

13 April 2018

Outperform
Unchanged

Market Data: April, 12

Closing Price (HK\$)	21.70
Price Target (HK\$)	24.10
HSCEI	12,289
HSCCI	4,526
52-week High/Low (HK\$)	23.45/9.80
Market Cap (US\$m)	17,259
Market Cap (HK\$m)	135,473
Shares Outstanding (m)	6,243
Exchange Rate (Rmb-HK\$)	1.25

Price Performance Chart:



Source: Bloomberg

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Related Reports

"Sales efficacy-CSPC Pharmaceutical Group (1093:HK)" March 20,2018

"First-to-market generic-CSPC Pharmaceutical Group (1093:HK)" February 13,2018

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阿奇霉素获批一致性评价

CSPC PHARMACEUTICAL GROUP (1093:HK)

Financial summary and valuation

	2016	2017	2018E	2019E	2020E
Revenue (HK\$ m)	12,369.04	15,462.53	18,751.42	22,227.98	26,451.20
YoY (%)	8.56	25.01	21.27	18.54	19.00
Net income (HK\$ m)	2,100.85	2,770.52	3,574.78	4,563.82	5,874.66
YoY (%)	26.16	31.88	29.03	27.67	28.72
EPS (HK\$)	0.35	0.45	0.57	0.73	0.94
Diluted EPS (HK\$)	0.35	0.45	0.57	0.73	0.94
ROE (%)	22.30	21.79	21.62	23.64	25.71
Debt/asset (%)	30.95	28.48	25.60	23.65	22.16
Dividend Yield (%)	0.55	0.69	0.84	1.08	1.39
PE (x)	61.57	47.71	37.90	29.68	23.06
PB (x)	12.69	8.58	7.59	6.46	5.42
EV/Ebitda (x)	41.23	30.97	24.25	19.31	15.03

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

4月12日，公司宣布阿奇霉素片（商品名：维宏）通过了仿制药一致性评价，成为了该品种国内首家通过一致性评价的企业。

仿制药替代空间巨大。阿奇霉素为大环内酯类抗生素药物，主要用于治疗多种细菌感染。根据样本医院的数据，2017年阿奇霉素的销售额为4.89亿元，辉瑞(PFE:US)的原研药希舒美占有阿奇霉素44%的市场份额，石药的维宏仅占0.4%的市场份额。因此，我们预计未来维宏有望迅速抢占原研药以及其他仿制药的市场份额。此外，希舒美的价格为10.29元/250mg，比维宏的价格高约417%（维宏的价格为1.99元/250mg）。我们预计希舒美将面临较大的价格下降，而维宏的价格将保持基本稳定。

一致性评价进展顺利。目前，石药集团已经递交了5个仿制药的一致性评价申请，包括阿奇霉素片、马来酸依那普利片、卡托普利片、盐酸曲马多片和阿莫西林胶囊。阿奇霉素片已经通过了一致性评价，其他四个品种处于CFDA审评阶段，或将于18年通过一致性评价。公司计划一共完成46个品种的一致性评价工作。管理层预计将于18年递交16个仿制药的一致性评价申请。

从医保、价格、采购等方面支持通过一致性评价品种。4月3日，国务院办公厅发布了《关于改革完善仿制药供应保障及使用政策的意见》。该文件为促进仿制药提升疗效及质量，鼓励仿制药替代原研药提出了一系列的配套与支持政策。文件要求，与原研药质量和疗效一致的仿制药享受与原研药同等的医保支付标准；并且将通过医保支付激励约束机制，鼓励医疗机构使用仿制药。此外，文件指出，将完善主要由市场形成药品价格的机制，形成有升有降、科学合理的采购价格，调动企业提高药品质量的积极性。药品采购方面，文件提出，药品集中采购机构要按药品通用名编制采购目录，促进与原研药质量和疗效一致的仿制药和原研药平等竞争。我们认为，由于竞争壁垒显著提高，通过一致性评价的仿制药将能够维护稳定的价格体系。随着国家医疗保障局的成立，我们预期通过一致性评价的仿制药将得到更多的医保资源倾斜，从而促进仿制药替代原研药。长期看，仿制药替代能够显著节省医保支出，政府非常有动力推动这一变化。

维持增持评级。我们维持2018年稀释每股盈利为0.57港币（同比增长27%），2019年稀释每股盈利为0.73港币（同比增长28%），2020年稀释每股盈利为0.94港币（同比增长29%）。我们维持目标价24.1港币。目标价对应11%的上涨空间，我们维持增持评级。

Investment Highlights:

On 12 April 2018, CSPC Pharmaceutical Group announced that its azithromycin tablet (*Weihong*) has passed the equivalence evaluation, becoming the first domestic azithromycin generic to receive equivalence evaluation approval. We are positive on the company's growth outlook, and maintain our diluted EPS forecasts of HK\$0.57 in 18E (+27% YoY), HK\$0.73 in 19E (+28% YoY), and HK\$0.94 in 20E (+29% YoY). Our target price is unchanged at HK\$24.10. With 11% upside, we maintain our Outperform recommendation.

