

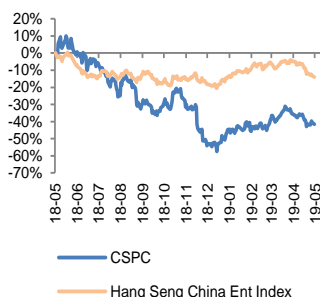
22 May 2019

Outperform  
Unchanged

Market Data: May, 21

Closing Price (HK\$)	13.84
Price Target (HK\$)	16.50
HSCEI	10,635
HSCCI	4,302
52-week High/Low (HK\$)	26.60/9.90
Market Cap (US\$m)	10,996
Market Cap (HK\$m)	86,311
Shares Outstanding (m)	6,236
Exchange Rate (Rmb-HK\$)	1.14

Price Performance Chart:



Source: Bloomberg

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The clients shall have a comprehensive understanding of the disclosure and disclaimer upon the last page.

## 抗肿瘤板块表现靓丽

### CSPC PHARMACEUTICAL GROUP (01093:HK)

#### Financial summary and valuation

	2017	2018	2019E	2020E	2021E
Revenue (HK\$m)	15,462.53	21,028.87	25,520.87	30,250.37	34,942.07
YoY (%)	25.01	36.00	21.36	18.53	15.51
Net income (HK\$m)	2,770.52	3,654.98	4,554.83	5,632.87	6,641.34
YoY (%)	31.88	31.92	24.62	23.67	17.90
EPS (HK\$)	0.45	0.59	0.73	0.90	1.06
Diluted EPS (HK\$)	0.45	0.59	0.73	0.90	1.06
ROE (%)	21.79	22.54	24.42	25.47	25.26
Debt/asset (%)	28.48	33.11	28.17	27.05	25.85
Dividend Yield (%)	1.08	1.30	1.69	2.09	2.46
PE (x)	30.43	23.64	18.95	15.32	13.00
PB (x)	5.47	4.90	4.17	3.52	2.98
EV/Ebitda (x)	19.26	15.03	12.26	9.72	7.94

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

石药集团 2019 年 1 季度收入同比增长 25.6%，达到 55 亿元；归属于股东的净利润同比增长 28.8%，达到 9.52 亿元，符合我们的预期。公司自今年年初开始将记账货币从港币改为人民币。为了增加数字的可比性，我们继续采用港币进行盈利预测。

**抗肿瘤板块高速增长。**由于肿瘤药克艾力、多美素、以及津优力的高速增长，2019 年 1 季度肿瘤药的销售收入同比增长 208%。克艾力于 2018 年 3 月上市销售。目前，已被纳入 5 个省医保目录。2019 年 1 季度克艾力实现销售额超过 2.5 亿元。此外，2019 年 1 季度多美素和津优力同比增长均超过 100%。此外，恩必普的销售收入同比增长 32.1%，主要由于持续的市场渗透，以及销售人员扩张。我们预计，恩必普的销售额于 19-21 年的复合增速约为 20%。

**原料药板块盈利下滑。**2019 年 1 季度维生素 C 业务录得经营利润 1.66 亿元，同比下降 21.4%。主要受维生素 C 价格下滑的影响，维生素 C 的价格从 2018 年 1 月 72.5 元/公斤的高峰水平，下降至 2018 年 12 月的 33 元/公斤，目前价格为 25 元/公斤。此外，抗生素原料药的经营利润达到 2,500 万元，同比下降 10%。

**综合毛利率提升。**2019 年 1 季度综合毛利率提升 5.6 个百分点至 69.9%，主要由于高毛利的创新药业务占比提升。创新药销售额达到 29.5 亿元，同比增长 54.4%，占公司整体收入比重从 2018 年 1 季度的 44% 提升至 2019 年 1 季度的 54%。由于公司加强了创新药的学术推广，销售费用率上升 3.8 个百分点至 37.6%。

**研发费用上升。**由于研发管线的持续拓展，2019 年 1 季度研发费用同比增长 77.1% 至 4.61 亿元。公司在研品种超过 300 个，包括 40 个小分子新药，以及 30 个生物药。此外，目前，公司共有 7 个品种已经通过一致性评价，包括盐酸二甲双胍片、阿奇霉素片、盐酸曲马多片、卡托普利片、阿莫西林胶囊等。

