

# Genscript Biotech (1548 HK)

## Smarter cost balance

On 18 Mar, Genscript Biotech announced its FY17 core profit at USD35m, climbed 52% y-o-y and beat ours of USD29m, on smaller operating cost (opex) to sales. This was due to R&D cost having covered by adding new Cell Therapy sales, derived from booking Janssen Biotech's USD350m and milestone payment. Post Management road-show with us on 19 Mar, we see this P&L booking will continue to cover its high R&D cost for CAR-T as installments. **Keep BUY with higher SOTP-TP at HKD36.20 on lower opex to sales.**

### FY17 Result beat on smaller opex to sales.

Genscript reported FY17 net profit at USD26m, flat growth y-o-y. Core profits after exchange gain/loss and other one-off items, came in USD35m, climbed 52% y-o-y and beat our estimate of USD29m. This was due to smaller operating expenses to sales after taking out R&D cost, having covered by the same extent from booking the new Cell Therapy sales. This sales was derived from Janssen's USD350m contribution plus milestone payment agreed in Dec 2017. Post Management road-show, we see this P&L booking will continue to cover its high R&D cost for CAR-T, similar to installments. On the good integration of its preclinical drug development services with the main business, we keep our biosciences services and products sales to grow at high-twenties of 25%/ 26% y-o-y in FY18F-19F (FY17:23%).

### Edging up GPM on more Cell Therapy sales.

In light of its (1) improving industrial enzyme sales with successful revamp and three to four times increase in production capacity in the next few years; (2) booking of new Cell Therapy sales for R&D, our revenue forecast is lifted by 23%/27% in FY18F-19F to USD207m and USD284m. Same for margin, post inserting 100% GPM for new Cell Therapy sales, our blended FY18F-19F GPMs are up 70/150bps to 71.0%/70.3% with FY17 at 68.5%.

### Raising FY18F-19F net profit estimate by 13% and 2%.

After our cut in the adjusted opex to sales ratio (without R&D cost) to 33.7% (from 60.5%) in FY18F and 38.3% in FY19F (from 59.5%) versus FY17 at 34.9%, we lift our earnings by 13% and 2% in FY18F-19F to USD47m(+34% Y-o-y) and USD57m (+22% y-o-y). We see its R&D cost to sales would be 17.0% (USD35m) and 15% (USD43m) of total revenue in FY18F-19F against 28.5% (USD48m) and 28.7% (USD64m) previously. Further, with its partnership with Janssen Biotech, Genscript will pack up its data in good shape for US's IND approval by end-April 2018, likely to be approved by end-May but a delay from our expected end-1Q18.

### SOTP-TP rises to HKD36.20 (from HKD34.50); Keep BUY.

Our new SOTP-derived TP of HKD36.20 comprises (1) existing product sales at HKD11.04/s (from HKD8.66) whose implied FY18F core P/E stands at 61.3x (or 3.2x PEG) (from 54.1x); and (2) CAR-T R&D valuation at HKD25.16/s. **Key risk:** Slower or failure of CAR-T drug approval and clinical trials, impairing its stock price.

Figure 1: Financial Summary

Year to Dec 31 (USDm)	FY16A	FY17A	FY18F	FY19F	FY20F
Revenue	115	153	207	284	347
Reported Profit	26	26	47	57	69
Underlying Profit	23	35	47	57	69
Underlying EPS (USD)	0.013	0.020	0.023	0.028	0.034
DPS (USD)	0.00	0.0	0.00	0.00	0.00
P/E (x)	248.0	165.1	144.2	118.7	98.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.1
P/B (x)	32.02	26.41	11.40	11.70	11.67
Underlying EPS growth (%)	(0.2)	50.2	14.5	21.5	21.2
EV to EBITDA(x)	183.0	111.7	97.2	72.8	59.7

Source: Company data, Guosen Securities (HK) Research

China Healthcare  
Biotech & Pharma

20 March 2018 **BUY**

Target price	<b>▲ HKD36.20</b>
Previous Rec/Target	Buy   HKD34.50
Last price (19 Mar 18)	<b>HKD26.10</b>
Upside/downside (%)	38.7
HSI	31513.76
Mkt cap (HKDb/Usdb)	45.4/5.8
52 week range (HKD)	3.10 - 34.00
Avg trading volume daily (USDm)	84.83
Free float (%)	28.0%

Source: Bloomberg

### Performance



Source: Bloomberg

Performance	1M	3M	12M
Absolute (%)	11.1	59.9	401.0
Absolute (USD, %)	10.8	59.4	395.8
Relative to HSI (%)	9.8	52.2	371.3

Source: Bloomberg

### Company background

Founded in 2002 in New Jersey, Genscript sells variety of biotech or biochemical products to over 5,000 customers from biotech or drug-maker companies, educational sector (universities and research institutes), and government bodies/distributors of over 100 countries. Their major production centre are based in Nanjing, China. Their product types range from antibody service project, enzyme to gene synthesis project for customers. North America, Europe and China derived 54%/16%/17% of 2017 total revenue, with another 9% derived from Asia excluding Japan and China. Through its subsidiary Nanjing Legend, Genscript also engages in CAR-T therapy of blood cancer types, joining the most exciting medical area research currently. The company hired over 1,300 staff worldwide. Its major shareholders include: (1) Zhang Fangliang (Chairman & CEO) (58.7%) and (2) KPCB China Associates (10.2%).

Source: Bloomberg, Company data and Guosen Securities (HK) Research

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**2017 result beat; lifting  
FY18F-19F earnings**

## 2017 Result beat; lifting FY18F-19F earnings

### Result beat on smaller opex to sales.

On 18 March 2018, Genscript Biotech (Genscript) reported FY17 net profit at USD26m, flat growth y-o-y. Core earnings excluding exchange gain/loss, share-based payment and other one-off items, came in at USD35m which climbed 52% y-o-y and beat our estimate of USD29m. Total revenue of USD153m surged 33% y-o-y, beat our estimate by 17%.

