

11 September 2017

Hold
Unchanged

Market Data: 8 September 2017

Closing Price (HK\$)	42.95
Price Target (HK\$)	46.00
HSCEI	11,150
HSCCI	4,320
52-week High/Low (HK\$)	56.55/41.40
Market Cap (US\$m)	3,584
Market Cap (HK\$m)	28,000
Shares Outstanding (m)	553
Exchange Rate (Rmb-HK\$)	1.21

Price Performance Chart:



Source: Bloomberg

Analyst

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Related Reports

"Sales challenges-Livzon Pharmaceutical Group (1513:HK)"
August 24, 2017

"Solid growth-Livzon Pharmaceutical Group (1513:HK)"
July 12, 2017

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研发获批

LIVZON PHARMACEUTICAL GROUP (1513:HK)

Financial summary and valuation

	2015	2016	2017E	2018E	2019E
Revenue (Rmbm)	6,620.52	7,651.78	8,646.61	9,372.95	10,342.86
YoY (%)	19.41	15.58	13.00	8.40	10.35
Net income (Rmbm)	622.64	784.35	4,450.22	1,192.24	1,393.77
YoY (%)	20.67	25.97	467.37	(73.21)	16.90
EPS (Rmb)	1.57	1.84	8.04	2.16	2.52
Diluted EPS (Rmb)	1.57	1.84	8.04	2.16	2.52
ROE (%)	15.48	14.46	51.90	10.78	11.65
Debt/asset (%)	40.45	32.52	24.29	23.52	22.78
Dividend Yield (%)	1.40	1.40	1.58	1.82	2.12
PE (x)	22.70	19.33	4.43	16.52	14.13
PB (x)	2.94	2.13	1.74	1.61	1.48
EV/Ebitda (x)	13.79	11.18	9.50	8.17	7.04

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

丽珠医药的壹丽安（艾普拉唑）的新增治疗反流性食管炎的适应症获得 CFDA 批准。此外，公司的注射用紫杉醇聚合物胶束获得临床批准。我们维持 17 年的稀释每股收益为 8.04 元（同比增长 337%），18 年为 2.16 元（同比下降 73%），19 年为 2.52 元（同比增长 17%）。我们维持目标价 46 港币，对应 7% 的上涨空间，维持中性评级。

壹丽安（艾普拉唑）新增适应症获批。艾普拉唑肠溶片已于 2007 年 12 月获得 CFDA 批准用于治疗十二指肠溃疡。壹丽安是专利药，属于质子泵抑制剂类药物。目前，国内上市的质子泵抑制剂主要有六类，包括兰索拉唑，泮托拉唑，奥美拉唑，埃索美拉唑，雷贝拉唑和艾普拉唑。艾普拉唑的临床效果优于传统的质子泵抑制剂，其药效持续时间久，有利于缓解患者夜间胃灼热症状。艾普拉唑于 2015 年 6 月获得国家科技进步二等奖，并且于 2015 年 12 月获得中国专利优秀奖，其创新性及其有效性得到了国家背书。样本医院的销售数据显示，艾普拉唑在国内质子泵抑制剂市场的份额从 2012 年的 0.5% 提升至 2017 年一季度的 2.6%。2017 年上半年壹丽安（艾普拉唑）对公司收入的贡献比例为 4.9%。此次新版国家医保目录将壹丽安纳入国家医保目录乙类，限有十二指肠溃疡诊断患者的二线用药。我们认为此次壹丽安的新增适应症获批对销售略有正面影响，主要由于：1）反流性食管炎适应症不在医保报销范围，医保报销仅限有十二指肠溃疡诊断的患者；2）壹丽安实际在临床应用中已经有超适应症使用于反流性食管炎患者的情况。此外，艾普拉唑注射剂的生产申请有望于 17 年年底获批，这将显著促进该品种的销售增长。我们预计壹丽安 16-19 年的复合增速为 47%。