**维持增持评级。**我们维持 2019 年稀释每股盈利为 0.73 港币（同比增长 24%），2020 年稀释每股盈利为 0.90 港币（同比增长 23%），2021 年稀释每股盈利为 1.06 港币（同比增长 18%）。我们将目标价从 16.0 港币略上调至 16.5 港币。目标价对应 19.2% 的上涨空间，维持增持评级。

## Investment Highlights:

CSPC Pharmaceutical Group reported 1Q19 revenue of Rmb5.5bn (+25.6% YoY) and net profit of Rmb952m (+28.8% YoY), in line with our expectations. The company changed its reporting currency from Hong Kong dollar to renminbi in the beginning of 2019. For comparison purposes, we continue to use Hong Kong dollar as the reporting currency. We maintain our EPS forecasts of HK\$0.73 in 19E (+23.7% YoY), HK\$0.90 in 20E (+23.3% YoY), and HK\$1.06 in 21E (+17.8% YoY). We raise our target price from HK\$16.00 to HK\$16.50. With 19.2% upside, we maintain our Outperform rating.

**Rapid growth of oncology drugs.** CSPC's total oncology drugs sales grew 208% YoY in 1Q19, mainly driven by the strong sales growth of *Ke'ailli*, *Duomeisu*, and *Jinyouli*. *Ke'ailli* was launched in March 2018 and has been included in five Provincial Reimbursement Drug Lists (PRDLs). Sales of *Ke'ailli* reached over Rmb250m in 1Q19. Meanwhile, *Duomeisu* and *Jinyouli* both delivered over 100% YoY sales growth in 1Q19. In addition, sales of the company's flagship product, *NBP*, surged 32.1% YoY thanks to its continuous penetration into lower-tier markets and the expansion of its sales team. We forecast *NBP* sales to grow at a Cagr of c.20% in 2019-21E.

**Declining API business.** In 1Q19, the firm's vitamin C business recorded Rmb166m in operating profit, down 21.4% YoY. This is mainly due to declining vitamin C prices, the spot price of vitamin C falling from the peak of Rmb72.5/kg in January 2018 to Rmb33/kg in December 2018, before further dropping to Rmb25/kg at present. In addition, operating profit of the company's antibiotics active pharmaceutical ingredient (API) business reached Rmb25m in 1Q19, down 10% YoY.

**Margin improvement.** CSPC's blended gross margin improved 5.6ppts YoY to 69.9% in 1Q19 due to the rising sales contribution from innovative drugs. Sales of innovative drugs reached Rmb2.95bn in 1Q19, up 54.4% YoY and accounting for 54% of total sales (vs 44% in 1Q18). Selling expense-to-revenue ratio increased 3.8ppts to 37.6% as innovative drugs require higher sales expenses.

**Rising R&D expenses.** In 1Q19, CSPC's research and development (R&D) expenses climbed 77.1% YoY to Rmb461m due to its growing pipeline. The company has over 300 drugs in its pipeline, with 40 new small molecule drugs and 30 biologics. In addition, to date, we note CSPC has received equivalence evaluation approval for seven products, including metformin hydrochloride tablet, azithromycin tablet, tramadol tablet, captopril tablet, and amoxicillin capsule.

**Maintain Outperform.** We maintain our EPS forecasts of HK\$0.73 in 19E (+23.7% YoY), HK\$0.90 in 20E (+23.3% YoY), and HK\$1.06 in 21E (+17.8% YoY). We raise our target price from HK\$16.00 to HK\$16.50. With 19.2% upside, we maintain our Outperform rating.

## APPENDIX

Consolidated Income Statement					
(HK\$m)	2017	2018	2019E	2020E	2021E
Revenue	15,463	21,029	25,521	30,250	34,942
Cost of Sales	-6,117	-7,116	-8,549	-9,831	-11,181
Gross Profit	9,346	13,913	16,971	20,419	23,761
Other Income	120	347	421	499	577
Selling/General/Admin. Expenses	-5,057	-8,108	-9,877	-11,707	-13,523
EBITDA	4,198	5,284	6,412	7,755	9,008
EBIT	3,482	4,538	5,602	6,942	8,194
Finance Costs	-27	-88	-2	-2	-2
Profit before tax	3,465	4,502	5,649	6,990	8,242
Income tax expense	-685	-873	-1,130	-1,398	-1,648
Minority interests	-10	26	35	41	48
Profit for the year	2,771	3,655	4,555	5,633	6,641

