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海外 50 系列

Sino Biopharmaceutical

Riding the wave of R&D

Investment Focus

Action

As one of China's leading pharmaceutical companies, Sino Biopharm (SBP) demonstrates strong sales and R&D capabilities, transforming itself from a hepatitis expert into an all-rounder.

Reasoning

- **We expect pharma leaders to be the largest beneficiaries of CFDA policy reforms, with market concentration rising further: 1)** we believe quality consistency evaluation is likely to help domestic leaders to grab shares from MNCs. **2)** reform of the drug approval process is likely to accelerate new drug launches in China. And, **3)** we believe drug quality & efficacy will be the key for drug promotion in the future, with ongoing reform in promotion and distribution sector.

- **One of China's leading pharmaceutical companies.** We expect SBP's top line growth to accelerate in 2018, with drug tenders coming to an end and new drug launches on the way. In addition, with the Tide deal potentially closing in the near term, the Tse family's stake will rise further; meanwhile the restricted share award scheme should better incentivize core employees.

- **We expect three major drivers for SBP in the future: 1)** stable growth (10-15%) for existing drugs; **2)** new drugs to be approved, including anlotinib in 1Q18, recombinant coagulant factor VIII and PD-L1 in 2H18 and 1H19, as well as another 11/8 generic drugs in 2018/19; and, **3)** M&A adds another leg of growth. We estimate SBP's total revenue/net profit will see 21%/24% CAGRs over 2017-19.

Earnings forecast and valuation

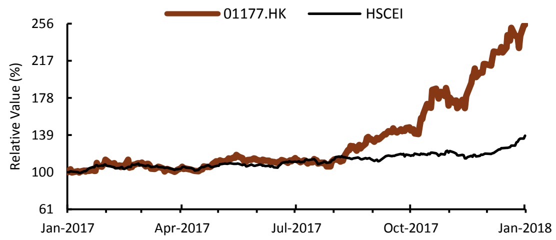
We maintain 2017e EPS at Rmb0.30, and raise those of 2018/19e by 0.6%/3.4% to Rmb0.37/0.47, as we re-evaluate SBP's pipeline. **We raise our DCF-based target price by 8.6% to HK$19**, which implies 42x 2018e P/E. Our new valuation splits existing generic business and pipeline products by 56% and 44% respectively. **Maintain BUY.**

Risks

Larger-than-expected price cuts; delays of product launches.

Maintain BUY

Ticker	01177.HK
CICC investment rating	BUY
Last close	HK$15.58
CICC target	HK$19.00
52wk price range	HK$15.90~6.02
Market cap (bn)	HK$115
Daily value (mn)	HK$441.24
Shares outstanding (mn)	7,412
Free float (%)	100
Daily volume (mn sh)	30.65
Business sector	Pharmaceuticals



(Rmb mn)	2016A	2017E	2018E	2019E
Revenue	13,895	15,334	18,141	22,401
(+/-)	14.6%	10.4%	18.3%	23.5%
Net profit	1,680	2,252	2,714	3,454
(+/-)	13.4%	34.0%	20.5%	27.3%
EPS	0.23	0.30	0.37	0.47
BPS	1.41	1.80	2.29	2.92
DPS	0.05	0.05	0.05	0.05
CPS	0.41	0.43	0.61	0.76
P/E	61.6	43.9	34.3	26.9
P/B	9.9	7.4	5.5	4.3
EV/EBITDA	32.6	23.8	18.5	14.4
Dividend yield	0.4%	0.4%	0.4%	0.4%
ROAA	10.6%	12.0%	12.0%	12.4%
ROAE	17.5%	18.9%	17.9%	17.9%

Source: Wind, Bloomberg, company data, CICC Research

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Financial summary

Financial statement (Rmb mn)	2016A	2017E	2018E	2019E
Income statement				
Revenue	13,895	15,334	18,141	22,401
COGS	-2,890	-3,158	-3,683	-4,368
Selling expenses	-5,595	-6,210	-7,365	-9,117
Administrative expenses	-1,066	-675	-762	-940
Other ops income (expense)	-1,566	-1,820	-2,117	-2,607
Operating profit	3,060	3,849	4,581	5,808
Finance costs	-79	-102	-93	-93
Other income (expense)	282	378	366	440
Profit before income tax	3,287	4,098	4,902	6,191
Income tax	-487	-608	-727	-918
Minority interest	-1,119	-1,239	-1,461	-1,819
Net profit	1,680	2,252	2,714	3,454
EBITDA	3,234	4,244	5,074	6,420
Recurrent net income	1,680	2,252	2,714	3,454
Balance sheet				
Cash and bank balances	3,691	4,444	6,908	10,211
Trade and bill receivables	1,956	2,413	2,855	3,221
Inventories	877	1,113	1,268	1,317
Other current assets	5,954	5,320	7,382	6,708
Total current assets	12,478	13,291	18,414	21,457
Fixed assets and CIP	2,634	3,060	3,670	4,305
Intangible assets and others	2,922	3,245	3,617	4,081
Total non-current assets	5,556	6,305	7,286	8,386
Total assets	18,034	19,596	25,700	29,843
Short-term borrowings	1,342	942	942	942
Trade and bill payables	810	695	1,000	1,083
Other current liabilities	3,391	2,580	4,806	4,194
Total current liabilities	5,543	4,217	6,747	6,219
Long-term borrowings	1,645	1,645	1,645	1,645
Total non-current liabilities	2,009	2,009	2,009	2,009
Total liabilities	7,552	6,226	8,756	8,228
Share capital	163	163	163	163
Retained profit	7,638	9,288	11,400	14,252
Equity	10,482	13,370	16,944	21,615
Total liabilities & equity	18,034	19,596	25,700	29,843
Cash flow statement				
Pretax profit	3,287	4,098	4,902	6,191
Depreciation & amortization	323	395	493	612
Change in working capital	-1,564	-985	-129	-269
Others	984	-349	-727	-918
Cash flow from operations	3,031	3,158	4,540	5,617
Capital expenditure	-757	-833	-1,113	-1,257
Others	-1,257	-311	-361	-455
Cash flow from investing	-2,014	-1,145	-1,474	-1,712
Equity financing	0	0	0	0
Bank borrowings	1,550	-400	0	0
Others	-1,144	-390	-390	-390
Cash flow from financing	406	-790	-390	-390
Foreign exchange gain (loss)	-211	-211	-211	-211
Net changes in cash	1,422	1,223	2,675	3,515

Financial ratios	2016A	2017E	2018E	2019E
Growth ability				
Revenue	14.6%	10.4%	18.3%	23.5%
Operating profit	14.9%	25.8%	19.0%	26.8%
EBITDA	10.1%	31.2%	19.6%	26.5%
Net profit	13.4%	34.0%	20.5%	27.3%
Profitability				
Gross margin	79.2%	79.4%	79.7%	80.5%
Operating margin	22.0%	25.1%	25.3%	25.9%
EBITDA margin	23.3%	27.7%	28.0%	28.7%
Net margin	12.1%	14.7%	15.0%	15.4%
Liquidity				
Current ratio	2.25	3.15	2.73	3.45
Quick ratio	2.09	2.89	2.54	3.24
Cash ratio	0.67	1.05	1.02	1.64
Liabilities / assets	41.9%	31.8%	34.1%	27.6%
Net debt / equity	net cash	net cash	net cash	net cash
Return				
RoA	10.6%	12.0%	12.0%	12.4%
RoE	17.5%	18.9%	17.9%	17.9%
Per-share data				
EPS (Rmb)	0.23	0.30	0.37	0.47
BPS (Rmb)	1.41	1.80	2.29	2.92
DPS (Rmb)	0.05	0.05	0.05	0.05
Cash flow per share (Rmb)	0.41	0.43	0.61	0.76
Valuation				
P/E	61.6	43.9	34.3	26.9
P/B	9.9	7.4	5.5	4.3
EV/EBITDA	32.6	23.8	18.5	14.4
Dividend yield	0.4%	0.4%	0.4%	0.4%

Source: Company data, CICC Research

Company description

Sino Biopharmaceutical is an investment holding company and an integrated pharmaceutical enterprise. It researches, develops, manufactures, markets and distributes a range of TCM and chemical medicines. The company also has an investment division which includes a R&D service for third parties. Its products include cardio-cerebral medicines, hepatitis medicines, oncology medicines, and analgesic medicines.

