

Healthcare	Last Close	Target Price	Upside	14 May 2018
	HK\$18.44	HK\$24.00↑	+30.2%	

Sino Biopharmaceutical (1177 HK)

Anlotinib approval marks innovation milestone; raise TP

⊕ **Anlotinib obtained commercial approval; a milestone of innovation.** As expected, Sino Biopharm (SBP) recently announced that its self-developed innovative anti-cancer drug Anlotinib has been granted marketing authorization by CFDA. Under the brand name of "FOCUS V", Anlotinib is likely to become a standard drug for 3rd-line treatment for advanced lung cancer, given its clinically-proven efficacy with a manageable safety profile. SBP is also conducting clinical studies of Anlotinib on other 10+ cancers. We estimate the sales potential of Anlotinib at RMB3bn-6bn pa, and sales at RMB370m/1.5bn/2.6bn in 2018/19/20, respectively.

We regard the approval of Anlotinib as a milestone in SBP's way into China's drug innovation club. Besides Anlotinib, SBP owns 20+ Class 1 small-molecule candidates and 10-15 biologics in the pipeline, boosting SBP's innovation luster, in our view.

⊕ **Launch of two generics.** In May 2018, SBP also obtained CFDA's approval on two generic drugs: ganirelix acetate (first-to-market generic Antagon, for assisted reproduction) and compound sodium acetate ringer (electrolyte supplement). We estimate a combined sales contribution of 1%/2%/3% from the two products in 2018/19/20, respectively.

⊕ **Revisions to estimates; maintain Buy but raise TP from HK\$20.50 to HK\$24.00** to reflect the new product launches and enhanced growth profile in outer years. Our TP represents 45x 2019E P/E and 1.7x PEG, versus peer group average of 1.2x. We raise our 2018/19/20E EPS to RMB0.35/0.43/0.51 (from previous 0.33/0.40/0.47). **Risks:** severer-than-expected drug price cut, stiff competition and drug development setbacks.

Financial highlights

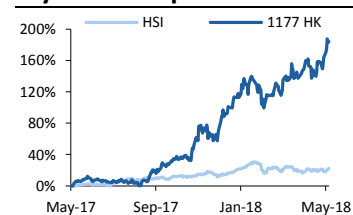
Y/E 31 Dec	2016	2017	2018E	2019E	2020E
Revenue (RMB m)	13,543	14,819	20,567	25,961	30,381
YoY growth (%)	13.67	9.42	38.78	26.23	17.03
Net profit (RMB m)	1,637	2,171	2,975	3,703	4,411
EPS (RMB)	0.23	0.28	0.35	0.43	0.51
YoY growth (%)	18.27	20.80	25.80	21.38	19.53
Previous EPS (RMB)			0.33	0.40	0.47
Change (%)			7.94	7.64	8.37
BVPS (RMB)	1.44	1.70	2.16	2.83	3.71
P/E (x)	64.21	53.15	42.25	34.81	29.12
P/B (x)	10.32	8.74	6.89	5.25	4.00
Dividend yield (%)	0.35	0.50	0.49	0.59	0.70

Source: Company data, BOCOM Int'l estimates

Stock Rating

BUY

1-year stock performance



Source: Bloomberg

Stock data

52w high (HK\$)	19.10
52w low (HK\$)	6.32
Market cap (HK\$ m)	155,360.58
Avg daily vol (m)	30.22
YTD change (%)	33.04
200d MA (HK\$)	11.80

Source: Bloomberg

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Anlotinib to be Launched; RMB3bn-6bn Blockbuster Potential

We estimate that Anlotinib's sales potential could reach RMB2bn-5bn per annum on NSCLC, upon CFDA's approval. Including off-label use, the total commercial potential could reach RMB3bn-6bn annually, in our view. We further raise our sales forecast on this product to RMB370m/1.5bn/2.6bn in 2018/19/20, or 2%/6%/8% sales contribution.

Figure 1: Estimated annual sales potential of Anlotinib on NSCLC

	Base case	Worst case	Best case
Incidence of lung cancer	733,000		
NSCLC	623,050		
As % of total lung cancer	85		
Target patient population	155,763	124,610	186,915
% of patients progressive to 3rd-line	25	20	30
No. of treated patients	35,047	31,153	46,729
Penetration rate (%)	23	20	30
Treatment cycles (months)	9	8	10
Cost per month (RMB)	9,000	8,000	10,000
Total treatment cost (RMB)	81,000	64,000	100,000
Sale potential (RMB m)	2,839	1,994	4,673

