

26 March 2019

**Outperform**  
**Unchanged**

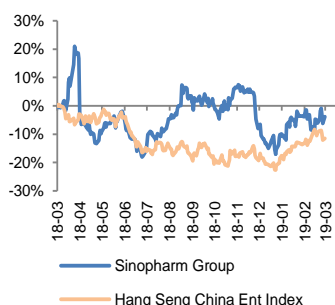
## 符合预期

### SINOPHARM GROUP (01099:HK)

#### Market Data: 25 March

Closing Price (HK\$)	31.60
Price Target (HK\$)	37.50
HSCEI	11,232
HSCCI	4,477
52-week High/Low (HK\$)	44.98/29.33
Market Cap (US\$m)	11,963
Market Cap (HK\$m)	93,904
Shares Outstanding (m)	2,972
Exchange Rate (Rmb-HK\$)	1.17

#### Price Performance Chart:



Source: Bloomberg

#### Analyst

Jane Zhou

A0230518110003

BMR371

zhoujy@swsresearch.com

#### Financial summary and valuation

	2017	2018	2019E	2020E	2021E
Revenue (Rmbm)	277,717.02	344,525.82	381,014.21	419,583.38	458,728.62
YoY (%)	7.48	11.73	10.59	10.12	9.33
Net income (Rmbm)	5,283.09	5,835.84	6,488.17	7,136.01	7,881.89
YoY (%)	13.68	4.67	11.18	9.99	10.45
EPS (Rmb)	1.91	1.97	2.18	2.40	2.65
Diluted EPS (Rmb)	1.91	1.96	2.18	2.40	2.65
ROE (%)	15.75	14.95	14.39	14.31	14.30
Debt/asset (%)	69.76	71.04	70.19	69.32	68.40
Dividend Yield (%)	2.10	2.17	2.41	2.65	2.93
PE (x)	14.20	13.82	12.45	11.32	10.25
PB (x)	1.46	1.18	1.07	0.96	0.87
EV/Ebitda (x)	6.76	5.69	5.14	4.65	4.32

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

公司 2018 年收入同比增长 11.7% 至 3,445 亿元，归属股东净利润同比增长 4.7% 至 58 亿元，符合我们以及市场一致预期。2018 年核心净利润（扣除政府补贴，资产处置损益等）同比增长约 10%。

**毛利率提升。**由于纯销占比提升，以及高增长医疗器械分销业务的毛利率高于药品分销，18 年公司整体毛利率提升 0.61 个百分点至 9.06%。调拨业务占公司整体分销收入的比重从 2017 年的 17.5% 下降至 2018 年的 10.6%。我们预计 2019 年调拨业务占比将稳定在约 10%。我们认为随着收入结构的改善，公司整体毛利率水平将持续提升。

**财务数据。**随着公司分销网络的持续扩张，18 年公司的销售和管理费用率上升 0.39 个百分点至 4.72%。我们认为销售和管理费用率上升主要由于渠道下沉以及新开药店的影响。受直销占比提升影响，直销占比从 2017 年的 83% 提升至 2018 年的 89%，2018 年公司整体应收账款天数延长 10 天至 99 天。18 年财务费用率上升 0.29 个百分点至 1.19%。

**医疗器械分销业务高速增长。**2018 年 7 月，公司收购中国科学器材有限公司（中科器）60% 的股权，中科器为国内最大的医疗器械分销商。2018 年公司医疗器械分销收入达到 495 亿元，同比增长 30%。我们预计 19 年公司的医疗器械分销业务有望实现约 20% 的同比增长，成为公司新的增长动力。

**带量采购影响。**公司收入受“4+7”试点城市带量采购影响约为 50-60 亿人民币，约占公司 2018 年整体收入的 1.5-2%。试点城市带量采购品种的平均价格降幅约为 50%，我们预计对公司毛利率的影响小于 1%。此外，由于回款天数缩短，该部分财务费用有望下降。

**维持增持评级。**我们将 19 年稀释每股盈利预测从 2.30 元下调至 2.18 元（同比增长 11%），将 20 年预测从 2.53 元下调至 2.40 元（同比增长 10%），预计 21 年稀释每股盈利为 2.65 元（同比增长 10%）。我们将目标价从 42.5 港币下调至 37.5 港币，对应 15 倍 19 年市盈率，以及 13 倍 20 年市盈率。目标价对应 19% 的上涨空间，维持增持评级。