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Executive summary

Investment summary: Sino Biopharm (SBP) is one of China's leading pharmaceutical companies; and has strong sales and R&D capabilities. The company mainly focuses on hepatitis and cardio-cerebral diseases at the moment, while also rapidly expanding into the oncology, analgesics and respiratory field as it seeks to transform itself into an all-rounder. We believe SBP's existing generic drug business is gradually recovering from fierce price cuts during 2016-17 and is likely to further expand its market share with the help of quality consistency evaluations and the new National Reimbursement Drug List (NRDL). Meanwhile, we expect SBP's rich pipeline will drive sustainable growth over the long term. **We maintain our BUY rating and raise our target price by 8.6% to HK$19.00.**

Industry overview: we expect pharma leaders to be the largest beneficiaries of the China Food & Drug Administration's (CFDA) policy reforms, with market concentration rising further: 1) on the existing generic market, we believe the implementation of Quality Consistency Evaluation (QCE) is likely to help domestic generic leaders to grab market share from both small domestic players and MNCs. **2)** The reform of the drug approval process is likely to accelerate new drug launches in China. And, **3)** we believe drug quality & efficacy will be the key for drug promotion in the future, with ongoing reform in promotion and distribution sector.

Company strategy: SBP is one of China's leading pharmaceutical companies, with strong sales and R&D capabilities. We expect SBP's top line growth to accelerate in 2018, with drug tenders coming to an end and new drug launches on the way. In addition, with the Tide deal potentially closing in the near term, the Tse family's stake will rise from 41.63% to 48.65%; while the restricted share award scheme will better incentivize the company's core employees.

Company management and shareholder structure: the Tse family (comprising of Mr. Tse Ping, Ms. Cheng and Miss Tse) currently hold 41.63% of SBP. Upon completion of the Tide deal, the Tse family's stake will rise to 48.65%. We believe the deal shows the Tse family's confidence in the H-share listed company. Meanwhile, SBP plans to adopt a restricted share award scheme, with total awarded shares to not exceed 3% of the company's current share count over a term of 10 years. We believe this plan will better incentivize the company's core employees.

Future development: we expect three major drivers for SBP: **1)** stable growth (10-15%) for existing drugs, with less pricing pressure and implementation of the new NRDL; **2)** new drugs to be approved including anlotinib in 1Q18, recombinant coagulant factor VIII and PD-L1 in 2H18 and 1H19, as well as another 11/8 generic drugs in 2018/19, respectively; and, **3)** M&A adds another leg of growth. SBP will continue to increase shareholdings in its subsidiaries and accelerate M&A in the future. We estimate SBP's revenue/net profit will record 21%/24% CAGRs over 2017-19.

Financial analysis

- **Stable growth and profitability:** during 2012-16, SBP delivered revenue/net profit CAGRs of 21%/21% respectively. Return on equity has constantly exceeded 20% for past 5 years.
- **Heavy R&D expenses to support future growth:** SBP's R&D costs as a % of total revenue were 8-10% over the past 5 years. In 2016, its total R&D costs were Rmb1.4bn vs. Hengrui's Rmb1.2bn.
- **Abundant operating cash flow:** SBP has healthy cash and cash flow position, as its operating cash flow has consistently exceeded net income over the past 5 years. In 2016, operating cash flow reached Rmb3bn, while net cash amounted to Rmb703mn.

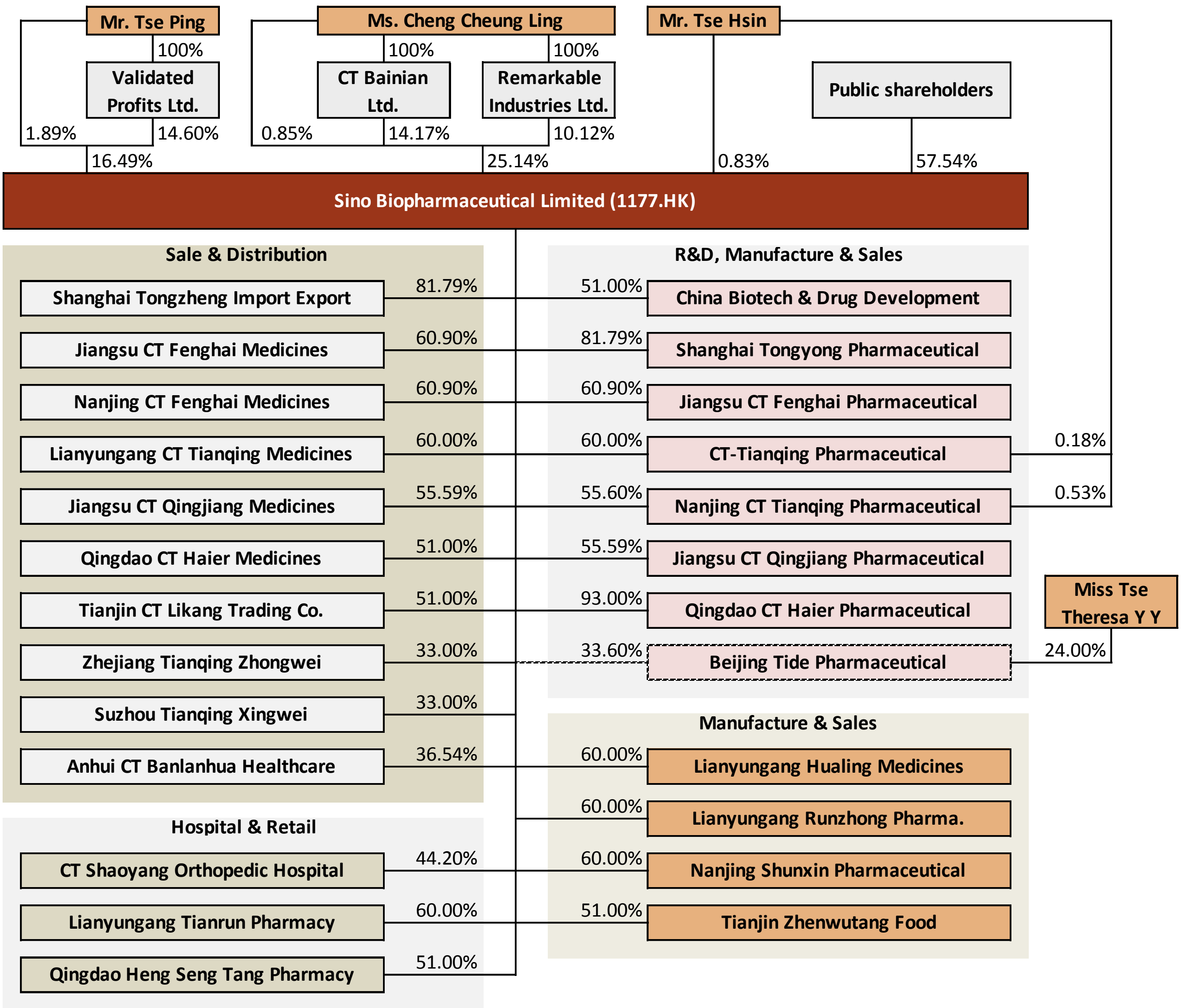
Valuation methodology: We use the DCF method to reflect the company's long-term value. Assuming a WACC of 9.5% and perpetual growth of 2.8%, **we estimate SBP's fair value at HK$19.00 per share**, implying a 22% upside from its current stock price.

Our target price of HK$19 is equivalent to 42x 2018e P/E or 1.4x 2018e PEG. To break it down, the existing generic business was valued at HK$79.2bn (25x 2018e P/E), accounting for 56% of its total valuation; while pipeline products (including anlotinib and tenofovir) were valued at HK$61.7bn, accounting for 44% of its total valuation.

Risks

- **Delayed new product launches:** we have seen both the drug approval process accelerate and the CFDA's standards rise, which might bring uncertainties in future product launches.
- **Pricing pressure from secondary price negotiation:** with tightening reimbursement control, secondary price negotiation is likely to roll out nationwide, which might bring another round of price cuts or elevate marketing expenses for manufacturers.