Source: Company data, SWS Research

Consolidated Cash Flow Statement					
(HK\$m)	2017	2018	2019E	2020E	2021E
Profit before taxation	3,465	4,502	5,649	6,990	8,242
Plus : Depr. and amortisation	717	746	810	812	814
Finance cost	27	88	2	2	2
Losses from investments	0	0	0	0	0
Change in working capital	-270	204	-2,270	-660	-634
Others	-651	-1,111	-1,132	-1,400	-1,651
CF from operating activities	3,288	4,428	3,059	5,745	6,774
CAPEX	-1,544	-2,107	-800	-800	-800
Other CF from investing activities	-1,744	-2,111	0	0	0
CF from investing activities	-3,287	-4,219	-800	-800	-800
Equity financing	0	0	0	0	0
Net change in liabilities	-193	-918	0	0	0
Dividend and interest paid	-726	-936	-1,458	-1,803	-2,125
Other CF from financing activities	2,551	1,675	-2	-2	-2
CF from financing activities	1,631	-179	-1,460	-1,805	-2,128
Net cash flow	1,632	30	799	3,140	3,846
FCFF	1,700	2,508	2,212	4,897	5,926
FCFE	1,480	1,502	2,209	4,895	5,924

Source: Company data, SWS Research

Consolidated Balance Sheet					
(HK\$m)	2017	2018	2019E	2020E	2021E
Current Assets	13,635	15,686	18,139	22,901	28,396
Bank balances and cash	5,238	4,927	5,726	8,865	12,712
Trade and other receivables	2,334	2,893	3,496	4,144	4,787
Inventories	2,901	3,461	4,169	4,794	5,453
Other current assets	3,162	4,405	4,748	5,098	5,445
Long-term investment	427	907	907	907	907
PP&E	6,663	7,605	7,652	7,695	7,734
Intangible and other assets	819	2,185	2,127	2,072	2,019
Total Assets	21,543	26,383	28,826	33,576	39,056
Current Liabilities	5,760	8,235	7,619	8,582	9,596
Borrowings	927	80	80	80	80
Trade and other payables	4,513	5,159	6,324	7,273	8,271
Other current liabilities	319	2,996	1,215	1,229	1,245
Long-term liabilities	375	500	500	500	500
Total Liabilities	6,135	8,735	8,119	9,082	10,097
Minority Interests	85	542	505	461	411
Shareholder Equity	15,322	17,105	20,202	24,032	28,549
Share Capital	12,922	12,922	12,922	12,922	12,922
Reserves	2,400	4,183	7,280	11,110	15,626
Total Equity	15,407	17,647	20,707	24,494	28,959
Total Liabilities and equity	21,543	26,383	28,826	33,576	39,056

Source: Company data, SWS Research

Key Financial Ratios					
	2017	2018	2019E	2020E	2021E
Ratios per share (HK\$)					
Earnings per share	0.45	0.59	0.73	0.90	1.06
Diluted EPS	0.45	0.59	0.73	0.90	1.06
Operating CF per share	0.54	0.71	0.49	0.92	1.09
Dividend per share	0.15	0.18	0.23	0.29	0.34
Net assets per share	2.53	2.83	3.32	3.93	4.64
Key Operating Ratios(%)					
ROIC	15.93	19.20	20.21	21.19	21.16
ROE	21.79	22.54	24.42	25.47	25.26
Gross profit margin	60.44	66.16	66.50	67.50	68.00
EBITDA Margin	27.15	25.13	25.12	25.64	25.78
EBIT Margin	22.52	21.58	21.95	22.95	23.45
Growth rate of Revenue(YoY)	25.01	36.00	21.36	18.53	15.51
Growth rate of Profit(YoY)	31.88	31.92	24.62	23.67	17.90
Debt-to-asset ratio	28.48	33.11	28.17	27.05	25.85
Turnover rate of net assets	1.00	1.19	1.23	1.24	1.21
Turnover rate of total assets	0.72	0.80	0.89	0.90	0.89
Effective tax rate (%)	19.83	19.62	20.18	20.14	20.12
Dividend yield (%)	1.08	1.30	1.69	2.09	2.46
Valuation Ratios (X)					
P/E	30.43	23.64	18.95	15.32	13.00
P/B	5.47	4.90	4.17	3.52	2.98
EV/Sale	5.23	3.78	3.08	2.49	2.05

Source: Company data, SWS Research

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

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