注射用紫杉醇聚合物胶束获得临床批准。CFDA 批准了公司的注射用紫杉醇聚合物胶束进行临床试验，注射用紫杉醇聚合物胶束为紫杉醇的新剂型。紫杉醇主要用于乳腺癌、卵巢癌以及非小细胞肺癌的化疗。初步预计公司还需要 3-5 年完成该药物的临床试验。截至目前，国内尚未有注射用紫杉醇聚合物胶束实现商业化生产。目前，丽珠医药、韩国三养、上海谊众和深圳天翼已经获得了临床批准，海正药业（600267:CH - 未评级）已经向 CFDA 递交了临床研究申请。目前中国市场主要有四类紫杉烷类制剂，包括紫杉醇脂质体，白蛋白结合型紫杉醇，普通紫杉醇和多西他赛。根据 IMS 统计数据，2016 年国内紫杉烷类制剂的市场份额如下：紫杉醇脂质体占比 32%，白蛋白结合型紫杉醇占比 6%，普通紫杉醇占比 22%，多西他赛和其他紫杉烷类占比 40%。样本医院的销售数据显示，16 年紫杉烷类的销售额增长 5.1%，17 年一季度增长 1.0%。与普通紫杉醇注射剂相比，紫杉醇聚合物胶束能够减少注射引起的疼痛。然而，由于紫杉烷类制剂的市场竞争较为激烈，我们认为公司的注射用紫杉醇聚合物胶束难以取得显著的市场份额。

维持中性评级。我们维持 17 年的稀释每股收益为 8.04 元（同比增长 337%），18 年为 2.16 元（同比下降 73%），19 年为 2.52 元（同比增长 17%）。我们维持目标价 46 港币，对应 7% 的上涨空间，维持中性评级。

Investment Highlights:

Livzon Pharmaceutical Group's *Yili'an* (ilaprazole) received approval for a new indication, gastroesophageal reflux disease (GERD), from the China Food and Drug Administration (CFDA). Meanwhile, the company received clinical trial approval for paclitaxel polymeric micelle injection. We maintain our diluted EPS forecasts of Rmb8.04 in 17E (+337% YoY), Rmb2.16 in 18E (-73% YoY), and Rmb2.52 in 19E (+17% YoY). We maintain our target price of HK\$46.00. With 7% upside, we maintain our Hold recommendation.

New indication for *Yili'an*. Ilaprazole was first approved by the CFDA for the treatment of duodenal ulcer in December 2007. Ilaprazole is a patent proton pump inhibitor (PPI) drug. There are mainly six types of PPIs currently on the Chinese market: ilaprazole, lansoprazole, pantoprazole, omeprazole, esomeprazole, and rabeprazole. Ilaprazole is superior to the other ones as its longer duration helps alleviate night-time heartburn. Ilaprazole was nominated for a National Science and Technology Award (2nd class) in June 2015 and won the Chinese Patent Excellence Award in December 2015, underscoring the drug's national recognition in terms of innovation and efficacy. Looking at PPI sales in sample hospitals, we note ilaprazole increased its market share from 0.5% in 2012 to 2.6% in 1Q17. *Yili'an* contributed 4.9% of Livzon Pharma's total sales in 1H17. The drug was added to the new National Reimbursement Drug List (NRDL) as a type-2 drug, with reimbursement limited to second-line treatment of duodenal ulcer. We think the approval of GERD indication will have a mild positive impact on *Yili'an*'s sales as reimbursement is not available for GERD indication, while the drug is already often used off-label for the treatment of GERD. However, we expect the injection formulation of ilaprazole to receive CFDA's approval by end-2017, which will significantly drive *Yili'an*'s sales growth. We forecast *Yili'an*'s sales to increase at a 47% Cagr in 2016-19E.