Figure 1: Shareholding structure and major subsidiaries (as of Jan 7, 2018)



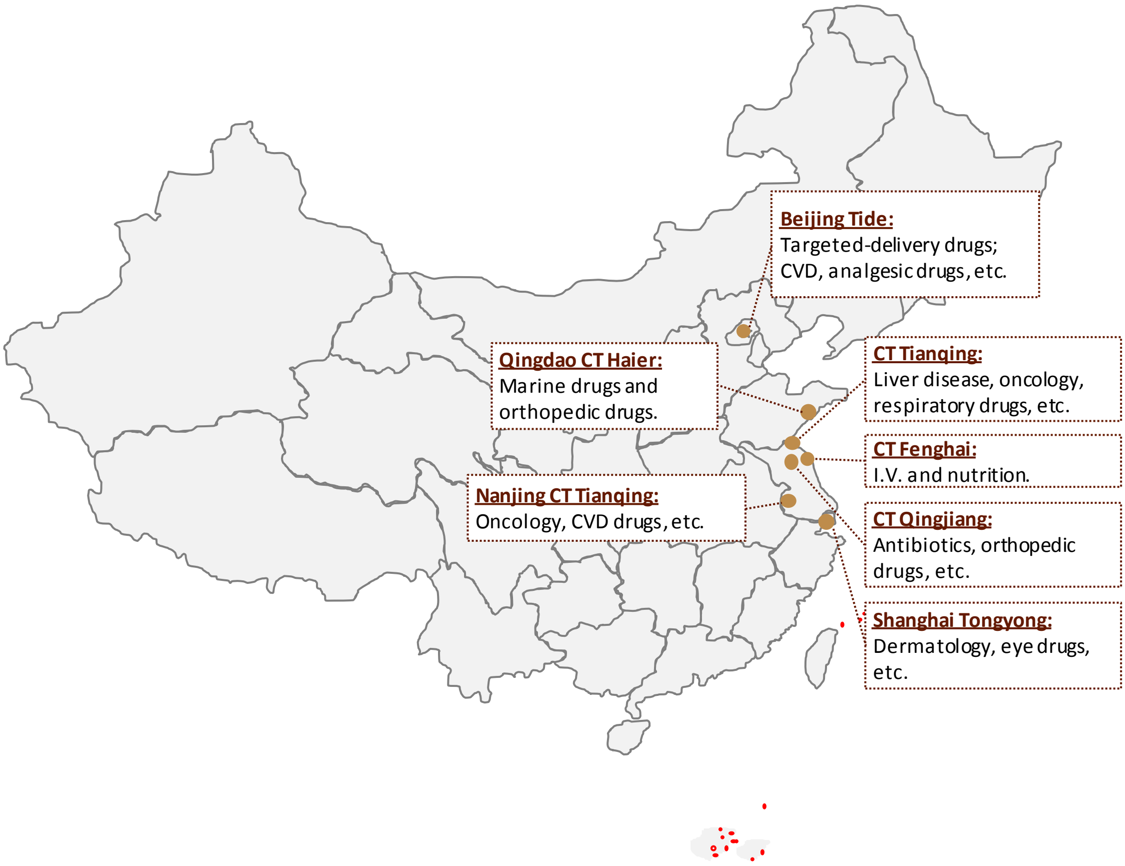
Source: Company data, HKEX, CICC Research

Figure 2: Valuations of comparable companies

Ticker	Company	2018/1/23 Last price	Mkt cap	EPS (Reporting ccy) 2016A	2017E	2018E	P/E (x) 2016A	2017E	2018E	P/B (x) 2016A	2017E	2018E
H-share		(HK$)	(HK$ mn)									
1177.HK	**Sino Biopharmaceutical**	**15.58**	**115,482**	**0.23**	**0.30**	**0.37**	**61.5**	**43.9**	**35.3**	**9.5**	**8.3**	**6.9**
1093.HK	**CSPC Pharmaceutical Group**	**18.32**	**114,372**	**0.35**	**0.47**	**0.59**	**52.3**	**39.2**	**30.8**	**10.3**	**8.6**	**7.3**
1530.HK	**3SBio**	**15.36**	**38,996**	**0.28**	**0.35**	**0.44**	**48.9**	**37.5**	**29.2**	**5.7**	**5.0**	**4.4**
1513.HK	**Livzon Pharmaceutical Group**	**66.00**	**36,513**	**1.42**	**1.73**	**2.07**	**41.7**	**32.7**	**26.4**	**4.9**	**3.0**	**2.7**
2186.HK	Luye Pharma	6.80	22,583	0.27	0.29	0.32	22.7	20.4	17.6	2.8	2.4	2.2
Market cap weighted average							*51.9*	*38.6*	*30.8*	*8.4*	*7.0*	*5.9*
Median							*48.9*	*37.5*	*29.2*	*5.7*	*5.0*	*4.4*
A-share		(Rmb)	(Rmb mn)									
600276.SH	**Hengrui Medicine**	**76.69**	**217,236**	**0.92**	**1.11**	**1.34**	**83.4**	**69.1**	**57.4**	**17.4**	**14.2**	**11.6**
000963.SZ	**Huadong Medicine**	**55.99**	**54,429**	**1.49**	**1.88**	**2.31**	**37.6**	**29.7**	**24.2**	**7.1**	**6.6**	**6.2**
002294.SZ	Salubris	41.19	43,085	1.33	1.43	1.65	30.9	28.9	25.0	8.0	6.8	5.7
Market cap weighted average							*68.3*	*56.8*	*47.2*	*14.4*	*11.9*	*9.9*
Median							*37.6*	*29.7*	*25.0*	*8.0*	*6.8*	*6.2*

Source: Wind, Bloomberg, CICC Research. Note: all valuations are as of Jan 23, 2018.

Figure 3: SBP's national presence



Source: Company data, CICC Research

Industry policy: pharma leaders are the biggest beneficiaries

On July 22, 2015, the CFDA required that pharmaceutical manufacturers conduct self-verification of clinical trial data, which involved 1,622 drug applications; of these, >80% were withdrawn voluntarily afterwards. We believe this is a significant event, signaling the beginning of the supply side reform of the generic drug market. Since then, the CFDA has published multiple policies to better regulate China's pharma sector, including:

- **The launch of Quality Consistency Evaluation (QCE),** which is likely to help domestic generic leaders to grab market share from both small domestic players and MNCs.
- **The reform of China's drug approval process**, which will accelerate new drug launches.
- **The reform of the promotion and distribution sector**, which emphasizes the role of drug quality and efficacy more than ever.

We believe pharma leaders are the largest beneficiaries of this round of CFDA policy reforms, with market concentration set to rise further.

Figure 4: Key policies in China pharma sector

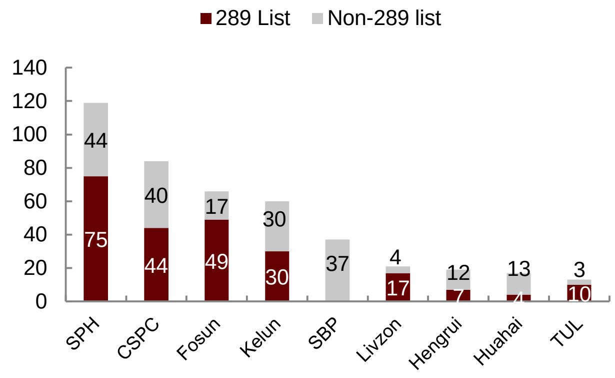
Announced date	Policy maker	File	Topic	Keynotes
2017.12.28	CFDA	Opinions on the implementation of priority review system to encourage pharmaceutical innovations	Drug registration	To accelerate the registration process for innovative and generic drugs with unmet clinical needs, and to solve the problem of application backlogs.
2017.12.22	CFDA, NHFPC	Rules for pharmaceutical sales representative registration (trial draft)	Drug sales and distribution	To regulate marketing and promoting activities for drugs.
2017.12.22	CDE	Technical requirements for consistency evaluation of generic drugs (public hearing draft)	Drug quality	Together with the implementation of consistency evaluation, to improve the quality of marketed drugs.
2017.12.22	CFDA	Guidelines for the research and evaluation of cell therapy products (trial draft)	Clinical trials	To guide all aspects related to cell therapy products including scope definition, risk control, research and development.
2017.12.20	CFDA	Regulation rules on expanded access of investigational drugs (public hearing draft)	Clinical trials	To improve the availability of investigational drugs for patients in urgent need, and to regulate the collection of safety data in clinical trials and the management of investigational drugs.
2017.12.20	CFDA	Technical guidelines for the special approval process for drugs with unmet clinical needs	Clinical trials	To accelerate the launch of drugs that meet urgent and unmet clinical needs
2015.8.18	The State Council	Opinions on reforming the registration system of drugs and medical devices	Drug quality	Consistency evaluation for generic drugs was first mentioned in the file.

Source: CFDA, NHFPC, the State Council, CICC Research

Ongoing market share gain for domestic generic leaders over the long term. We believe that domestic leaders who pass the consistency evaluation in a top three position will have advantages during future tenders and insurance reimbursements. Therefore, we believe that domestic generic leaders are likely to be the biggest winners, given their strong financial positions and manufacturing techniques, which will help them grab market share from both small domestic players and MNCs (originators) over the long term.

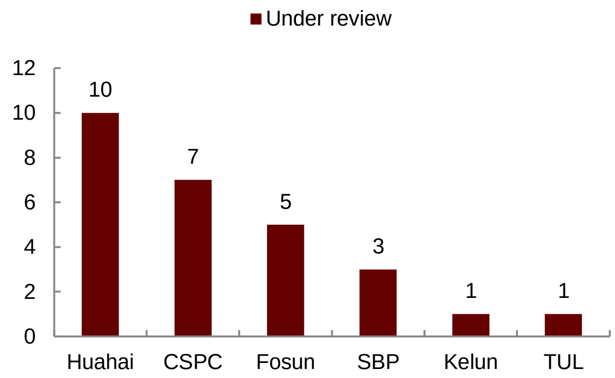
First batch of drugs passed QCE by end-2017. According to our analysis, so far, Shanghai Pharma has the largest number of drug approvals that will go through the QCE process, while Huahai Pharma has the largest number of approvals that have passed QCE. More importantly, we note that many pharmaceutical companies – including CSPC, SBP and Kelun Pharma – have all initiated the QCE process for drugs that are not included in the 289 List, as they see QCE as a good opportunity.