## Investment Highlights:

Sinopharm reported 2018 net revenue of Rmb344.5bn (+11.7% YoY) and net profit of Rmb5.8bn (+4.7% YoY), in line with our forecast and market consensus. Core net profit (excluding one-off items, such as government subsidies and disposal gains) increased 10% YoY in 2018. We lower our diluted EPS forecasts from Rmb2.30 to Rmb2.18 in 19E (+11.2% YoY) and from Rmb2.53 to Rmb2.40 in 20E (+10.1% YoY), and forecast Rmb2.65 in 21E (+10.4% YoY). We cut our target price from HK\$42.50 to HK\$37.50, representing 15x 19E PE and 13x 20E PE. With 19% upside, we maintain Outperform.

**Margin improvement.** Due to an increase in the proportion of direct sales and the rapid growth from the high-margin medical device distribution business, Sinopharm's blended gross margin improved 0.61ppts to 9.06% in 2018. The proportion of distribution to third parties (indirect sales) further declined from 17.5% in 2017 to 10.6% in 2018. We expect the proportion of indirect sales to remain stable at c.10% in 19E, and believe the company's blended gross margin will continue to improve due to the revenue mix change.

**Financial highlights.** With the expansion of distribution networks, Sinopharm's selling, general, and administrative (SG&A) expense-to-revenue ratio increased 0.39ppts to 4.72% in 2018. We believe the rising SG&A ratio was mainly a result of the firm's expansion into lower-tier markets as well as new store openings for pharmacies. In 2018, Sinopharm's overall receivable days increased 10 days to 99 days as direct sales accounted for a higher proportion of total distribution sales (89% in 2018, vs 83% in 2017). Meanwhile, the firm's financial expense-to-revenue ratio edged up 0.29ppts to 1.19%.

**Rapidly growing medical device distribution business.** The company acquired a 60% equity stake in China National Scientific Instruments and Materials Corporation (CSIMC) in July 2018, which is China's largest medical device distributor. Sinopharm's revenue from medical device distribution reached Rmb49.5bn in 2018, up 30% YoY. We expect sales of medical devices to climb c.20% YoY in 19E and become a new growth driver for the company.

**Impact of centralised drug procurement.** We estimate drug sales in "4+7" pilot cities at Rmb5.0-6.0bn last year, accounting for 1.5-2.0% of the company's total revenue. The average tender price cut of 25 drugs in 11 cities was c.50%. We expect the impact on the company's gross margin to be less than 1%. Meanwhile, financial costs can be reduced thanks to shorter receivable days.

**Maintain Outperform.** We lower our diluted EPS forecasts from Rmb2.30 to Rmb2.18 in 19E (+11.2% YoY) and from Rmb2.53 to Rmb2.40 in 20E (+10.1% YoY), and forecast Rmb2.65 in 21E (+10.4% YoY). We cut our target price from HK\$42.50 to HK\$37.50, representing 15x 19E PE and 13x 20E PE. With 19% upside, we maintain our Outperform rating.

## APPENDIX

### Consolidated Income Statement

(Rmbm)	2017	2018	2019E	2020E	2021E
Revenue	277,717	344,526	381,014	419,583	458,729
Cost of Sales	-254,640	-313,298	-346,493	-381,063	-416,615
Gross Profit	23,077	31,228	34,521	38,520	42,114
Other Income	400	414	400	400	400
Selling/General/Admin. Expenses	-11,570	-15,888	-17,908	-20,308	-22,707
EBITDA	12,921	16,791	18,579	20,235	21,483
EBIT	11,906	15,397	17,013	18,612	19,807
Finance Costs	-2,534	-4,114	-4,705	-4,949	-5,216
<b>Profit before tax</b>	<b>10,173</b>	<b>12,208</b>	<b>13,573</b>	<b>14,928</b>	<b>16,488</b>
Income tax expense	-2,305	-2,803	-3,117	-3,428	-3,786
Minority interests	-2,585	-3,569	-3,968	-4,364	-4,820
<b>Profit for the year</b>	<b>5,283</b>	<b>5,836</b>	<b>6,488</b>	<b>7,136</b>	<b>7,882</b>