Clinical trial approval for paclitaxel polymeric micelle. Livzon Pharma received CFDA's approval to start clinical trials for paclitaxel polymeric micelle, a new formulation of taxanes, used as chemotherapy for breast cancer, ovarian cancer, and non-small cell lung cancer (NSCLC). It will take three to five years for the firm to complete the clinical trials. At present, there is no commercialised paclitaxel polymeric micelle on the Chinese market, while Livzon Pharma, Samyang Group, Shanghai Yizhong, and Shenzhen Tianyi have all received CFDA's approval for clinical trials, and Hisun Pharma (600267:CH – N-R) has filed an investigational new drug (IND) application to the CFDA. There are mainly four types of taxanes on the Chinese market: paclitaxel liposome, albumin-bound paclitaxel, common paclitaxel, and docetaxel. According to IMS, paclitaxel liposome accounted for 32% of the Chinese taxanes market in 2016 (vs 6% for albumin-bound paclitaxel, 22% for common paclitaxel, and 40% for docetaxel and other taxanes). Taxanes sales in sample hospitals grew 5.1% YoY in 2016 and 1.0% YoY in 1Q17. Compared to common paclitaxel, paclitaxel polymeric micelle can alleviate pain caused by injection. However, given fierce competition, we think it will be difficult for Livzon Pharma's paclitaxel polymeric micelle to take a sizable share in the Chinese taxanes market.

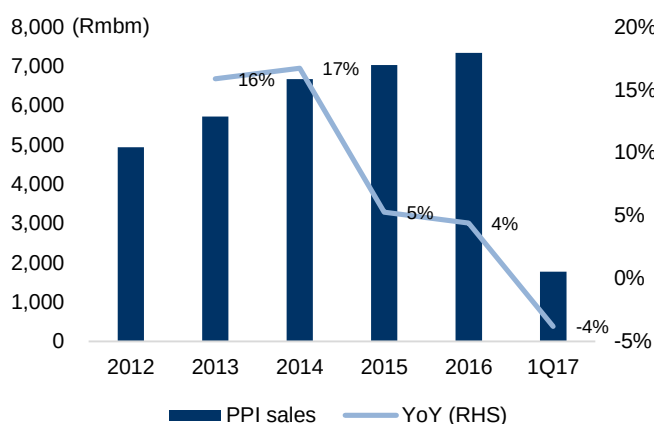
Maintain Hold. We maintain our diluted EPS forecasts of Rmb8.04 in 17E (+337% YoY), Rmb2.16 in 18E (-73% YoY), and Rmb2.52 in 19E (+17% YoY). We maintain our target price of HK\$46.00. With 7% upside, we maintain our Hold recommendation.

New indication for Yili'an

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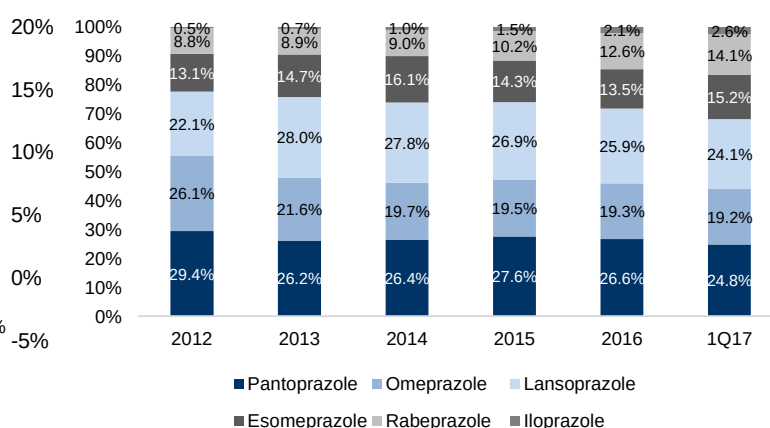
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Fig 1: Sales of PPI in sample hospitals (2012-1Q17)



Source: Pharma Database, SWS Research

Fig 2: PPI sales breakdown in sample hospitals (2012-1Q17)



Source: Pharma Database, SWS Research

Yili'an contributed 4.9% of Livzon Pharma's total sales in 1H17. The drug was added to the new National Reimbursement Drug List (NRDL) as a type-2 drug, with reimbursement limited to second-line treatment of duodenal ulcer. *Yili'an* was previously included in 13 Provincial Reimbursement Drug Lists (PRDLs).

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However, we expect the injection formulation of ilaprazole to receive CFDA's approval by end-2017, which will significantly drive *Yili'an's* sales growth. We forecast *Yili'an's* sales to increase at a 47% Cagr in 2016-19E.