Figure 5: No. of drugs which have filed for consistency evaluation (as of November 20, 2017)



Source: National Institutes for Food and Drug Control, CICC Research

Figure 6: No. of drugs which have completed the consistency evaluation and are under review (as of December 28, 2017)



Source: CDE, CICC Research

Figure 7: Products that have completed the consistency evaluation and are under review (as of December 28, 2017)

CFDA No.	Generic name (EN)	In the 289 catalog?	Applicant	Status	Status start time	Expected approval date
CSPC (1093.HK)						
CYHB1703916	Amoxicillin capsules	Yes	CSPC Zhongnuo Pharm	Additional data	2017-7-11	1Q18
CYHB1703917	Amoxicillin capsules	Yes	CSPC Zhongnuo Pharm	Additional data	2017-7-11	1Q18
CYHB1750012	Tramadol hydrochloride tablet	No	CSPC Ouyi Pharm	Under review	2017-10-18	1Q18
CYHB1750013	Azithromycin tablet	Yes	CSPC Ouyi Pharm	Under review	2017-10-19	1Q18
CYHB1750014	Azithromycin tablet	Yes	CSPC Ouyi Pharm	Under review	2017-10-19	1Q18
CYHB1740005	Captopril tablet	Yes	CSPC Ouyi Pharm	Under review	2017-10-25	1Q18
CYHB1750033	Enalapril maleate tablet	Yes	CSPC Ouyi Pharm	Under review	2017-12-29	2Q18
Fosun Pharma (2196.HK/600196.HK)						
CYHB1750001	Amitriptyline hydrochloride tablet	Yes	Hunan Dongting Pharm	Additional data	2017-9-19	1Q18
CYHB1750002	Alfacalcidol tablet	Yes	Chongqing Yaoyou Pharm	Under review	2017-9-20	1Q18
CYHB1750003	Alfacalcidol tablet	Yes	Chongqing Yaoyou Pharm	Under review	2017-9-20	1Q18
CYHB1750010	Escitalopram oxalate tablet	No	Hunan Dongting Pharm	Under review	2017-9-26	1Q18
CYHB1706255	Febuxostat tablet	No	Xuzhou Wanbang Jinqiao Pharm	Under review	2017-10-17	1Q18
Sino Biopharmaceutical (1177.HK)						
CYHB1703389	Irbesartan and hydrochlorothiazide tablet	No	Nanjing Chia Tai Tianqing Pharm	Additional data	2017-8-1	1Q18
CYHB1703639	Entecvir dispersible tablet	No	Chiatai Tianqing Group	Additional data	2017-8-2	1Q18
CYHB1704044	Rosuvastatin calcium tablet	No	Nanjing Chia Tai Tianqing Pharm	Passed	2017-8-22	4Q17
The United Lab (3933.HK)						
CYHB1704834	Amoxicillin capsule	Yes	United Laboratories Pharm Zhongshan Branch	Under review	2017-9-15	1Q18
Kelun Pharma (002422.SZ)						
CYHB1705014	Escitalopram oxalate tablet	No	Sichuan Kelun	Under review	2017-10-11	1Q18
Hengrui Medicine (600276.SH)						
CYHB1750023	Ambroxol hydrochloride tablet	Yes	Jiangsu Hengrui Medicine	Under review	2017-11-22	1Q18
Salubris (002294.SZ)						
CYHB1750017	Clopidogrel hydrogen sulfate tablet	Yes	Shenzhen Salubris Pharm	Passed	2017-10-25	4Q17
Huahai Pharma (600521.SH)						
CYHB1703366	Irbesartan tablet	No	Zhejiang Huahai Pharmaceutical	Passed	2017-12-27	4Q17
CYHB1703363	Fosinopril Sodium tablet	No	Zhejiang Huahai Pharmaceutical	Passed	2017-12-27	4Q17
CYHB1704618	Lisinopril tablet	No	Zhejiang Huahai Pharmaceutical	Passed	2017-12-27	4Q17
CYHB1704619	Lisinopril tablet	No	Zhejiang Huahai Pharmaceutical	Passed	2017-12-27	4Q17
CYHB1704622	Losartan potassium tablet	No	Zhejiang Huahai Pharmaceutical	Passed	2017-12-27	4Q17
CYHB1704621	Losartan potassium tablet	No	Zhejiang Huahai Pharmaceutical	Passed	2017-12-27	4Q17
CYHB1704624	Risperidone tablet	Yes	Zhejiang Huahai Pharmaceutical	Passed	2017-12-27	4Q17
CYHB1703361	Paroxetine hydrochloride tablet	Yes	Zhejiang Huahai Pharmaceutical	Passed	2017-12-27	4Q17
CYHB1704627	Irbesartan/hydrochlorothiazide tablet	No	Zhejiang Huahai Pharmaceutical	Passed	2017-12-27	4Q17
CYHB1703359	Nevirapine tablet	Yes	Zhejiang Huahai Pharmaceutical	Additional data	2017-9-25	1Q18

Source: CFDA, CICC Research

Figure 8: Priority review list of key listed pharmaceutical companies

Application No.	Generic name	Type of application	Announced date	Approval date (expected)	Reason for priority review
Hengrui Medicines (600276.SH)					
CYHS1201509	Caspofungin acetate	Manufacturing	2016-3-5	2018	Patent expiry
CXHL1502031	Dexmedetomidine hydrochloride nasal spray	Clinical trial	2016-6-12	2018	Child medication
CYHS1200814	Gadobutrol Injection	Manufacturing	2016-7-21	2018	First-to-market generic
CYHS1300223	Fondaparinux sodium injection	Manufacturing	2016-7-21	2018	First-to-market generic
CYHS1301372	Paricalcitol injection	Manufacturing	2016-7-21	2018	First-to-market generic
CYHS1400315	Cisatracurium besilate injection	Manufacturing	2017-4-13	2018	US approved drug with same production line
CXSS1700005	19K	Manufacturing	2017-5-23	2018~2019	Significant therapeutic benefits compared with existing treatments
CYHS1790004	nab-Paclitaxel injection	Manufacturing	2017-6-20	1H18	With urgent clinical needs; In shortage
CYHS1700055	Temozolomide injection	Manufacturing	2017-7-11	2018	Self-withdrawn drug with new standards
CYHS1401639	Desflurane for inhalation	Manufacturing	2017-7-11	2018	EU approved drug (2017) with same production line
CXHS1700014	Pyrotinib	Manufacturing	2017-9-26	2018	Significant clinical value
CYHS1700170	Azilsartan tablet	Manufacturing	2017-12-18	2019	1 year before patent expiry
Kelun Pharma (002422.SZ)		Manufacturing			
CYHS1300954	Parecoxib sodium for injection	Manufacturing	2016-3-5	2017-11-30	Patent expiry
Sino Biopharmaceutical (1177.HK)					
CXHL1402182	Budesonide and formoterol fumarate powder for inhalation	Clinical trial	2016-3-5	2018	Patent expiry
CYHS1401433	Budesonide	Manufacturing	2016-3-5	2018	Patent expiry
CYHS1200320	Linezolid injection	Manufacturing	2016-7-21	1H18	First-to-market generic
CYHS1500266	Gadoxetic acid disodium injection	Manufacturing	2016-7-21	2018	First-to-market generic
CYHS1500865	Ganirelix injection	Manufacturing	2016-7-21	2018	First-to-market generic
CYHS1600082	Tenofovir	Manufacturing	2016-12-2	2017-11-29	Anti-HIV drug
CXHS1700004	Anlotinib hydrochloride capsule	Manufacturing	2017-4-27	1H18	Significant therapeutic benefits compared with existing treatments
CYHS1600193	Bendamustine hydrochloride for Injection	Manufacturing	2017-6-1	1H18	First-to-market for NHL; self-withdrawn drug with new standards
CXHS1500136	Fosaprepitant dimeglumine	Manufacturing	2017-7-11	2H18	1 year before patent expiry
CYHS1600206	Azacitidine for injection	Manufacturing	2017-12-18	2019	1 year before patent expiry
CSPC (1093.HK)		Manufacturing			
CXHS1500143	Dronedarone hydrochloride tablets	Manufacturing	2016-7-21	2H18	First-to-market generic
CYHS1790014	Metformin hydrochloride tablets	Manufacturing	2017-4-13	1H18	US approved drug with same production line
CYHS1790026	Clopidogrel hydrogen sulphate tablets	Manufacturing	2017-6-1	1H18	US approved drug (2017) with same production line
CYHS1790024	Metformin hydrochloride extended-release tablets	Manufacturing	2017-6-1	1H18	US approved drug (2016) with same production line
CYHS1600152	nab-Paclitaxel injection	Manufacturing	2017-6-20	1H18	With urgent clinical needs; In shortage
Livzon (1513.HK/000513.SZ)					
CXHS1500145	Iiaprazole injection	Manufacturing	2016-10-28	2018	Significant therapeutic benefits compared with existing treatments

