

Healthcare	Last Close	Target Price	Upside	21 May 2018
	HK\$19.04	HK\$24.00	+26.1%	

Sino Biopharmaceutical (1177 HK)

1Q18 beat; reiterate Buy

⊕ **1Q18 results beat on strong sales and lower MI.** Sino Biopharm (SBP) reported 1Q18 adjusted net profit of RMB798m (+40% YoY), beating our estimate of RMB691m by 13% mainly due to strong product sales and lower minority interests (MI). Total revenue of RMB4.65bn (+20% YoY) was higher than our estimate of RMB4.32bn (+12% YoY), but was more than offset by higher-than-expected operating expenses, leading to a lower-than-expected operating profit at RMB869m (vs. our estimated RMB951m). Nonetheless, MI of RMB156m was much lower than our estimated RMB345m, leading to a 1Q18 earnings beat.

⊕ **Stellar performance of major products.** In 1Q18, total revenue registered robust YoY growth of 20%, mainly driven by strong performance of major products in key therapeutic areas:

(1) Hepatitis medicines' sales of RMB1.78bn (+3% YoY) came in slightly lower than our estimate of RMB1.82bn (+5% YoY). Runzhong recorded sales of RMB941m (+6% YoY), better than our estimate of RMB929m. We expect continued recovery of Runzhong in the following quarters, given the relieved pricing pressure.

(2) Oncology drug sales grew 6% to RMB444m, below our estimate of RMB472m, negatively impacted by severe decline of mature product Zhiruo. However, three products (Qingkewei, Genike and Yinishu) reported sales of RMB146m (+38% YoY), upon their new entry into the NRDL. The recent launch of Anlotinib should drive the strong growth for SBP's oncology franchise in the year, in our view.

(3) New products accounted for 15% of total sales in 1Q18.

⊕ **Maintain Buy and TP of HK\$24.00.** We reiterate our **Buy** rating and 12M TP of HK\$24.00. We keep our 2018-20E EPS unchanged, but fine-tune 2Q-3Q18 results forecasts to reflect the quarterly fluctuations of MI. Key risks: prices cut of major products, fierce competition and R&D setbacks.

Financial highlights

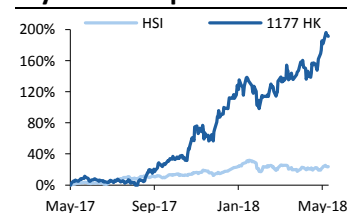
Y/E 31 Dec	2016	2017	2018E	2019E	2020E
Revenue (RMB m)	13,543	14,819	21,465	27,024	31,822
YoY growth (%)	13.67	9.42	44.85	25.90	17.75
Net profit (RMB m)	1,637	2,171	2,942	3,654	4,345
EPS (RMB)	0.23	0.28	0.35	0.43	0.51
YoY growth (%)	18.27	20.80	25.92	20.89	19.17
BVPS (RMB)	1.44	1.70	2.09	2.69	3.46
P/E (x)	66.30	54.88	43.58	36.05	30.25
P/B (x)	10.66	9.02	7.36	5.71	4.44
Dividend yield (%)	0.34	0.49	0.47	0.56	0.67

Source: Company data, BOCOM Int'l estimates

Stock Rating

BUY

1-year stock performance



Source: Bloomberg

Stock data

52w high (HK\$)	19.66
52w low (HK\$)	6.40
Market cap (HK\$ m)	160,415.70
Avg daily vol (m)	29.01
YTD change (%)	37.37
200d MA (HK\$)	12.04