Source: Company data, SWS Research

### Consolidated Cash Flow Statement

(Rmbm)	2017	2018	2019E	2020E	2021E
<b>Profit before taxation</b>	<b>10,173</b>	<b>12,208</b>	<b>13,573</b>	<b>14,928</b>	<b>16,488</b>
Plus : Depr. and amortisation	1,015	1,395	1,566	1,623	1,676
Finance cost	2,533	4,609	5,412	5,694	6,004
Losses from investments	-17	0	0	0	0
Change in working capital	-8,844	-23,197	-6,251	-5,583	-6,179
Others	-3,194	8,639	-4,382	-4,693	-5,683
<b>CF from operating activities</b>	<b>1,667</b>	<b>3,654</b>	<b>9,919</b>	<b>11,970</b>	<b>12,305</b>
CAPEX	-2,863	-6,195	-2,300	-2,300	-2,300
Other CF from investing activities	316	287	430	430	645
<b>CF from investing activities</b>	<b>-2,547</b>	<b>-5,908</b>	<b>-1,870</b>	<b>-1,870</b>	<b>-1,655</b>
Equity financing	0	0	0	0	0
Net change in liabilities	7,717	8,000	0	0	0
Dividend and interest paid	-4,442	-7,046	-8,122	-8,703	-9,312
Other CF from financing activities	1,028	9,365	0	0	0
<b>CF from financing activities</b>	<b>4,302</b>	<b>10,319</b>	<b>-8,122</b>	<b>-8,703</b>	<b>-9,312</b>
<b>Net cash flow</b>	<b>3,422</b>	<b>8,065</b>	<b>-73</b>	<b>1,397</b>	<b>1,338</b>
FCFF	-1,091	-15,403	6,912	8,924	9,217
FCFE	4,093	-12,012	1,499	3,230	3,214

Source: Company data, SWS Research

**Consolidated Balance Sheet**

(Rmbm)	2017	2018	2019E	2020E	2021E
Current Assets	144,843	204,655	221,690	239,977	259,123
Bank balances and cash	29,011	40,299	40,226	41,623	42,961
Trade and other receivables	84,204	121,482	134,840	148,952	162,849
Inventories	26,769	35,389	39,139	41,917	45,828
Other current assets	4,859	7,485	7,485	7,485	7,485
Long-term investment	5,051	6,358	7,193	8,027	9,279
PP&E	7,796	11,025	11,338	11,622	11,879
Intangible and other assets	11,849	13,733	14,154	14,547	14,914
<b>Total Assets</b>	<b>169,539</b>	<b>235,771</b>	<b>254,375</b>	<b>274,173</b>	<b>295,194</b>
Current Liabilities	110,876	160,074	171,125	182,627	194,479
Borrowings	30,163	50,085	50,085	50,085	50,085
Trade and other payables	79,773	102,474	113,331	124,638	136,267
Other current liabilities	941	7,516	7,709	7,903	8,127
Long-term liabilities	7,393	7,421	7,421	7,421	7,421
<b>Total Liabilities</b>	<b>118,269</b>	<b>167,495</b>	<b>178,546</b>	<b>190,048</b>	<b>201,900</b>
Minority Interests	16,012	25,454	28,465	31,767	35,419
Shareholder Equity	35,258	42,822	47,364	52,359	57,876
Share Capital	2,767	2,972	2,972	2,972	2,972
Reserves	32,684	39,985	44,527	49,522	55,040
Total Equity	51,270	68,276	75,829	84,126	93,295
<b>Total Liabilities and equity</b>	<b>169,539</b>	<b>235,771</b>	<b>254,375</b>	<b>274,173</b>	<b>295,194</b>