Result beat was due to smaller operating expenses (adjusted) to sales after taking out R&D cost, having covered by the same extent from booking the new Cell Therapy sales. This Cell Therapy sales is derived from Janssen's USD350m contribution plus other milestone payment, which had been agreed in Dec 2017. Post Management road-show with us on 19 Mar, we see this P&L booking will continue to cover its high R&D cost for CAR-T in the next few years, similar to installment method. Without this Cell Therapy sales, its 2017 revenue could have been RMB134m, up 17% y-o-y. The company also consolidated its research services sales from general biotech research services, research catalog products and preclinical research services, whose combined revenue at USD123m rose 14% y-o-y, consistent with our estimate. In light of its (1) better gene synthesis services on integration with Customarray; and (2) close to finish the streamlining of preclinical drug development services with its main business, we fine-tune our biosciences services production sales by +1%/+2% in FY18F-19F at USD153m/ USD193m. It implies this segment to grow at high-twenties of 25% y-o-y/ 26% y-o-y in FY18F-19F (FY17:23%). In light of its industrial enzyme sales (1) outpaced our estimate by 23%; (2) close to finish its revamp; and (3) to have three to four times increase in production capacity in the next few years, we raise enzyme sales by 31% and 36% in FY18F-19F. Coupled with factoring in the new Cell Therapy sales booking for R&D, our revenue forecast is lifted by 23%/27% in FY18F-19F to USD207m and USD284m.

### Edging up gross margin on more Cell Therapy sales

Blended gross margin (GPM) of 68.5% beat our estimated of 67.7%, on booking 100% GPM for new Cell Therapy sales. Excluding this new segment, blended GPM could have been 64.2% (2H17: 61.1%), down from FY16's 66.4% (2H16: 65.5%) versus 1H17 of 67.7%. This was mainly due to smaller margin from overall biotech research services at 67.8% (2H17: 65.2%), compared to FY16's 69.2% (2H16: 69.5%). Part of the reason was to switch its preclinical drug development services to other gene and protein synthesis work. Therefore, we edge up our blended GPM in FY18F-19F by 70bps and 150bps to 71.0%/70.3%.

### Raising FY18F-19F net profit forecast by 13% and 2%.

Post road-show with management on 19 March, we see its R&D cost to sales would be 17.0% (USD35m) and 15% (USD43m) of total revenue in FY18F-19F from 28.5% (USD48m) and 28.7% (USD64m) previously. Note that, stripping out the R&D cost impact from its having covered by Janssen's Cell Therapy sales, Genscript's opex to sales ratio in 2017 stood at 34.9% smaller than our estimated 41.5% (FY16: 44.7%). So, we cut the adjusted opex-to-sales ratio (without R&D cost) to 33.7% (from 60.5%) in FY18F and 38.3% in FY19F (from 59.5%). Albeit of larger tax rate in 2017 at 29.9% versus ours 17.7% (2016: 18.4%) on larger taxable money (USD350m) from Janssen, its earnings beat our forecast partly due to adding back more foreign exchange loss at USD7m versus 2016 of an exchange gain at USD6m. As we fine tune our already-high tax rate to 19.0% in FY18F-19F, our earnings now lifts by 13% and 2% in FY18F-19F to USD47m (+34% y-o-y) and USD57m (+22% y-o-y) respectively.

### Later than expected booking of cash from Janssen Biotech.

It is worth noting that, both receivable and inventory days had multiplied up to 329 days and 42 days respectively versus 2016 of a mere 59 days and 30 days. The bigger receivable days were due to longer than expected time needed for the cash delivered from Janssen Biotech. We expect its receivable amount in FY18 will return to USD47m from FY17 of USD255m (FY16:20m) and to USD45m in FY19F, corresponding to 266 days and 59 days respectively. Moreover, on some tough sales in industrial enzyme, this led to higher inventory days in 2017. Further, the company did not

**Raising FY18F-19F net  
profit forecast by 13% and  
2%.**

declare any final dividend in FY17, compared to HKD1.22cents in 2016 (10% payout ratio) on retaining money for business expansion.

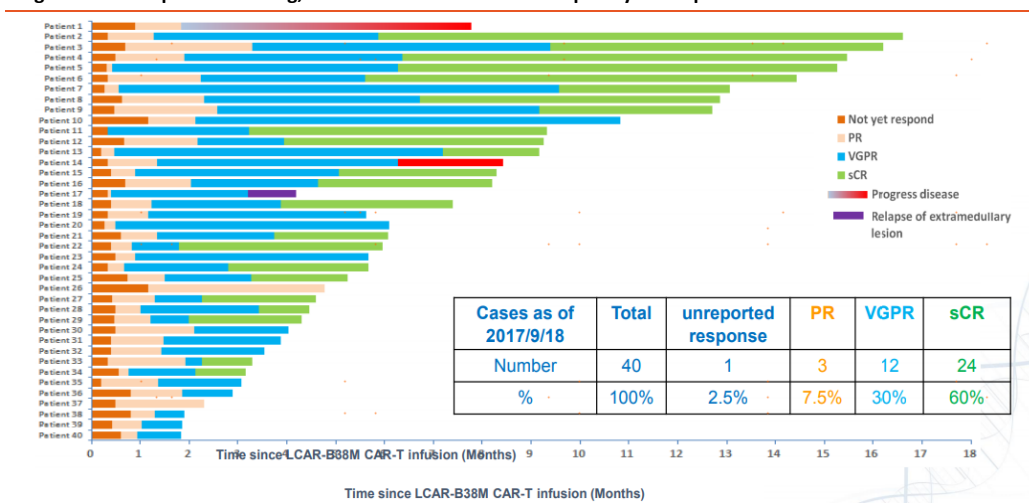
## CAR-T therapy likely fares well

### Genscript's CAR-T drug with 60% complete response in 40 patients.

**Genscript's subsidiary Nanjing Legend developed a CAR-T drug (LCAR-B38M) already passed CFDA for clinical trial and showed 60% complete response in 40 patients with multiple myeloma.**

The company, based on Evaluate Pharma, forecast that global multiple myeloma (plasma cell cancer, a form of white blood cell) market will enlarge to USD29bn in 2022 from USD14bn in 2016. Its LCAR-B38M had been granted by CFDA to start China's clinical trial recently. On a study for multiple myeloma with a group of Nanjing Legend's 40 patients, 24 (60%) and 12 (30%) of them showed complete response and very good partial response respectively. The company will continue to focus its China clinical trial in Shanghai, Nanjing and Xian. The company will not file its US investigational new drug (IND) until the end of April 2018, expecting it to pass IND approval by end-May, later than our expectation by end-1Q18.