Source: Bloomberg

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Recap of SBP's 1Q18 Results

Figure 1: Sino Biopharm's 1Q18 results variance

(RMB m, except for per share)	1Q18		Variance		Chg (RMB m) YoY	Growth YoY (%)
	Actual	Est.	(RMB m)	%		
Revenues						
Modernized Chinese and chemical medicines	4,541	4,231	310	7	783	21
Others	112	88	24	21	8	8
Total revenues	4,653	4,321	331	7	789	20
Total COGS	942	907	35	4	133	16
Gross profit	3,710	3,414	297	8	656	21
Other income and gains	177	173	5	3	82	85
Operating expenses						
Selling and distribution costs	1,986	1,685	301	15	348	21
Administrative expenses	212	259	-47	-22	81	62
Other expenses	643	519	125	19	-26	-4
Total operating expenses	2,842	2,463	379	13	403	17
Operating income						
Modernized Chinese and chemical medicines	1,037	1,058	-20	-2	343	49
Investment	44	20	24	55	10	31
Others	7	18	-11	-164	-1	-11
Unallocated operating income	-220	-145	-75	34	-98	81
Operating income	869	951	-82	-9	254	41
Share of (loss)/profit of an associate/JV	64	130	-66	-104	-5	-8
Finance costs	24	23	0	2	7	39
Total other income	217	279	-62	-28	70	47
Net income before tax	1,086	1,230	-144	-13	323	42
Provision for tax	159	184	-26	-16	3	2
Net Income						
Net income	927	1,045	-118	-13	320	53
Profit attributable to:						
Owners of the parent	771	700	71	9	192	33
Owners of the parent, adjusted	798	691	107	13	228	40
Non-controlling interests	156	345	-189	-121	128	458
Basic EPS (RMB)	0.10	0.09	0.00	5	0.02	27
Basic EPS, adjusted (RMB)	0.10	0.09	0.01	9	0.03	34
Margin analysis (%)						
Gross margin	79.7	79.0	75bps		69bps	
Selling and distribution costs	42.7	39.0	369bps		28bps	
Administrative expenses	4.6	6.0	-144bps		116bps	
Other expenses	13.8	12.0	182bps		-351bps	
Operating margin	18.7	22.0	-333bps		275bps	
Tax rate	14.6	15.0	-40bps		-580bps	
Net margin	19.9	24.2	-426bps		422bps	
Non-controlling interests as % net income	16.8	33.0	-1615bps		1224bps	

Source: Company data, BOCOM Int'l estimates

Figure 2: Sino Biopharm's 1Q18 results variance by products

(RMB m)	1Q18		Variance		Growth YoY (%)
	Actual	Est.	(RMB m)	%	
Cardio-cerebral medicines					
Alprostadil injections (凯时)	180	270	-89	-50	-40
Irbesartan/hydrochlorothiazide (依倫平)	211	201	11	5	23
Hydroxyethylstarch 130 (天晴宁)	42	44	-3	-6	-3
Tuotuo calcium tablets (托妥钙片)	174	157	18	10	10
Beiqian Liesu (贝前列素钠片)	99	107	-8	-8	20
Others	139	48	92	66	
Subtotal	566	449	117	21	37
Hepatitis medicines					
Magnesium isoglycyrhizinate (天晴甘美)	441	491	-50	-11	-8
Entecavir (润众)	941	929	12	1	6
Entecavir maleate (天丁)	120	140	-21	-17	28
Adefovir (名正)	78	79	-1	-1	-26
Diammonium glycyrrhizinate enteric (天晴甘平)	104	103	2	2	-3
Diammonium glycyrrhizinate (甘利欣)	27	31	-3	-13	-11
Other	49	27	22	45	118
Subtotal	1,780	1,819	-39	-2	3
Oncology medicines					
Zolebrionate acid injections (天晴依泰)	58	61	-4	-6	-1
Palonosetron hydrochloride injections (止若)	41	69	-27	-66	-46
Raltitrexed (赛维健)	104	92	12	11	24
Decitabine (晴唯可)	52	48	4	7	35
Dasatinib (格尼可)	57	56	2	3	35
Capecitabine (首辅)	45	53	-8	-17	-4
Dasatinib (依尼舒)	37	35	2	5	47
Other	50	56	-6	-13	
Subtotal	444	472	-28	-6	6
Orthopedic medicines					
New ossified estriol capsules (新骨化三醇胶丸)	245	246	-2	-1	14
Glucosamine (九力)	60	63	-2	-4	30
Zoledronic acid (依固)	30	30	0	0	85
Other	24	23	1	3	35
Subtotal	359	362	-3	-1	22
Anti-infectious medicines					
Biapenem injections (天册)	207	200	7	3	6
Tigecycline (天解)	70	52	18	26	76
Other	26	34	-8	-31	-32
Subtotal	303	286	17	6	11
Parental nutritious medicines					
Carbohydrate & electrolyte (新海能注射液)	105	102	3	3	-12
Fenghaineng fructose (丰海能果糖注射液)	44	49	-6	-13	-7
Other	2	2	0		15
Subtotal	151	153	-2	-2	-10
Anorectal medicines					
Diosmin tablets (葛泰)	57	60	-3	-5	5
Aisuping(Esomeprazole Sodium) injections (艾速平)	174	175	-1	0	188
Other	30	32	-2	-7	40
Subtotal	262	267	-5	-2	92
Respiratory system					
Tianqingsule inhalation powder (天晴速乐)	155	160	-5	-4	26
Chia Tai Suke tables	63	38	26	40	76
Other	32	22	10	32	92
Subtotal	250	219	30	12	42
Total sales of major products	4,519	4,429	91	2	15