Source: Company data, SWS Research

### Key Financial Ratios

	2017	2018	2019E	2020E	2021E
<b>Ratios per share (Rmb)</b>					
Earnings per share	1.91	1.97	2.18	2.40	2.65
Diluted EPS	1.91	1.96	2.18	2.40	2.65
Operating CF per share	0.60	1.23	3.34	4.03	4.14
Dividend per share	0.57	0.59	0.66	0.72	0.80
Net assets per share	18.57	23.01	25.52	28.31	31.39
<b>Key Operating Ratios(%)</b>					
ROIC	10.60	9.62	10.02	10.30	10.29
ROE	15.75	14.95	14.39	14.31	14.30
Gross profit margin	8.31	9.06	9.06	9.18	9.18
EBITDA Margin	4.65	4.87	4.88	4.82	4.68
EBIT Margin	4.29	4.47	4.47	4.44	4.32
Growth rate of Revenue(YoY)	7.48	11.73	10.59	10.12	9.33
Growth rate of Profit(YoY)	13.68	4.67	11.18	9.99	10.45
Debt-to-asset ratio	69.76	71.04	70.19	69.32	68.40
Turnover rate of net assets	5.42	5.05	5.02	4.99	4.92
Turnover rate of total assets	1.64	1.46	1.50	1.53	1.55
Effective tax rate (%)	22.66	22.96	22.96	22.96	22.96
Dividend yield (%)	2.10	2.17	2.41	2.65	2.93
<b>Valuation Ratios (X)</b>					
P/E	14.20	13.82	12.45	11.32	10.25
P/B	1.46	1.18	1.07	0.96	0.87
EV/Sale	0.31	0.28	0.25	0.22	0.20

Source: Company data, SWS Research

## Information Disclosure:

The views expressed in this report accurately reflect the personal views of the analyst. The analyst declares that neither he/she nor his/her associate serves as an officer of nor has any financial interests in relation to the listed corporation reviewed by the analyst. None of the listed corporations reviewed or any third party has provided or agreed to provide any compensation or other benefits in connection with this report to any of the analyst, the Company or the group company(ies). A group company(ies) of the Company confirm that they, whether individually or as a group (i) are not involved in any market making activities for any of the listed corporation reviewed; or (ii) do not have any individual employed by or associated with any group company(ies) of the Company serving as an officer of any of the listed corporation reviewed; or (iii) do not have any financial interest in relation to the listed corporation reviewed or (iv) do not, presently or within the last 12 months, have any investment banking relationship with the listed corporation reviewed.

### Undertakings of the Analyst

I (We) am (are) conferred the Professional Quality of Securities Investment Consulting Industry by the Securities Association of China and have registered as the Securities Analyst. I hereby issue this report independently and objectively with due diligence, professional and prudent research methods and only legitimate information is used in this report. I am also responsible for the content and opinions of this report. I have never been, am not, and will not be compensated directly or indirectly in any form for the specific recommendations or opinions herein.

### Disclosure with respect to the Company

The company is a subsidiary of Shenwan Hongyuan Securities. The company is a qualified securities investment consulting institute approved by China Securities Regulatory Commission.

Releasing securities research reports is the basic form of the securities investment consulting services. The company may analyze the values or market trends of securities and related products or other relevant affecting factors, provide investment analysis advice on securities valuation/ investment rating, etc. by issuing securities research reports solely to its clients.

The Company fulfills its duty of disclosure within its sphere of knowledge. The clients may contact [compliance@swsresearch.com](mailto:compliance@swsresearch.com) for the relevant disclosure materials or log into [www.swsresearch.com](http://www.swsresearch.com) for the analysts' qualifications, the arrangement of the quiet period and the affiliates' shareholdings.

### Introduction of Share Investment Rating

#### Security Investment Rating:

When measuring the difference between the markup of the security and that of the market's benchmark within six months after the release of this report, we define the terms as follows:

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.

Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.

SELL: Share price performance is expected to generate more than 20% downside over a 12-month period.

#### Industry Investment Rating:

When measuring the difference between the markup of the industry index and that of the market's benchmark within six months after the release of the report, we define the terms as follows:

Overweight: Industry performs better than that of the whole market;

Equal weight: Industry performs about the same as that of the whole market;

Underweight: Industry performs worse than that of the whole market.