Figure 2 Genscript's CAR-T drug, LCAR-B38M result on 40 multiple myeloma patients



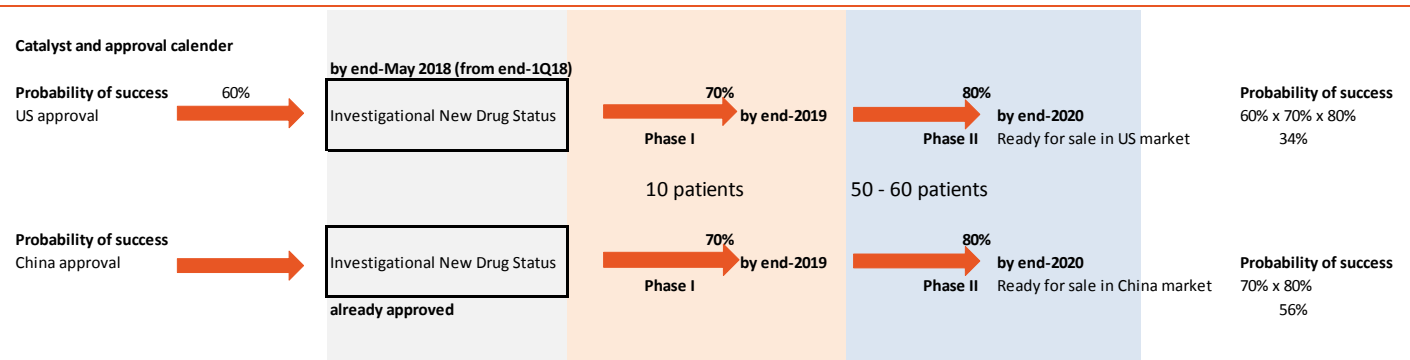
Source: Company data and [Sina](#).

**Should its CAR-T drug obtain INDs in US, its TP could be as high as HKD48.66/share providing 86% further upside.**

### SOTP-TP rises to HKD36.20 (from HKD34.50); Keep BUY.

Our new SOTP-derived TP of HKD36.20 comprises (1) existing product sales at HKD11.04/s (from HKD8.66) whose implied FY18F core P/E stands at 61.3x (or 3.2x PEG) (from 54.1x); and (2) CAR-T R&D valuation at HKD25.16/s (from HKD25.85). Should its CAR-T drug obtain INDs in US, its TP could be as high as HKD48.66/share providing 86% further upside. **Key risk:** Slower or failure of CAR-T drug approval and clinical trials, impairing its stock price.

Figure 3 Catalysts and approval calendar for Genscript (via Nanjing Legend) CAR-T work



Source: Company data and Guosen Securities (HK) Research

Figure 4 SOTP valuation for Genscript Biotech (risk-adjusted)

Fully diluted shares (million) 2,020	Valuation method	Implied core P/E FY18F	% of gross profit FY18F	Diluted EPS (HKD) FY18F	NAV (HKDm) FY18F	NAV/ share (HKD) FY18F
<b>Dec - Year ended (2018F)</b>						
Life science research services related	10-year DCF (end-2018) (WACC = 8.4%; g=3.5%)	39.2	73.4%	0.132	20,635	10.22
Industrial synthetic biology products	Target P/E method	23.0	4.8%	0.009	399	0.20
Sub-total (without cell therapy)			78.2%	0.141	21,034	10.41
Net cash (net debt)					3,739	1.85
Taking 10% discount						
Existing product sales		61.3	PEG (EPS CAGR FY17-20F)	3.2	22,296	11.04
<b>Pipeline products (R&amp;D valuation)</b>						
	Valuation method	Probability of success		NAV (HKDm) FY18F	Risk adjusted NAV (HKDm) FY18F	Risk adjusted NAV/ share (HKD) FY18F
CAR-T drug sales in China	10-year DCF (end-2018) (WACC = 9.0%; g=3.5%)	56% (70x80%)		23,327	13,063	6.47
CAR-T drug sales in US	10-year DCF (end-2018) (WACC = 10.4%; g=3.0%)	34% (60%x70%x80%)		112,353	37,751	18.69
Sub-total (pipeline products)				135,680	50,814	25.16
<b>TP (Risk-adjusted)</b>				<b>157,976</b>	<b>73,110</b>	<b>36.20</b>

Source: Company data and Guosen Securities (HK) Research

Figure 5 Comparison of HK-listed biotech research service provider and bio-drug makers