Fig 3: Major PPI products

Generic name	Year of CFDA approval	Reimbursement
Ilaprazole	2007	Oral formulation: NRDL (Type 2), restricted for second-line treatment of duodenal ulcer
Omeprazole	1995	Oral formulation: NRDL (Type 1) Injection formulation: NRDL (Type 2), restricted to fasting patients or those having difficulty in swallowing

Rabeprazole	2004	Oral formulation: NRDL (Type 2) Injection formulation: None
Lansoprazole	2006	Oral formulation: NRDL (Type 2) Injection formulation: NRDL (Type 2), restricted to fasting patients or those having difficulty in swallowing
Pantoprazole	2007	Oral formulation: NRDL (Type 2) Injection formulation: NRDL (Type 2), restricted to fasting patients or those having difficulty in swallowing
Esomeprazole	2012	Oral formulation: NRDL (Type 2) Injection formulation: NRDL (Type 2), restricted to fasting patients or those having difficulty in swallowing

Source: Yaozh.com, SWS Research

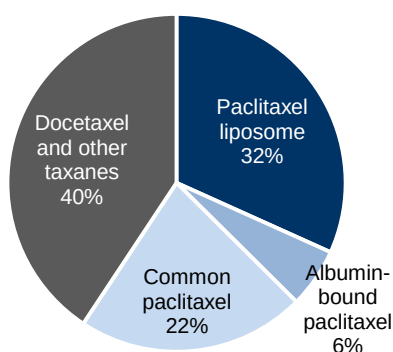
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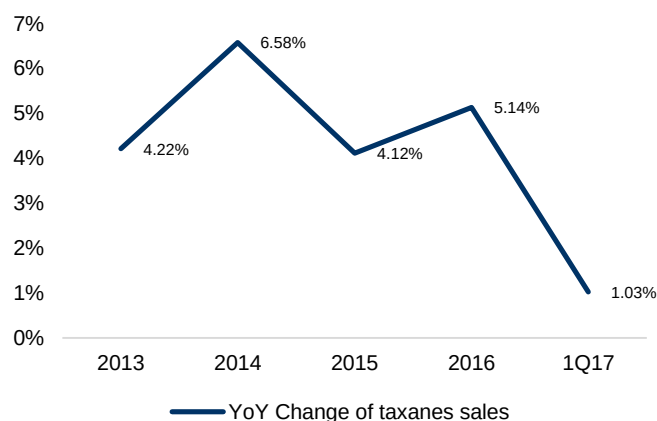
Compared to common paclitaxel, paclitaxel polymeric micelle can alleviate pain caused by injection. However, given fierce competition, we think it will be difficult for Livzon Pharma's paclitaxel polymeric micelle to take a sizable share in the Chinese taxanes market.

Fig 4: Market share of taxanes (2016)



Source: IMS, SWS Research

Fig 5: Sales growth of taxanes (2013-1Q17)



Source: Pharma Database, SWS Research

Appendix

Consolidated Income Statement

Rmbm	2015	2016	2017E	2018E	2019E
Revenue	6,621	7,652	8,647	9,373	10,343
Cost of Sales	(2,575)	(2,748)	(3,070)	(3,287)	(3,551)
Gross Profit	4,045	4,904	5,577	6,086	6,792
Other Income	131	136	4,342	110	110
Selling/General/Admi. Expenses	(3,148)	(3,795)	(4,315)	(4,668)	(5,120)
Ebitda	1,014	1,250	1,472	1,712	1,987
Ebit	693	876	1,159	1,432	1,690
Finance Costs	(27)	(5)	90	218	237
Profit before tax	808	1,005	5,486	1,526	1,784
Income tax expense	(148)	(175)	(943)	(262)	(307)
Minority interests	(37)	(46)	(93)	(71)	(84)
Profit for the year	623	784	4,450	1,192	1,394

