

Healthcare

6 March 2018

Sino Biopharmaceutical (1177 HK)

Expect robust FY17 results; strong catalyst lies ahead

- ⊕ **Expect strong FY17:** We are optimistic on Sino Biopharm's (SBP) FY17 financial performance, expecting 10% sales growth and 30% earnings growth (19% YoY on adjusted basis) for FY17. Robust sales growth should be driven by the rapid uptake of new products launched in 4Q17, strong volume growth of major oncology products upon entry into the latest National Reimbursement Drug List (NRDL), and much-relieved pricing pressure for Runzhong (entecavir). Substantial savings on selling and administrative expenses could drive higher earnings growth, in our view. SBP will announce its FY17 result on 22 March, 2018.
- ⊕ **Significant new product launch on the horizon:** SBP's first novel anti-cancer drug Anlotinib (sales potential of RMB3bn-6bn per annum under our estimates) was granted priority review by CFDA for production approval in April 2017. We anticipate its likely launch for lung cancer treatment in 2Q18. We project sales of RMB160m/720m/1,800m for Anlotinib in 2018-20, representing 1%/3%/6% sales contributions.
- ⊕ **Beijing Tide transaction completed:** SBP's acquisition of an additional 24% equity interest in Beijing Tide was completed on 1 March 2018. Upon the completion, Beijing Tide has become a 57.6%-owned subsidiary of SBP instead of an associate company, and thus its financials will be consolidated from March 2018 onwards. We believe the transaction is slightly dilutive to SBP's EPS in 2018/19, considering SBP's issuance of new shares to fund the deal. Nonetheless, Beijing Tide's strong product portfolio and robust pipeline should help further strengthen SBP's leading position in China's pharmaceutical market.
- ⊕ **Maintain Buy and HK\$20.50 TP:** SBP remains our favorite HK-listed pharma stock. We keep our 2017-19 EPS estimates unchanged, and reaffirm our **Buy** rating and TP of HK\$20.50 (46% upside potential). The stock is trading at 2019E P/E of 29x and PEG of 1.1, which we consider attractive. Risks include more extensive and severer-than-expected price cuts, heightened competition, and setbacks in drug development.

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Rating System

Analyst Stock Ratings:

Buy: The stock's total return is expected to **exceed** that of the corresponding industry over the next 12 months.

Neutral: The stock's total return is expected to be **in line with** that of the corresponding industry over the next 12 months.

Sell: The stock's total return is expected to be **below** that of the corresponding industry over the next 12 months.

Not-Rated: The analyst **does not have conviction** regarding the outlook of the stock's total return relative to that of the corresponding industry over the next 12 months.

Analyst Industry Views:

Outperform: The analyst expects the industry coverage universe to be **attractive** relative to the relevant broad market benchmark over the next 12 months.

Market perform: The analyst expects the industry coverage universe to be **in line with** the relevant broad market benchmark over the next 12 months.

Underperform: The analyst expects the industry coverage universe to be **unattractive** relative to the relevant broad market benchmark over the next 12 months.

Broad market benchmark for Hong Kong is **the Hang Seng Composite Index**, for China A-shares is the **MSCI China A Index**, for US-listed Chinese companies is **S&P US Listed China 50 (USD) Index**.

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