Name	Ticker	3-mth avg Last	t/o (US\$m)	Mkt cap (US\$m)	P/E FY16	P/E FY17F	P/E FY18F	3-yr EPS Cagr	PEG	Div yld FY16	EV/Ebitda FY16	EV/Ebitda FY17F	EV/Ebitda FY18F	P/B - FY16 (x)	P/B - FY17F (x)	P/B - FY18F (x)	Cons. TP	Target P/E FY18F	Target EV/EBITDA FY18F
Unadj avg					105.2	64.9	40.7	23.3	1.4	0.3	54.2	38.0	25.1	8.1	9.9	8.3		38.8	24.1
Median					49.5	40.0	30.5	23.3	1.4	0.3	28.2	26.9	21.2	5.1	9.9	8.3		32.8	22.8
WUXI BIOLOGICS C	2269 HK	71.20	20.3	10,580	239.5	127.7	71.9	N/A	N/A	N/A	117.6	71.3	42.3	16.61	14.89	12.34	56.99	57.5	33.9
GENSCRIPT BIOTEC	1548 HK	26.10	84.3	5,788	218.9	158.5	123.3	25.4	6.23	0.0	177.8	109.8	81.5	28.95	12.46	13.47	35.25	166.5	110.1
BBI LIFE SCIENCE	1035 HK	3.66	1.6	255	26.6	26.9	19.7	19.6	1.37	0.3	16.8	15.9	11.7	2.46	N/A	N/A	4.87	26.2	15.5
3SBIO INC	1530 HK	17.18	14.6	5,561	49.5	40.0	30.5	27.0	1.48	N/A	28.2	26.9	21.2	5.11	4.84	4.24	18.49	32.8	22.8

Source: Bloomberg data and sorted by Guosen Securities (HK) Research (Note: all sector median and mean values had been excluded the data contribution from 1548.HK)

Figure 6 Estimated Genscript's revenue analysis (half year and full-year) (existing product sales)

Year-ended Dec (USDm)	1H16	2H16	FY16	1H17	2H17F	Actual 2H17	Guosen FY17F	Actual FY17	Old FY18F	New FY18F	Old FY19F	New FY19F				
<b>Revenue</b>																
<b>Biosciences services and products</b>	<b>51.8</b>	<b>55.9</b>	<b>107.7</b>	<b>58.7</b>	<b>62.5</b>	<b>63.8</b>	2%	<b>121.2</b>	<b>122.5</b>	1%	<b>150.7</b>	<b>152.9</b>	1%	<b>188.5</b>	<b>192.8</b>	2%
YoY change	27.6%	25.0%	26.2%	13.4%	11.8%	14.1%	2.3%	12.5%	13.7%	1.2%	24.3%	24.8%	0.5%	25.1%	26.1%	1.0%
% Total revenue	97.4%	90.9%	93.9%	92.6%	92.7%	71.5%	-21.2%	92.7%	80.3%	-12.4%	90.0%	73.9%	-16.1%	84.2%	67.9%	-16.3%
Life sciences research service	44.4	46.9	91.2	53.0	55.7	59.2	6%	108.7	112.2	3%	137.3	141.5	3%	172.1	177.9	3%
YoY change	20.6%	16.8%	18.6%	19.5%	-40.4%	-36.7%	3.8%	19.2%	23.0%	3.9%	26.3%	26.1%	-0.3%	25.3%	25.8%	0.4%
% Total revenue	83.4%	76.2%	79.5%	83.7%	82.6%	66.3%	-16.2%	83.1%	73.5%	-9.6%	82.0%	68.4%	-13.6%	76.8%	62.7%	-14.2%
Gene synthesis services	25.7	29.2	54.9	30.8	35.1	36.2	3%	66.0	67.1	2%	84.8	86.2	2%	107.6	110.2	2%
YoY change	20.6%	15.1%	17.6%	20.2%	20.2%	23.9%	3.7%	20.2%	22.1%	2.0%	28.5%	28.5%	0.0%	26.9%	27.9%	1.0%
% Total revenue	48.2%	47.5%	47.8%	48.7%	52.1%	40.6%	-11.5%	50.4%	43.9%	-6.5%	50.6%	41.7%	-9.0%	48.0%	38.8%	-9.2%
Protein production services	7.5	4.7	12.2	9.6	6.0	5.7	-6%	15.6	15.3	-2%	19.9	19.3	-3%	24.8	23.8	-4%
YoY change	20.6%	17.1%	19.2%	28.4%	28.4%	20.7%	-7.6%	28.4%	25.4%	-2.9%	27.4%	26.4%	-1.0%	24.5%	23.5%	-1.0%
% Total revenue	14.1%	7.6%	10.6%	15.1%	8.9%	6.3%	-2.6%	11.9%	10.0%	-1.9%	11.9%	9.3%	-2.6%	11.1%	8.4%	-2.7%
Others	11.2	13.0	24.2	12.6	14.5	17.3	19%	27.1	29.9	10%	32.7	36.0	10%	39.8	43.9	10%
YoY change	20.6%	20.6%	20.6%	12.2%	12.2%	33.7%	21.5%	12.2%	23.7%	11.5%	20.4%	20.4%	0.0%	21.8%	21.8%	0.0%
% Total revenue	21.1%	21.1%	21.1%	19.9%	21.6%	19.4%	-2.1%	20.7%	19.6%	-1.1%	19.5%	17.4%	-2.1%	17.8%	15.5%	-2.3%
Life sciences research catalog products	2.7	2.7	5.3	3.5	3.5	3.5	0%	6.9	6.9	0%	9.7	9.7	0%	14.1	14.1	0%
YoY change	126.6%	106.4%	116.0%	29.0%	31.0%	31.0%	0.0%	30.0%	30.0%	0.0%	40.0%	40.0%	0.0%	45.0%	45.0%	0.0%
% Total revenue	5.0%	4.3%	4.6%	5.4%	5.2%	3.9%	-1.3%	5.3%	4.5%	-0.8%	5.8%	4.7%	-1.1%	6.3%	5.0%	-1.3%
Preclinical drug development services	4.8	6.4	11.2	2.2	3.3	1.1	-67%	5.6	3.3	-40%	3.6	1.7	-54%	2.4	0.8	-64%
YoY change	80.4%	92.2%	87.0%	-53.0%	-47.8%	-82.7%	-34.9%	-50.0%	-70.0%	-20.0%	-35.0%	-50.0%	-15.0%	-35.0%	-50.0%	-15.0%
% Total revenue	9.0%	10.4%	9.7%	3.5%	4.9%	1.2%	-3.7%	4.3%	2.2%	-2.1%	2.2%	0.8%	-1.4%	1.1%	0.3%	-0.8%
<b>Industrial synthetic biology products</b>	<b>1.4</b>	<b>5.6</b>	<b>7.0</b>	<b>4.7</b>	<b>4.9</b>	<b>7.1</b>	<b>44%</b>	<b>9.6</b>	<b>11.8</b>	<b>23%</b>	<b>16.8</b>	<b>21.9</b>	<b>31%</b>	<b>35.4</b>	<b>48.2</b>	<b>36%</b>
YoY change	209.7%	521.0%	416.9%	232.8%	-11.8%	27.1%	39.0%	37.2%	68.3%	31.1%	74.5%	85.7%	11.2%	111.5%	120.3%	8.8%
% Total revenue	2.6%	9.1%	6.1%	7.4%	7.3%	8.0%	0.7%	7.3%	7.7%	0.4%	10.0%	10.6%	0.6%	15.8%	17.0%	1.2%
Cell Therapy						<b>18.3</b>		<b>N/A</b>	<b>18.3</b>		<b>N/A</b>	<b>32.0</b>		<b>N/A</b>	<b>42.9</b>	
YoY change						0.0%		N/A	0.0%		N/A	74.4%		N/A	34.0%	
% Total revenue						20.6%		N/A	12.0%		N/A	15.5%		N/A	15.1%	
<b>Total revenue</b>	<b>53.2</b>	<b>61.5</b>	<b>114.7</b>	<b>63.4</b>	<b>67.5</b>	<b>89.3</b>	<b>32%</b>	<b>130.8</b>	<b>152.6</b>	<b>17%</b>	<b>167.4</b>	<b>206.7</b>	<b>23%</b>	<b>224.0</b>	<b>283.9</b>	<b>27%</b>
YoY change	29.6%	34.8%	32.3%	19.1%	9.6%	45.1%	35.4%	14.0%	33.0%	19.0%	28.0%	35.4%	7.5%	33.8%	37.3%	3.6%