Source: Company data, SWS Research

Consolidated Cash Flow Statement

Rmbm	2015	2016	2017E	2018E	2019E
Profit before taxation	808	1,005	5,486	1,526	1,784
Plus : Depr. and amortisation	321	374	313	280	297
Finance cost	14	7	(90)	(218)	(237)
Losses from investments	(7)	(1)	0	0	0
Change in working capital	(159)	(20)	(335)	(224)	(296)
Others	(49)	(85)	(4,373)	(192)	(237)
CF from operating activities	928	1,279	1,001	1,171	1,311
Capex	(477)	(368)	(500)	(500)	(500)
Other CF from investing activities	(81)	(575)	4,552	0	0
CF from investing activities	(558)	(943)	4,052	(500)	(500)
Equity financing	299	1,518	0	0	0
Net change in liabilities	(506)	(300)	0	0	0
Dividend and interest paid	(106)	(275)	(213)	(312)	(358)
Other CF from financing activities	(2)	(4)	90	218	237
CF from financing activities	(315)	939	(122)	(93)	(120)
Net cash flow	58	1,295	4,930	578	691
FCFF	230	687	(305)	725	884
FCFE	(290)	380	(214)	944	1,122

Source: Company data, SWS Research

Consolidated Balance Sheet

Rmbm	2015	2016	2017E	2018E	2019E
Current Assets	3,578	5,971	11,351	12,234	13,319
Bank balances and cash	798	2,062	6,992	7,570	8,261
Trade and other receivables	1,599	1,977	2,298	2,517	2,805
Inventories	984	1,099	1,228	1,315	1,420
Other current assets	197	832	832	832	832
Long-term investment	69	91	91	91	91
PP&E	3,671	3,543	2,646	2,835	3,007
Intangible and other assets	760	925	886	848	809
Total Assets	8,078	10,529	14,974	16,008	17,226
Current Liabilities	3,155	3,311	3,524	3,652	3,811
Borrowings	250	0	0	0	0
Trade and other payables	936	912	1,026	1,108	1,207
Other current liabilities	1,969	2,399	2,498	2,544	2,604
Long-term liabilities	113	113	113	113	113
Total Liabilities	3,268	3,424	3,637	3,765	3,924
Minority Interests	464	600	692	764	847
Shareholder Equity	4,346	6,506	10,645	11,479	12,455
Share Capital	397	426	426	426	426
Reserves	3,949	6,080	10,219	11,054	12,029
Total Equity	4,810	7,106	11,337	12,243	13,302
Total Liabilities and equity	8,078	10,529	14,974	16,008	17,226

Source: Company data, SWS Research

Key Financial Ratios

	2015	2016	2017E	2018E	2019E
Ratios per share (HK\$)					
Earnings per share	1.57	1.84	8.04	2.16	2.52
Diluted EPS	1.57	1.84	8.04	2.16	2.52
Operating CF per share	2.34	3.00	1.81	2.12	2.37
Dividend per share	0.50	0.50	0.56	0.65	0.76
Net assets per share	12.12	16.69	20.49	22.13	24.04
Key Operating Ratios (%)					
ROIC	11.64	10.48	8.69	9.94	10.80
ROE	15.48	14.46	51.90	10.78	11.65
Gross profit margin	61.10	64.09	64.49	64.93	65.66
Ebitda Margin	15.31	16.34	17.03	18.26	19.21
Ebit Margin	10.46	11.45	13.41	15.28	16.34
Growth rate of Revenue(YoY)	19.41	15.58	13.00	8.40	10.35
Growth rate of Profit(YoY)	20.67	25.97	467.37	(73.21)	16.90
Debt-to-asset ratio	40.45	32.52	24.29	23.52	22.78
Turnover rate of net assets	1.38	1.08	0.76	0.77	0.78
Turnover rate of total assets	0.82	0.73	0.58	0.59	0.60
Effective tax rate (%)	18.36	17.43	17.18	17.18	17.18
Dividend yield (%)	1.40	1.40	1.58	1.82	2.12
Valuation Ratios (x)					
PE	22.70	19.33	4.43	16.52	14.13
PB	2.94	2.13	1.74	1.61	1.48
EV/Sale	2.11	1.83	1.62	1.49	1.35

Source: Company data, SWS Research

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Trading BUY: Share price performance is expected to generate more than 20% upside over a 6-month period.

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.

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