Source: Bloomberg, BOCOM Int'l estimates

Figure 2: On-going clinical trials on Anlotinib

Indication	Stage	Target population	Regimen	No. of Patients	Primary endpoint*	Study start date	Est. complete date
Medullary thyroid carcinoma	Phase II/III	Unable to surgery or metastasis	Anlotinib vs. placebo	90	PFS	Jul-15	Dec-17
Differentiated thyroid cancer	Phase II/III	No prior VEGFR-targeted therapies	Anlotinib vs. placebo	120	PFS	Jul-15	Dec-17
Metastatic colorectal cancer	phase II/III	Refractory to standard chemo	Anlotinib (QD) vs. placebo	450	OS	Dec-14	2017
Soft tissue sarcoma	phase II/III	2nd+line	Anlotinib (QD) vs. placebo	318	PFS	May-15	Dec-17
Metastatic gastric cancer	Phase II/III	3rd+line	Anlotinib vs. placebo	378	OS	Jun-15	Dec-17
Hepatocellular carcinoma	Phase II	Failure in ablative therapy	Anlotinib	60	PFS	Sep-16	Dec-17
Advanced Renal Cell Carcinoma (RCC)	phase II		Anlotinib (QD) vs. placebo	133	PFS	Dec-13	Dec-16
Esophageal squamous cell carcinoma	Phase II	2nd+line	Anlotinib vs. placebo	144	OS	Jan-16	Dec-17
Small cell lung cancer	Phase II	3rd+line	Anlotinib vs. placebo	90	PFS	Dec-17	Apr-18
Soft tissue sarcoma (STS)	phase II		Anlotinib (QD)	200	Tumor size	Apr-13	Dec-16
Metastatic or advanced alveolar soft part sarcoma, leiomyosarcoma, and synovial sarcoma	Phase III	2nd+line	Anlotinib	219	ORR, PFS	Aug-17	Aug-21

Source: ClinicalTrials.gov, BOCOM Int'l

Note: * OS = Overall survival, PFS = Progression-free survival, ORR = Objective Response Rate

Raise 2018-20 EPS Estimates

For 2018-20, we raise our sales forecasts to reflect the launch of Anlotinib and other two generic drugs. We reduce our forecasts for selling expenses based on the current expenses ratio trends.

Taken together, the above changes have resulted in increase of RMB0.02/0.03/0.04 in our 2018/19/20E EPS to RMB0.35/0.43/0.51, respectively.

Figure 3: Revision to estimates

(RMB m except per-share data)		2017A	2018E	2019E	2020E
Total Revenues	New	14,819	20,567	25,961	30,381
	old	14,819	20,321	25,601	30,126
Total COGS	New	3,091	4,243	5,359	6,167
	old	3,091	4,214	5,285	6,116
Gross Profit	New	11,729	16,324	20,602	24,215
	old	11,729	16,106	20,315	24,010
Sales/Marketing/Advertising Expenses	New	5,918	7,857	9,872	11,413
	old	5,918	8,112	10,143	11,899
General and Administrative Expenses	New	987	1,185	1,446	1,655
	old	987	1,171	1,426	1,642
Other expenses	New	1,602	2,294	3,018	3,675
	old	1,602	2,267	2,976	3,649
Total Operating Expenses	New	8,507	11,336	14,336	16,743
	old	8,507	11,551	14,546	17,189
Operating income	New	3,222	4,988	6,266	7,471
	old	3,222	4,556	5,769	6,821
Share of result of an associate	New	409	195	104	122
	old	409	194	102	121
Finance costs	New	78	93	90	85
	old	78	94	91	87
Total other income	New	974	936	1,065	1,252
	old	974	925	1,049	1,238
Net income before tax	New	4,196	5,924	7,331	8,723
	old	4,196	5,481	6,818	8,059
Provision for tax	New	542	889	1,100	1,308
	old	542	822	1,023	1,209
Net income	New	3,654	5,035	6,232	7,415
	old	3,654	4,658	5,795	6,850
Profit attributable to :					
Equity holders of the company	New	2,171	2,975	3,703	4,411
	old	2,171	2,763	3,447	4,079
Minority Interests	New	1,483	2,061	2,529	3,004
	old	1,483	1,895	2,348	2,771
Basic EPS, adjusted (RMB)	New	0.28	0.35	0.43	0.51
	old	0.28	0.33	0.40	0.47
Margin analysis (%)					
Gross margin	New	79.1	79.4	79.4	79.7
	old	79.1	79.3	79.4	79.7
Operating margin	New	21.7	24.3	24.1	24.6
	old	21.7	22.4	22.5	22.6
Tax rate	New	12.9	15.0	15.0	15.0
	old	12.9	15.0	15.0	15.0
Net margin	New	24.7	24.5	24.0	24.4
	old	24.7	22.9	22.6	22.7
Non-controlling interests as % of net income	New	40.6	40.9	40.6	40.5
	old	40.6	40.7	40.5	40.5