Source: Company data and Guosen Securities (HK) Research

Figure 7 Estimated Genscript's gross margin assumptions (half year and full-year) (existing product sales)

Year-ended Dec (USDm)	1H16	2H16	FY16	1H17	2H17F	Actual 2H17	Diff	Guosen FY17F	Actual FY17	Diff	Old FY18F	New FY18F	Diff	Old FY19F	New FY19F	Diff
<b>Gross margin breakdown</b>																
<b>Biosciences services and products</b>	<b>68.9%</b>	<b>69.5%</b>	<b>69.2%</b>	<b>70.5%</b>	<b>N/A</b>	<b>65.2%</b>		<b>N/A</b>	<b>67.8%</b>		<b>N/A</b>	<b>71%</b>		<b>N/A</b>	<b>71.7%</b>	
Life sciences research service	69.5%	70.2%	69.9%	70.9%	70.7%	65.3%	-5.4%	70.8%	68.0%	-2.9%	72.6%	71.0%	-1.6%	73.1%	72.1%	-1.0%
Gene synthesis services	68.0%	68.9%	68.5%	69.0%	68.2%	68.3%	0.0%	68.6%	68.6%	0.0%	71.5%	69.5%	-2.0%	72.5%	71.0%	-1.5%
Protein production services	60.0%	60.0%	60.0%	62.9%	61.8%	61.8%	0.0%	62.5%	62.5%	0.0%	64.0%	62.5%	-1.5%	64.0%	63.0%	-1.0%
Others	79.3%	76.9%	78.0%	81.8%	80.3%	80.4%	0.1%	81.0%	81.0%	0.0%	80.5%	79.0%	-1.5%	80.5%	80.0%	-0.5%
Life sciences research catalog products	64.7%	65.3%	65.0%	66.3%	66.5%	66.1%	-0.4%	66.4%	66.2%	-0.2%	66.5%	66.5%	0.0%	67.0%	67.0%	0.0%
Preclinical drug development services	66.2%	65.9%	66.0%	67.6%	66.6%	56.6%	-9.9%	67.0%	64.0%	-3.0%	65.0%	61.0%	-4.0%	65.0%	61.0%	-4.0%
<b>Industrial synthetic biology products</b>	<b>13.1%</b>	<b>26.1%</b>	<b>23.5%</b>	<b>32.5%</b>	<b>35.1%</b>	<b>24.2%</b>	<b>-10.8%</b>	<b>33.8%</b>	<b>27.5%</b>	<b>-6.3%</b>	<b>40.0%</b>	<b>32.0%</b>	<b>-8.0%</b>	<b>44.0%</b>	<b>38.0%</b>	<b>-6.0%</b>
Cell Therapy					<b>N/A</b>	<b>100.0%</b>		<b>N/A</b>	<b>100.0%</b>		<b>N/A</b>	<b>100.0%</b>		<b>N/A</b>	<b>100.0%</b>	
Blended margin	<b>67.5%</b>	<b>65.5%</b>	<b>66.4%</b>	<b>67.7%</b>	<b>67.7%</b>	<b>69.1%</b>	1.4%	<b>67.7%</b>	<b>68.5%</b>	0.8%	<b>70.3%</b>	<b>71.0%</b>	0.7%	68.8%	<b>70.3%</b>	1.5%