Source: Company data, BOCOM Int'l estimates

Fine-tuned 2018-20 Estimates

Figure 3: Revision to estimates

(RMB m, except per-share data)		2017	2018E	2019E	2020E
Total revenues	New	14,819	21,465	27,024	31,822
	Old	14,819	20,567	25,961	30,381
Total COGS	New	3,091	4,383	5,506	6,468
	Old	3,091	4,243	5,359	6,167
Gross profit	New	11,729	17,082	21,519	25,353
	Old	11,729	16,324	20,602	24,215
Sales/marketing/advertising expenses	New	5,918	8,374	10,470	12,293
	Old	5,918	7,857	9,872	11,413
General and administrative expenses	New	987	1,170	1,499	1,734
	Old	987	1,185	1,446	1,655
Other expenses	New	1,602	2,649	3,353	4,175
	Old	1,602	2,294	3,018	3,675
Total operating expenses	New	8,507	12,194	15,322	18,203
	Old	8,507	11,336	14,336	16,743
Operating income	New	3,222	4,888	6,197	7,151
	Old	3,222	4,988	6,266	7,471
Share of result of an associate	New	409	243	270	318
	Old	409	195	104	122
Finance costs	New	78	94	91	88
	Old	78	93	90	85
Total other income	New	974	1,010	1,273	1,503
	Old	974	936	1,065	1,252
Net income before tax	New	4,196	5,899	7,470	8,653
	Old	4,196	5,924	7,331	8,723
Provision for tax	New	542	881	1,120	1,298
	Old	542	889	1,100	1,308
Net income	New	3,654	5,018	6,349	7,355
	Old	3,654	5,035	6,232	7,415
Profit attributable to :					
Equity holders of the company	New	2,171	2,942	3,654	4,345
	Old	2,171	2,975	3,703	4,411
Minority Interests	New	1,483	2,077	2,695	3,010
	Old	1,483	2,061	2,529	3,004
Basic EPS, adjusted (RMB)	New	0.28	0.35	0.43	0.51
	Old	0.28	0.35	0.43	0.51
Margin analysis (%)					
Gross margin	New	79.1	79.6	79.6	79.7
	Old	79.1	79.4	79.4	79.7
Operating margin	New	21.7	22.8	22.9	22.5
	Old	21.7	24.3	24.1	24.6
Tax rate	New	12.9	14.9	15.0	15.0
	Old	12.9	15.0	15.0	15.0
Net margin	New	24.7	23.4	23.5	23.1
	Old	24.7	24.5	24.0	24.4
Non-controlling interests as % of net income	New	40.6	41.4	42.4	40.9
	Old	40.6	40.9	40.6	40.5