Source: CDE, CICC Research

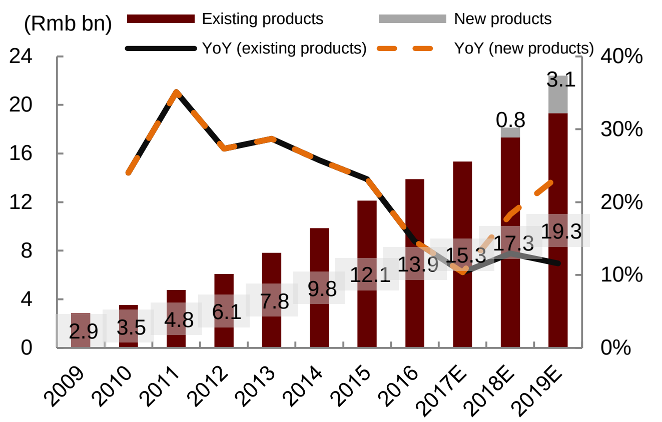
Company fundamentals: transforming from a hepatitis leader into an all-rounder

Thanks to its strong sales and R&D capabilities, we believe SBP will transform from a hepatitis leader into an all-rounder over the next 3-5 years; we expect its three major drivers to be: 1) stable growth (10-15%) for existing drugs, with less pricing pressure and implementation of new NRDL; **2) new drug launches**, including anlotinib in 1Q18, recombinant coagulant factor VIII and PD-L1 in 2H18 and 1H19, as well as another 11/8 generic drugs in 2018/19 respectively; and, **3) M&A to boost growth**. SBP will continue to acquire minorities and accelerate M&A in the future. We estimate its revenue/net profit will follow 21%/24% CAGRs over 2017-19.

Strong sales capability

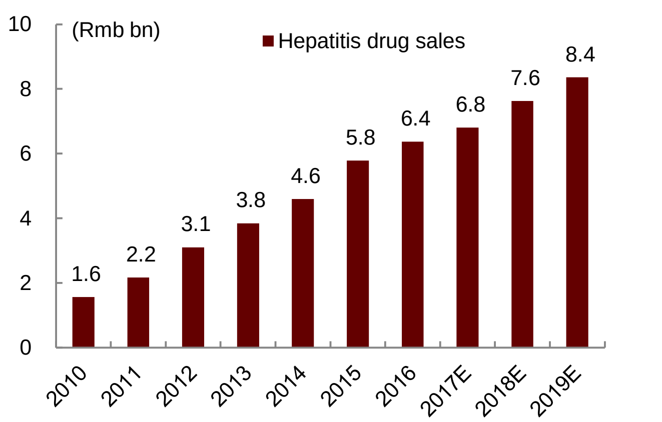
SBP generated revenue of Rmb11.4bn for 9M17, with CAGR of 22.3% over 2011-16; while the hepatitis sector generated revenue of Rmb5.1bn, accounting for 45% of its total revenue in 9M17, with a 23.8% CAGR over 2011-16. The company currently has >10,000 sales staff, ranking it first among listed pharma companies.

Figure 9: Total revenue growth



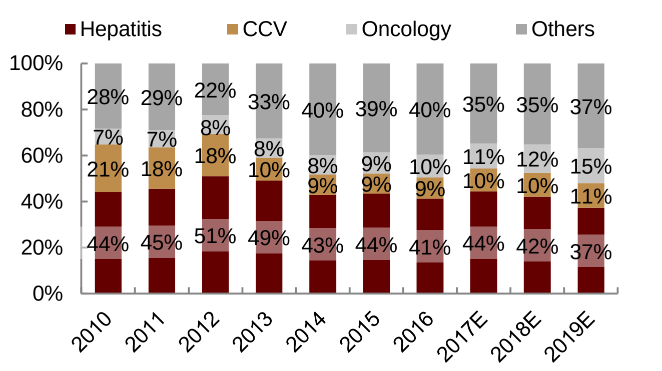
Source: Company data, Bloomberg, CICC Research; Note: Financial data reported in HK$ before 2016, all transferred to Rmb here.

Figure 10: Hepatitis drug sales growth



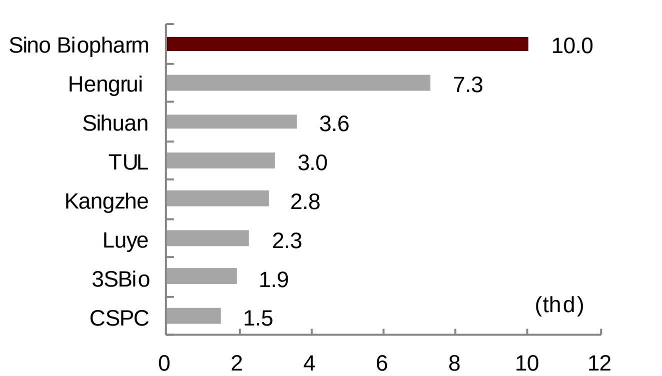
Source: Company data, Bloomberg, CICC Research; Note: Financial data reported in HK$ before 2016, all transferred to Rmb here.

Figure 11: Revenue breakdown, by terapeutic areas



Source: Company data, CICC Research; Note: Not considering Tide consolidation.

Figure 12: Sales force comparison



Source: Company websites, Company data, CICC Research

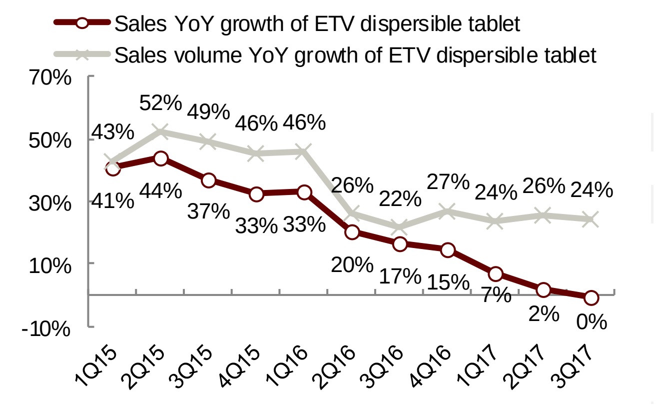
Expect existing generic drug business to grow 10-15% p.a. over the next three years

With this round of drug tenders coming to an end (among top provinces, only Jiangsu hasn't implemented new prices yet), we estimate the pricing pressure for SBP is likely to be eased largely versus the last two years. In addition, we believe the launch of QCE and the new NRDL will bring new volume growth for existing business. Notably, according to our PDB data, flagship products – such as Runzhong and Tuotuo – still delivered 20-30% volume growth over the past two years, despite significant growth slowdown in sales value. **We estimate existing drug business for SBP, excluding anlotinib and tenofovir, is likely to deliver stable growth of 10-15%.**

Entecavir series (Runzhong + Tianding + Ganze): we estimate SBP's entecavir series to deliver a 12.6% revenue CAGR over 2017-19. We expect major drivers comes from: **1)** increased penetration of low-tier hospitals; **2)** replacement of previous generations of drugs, including lamivudine, telbivudine and adefovir, which accounted for 24% of the total anti-HBV drug market; and, **3)** replacement of MNC brands (40% of total market), after passing QCE.

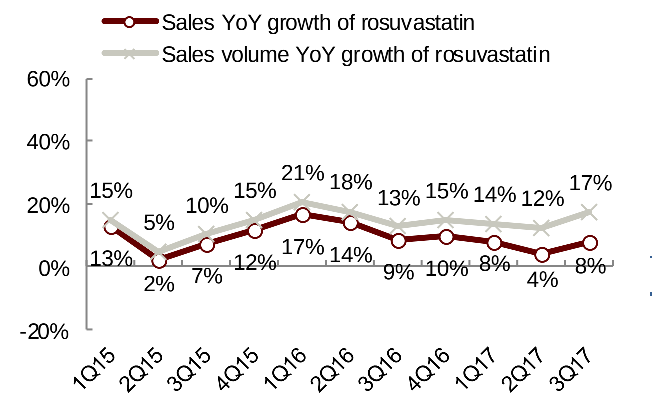
Tuotuo (rosuvastatin): we estimate Tuotuo to deliver a 35% revenue CAGR over 2017-19. The drivers are similar to entecavir's: **1)** replacement of the previous generation of drugs including atorvastatin (55% of total statin market in China); and, **2)** replacement of MNC brands (68% of total market), after passing QCE.