Source: Company data and Guosen Securities (HK) Research

**Figure 8 Estimated Genscript's P&L analysis (half year and full-year) (existing product sales)**

Year-ended Dec (USDm)	Guosen			Actual			Diff	Guosen			Actual			Diff	Old			New		
	1H16	2H16	FY16	1H17	2H17F	2H17		FY17F	FY17	FY17F	FY17	FY17F	FY17		FY17F	FY17	FY17F	FY17	FY17F	FY17
<b>Total revenue</b>	<b>53.2</b>	<b>61.5</b>	<b>114.7</b>	<b>63.4</b>	<b>67.5</b>	<b>89.3</b>	<b>32%</b>	<b>130.8</b>	<b>152.6</b>	<b>17%</b>	<b>167.4</b>	<b>206.7</b>	<b>23%</b>	<b>224.0</b>	<b>283.9</b>	<b>27%</b>				
<b>YoY change</b>	29.6%	34.8%	32.3%	19.1%	9.6%	45.1%	35.4%	14.0%	33.0%	19.0%	28.0%	35.4%	7.5%	33.8%	37.3%	3.6%				
Cost of sales	(17.3)	(21.2)	(38.5)	(20.5)	(21.8)	(27.6)	27%	(42.3)	(48.1)	14%	(52.3)	(59.9)	15%	(71.6)	(84.4)	18%				
Gross profit	35.9	40.3	76.2	42.9	45.6	61.7	35%	88.6	104.6	18%	115.2	146.9	28%	152.4	199.5	31%				
YoY change	33.7%	33.5%	33.6%	19.6%	13.2%	52.9%	39.7%	16.2%	37.2%	21.0%	30.0%	40.4%	10.4%	32.4%	35.8%	3.5%				
GPM	67.5%	65.5%	66.4%	67.7%	67.7%	69.1%	1.4%	67.7%	68.5%	0.8%	70.3%	71.0%	0.7%	68.8%	70.3%	1.5%				
Selling and distribution expenses	(9.6)	(11.3)	(20.9)	(10.3)	(12.0)	(14.7)	22%	(22.2)	(24.9)	12%	(29.3)	(36.2)	23%	(39.2)	(49.7)	27%				
% of total revenue	18.0%	18.4%	18.2%	16.2%	17.8%	16.4%	-1.4%	17.0%	16.3%	-0.7%	17.5%	17.5%	0.0%	17.5%	17.5%	0.0%				
Administrative expenses	(12.1)	(18.4)	(30.4)	(14.2)	(17.9)	(25.9)	45%	(32.1)	(40.1)	25%	(72.0)	(57.9)	-20%	(94.1)	(85.2)	-9%				
% of total revenue	22.7%	29.9%	26.5%	22.3%	26.5%	29.1%	2.5%	24.5%	26.3%	1.8%	43.0%	28.0%	-15.0%	42.0%	30.0%	-12.0%				
R&D cost	(3.5)	(6.0)	(9.5)	(4.8)	(9.6)	(13.3)	39%	(14.4)	(18.1)	26%	(47.7)	(35.1)	-26%	(64.3)	(42.6)	-34%				
% of total revenue	6.7%	9.7%	8.3%	7.5%	14.2%	14.9%	0.7%	11.0%	11.9%	0.9%	28.5%	17.0%	-11.5%	28.7%	15.0%	-13.7%				
Operating profit	14.3	10.7	24.9	18.5	15.8	21.1	34%	34.3	39.6	15%	13.9	52.8	281%	19.1	64.6	238%				
YoY change	99.0%	186.0%	128.0%	29.7%	48.0%	97.8%	49.8%	37.5%	58.8%	21.3%	-59.6%	33.4%	93.0%	38.1%	22.4%	-15.7%				
Operating margin	26.8%	17.3%	21.7%	29.2%	23.4%	23.6%	0.2%	26.2%	25.9%	-0.3%	8.3%	25.5%	17.3%	8.5%	22.8%	14.2%				
Other income and gains	2.0	5.8	7.7	2.5	0.7	3.9	429%	3.2	6.4	100%	3.5	7.0	100%	3.9	7.7	100%				
Other expenses	(0.0)	(0.1)	(0.2)	(2.9)	(0.0)	(4.6)	18590%	(2.9)	(7.4)	158%	(0.7)	(0.8)	23%	(0.9)	(1.1)	27%				
% of total revenue	0.1%	0.2%	0.1%	4.5%	0.0%	5.1%	5.1%	2.2%	4.9%	2.7%	0.4%	0.4%	0.0%	0.4%	0.4%	0.0%				
Finance costs	0	(0)	(0)	0.0	(0.2)	0.0	-100%	(0)	0	-100%	(0)	(0)	0%	0	0	N/a				
EBIT	16.2	16.3	32.5	18.1	16.5	20.4	24%	34.6	38.6	11%	16.7	59.0	253%	22.1	71.2	222%				
EBT	16.2	16.3	32.5	18.1	16.3	20.4	25%	34.5	38.6	12%	16.6	58.9	255%	22.1	71.2	222%				
Income tax expense	(3.0)	(3.0)	(6.0)	(3.0)	(3.1)	(8.5)	175%	(6.1)	(11.5)	89%	(3.0)	(11.2)	279%	(4.1)	(13.5)	231%				
Tax rate	18.6%	18.1%	18.4%	16.6%	18.9%	41.6%	22.7%	17.7%	29.9%	12.2%	17.8%	19.0%	1.2%	18.5%	19.0%	0.5%				
Profit for the year (reported)	13.2	13.0	26.2	15.0	13.2	11.2	-16%	28.4	26.2	-8%	13.6	47.7	250%	18.0	57.7	220%				
MI	0.0	0.4	0.4	0.1	0.0	0.7		0.1	0.9		0.0	1.1		0.0	1.1					
YoY change	129.6%	10.4%	49.5%	13.6%	-0.8%	-13.8%	-13.0%	6.9%	0.0%	-6.9%	-51.9%	82.3%	134.2%	32.2%	21.0%	-11.2%				
Adjustment	(0.5)	3.8	3.2	(1.0)	0.0	(7.7)		(1.0)	(8.7)		(27.6)	0.0		(37.4)	0.0					
Core profit	13.7	8.8	22.9	16.0	13.2	18.9	43%	29.2	34.8	19%	41.3	46.6	13%	55.4	56.6	2%				
YoY change	85.5%	-2.9%	38.9%	16.3%	-4.0%	113.7%	117.8%	6.1%	52.0%	45.9%	41.3%	33.7%	-7.6%	34.3%	21.5%	-12.9%				
Core profit margin	25.8%	14.3%	20.0%	25.2%	19.6%	21.1%	1.5%	22.3%	22.8%	0.5%	24.6%	22.5%	-2.1%	24.7%	19.9%	-4.8%				
DPS (HKD cents)	0.00	0.00	1.221	0.000	1.286	0.000		1.286	0.000		0.307	1.070		0.406	1.294					
Dividend payout ratio	0.0%	0.0%	10.0%	0.0%	25.0%	0.0%		10.0%	0.0%		5.0%	5.0%		5.0%	5.0%					
<b>Y-o-y</b>																				
Total revenue	29.6%	34.8%	32.3%	19.1%	9.6%	45.1%	35.4%	14.0%	33.0%	19.0%	28.0%	35.4%	7.5%	33.8%	37.3%	3.6%				
Gross profit	33.7%	33.5%	33.6%	19.6%	13.2%	52.9%	39.7%	16.2%	37.2%	21.0%	30.0%	40.4%	10.4%	32.4%	35.8%	3.5%				
Selling and distribution expenses	14.4%	21.8%	18.3%	7.2%	6.1%	29.6%	23.6%	6.6%	19.4%	12.8%	31.7%	45.3%	13.5%	33.8%	37.3%	3.6%				
Administrative expenses	6.5%	6.8%	6.6%	17.5%	-2.6%	41.1%	43.8%	5.3%	31.8%	26.4%	124.6%	44.4%	-80.2%	30.7%	47.1%	16.5%				
EBIT	105.3%	8.1%	41.5%	11.8%	1.1%	25.3%	24.3%	6.4%	18.6%	12.2%	-51.7%	53.0%	104.7%	32.3%	20.7%	-11.6%				
EBT	105.3%	8.1%	41.5%	11.8%	0.2%	25.4%	25.2%	6.0%	18.6%	12.6%	-51.8%	52.7%	104.5%	33.3%	21.0%	-12.4%				
Core profit	85.5%	-2.9%	38.9%	16.3%	-4.0%	113.7%	117.8%	6.1%	52.0%	45.9%	41.3%	33.7%	-7.6%	34.3%	21.5%	-12.9%				
<b>Margin analysis</b>																				
Total revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%				
Gross profit	67.5%	65.5%	66.4%	67.7%	67.7%	69.1%	1.4%	67.7%	68.5%	0.8%	68.8%	71.0%	2.3%	68.0%	70.3%	2.2%				
Selling and distribution expenses	18.0%	18.4%	18.2%	16.2%	17.8%	16.4%	-1.4%	17.0%	16.3%	-0.7%	17.5%	17.5%	0.0%	17.5%	17.5%	0.0%				
Administrative expenses	22.7%	29.9%	26.5%	22.3%	26.5%	29.1%	2.5%	24.5%	26.3%	1.8%	43.0%	28.0%	-15.0%	42.0%	30.0%	-12.0%				
EBIT	30.5%	26.5%	28.3%	28.6%	24.4%	22.9%	-1.5%	26.4%	25.3%	-1.2%	10.0%	28.5%	18.6%	9.9%	25.1%	15.2%				
EBT	30.5%	26.5%	28.3%	28.6%	24.2%	22.9%	-1.3%	26.3%	25.3%	-1.1%	9.9%	28.5%	18.6%	9.9%	25.1%	15.2%				
Core profit	25.8%	14.3%	20.0%	25.2%	19.6%	21.1%	1.5%	22.3%	22.8%	0.5%	24.6%	22.5%	-2.1%	24.7%	19.9%	-4.8%				