We would like to remind you that different security research institutions adopt different rating terminologies and rating standards. We adopt the relative rating method to recommend the relative weightings of investment. The clients' decisions to buy or sell securities shall be based on their actual situation, such as their portfolio structures and other necessary factors. The clients shall read through the whole report so as to obtain the complete opinions and information and shall not rely solely on the investment ratings to reach a conclusion. The Company employs its own industry classification system. The industry classification is available at our sales personnel if you are interested.

HSCEI is the benchmark employed in this report.

## Disclaimer:

This report is to be used solely by the clients of SWS Research Co., Ltd. (subsidiary of Shenwan Hongyuan Securities, hereinafter referred to as the "Company"). The Company will not deem any other person as its client notwithstanding his receipt of this report.

This report is based on public information, however, the authenticity, accuracy or completeness of such information is not warranted by the Company. The materials, tools, opinions and speculations contained herein are for the clients' reference only, and are not to be regarded or deemed as an invitation for the sale or purchase of any security or other investment instruments.

The clients understand that the text message reminder and telephone recommendation are no more than a brief communication of the research opinions, which are subject to the complete report released on the Company's website (<http://www.swsresearch.com>). The clients may ask for follow-up explanations if they so wish.

The materials, opinions and estimates contained herein only reflect the judgment of the Company on the day this report is released. The prices, values and investment returns of the securities or investment instruments referred to herein may fluctuate. At different periods, the Company may release reports which are inconsistent with the materials, opinions and estimates contained herein.

Save and except as otherwise stipulated in this report, the contactor upon the first page of the report only acts as the liaison who shall not provide any consulting services.

The clients shall consider the Company's possible conflict of interests which may affect the objectivity of this report, and shall not base their investment decisions solely on this report. The clients should make investment decisions independently and solely at your own risk. Please be reminded that in any event, the company will not share gains or losses of any securities investment with the clients. Whether written or oral, any commitment to share gains or losses of securities investment is invalid. The investment and services referred to herein may not be suitable for certain clients and shall not constitute personal advice for individual clients. The Company does not ensure that this report fully takes into consideration of the particular investment objectives, financial situations or needs of individual clients. The Company strongly suggests the clients to consider themselves whether the opinions or suggestions herein are suitable for the clients' particular situations; and to consult an independent investment consultant if necessary.

Under no circumstances shall the information contained herein or the opinions expressed herein forms an investment recommendation to anyone. Under no circumstances shall the Company be held responsible for any loss caused by the use of any contents herein by anyone. Please be particularly cautious to the risks and exposures of the market via investment.

Independent investment consultant should be consulted before any investment decision is rendered based on this report or at any request of explanation for this report where the receiver of this report is not a client of the Company.

The Company possesses all copyrights of this report which shall be treated as non-public information. The Company reserves all rights related to this report. Unless otherwise indicated in writing, all the copyrights of all the materials herein belong to the Company. In the absence of any prior authorization by the

Company in writing, no part of this report shall be copied, photocopied, replicated or redistributed to any other person in any form by any means, or be used in any other ways which will infringe upon the copyrights of the Company. All the trademarks, service marks and marks used herein are trademarks, service marks or marks of the Company, and no one shall have the right to use them at any circumstances without the prior consent of the Company.

This report may be translated into different languages. The Company does not warrant that the translations are free from errors or discrepancies.

This report is for distribution in Hong Kong only to persons who fall within the definition of professional investors whether under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") or the Securities and Futures (Professional Investor) Rules (Chapter 571D of the laws of the Hong Kong under the SFO).

This report is for distribution in the United Kingdom only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) order 2001 (as amended) (the "Order") or (ii) are persons falling within Article 49(2)(a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc") of the Order (All such persons together being referred to as "Relevant Persons"). This document is directed only at Relevant Persons. Other Persons who are not Relevant Persons must not act or rely upon this document or any of its contents.

### **Distribution in Singapore**

If distributed in Singapore, this report is meant only for Accredited Investors and Institutional Investors as defined under Section 4A of the Securities and Futures Act of Singapore. If you are not an Accredited Investor or an Institutional Investor, you shall ignore the report and its contents. The Singapore recipients of the report are to contact the Singapore office of Shenwan Hongyuan Singapore Private Limited at 65-6323-5208, or 65-6323-5209 in respect of any matters arising from, or in connection with, the report.