Figure 13: Growth rate of entecavir dispersible tablet in domestic market (sample hospitals)



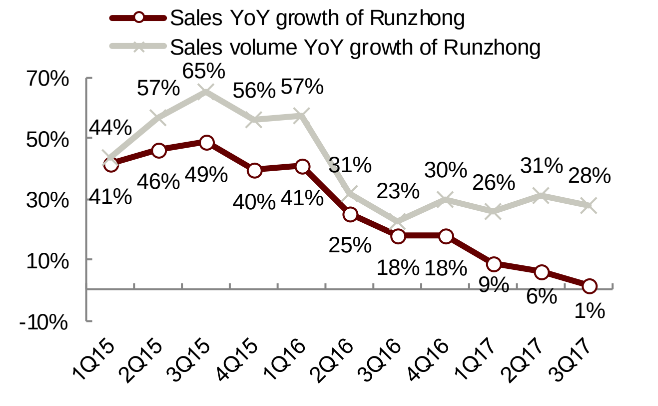
Source: PDB, CICC Research

Figure 14: Growth rate of rosuvastatin in domestic market (sample hospitals)



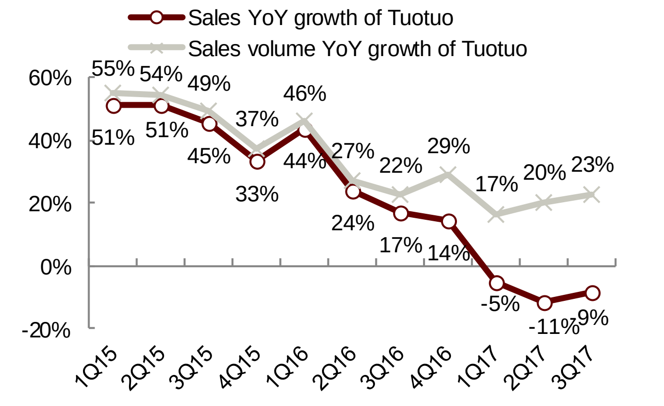
Source: PDB, CICC Research

Figure 15: Growth rate of Runzhong in domestic market (sample hospitals)



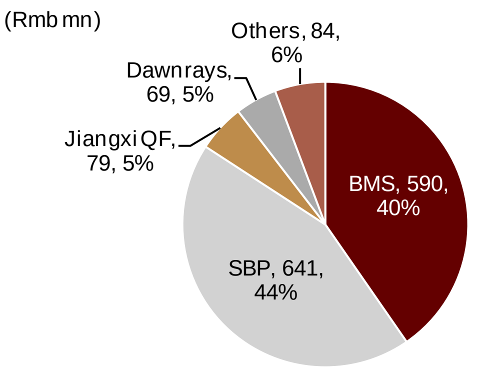
Source: PDB, CICC Research

Figure 16: Growth rate of Tuotuo in domestic market (sample hospitals)



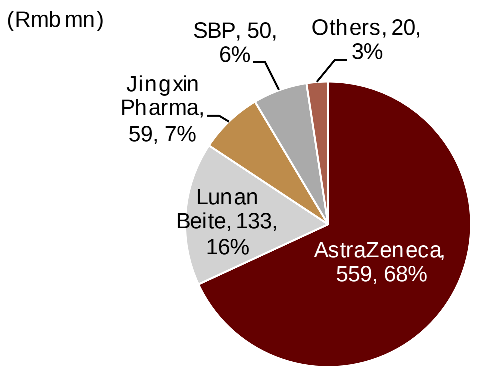
Source: PDB, CICC Research

Figure 17: Market share of entecavir tablet (sample hospitals, 1–3Q17)



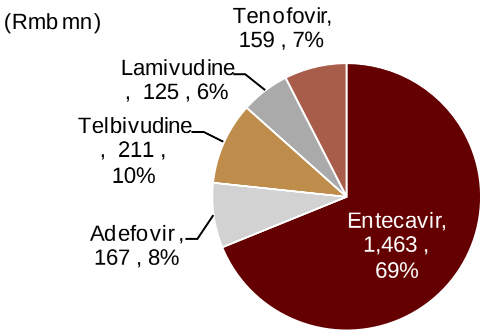
Source: PDB, CICC Research

Figure 18: Market share of rosuvastatin (sample hospitals, 1–3Q17)



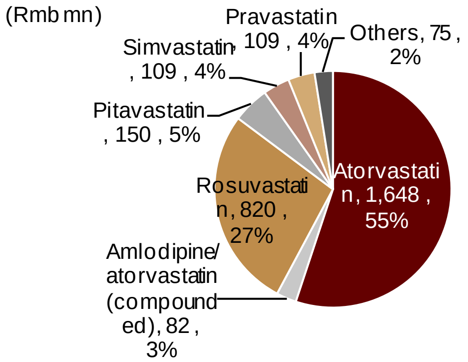
Source: PDB, CICC Research

Figure 19: Market share of anti-HBV drugs (sample hospitals, 1–3Q17)



Source: PDB, CICC Research

Figure 20: Market share of statin drugs (sample hospitals, 1–3Q17)



Source: PDB, CICC Research

Figure 21: New volume growth opportunities led by the 2017 NRDL revision (as of January 15, 2018)

Product	Brand name	Indicaiton	% of revenue	In 2017 NRDL	In provincial RDLs After 2017 NRDL	In provincial RDLs Before 2017 NRDL
Palonosetron for injection	Zhiruo	Oncology	3%	Category B	10 provinces	8 provinces
Irbesartan/hydrochlorothiazide	Yilunping	CCV	4%	Category B	9 provinces	6 provinces
Imatinib capsule	Gelike	Oncology	1%	Category B	10 provinces	3 provinces
Decitabine	Qingweike	Oncology	1%	Category B	10 provinces	2 provinces
Dasatinib	Yinishu	Oncology	1%	Category B	10 provinces	None
Tigecycline for Injection	Tianjie	Anti-infection	1%	Category B	10 provinces	None
Rosuvastatin calcium tablet	Tuotuo	CCV	4%	Category B, restriction removed	Category B, restricted for 2nd-line use	Category B, restricted for 2nd-line use
Flurbiprofen cataplasm	kaifen	Analgesics	-	Category B	18 provinces	15 provinces

Source: YaoZH, CICC Research

Incremental growth driven by new drug launches

We estimate anlotinib to be approved in 1Q18, recombinant coagulant factor VIII and PD-L1 to be green lit in 2H18 and 1H19, as well as another 11/8 generic drugs passed in 2018/19 respectively. We estimate these new drugs will bring SBP an additional Rmb820mn and Rmb3.08bn of revenue in 2018 and 2019.

We re-evaluate SBP's pipeline this time, since we upgraded its rating on November 10, 2017. We summarize that the company has 194 drugs in different development stages, and adjust our forecasts for the major near-term pipeline products in the figures below.

Figure 22: Sales forecasts for key products in pipeline (2018-27)