Source: Company data and Guosen Securities (HK) Research

## Summary financial statements (Year to Dec 31)

Profit & Loss (USDm)	FY16A	FY17A	FY18F	FY19F	FY20F
<b>Revenue</b>	<b>115</b>	<b>153</b>	<b>207</b>	<b>284</b>	<b>347</b>
Revenue growth (%)	32.3	33.0	35.4	37.3	22.3
Cost of sales	(39)	(48)	(60)	(84)	(106)
<b>Gross profit</b>	<b>76</b>	<b>105</b>	<b>147</b>	<b>200</b>	<b>241</b>
Other income/(expense)	0	0	0	0	0
Operating expenses	(51)	(65)	(94)	(135)	(163)
<b>Operating profit</b>	<b>25</b>	<b>40</b>	<b>53</b>	<b>65</b>	<b>78</b>
Operating profit growth (%)	129	58.8	33.4	22.4	20.4
Other non-operating inc/(exp)	8	(1)	6	7	7
Finance income	0	0	0	0	0
Finance expenses	0	0	0	0	0
Associates & JCE	0	0	0	0	0
<b>Profit before taxation</b>	<b>33</b>	<b>39</b>	<b>59</b>	<b>71</b>	<b>85</b>
Taxation	(6)	(12)	(11)	(14)	(15)
Non-controlling interests	0	(1)	(1)	(1)	(1)
<b>Net profit</b>	<b>26</b>	<b>26</b>	<b>47</b>	<b>57</b>	<b>69</b>
Other Adjustments on UP	(3)	9	0	0	0
<b>Underlying Profit</b>	<b>23</b>	<b>35</b>	<b>47</b>	<b>57</b>	<b>69</b>
Underlying profit growth (%)	38.9	52.0	33.7	21.5	21.2
EPS (USD)	0.015	0.015	0.023	0.028	0.034
<b>Underlying EPS (USD)</b>	<b>0.013</b>	<b>0.020</b>	<b>0.023</b>	<b>0.028</b>	<b>0.034</b>
Underlying EPS growth (%)	(0.2)	50.2	14.5	21.5	21.2
DPS (USD)	0.00	0.0	0.00	0.00	0.00
DPS growth (%)	0.0	(100)	0.0	21.0	20.7