Source: Company data, BOCOM Int'l estimates

Financial Statements

Income statement (RMB m)					
Y/E 31 Dec	2016	2017	2018E	2019E	2020E
Revenue	13,543	14,819	21,465	27,024	31,822
COGS	2,817	3,091	4,383	5,506	6,468
Gross profit	10,727	11,729	17,082	21,519	25,353
Selling and distribution expenses	5,453	5,918	8,374	10,470	12,293
G&A expenses	1,039	987	1,170	1,499	1,734
Other expenses	1,526	1,602	2,649	3,353	4,175
Operating income	2,708	3,222	4,888	6,197	7,151
Other income and gains	275	643	862	1,094	1,273
Financial costs	77	78	94	91	88
Pre-tax income	3,203	4,196	5,899	7,470	8,653
Income tax	475	542	881	1,120	1,298
Net income	2,729	3,654	5,018	6,349	7,355
Net profit attributable to owners of the parent	1,637	2,171	2,942	3,654	4,345
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	18,891	24,618	31,545
Cash and equivalents	3,766	4,188	7,723	12,414	17,674
Available for sale investments	2,122	2,647	2,780	2,919	3,065
Inventories	895	919	1,363	1,503	1,864
Trade and notes receivables	1,996	2,051	2,653	2,974	3,652
Others	3,953	3,974	4,372	4,809	5,290
Non-current assets	5,651	7,155	7,928	8,592	9,156
PP&E	2,687	3,483	4,105	4,635	5,071
Goodwill	89	89	89	89	89
Other intangible assets	181	219	322	405	477
Others	2,694	3,364	3,412	3,462	3,519
Total assets	18,384	20,935	26,819	33,210	40,701
Current liabilities	5,656	5,688	7,125	7,877	8,860
Borrowings	1,369	741	890	1,067	1,281
Trade and other payables	4,094	4,655	5,913	6,456	7,189
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	17,040	22,658	29,145
Total liabilities and equity	18,384	20,935	26,819	33,210	40,701

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	5,026	6,252	6,872
Net income	2,620	3,731	5,018	6,349	7,355
D&A	284	308	409	502	595
Change in working capital	303	431	213	82	-306
Others	-212	-737	-614	-681	-772
Cash flows from investing activities	-2,234	-1,979	-714	-715	-715
CapEx	-738	-1,109	-1,015	-1,015	-1,015
Available for sale investments	-144	-696	-159	-167	-176
Others	-1,352	-175	461	467	476
Cash flows from financing activities	567	-1,346	-282	-847	-897
Net borrowing	1,602	-97	148	178	213
Dividend paid	-376	-450	-589	-731	-869
Others	-659	-799	159	-294	-242
Cash & equivalents at beginning of period	2,121	3,502	3,692	7,723	12,414
Cash & equivalents at end of period	3,502	3,692	7,723	12,414	17,674

Financial ratios					
Y/E 31 Dec	2016	2017	2018E	2019E	2020E
Growth profile (%)					
Revenue	14	9	45	26	18
Gross profit	16	9	46	26	18
Operating profit	18	19	52	27	15
Net income	14	34	37	27	16
Margins (%)					
Gross margin	79	79	80	80	80
Operating margin	20	22	23	23	22
Net margin	20	25	23	23	23
Tax rate	15	13	15	15	15
Business performance					
ROE (%)	26	29	29	28	25
ROA (%)	15	17	19	19	18
ROIC (%)	10	11	12	12	11
Quality of earnings					
Net debt-to-equity Ratio (%)	-7	-10	-27	-40	-49
Interest cover (x)	43	55	64	83	99
Quality of assets					
Quick ratio (x)	2.1	2.3	2.5	2.9	3.4
Current ratio (x)	2.3	2.4	2.7	3.1	3.6
Equity to assets ratio (%)	58	60	64	68	72

21 May 2018

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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**.

21 May 2018

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