Drug name (EN)	Approval (exp.)	Peak sales (Rmb mn)	Indication	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
	2H17	2,000	HIV/HBV	200	400	600	840	1,092	1,310	1,507	1,658	1,741	1,828
					100%	50%	40%	30%	20%	15%	10%	5%	5%
Pioglitazone	2H17	1,000	Diabetes	80	160	256	384	538	699	839	923	969	1,017
					100%	60%	50%	40%	30%	20%	10%	5%	5%
	1H18	3,000	Cancers	350	800	1,440	2,016	2,621	3,014	3,165	3,165	3,165	3,006
					129%	80%	40%	30%	15%	5%	0%	0%	-5%
Linezoid	1H18	600	Anti-infection	30	90	162	243	340	442	531	584	613	613
					200%	80%	50%	40%	30%	20%	10%	5%	0%
Bendamustine	2H18	600	Cancers	20	90	162	243	340	442	531	584	613	613
					350%	80%	50%	40%	30%	20%	10%	5%	0%
Gadoxetic acid disodium injection	2H18	600	Contrast agent	20	90	162	243	340	442	531	584	613	613
					350%	80%	50%	40%	30%	20%	10%	5%	0%
Fosaprepitant	2H18	500	Antemetic	20	70	126	189	265	344	413	475	498	498
					250%	80%	50%	40%	30%	20%	15%	5%	0%
Lenalidomide	2H18	1,100	Cancers	10	200	360	540	756	983	1,179	1,179	1,179	1,179
						80%	50%	40%	30%	20%	0%	0%	0%
Apixaban	2H18	800	CCV	10	100	210	336	470	612	734	807	807	807
						110%	60%	40%	30%	20%	10%	0%	0%
Abiraterone	2H18	600	Cancers	20	90	162	243	340	442	531	584	613	613
					350%	80%	50%	40%	30%	20%	10%	5%	0%
Ambrisentan	2H18	350	CCV	10	35	81	137	192	249	299	329	345	345
					250%	130%	70%	40%	30%	20%	10%	5%	0%
Lidocaine	2H18	2,000	Anaesthesia	20	200	440	792	1,109	1,441	1,730	1,903	1,998	1,998
						120%	80%	40%	30%	20%	10%	5%	0%
Vildagliptin	2H18	1,500	Diabetes	20	150	330	594	832	1,081	1,297	1,427	1,498	1,498
						120%	80%	40%	30%	20%	10%	5%	0%
Ticagrelor	2H18	500	CCV	10	60	132	211	296	384	461	507	507	507
					500%	120%	60%	40%	30%	20%	10%	0%	0%
Recombinant coagulation factor VIII	2H18	2,000	Hemophillia	0	200	440	792	1,109	1,441	1,730	1,903	1,998	1,998
						120%	80%	40%	30%	20%	10%	5%	0%
Saxagliptin	1H19	1,000	Diabetes		80	160	264	396	554	721	865	951	999
						100%	65%	50%	40%	30%	20%	10%	5%
Tadalafil	1H19	500	ED		30	75	135	203	284	369	442	509	509
						150%	80%	50%	40%	30%	20%	15%	0%
Bortezomib	1H19	350	Cancers		10	35	81	137	192	249	299	329	345
						250%	130%	70%	40%	30%	20%	10%	5%
TQB2450 (PD-L1)	1H19	2,000	Cancers		100	500	800	1,120	1,456	1,747	1,922	2,018	2,018
						400%	60%	40%	30%	20%	10%	5%	0%
Salmeterol/Fluticasone	2H19	2,000	Asthma		50	250	400	560	728	946	1,230	1,599	1,919
						400%	60%	40%	30%	30%	30%	30%	20%
Faropenem	2H19	350	Anti-infection		10	35	81	137	192	249	299	329	345
						250%	130%	70%	40%	30%	20%	10%	5%
Cabozantinib	2H19	600	Cancers		30	90	162	243	340	442	531	610	610
						200%	80%	50%	40%	30%	20%	15%	0%
Everolimus	2H19	800	Cancers		30	120	216	324	454	590	708	814	814
						300%	80%	50%	40%	30%	20%	15%	0%
Adalimumab	2020	800	RA			100	220	330	462	601	721	793	793
							120%	50%	40%	30%	20%	10%	0%
Rituximab	2020	800	Cancers			100	220	330	462	601	721	793	793
							120%	50%	40%	30%	20%	10%	0%
Tofacitinib	2020	800	RA			100	200	300	420	546	655	753	791
							100%	50%	40%	30%	20%	15%	5%
Total				**270**	**1,875**	**4,588**	**7,725**	**11,005**	**14,547**	**17,865**	**20,180**	**21,750**	**22,237**
					594%	**145%**	**68%**	**42%**	**32%**	**23%**	**13%**	**8%**	**2%**

Source: CFDA, CICC Research

Anlotinib (Fukewei): we estimate anlotinib to be approved in 1Q18 and generate sales of Rmb350mn in 2018, with peak sales of Rmb3bn p.a. in 3-5 years. SBP submitted manufacturing approval for anlotinib in March 2017 for the third-line of the NSCLC and received priority review status in April 2017. We also highlight anlotinib is actively undergoing multiple clinical trials for indications such as STS, GC, mCRC, RCC and etc. SBP is also aiming to move anlotinib's third-line treatment to second-line. We summarize all the ongoing clinical trials for anlotinib in the below figure.

Figure 23: Ongoing clinical trials for anlotinib

Trial identifier	Indication	Status	No. of patients	Primary endpoint	Study start date
NCT02449343	2L STS	Phase 2b/3 ongoing	233	PFS	May-15
NCT02461407	3L Gastric Cancer	Phase 2/3 ongoing	378	OS	Jun-15
NCT02332499	3L mCRC	Phase 2/3 ongoing	450	OS	Dec-14
NCT02586350	MTC	Phase 2b/3 ongoing	90	PFS	Jul-15
NCT02586337	3L Differentiated Thyroid Cancer	Phase 2/3 ongoing	120	PFS	Jul-15
NCT02072044	3L RCC	Phase 2 ongoing	60	PFS	Dec-13
NCT02649361	2L ESCC	Phase 2 ongoing	144	PFS	Jan-16
NCT02809534	3L HCC	Phase 2 ongoing	60	PFS 12w	Sep-16
NCT03059797	3L SCLC	Phase 2 ongoing	90	PFS	Mar-17
NCT03387904	2L ESCC (Anlotinib + Irinotecan)	Phase 2 recruiting	120	PFS	Jan-18
NCT02622932	3L Advanced Solid Tumors	Phase 1 ongoing	6	Cumulative excretion	Dec-15
NCT02752516	3L Cancer	Phase 1 ongoing	16	Pharmacokinetics (Cmax)	Apr-16
NCT02825563	3L Advanced Cancer	Phase 1 ongoing	16	Pharmacokinetics (Cmax) with the effect of high fat diet	Jun-16

Source: ClinicalTrials.gov, CICC Research

We compared phase 3 clinical trial data for three VEGFR inhibitors, namely anlotinib, apatinib and fruquintinib, as reference. Please note, the indications of the three trials are different, hence the results are not comparable.

Figure 24: Phase 3 data for anlotinib, apatinib and fruquintinib

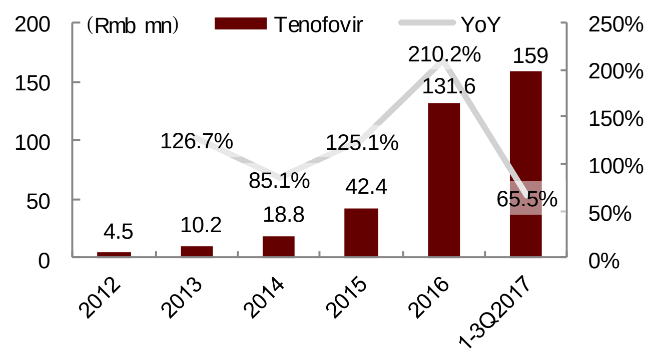
	Anlotinib 安罗替尼	Apatinib 阿帕替尼	Fruquintinib 呋喹替尼
Company	**SinoBiopharm**	**Hengrui**	**Hutchison China Meditech**
Indication	3L NSCLC	3L GC	3L CRC
Target	VEGFR, FGFR, PDGFR and c-Kit	VEGFR	VEGFR
Study name	ALTER-0303	-	FRESCO
Stage	Phase III	Phase III	Phase III
Control group	vs. placebo	vs. placebo	vs. placebo
Number of patients	437 (2:1)	267 (2:1)	416 (2:1)
Primary endpoint	OS (9.63 vs. 6.30)	OS (6.5 vs.4.7)	OS (9.30 vs. 6.57)
Seondary endpoint	PFS (5.37 vs. 1.40)	PFS (2.6 vs.1.8)	PFS (3.71 vs. 1.84)
	ORR (9.18% vs. 0.7%)		ORR (13 vs 0)
	DCR (80.95 vs. 37.06)		DCR (173 vs. 17)
≥ 3 grade AEs	Hypertension (13.61 vs 0.00)	Fatigue(2.69 vs.1.44)	Hypertension (21.2 vs 2.2)
	Dermal toxicity (3.74 vs 0.00)	Hypertension (5.38 vs. 0)	Dermal toxicity (10.8 vs 0.00)
	Hypertriglyceridemia (3.06 vs 0.00)	Hand-foot syndrome (7.62 vs.0.72)	Hypertriglyceridemia (3.2 vs 0.00)

Source: Company data, ASCO, CICC Research

Tenofovir (Qingzhong): we estimate Qingzhong to deliver sales of Rmb200m in 2018, with peak sales of Rmb2bn p.a. in 5 years. Qingzhong was approved for HBV indication as the first tenofovir drug that passed QCE at the end of November 2017, and was approved for HIV indication earlier.

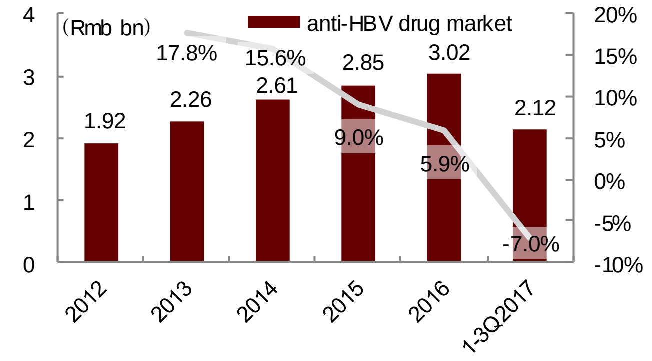
We believe China's anti-HBV drug market still has huge room to grow. According to the National Bureau of Statistics (NBS), there are around 100mn HBV carriers, and 20mn chronic hepatitis B patients. We estimate China's overall anti-HBV drug market at Rmb15bn in 2016, with growth of around 10%. We believe tenofovir will likely take >20% share of the anti-HBV market by 2023, from 7% in 3Q17. More importantly, we believe SBP may gain 40-50% of China's total tenofovir market in by about 2023.