Source: Company data, Guosen Securities (HK) Research

Balance Sheet (USDm)	FY16A	FY17A	FY18F	FY19F	FY20F
Fixed assets	44	81	85	89	93
Associates & JCE	0	0	0	0	0
Others	18	26	40	51	68
<b>Non-current assets</b>	<b>62</b>	<b>106</b>	<b>125</b>	<b>140</b>	<b>161</b>
Inventories	4	7	5	12	9
Debtors & prepayments	23	264	54	53	77
Bank deposits & cash	136	124	481	461	438
Others	0	3	0	0	1
<b>Current assets</b>	<b>164</b>	<b>398</b>	<b>541</b>	<b>526</b>	<b>525</b>
Bank & other borrowings	0	0	2	0	0
Trade & payables	4	8	7	9	12
Taxation	4	13	13	14	15
Others	30	252	40	55	70
<b>Current liabilities</b>	<b>39</b>	<b>273</b>	<b>62</b>	<b>78</b>	<b>96</b>
Bank & other borrowings	0	0	0	0	0
Others	3	3	2	2	2
<b>Non-current liabilities</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>Net assets</b>	<b>184</b>	<b>228</b>	<b>601</b>	<b>586</b>	<b>588</b>
Share capital	2	2	2	2	2
Premium & reserves	176	216	588	573	574
<b>Shareholders' funds</b>	<b>178</b>	<b>218</b>	<b>590</b>	<b>574</b>	<b>576</b>
<b>Non-controlling interests</b>	<b>6</b>	<b>11</b>	<b>11</b>	<b>12</b>	<b>12</b>
<b>Total equity</b>	<b>184</b>	<b>228</b>	<b>601</b>	<b>586</b>	<b>588</b>
<b>BVPS (USD)</b>	<b>0.1</b>	<b>0.1</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>

Source: Company data, Guosen Securities (HK) Research

Financial Ratios	FY16A	FY17A	FY18F	FY19F	FY20F
Gross profit margin (%)	66.4	68.5	71.0	70.3	69.4
Operating profit margin (%)	21.7	25.9	25.5	22.8	22.4
Underlying profit margin (%)	20.0	22.8	22.5	19.9	19.7
Net debt/equity (%)	(76.9)	(58.5)	(81.3)	(80.3)	(76.1)
Net debt/total assets (%)	(60.5)	(25.3)	(72.1)	(69.3)	(63.9)
Current ratio (%)	418	146	866	675	549
Dividend payout (%)	11.4	0.0	5.1	5.1	5.1
Interest cover (x)	2,493	0.0	426	0.0	0.0
Dividend cover (x)	8.8	0.0	19.5	19.6	19.7
Acct. receivable turnover days	58.8	329.2	266.4	58.9	58.9
Acct. payable turnover days	32.1	47.5	47.5	34.8	34.8
Inventory turnover days	29.7	42.2	36.5	36.5	36.5
Cash cycle days	56.4	323.9	255.4	60.6	60.6
Dupont Analysis	FY16A	FY17A	FY18F	FY19F	FY20F
Tax burden (%)	80.5	67.8	79.1	79.5	80.7
Interest burden (%)	130	97.4	112	110	109
Operating profit margin (%)	21.7	25.9	25.5	22.8	22.4
Asset turnover (x)	0.6	0.4	0.4	0.4	0.5
Leverage ratio (x)	1.2	1.8	1.4	1.1	1.2
<b>ROA (%)</b>	<b>11.2</b>	<b>9.5</b>	<b>8.0</b>	<b>8.5</b>	<b>10.1</b>
<b>ROE (%)</b>	<b>14.0</b>	<b>17.6</b>	<b>11.5</b>	<b>9.7</b>	<b>11.9</b>

Source: Company data, Guosen Securities (HK) Research

Cashflow (USDm)	FY16A	FY17A	FY18F	FY19F	FY20F
EBIT	33	39	59	71	85
Depreciation & amortization	5	11	11	21	27
Interest expense	0	0	0	0	0
Change in working capital	0	(23)	11	(15)	(26)
Tax paid	(7)	(7)	(7)	(8)	(9)
Other operating cashflow	3	2	2	3	2
<b>Operating activities</b>	<b>33</b>	<b>21</b>	<b>76</b>	<b>72</b>	<b>79</b>
Capex	(9)	(29)	(33)	(43)	(49)
<b>Free cash flow</b>	<b>25</b>	<b>(8)</b>	<b>43</b>	<b>30</b>	<b>30</b>
Disposal of non-current assets	0	0	0	0	0
Associates & JCE (net)	0	0	0	0	0
Interest received	0	0	0	0	0
Dividends received	0	0	0	0	0
Other investing cashflow	0	(7)	(28)	(40)	(42)
<b>Investing activities</b>	<b>(8)</b>	<b>(36)</b>	<b>(62)</b>	<b>(83)</b>	<b>(90)</b>
New loans raised	0	0	0	0	0
Repayment of loans	(1)	(2)	(1)	(3)	(4)
Dividends paid	0	(3)	(2)	(3)	(3)
Other financing cashflow	10	7	349	(1)	(1)
<b>Financing activities</b>	<b>8</b>	<b>2</b>	<b>345</b>	<b>(7)</b>	<b>(8)</b>
<b>Inc/(dec) in cash</b>	<b>33</b>	<b>(13)</b>	<b>360</b>	<b>(17)</b>	<b>(20)</b>
Cash at beginning of year	104	136	124	481	461
Foreign exchange effect	(1)	0	(3)	(3)	(3)
<b>Cash at end of year</b>	<b>136</b>	<b>124</b>	<b>481</b>	<b>461</b>	<b>438</b>

Source: Company data, Guosen Securities (HK) Research

## Information Disclosures

### Stock ratings, sector ratings and related definitions

#### Stock Ratings:

**Buy:** A return potential of 10 % or more relative to overall market within 6 – 12 months.

**Neutral:** A return potential ranging from -10% to 10% relative to overall market within 6 – 12 months.

**Sell:** A negative return of 10% or more relative to overall market within 6 –12 months.

#### Sector Ratings:

**Overweight:** The sector will outperform the overall market by 10% or higher within 6 –12 months.

**Neutral:** The sector performance will range from -10% to 10% relative to overall market within 6 –12 months.

**Underweight:** The sector will underperform the overall market by 10% or lower within 6 – 12 months.

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