Significant substitution potential. Azithromycin, a macrolides antibiotic, is mainly used for the treatment of various bacterial infections. Total azithromycin sales in sample hospitals reached Rmb489m in 2017, while the original drug, Pfizer's (PFE:US) *Zithromax*, represented 44% of the market (vs 0.4% for *Weihong*). Thus, we expect *Weihong* to quickly gain market share from the original drug and other generic drugs. In addition, we note *Zithromax* is sold at Rmb10.29 per 250mg, which is c.417% more expensive than *Weihong*'s price of Rmb1.99 per 250mg. We expect the original drug to suffer from price cuts, while *Weihong* maintains stable pricing.

Encouraging progress in equivalence evaluation. Up to now, CSPC has submitted equivalence evaluation applications for five generic drugs, including azithromycin tablet, enalapril tablet, captopril tablet, tramadol tablet, and amoxicillin capsule. Azithromycin tablet has passed the equivalence evaluation, while the other four generic drugs are under China Food and Drug Administration's (CFDA) review, and may pass the evaluation by 18E. CSPC plans to complete equivalence evaluation for a total of 46 generic drugs. According to management, equivalence evaluation applications for 16 generic drugs may be submitted in 18E.

Policy tailwinds. On 3 April 2018, the State Council released its "Opinions on reforming the supply and usage of generic drugs", which proposed a series of policies to improve the quality of generic drugs and encourage the use of generic drugs as substitutes for original drugs. Chinese authorities may launch more favourable reimbursement policies for generic drugs to accelerate the substitution of original drugs. Moreover, the Opinions mentioned that the government will establish a market-driven pricing scheme for drugs. Both price hikes and price cuts are allowed, in order to encourage pharmaceutical companies to produce high-quality drugs. We believe generic drugs that have passed equivalence evaluation will maintain stable pricing, on the back of an improved competitive landscape.

Maintain Outperform. We maintain our diluted EPS forecasts of HK\$0.57 in 18E (+27% YoY), HK\$0.73 in 19E (+28% YoY), and HK\$0.94 in 20E (+29% YoY). We maintain our target price of HK\$24.10. With 11% upside, we maintain our Outperform rating.

Fig 1: Potential for generic drug substitution

Generic name in Chinese	Original drug manufacturer	Market share of original drug in sample hospitals (2017)	Market size in sample hospitals (2017, Rmbm)	Average price of original drug (2017)	Average price of major generic drug (2017)	Price premium of original drug
阿奇霉素	Pfizer	44%	489	Rmb10.29 per 250mg	Rmb1.99 per 250mg	417%

Source: Pharma Database, SWS Research

Fig 2: Progress of CSPS's equivalence evaluation of generic drugs

Generic name	Generic name in Chinese	Status	Total sales in sample hospitals (2017, Rmbm)	Original drugs' market share in sample hospitals (2017)	CSPC's generic drug market share in sample hospitals (2017)
Azithromycin tablet	阿奇霉素片	Passed equivalence evaluation	489	44.5%	0.4%
Enalapril tablet	马来酸依那普利片	Under review	15	3.9%	1.5%
Captopril tablet	卡托普利片	Under review	7	84.9%	-
Tramadol tablet	盐酸曲马多片	Under review	64	40.8%	1.2%
Amoxicillin capsule	阿莫西林胶囊	Under review	38	NA	1.3%

Source: Insight, Pharma Database, SWS Research

APPENDIX

Consolidated Income Statement					
(HK\$m)	2016	2017	2018E	2019E	2020E
Revenue	12,369	15,463	18,751	22,228	26,451
Cost of Sales	(6,060)	(6,117)	(6,375)	(7,113)	(8,200)
Gross Profit	6,309	9,346	12,376	15,115	18,251
Other Income	107	120	150	178	212
Selling/General/Admin. Expenses	(3,342)	(5,057)	(6,413)	(7,780)	(9,099)
EBITDA	3,237	4,198	5,282	6,510	8,156
EBIT	2,649	3,482	4,500	5,735	7,380
Finance Costs	(42)	(27)	(27)	(21)	(15)
Profit before tax	2,635	3,465	4,484	5,724	7,375
Income tax expense	(522)	(685)	(897)	(1,145)	(1,475)
Minority interests	(12)	(10)	(12)	(16)	(26)
Profit for the year	2,101	2,771	3,575	4,564	5,875

