,242)	(8,067)
Gross Profit	3,133	4,187	5,250	6,046	6,872
Other Income	211	135	94	133	149
Selling/General/Admin. Expenses	(1,921)	(2,340)	(2,855)	(3,163)	(3,466)
EBITDA	1,836	2,285	2,759	3,261	3,769
EBIT	1,180	1,674	2,147	2,644	3,152
Finance Costs	(73)	(54)	(57)	(54)	(44)
Profit before tax	1,248	1,621	2,098	2,590	3,108
Income tax expense	(258)	(337)	(441)	(544)	(653)
Minority interests	(17)	(16)	(17)	(20)	(25)
Profit for the year	973	1,268	1,641	2,026	2,431

Source: Company data, SWS Research

Consolidated Cash Flow Statement

(HK\$m)	2013	2014	2015E	2016E	2017E
Profit before taxation	1,248	1,621	2,098	2,590	3,108
Plus : Depr. and amortisation	656	610	612	617	617
Finance cost	65	51	57	54	44
Losses from investments	0	0	0	0	0
Change in working capital	(743)	(85)	(409)	(319)	(523)
Others	(412)	(392)	(497)	(598)	(696)
CF from operating activities	815	1,806	1,861	2,345	2,550
CAPEX	783	(570)	(552)	0	0
Other CF from investing activities	(159)	(176)	(100)	(600)	(600)
CF from investing activities	624	(745)	(652)	(600)	(600)
Equity financing	0	0	0	0	0

Net change in liabilities	(948)	(63)	225	(200)	(200)
Dividend and interest paid	(383)	(473)	(738)	(912)	(1,094)
Other CF from financing activities	(399)	(211)	400	(20)	(20)
CF from financing activities	(1,729)	(747)	(114)	(1,132)	(1,314)
Net cash flow	(290)	314	1,095	613	635
FCFF	1,618	1,293	1,358	2,399	2,593
FCFE	606	1,179	1,526	2,145	2,350

Source: Company data, SWS Research

Consolidated Balance Sheet

(HK\$m)	2013	2014	2015E	2016E	2017E
Current Assets	6,373	6,606	8,310	9,537	11,045
Bank balances and cash	1,188	1,468	2,564	3,176	3,812
Trade and other receivables	2,030	2,007	2,198	2,548	2,906
Inventories	1,855	1,806	1,973	1,984	2,210
Other current assets	1,300	1,325	1,575	1,828	2,118
Long-term investment	20	77	29	29	29
PP&E	4,961	5,049	5,172	5,186	5,200
Intangible and other assets	847	770	735	703	673
Total Assets	12,201	12,501	14,245	15,455	16,947
Current Liabilities	3,838	3,602	4,223	4,518	4,869
Borrowings	660	624	624	624	624
Trade and other payables	2,257	2,330	2,511	2,778	3,094
Other current liabilities	921	649	1,087	1,116	1,150
Long-term liabilities	765	747	972	772	572
Total Liabilities	4,604	4,350	5,195	5,290	5,441
Minority Interests	144	72	69	69	73
Shareholder Equity	7,453	8,079	8,982	10,096	11,433
Share Capital	559	9,820	9,820	9,820	9,820
Reserves	6,894	(1,741)	(838)	276	1,613
Total Equity	7,597	8,152	9,050	10,165	11,506
Total Liabilities and equity	12,201	12,501	14,245	15,455	16,947

Source: Company data, SWS Research

Key Financial Ratios

	2013	2014	2015E	2016E	2017E
Ratios per share (HK\$)					
Earnings per share	0.17	0.21	0.28	0.34	0.41
Diluted EPS	0.17	0.21	0.27	0.34	0.41
Operating CF per share	0.15	0.31	0.32	0.40	0.43
Dividend per share	0.08	0.10	0.12	0.15	0.19
Net assets per share	1.37	1.38	1.53	1.72	1.95
Key Operating Ratios(%)					
ROIC	9.90	13.39	15.33	17.37	18.83
ROE	13.02	15.76	18.31	20.13	21.34
Gross profit margin	31.49	38.22	44.50	45.50	46.00
EBITDA Margin	18.46	20.85	23.39	24.54	25.23
EBIT Margin	11.86	15.28	18.20	19.90	21.10
Growth rate of Revenue(YoY)	139.94	10.11	7.69	12.64	12.43
Growth rate of Profit(YoY)	(55.01)	30.40	29.37	23.45	20.00
Debt-to-asset ratio	37.73	34.79	36.47	34.23	32.11
Turnover rate of net assets	1.31	1.34	1.30	1.31	1.30
Turnover rate of total assets	0.82	0.88	0.83	0.86	0.88
Effective tax rate (%)	23.33	20.81	21.08	21.00	21.00
Dividend yield (%)	2.06	1.52	1.75	2.16	2.59
Valuation Ratios (X)					
P/E	22.18	30.64	25.71	20.82	17.35
P/B	2.84	4.77	4.66	4.15	3.67
EV/Sale	1.64	3.50	3.54	3.08	2.69

Source: Company data, SWS Research

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BUY: Share price performance is expected to generate more than 20% upside over a 12-month period.

Outperform: Share price performance is expected to generate between 10-20% upside over a 12-month period.

Hold: Share price performance is expected to generate between 10% downside to 10% upside over a 12-month period.

Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.

SELL: Share price performance is expected to generate more than 20% downside over a 12-month period.

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