Source: Company data, BOCOM Int'l estimates

14 May 2018

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Financial Statements

Income statement (RMB m)					
Y/E 31 Dec	2016	2017	2018E	2019E	2020E
Revenue	13,543	14,819	20,567	25,961	30,381
COGS	2,817	3,091	4,243	5,359	6,167
Gross profit	10,727	11,729	16,324	20,602	24,215
Selling and distribution expenses	5,453	5,918	7,857	9,872	11,413
G&A expenses	1,039	987	1,185	1,446	1,655
Other expenses	1,526	1,602	2,294	3,018	3,675
Operating income	2,708	3,222	4,988	6,266	7,471
Other income and gains	275	643	835	1,051	1,215
Financial costs	77	78	93	90	85
Pre-tax income	3,203	4,196	5,924	7,331	8,723
Income tax	475	542	889	1,100	1,308
Net income	2,729	3,654	5,035	6,232	7,415
Net profit attributable to owners of the parent	1,637	2,171	2,975	3,703	4,411
EPS (RMB)	0.23	0.28	0.35	0.43	0.51
Dividend per share (RMB)	0.05	0.08	0.07	0.09	0.10

Balance sheet (RMB m)					
As of 31 Dec	2016	2017	2018E	2019E	2020E
Current assets	12,732	13,780	19,172	25,865	33,068
Cash and equivalents	3,766	4,188	8,274	13,687	19,627
Available for sale investments	2,122	2,647	2,780	2,919	3,065
Inventories	895	919	1,290	1,500	1,710
Trade and notes receivables	1,996	2,051	2,457	2,949	3,377
Others	3,953	3,974	4,372	4,809	5,290
Non-current assets	5,651	7,155	7,915	8,576	9,135
PP&E	2,687	3,483	4,105	4,635	5,071
Goodwill	89	89	89	89	89
Other intangible assets	181	219	309	389	456
Others	2,694	3,364	3,412	3,462	3,519
Total assets	18,384	20,935	27,086	34,440	42,203
Current liabilities	5,656	5,688	6,786	7,888	8,214
Borrowings	1,369	741	890	1,067	1,281
Trade and other payables	4,094	4,655	5,574	6,466	6,543
Tax payable	193	293	322	354	389
Non-current liabilities	2,050	2,636	2,654	2,674	2,697
Government grants	202	242	242	242	242
Deferred tax liabilities	169	184	202	223	245
Others	1,679	2,210	2,210	2,210	2,210
Total Equity	10,678	12,611	17,646	23,878	31,293
Total liabilities and equity	18,384	20,935	27,086	34,440	42,203

Source: Company data, BOCOM Int'l estimates

Cash flow statement (RMB m)					
Y/E 31 Dec	2016	2017	2018E	2019E	2020E
Cash flow from operating activities	2,995	3,733	5,467	6,841	7,328
Net income	2,729	3,654	5,035	6,232	7,415
D&A	284	308	409	502	595
Change in working capital	234	581	256	260	-499
Others	-252	-810	-234	-153	-182
Cash flows from investing activities	-2,234	-1,979	-1,335	-1,460	-1,475
CapEx	-738	-1,109	-1,015	-1,015	-1,015
Others	-1,496	-870	-320	-445	-460
Cash flows from financing activities	567	-1,346	449	33	85
Net borrowing	1,421	67	148	178	213
Dividend paid	-385	-556	-595	-741	-882
Others	-469	-857	896	595	753
Cash & equivalents at beginning of period	2,121	3,502	3,692	8,274	13,687
Cash & equivalents at end of period	3,502	3,692	8,274	13,687	19,627

Financial ratios					
Y/E 31 Dec	2016	2017	2018E	2019E	2020E
Growth profile (%)					
Revenue	14	9	39	26	17
Gross profit	16	9	39	26	18
Operating profit	18	19	55	26	19
Net income	14	34	38	24	19
Margins (%)					
Gross margin	79	79	79	79	80
Operating margin	20	22	24	24	25
Net margin	20	25	24	24	24
Tax rate	15	13	15	15	15
Business performance					
ROE (%)	26	29	29	26	24
ROA (%)	15	17	19	18	18
ROIC (%)	10	11	12	11	11
Quality of earnings					
Net debt-to-equity Ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Interest cover (x)	43	55	64	83	103
Quality of assets					
Quick ratio (x)	2.1	2.3	2.6	3.1	3.8
Current ratio (x)	2.3	2.4	2.8	3.3	4.0
Equity to assets ratio (%)	58	60	65	69	74

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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.

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