Source: Company data, SWS Research

Consolidated Cash Flow Statement					
(HK\$m)	2016	2017	2018E	2019E	2020E
Profit before taxation	2,635	3,465	4,484	5,724	7,375
Plus : Depr. and amortisation	588	717	782	776	776
Finance cost	42	27	27	21	15
Losses from investments	0	0	0	0	0
Change in working capital	219	(171)	(358)	(625)	(695)
Others	(567)	(749)	(923)	(1,165)	(1,490)
CF from operating activities	2,916	3,288	4,011	4,730	5,982
CAPEX	(1,090)	(1,320)	(900)	(900)	(900)
Other CF from investing activities	(242)	(1,316)	0	0	0
CF from investing activities	(1,332)	(2,636)	(900)	(900)	(900)
Equity financing	0	2,345	0	0	0
Net change in liabilities	(283)	(80)	(200)	(200)	(200)
Dividend and interest paid	(650)	(914)	(1,144)	(1,460)	(1,880)
Other CF from financing activities	481	0	0	0	0
CF from financing activities	(452)	1,351	(1,344)	(1,660)	(2,080)
Net cash flow	1,132	2,003	1,767	2,169	3,002
FCFF	1,844	2,022	3,128	3,840	5,086
FCFE	1,519	1,915	2,901	3,620	4,872

Source: Company data, SWS Research

Consolidated Balance Sheet					
(HK\$m)	2016	2017	2018E	2019E	2020E
Current Assets	8,428	13,635	15,967	19,315	23,829
Bank balances and cash	3,235	5,238	7,005	9,175	12,176
Trade and other receivables	1,835	2,334	2,826	3,349	3,986
Inventories	1,933	2,901	2,620	2,923	3,370
Other current assets	1,425	3,162	3,516	3,868	4,296
Long-term investment	172	427	427	427	427
PP&E	5,415	6,663	6,876	7,068	7,242
Intangible and other assets	746	819	724	655	605
Total Assets	14,760	21,543	23,993	27,466	32,103
Current Liabilities	4,085	5,760	5,767	6,121	6,737
Borrowings	898	927	727	527	327
Trade and other payables	2,938	4,513	4,716	5,262	6,066
Other current liabilities	249	319	323	332	344
Long-term liabilities	484	375	375	375	375
Total Liabilities	4,569	6,135	6,142	6,496	7,113
Minority Interests	84	85	97	113	138
Shareholder Equity	10,108	15,322	17,753	20,857	24,851
Share Capital	10,570	12,922	12,922	12,922	12,922
Reserves	(462)	2,400	4,831	7,934	11,929
Total Equity	10,191	15,407	17,850	20,969	24,990
Total Liabilities and equity	14,760	21,543	23,993	27,466	32,103

Source: Company data, SWS Research

Key Financial Ratios					
	2016	2017	2018E	2019E	2020E
Ratios per share (HK\$)					
Earnings per share	0.35	0.45	0.57	0.73	0.94
Diluted EPS	0.35	0.45	0.57	0.73	0.94
Operating CF per share	0.49	0.54	0.64	0.76	0.96
Dividend per share	0.12	0.15	0.18	0.23	0.30
Net assets per share	1.71	2.53	2.86	3.36	4.00
Key Operating Ratios(%)					
ROIC	17.54	15.93	18.11	19.95	21.81
ROE	22.30	21.79	21.62	23.64	25.71
Gross profit margin	51.00	60.44	66.00	68.00	69.00
EBITDA Margin	26.17	27.15	28.17	29.29	30.83
EBIT Margin	21.42	22.52	24.00	25.80	27.90
Growth rate of Revenue(YoY)	8.56	25.01	21.27	18.54	19.00
Growth rate of Profit(YoY)	26.16	31.88	29.03	27.67	28.72
Debt-to-asset ratio	30.95	28.48	25.60	23.65	22.16
Turnover rate of net assets	1.21	1.00	1.05	1.06	1.06
Turnover rate of total assets	0.84	0.72	0.78	0.81	0.82
Effective tax rate (%)	20.02	19.83	20.04	20.04	20.03
Dividend yield (%)	0.55	0.69	0.84	1.08	1.39
Valuation Ratios (X)					
P/E	61.57	47.71	37.90	29.68	23.06
P/B	12.69	8.58	7.59	6.46	5.42
EV/Sale	10.79	8.41	6.83	5.66	4.63

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.

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