Figure 25: Growth of tenofovir market (sampled hospitals)



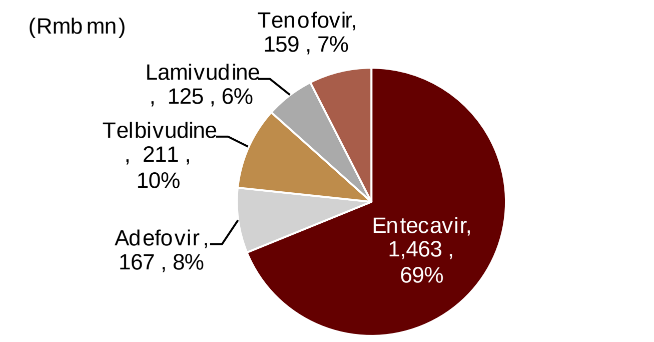
Source: PDB, CICC Research

Figure 26: Growth of anti-HBV market (sample hospitals)



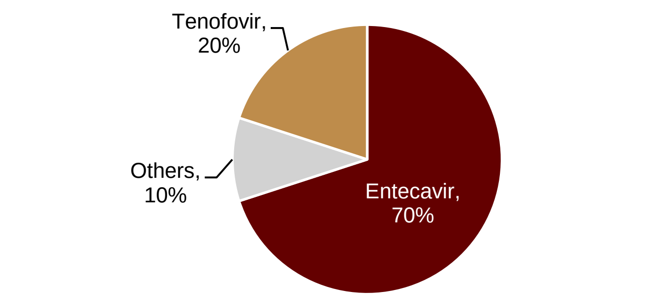
Source: PDB, CICC Research

Figure 27: Market share of anti-HBV drugs (sample hospitals, 1-3Q17)



Source: PDB, CICC Research

Figure 28: Market share of anti-HBV drugs (2023E, CICC estimate)



Source: PDB, CICC Research

Figure 29: Latest tender price for entecavir and tenofovir

Company	Brand name	Form	Specification	ASP (Rmb)	Monthly cost (Rmb)
Tenofovir					
GSK	Viread	Tablet	0.3g x 30	16.3	490.0
Chengdu Beite	Beixin	Tablet	0.3g x 30	14.9	448.0
Anhui BC Pharm	Zhengwen	Tablet	0.3g x 30	14.2	426.1
Qilu Pharm	-	Tablet	0.3g x 30	15.3	457.5
Fujian Cosunter	Furiding	Capsule	0.3g x 30	15.8	473.6
Entecavir					
BMS	Baraclude	Tablet	0.5mg x 7	27.4	822.8
CT Tianqing	Tianding	Tablet	0.5mg x 7	16.4	492.9
CT Tianqing	Runzhong	Dispersable Tablet	0.5mg x 7	11.1	333.0
Dawnrays	Leiyide	Dispersable Tablet	0.5mg x 7	17.0	508.5
Qianjin Pharm	Aipuding	Dispersable Tablet	0.5mg x 7	12.1	363.6
Qingfeng Pharm	Weiliqing	Dispersable Tablet	0.5mg x 7	10.8	322.5
Lukang Pharm	Muchang	Dispersable Tablet	0.5mg x 7	9.6	287.5
Anhui BC Pharm	Beishuang	Dispersable Tablet	0.5mg x 7	8.2	245.4
Hainan Zhonghe Pharm	Heen	Dispersable Tablet	0.5mg x 7	8.4	252.7
Nanjing CT Tianqing	Ganze	Capsule	0.5mg x 7	10.2	306.6
Fujian Cosunter	Enganding	Capsule	0.5mg x 7	10.2	306.0
Hainan Zhonghe Pharm	Heding	Capsule	0.5mg x 7	9.8	295.3
Haisco	Ganbeiqing	Capsule	0.5mg x 7	8.4	252.0
Qingfeng Pharm	Weiliqing	Capsule	0.5mg x 7	5.7	169.5

Source: Provincial tender website, CICC Research

Below we summarize the 36 generic drugs applying for manufacturing approvals, and 35 innovative drugs/biological drugs currently in the clinical/pre-clinical stages.

Figure 30: The generic drug pipeline (manufacturing application submitted)

Application No.	Drug name (CN)	Drug name (EN)	Therapeutic area	Company	Category	Status	Status start time
CYHS1600082	富马酸替诺福韦二吡呋酯片	Tenofovir disoproxil fumarate tablet	HIV, HBV	CT Tianqing	4	Approved	2017-12-11
-	盐酸吡格列酮分散片	Pioglitazone hydrochloride dispersible table	Diabetes	Beijing Tide	5	Approved	-
CYHS1300319	利奈唑胺片/注射液	Linezoid	Anti-infectives	CT Tianqing	6	Under review	2016-09-26
CXHS1700003	盐酸安罗替尼胶囊	Anlotinib hydrochloride capsule	Oncology	CT Tianqing	1	Under priority review	2017-03-14
CYHS1600193	注射用盐酸苯达莫司汀	Bendamustine hydrochloride for injection	Oncology	CT Tianqing	3	Under priority review	2017-01-20
CXHS1500136	注射用福沙匹坦双葡甲胺	Fosaprepitant dimeglumine for injection	Anti-emetics	CT Tianqing	3.1	Under priority review	2015-09-18
CYHS1790015	来那度胺胶囊	Lenalidomide capsule	Oncology	CT Tianqing	6	Under review	2015-09-18
CYHS1700131	阿哌沙班片	Apixaban tablet	CCV	CT Tianqing	4	Under review	2017-06-08
CYHS1700293	醋酸阿比特龙片	Abiraterone acetate tablet	Oncology	CT Tianqing	3.1	Under review	2017-09-29
CYHS1700138	安立生坦片	Ambrisentan tablet	CCV	CT Tianqing	4	Under review	2017-07-13
CYHS1000607	转化糖注射液	Invert sugar injection	Electrolytes	NJCTT	6	Under review	2010-12-07
CYHS1001212	注射用丁二磺酸腺苷蛋氨酸	Ademetionine 1,4-butanedisulfonate for injection	Liver cirrhosis,	CT Tianqing	6	Under review	2011-05-13
CYHS1100198	阿加曲班注射液	Argatroban injection	Anti-coagulant	NJCTT	6	Under review	2011-09-27
CYHS1200557	羟乙基淀粉200/0.5氯化钠注射	Hydroxyethyl Starch (200/0.5)/ sodium chloride injection	Plasma volume	NJCTT	6	Under review	2012-08-09
CYHS1300444	注射用硼替佐米	Bortezomib for injection	Oncology	CT Tianqing	6	Under review	2013-07-05
CYHS1300848	多西他赛注射液	Docetaxel injection	Oncology	CT Tianqing	6	Under review	2013-12-16
CYHS1301031	注射用左亚叶酸钙	Calcium levofolinate for injection	Oncology	CT Tianqing	6	Under review	2013-12-19
CYHS1301562	盐酸莫西沙星氯化钠注射液	Moxifloxacin hydrochloride/sodium chloride injection	Anti-infectives	NJCTT	6	Under review	2014-02-14
CYHS1302124	注射用醋酸卡泊芬净	Caspofungin acetate for injection	Anti-infectives	CT Tianqing	6	Under review	2014-04-01
CYHS1401473	钠钾镁钙葡萄糖注射液	Sodium/potassium/magnesium/calcium and glucose injection	Electrolytes	NJCTT	6	Under review	2015-01-19
CYHS1500007	注射用帕瑞昔布钠	Parecoxib sodium for injection	NSAIDs	NJCTT	6	Under review	2015-05-18
CXHS1500138	注射用左泮托拉唑钠	S-pantoprazole sodium for injection	Gastric acid	CT Tianqing	3.1	Under review	2015-09-21
CYHS1501162	碘克沙醇注射液	Iodixanol injection	Contrast agent	NJCTT	6	Under review	2015-12-10
CYHS1500865	醋酸加尼瑞克注射液	Ganirelix acetate injection	Sex hormone	CT Tianqing	6	Under review	2017-12-18
CYHS1500266	钆塞酸二钠注射液	Gadoxetic acid disodium injection	Contrast agent	CT Tianqing	6	Under review	2017-12-27
-	高分子凝胶医用冷敷贴	Medical cold compress (Polymer gel)	Cold-compress	Beijing Tide	-	Under review	-
CXHS1400282	利多卡因凝胶膏	Lidocaine gel paste	Anesthetics	Beijing Tide	3.1	Under review	2015-04-08
CYHS1401755	帕立骨化醇注射液	Paricalcitol for injection	Hyperparathyroidism	Beijing Tide	6	Under review	2015-06-16
CYHS1700185	维格列汀片	Vildagliptin tablet	Diabetes	Beijing Tide	4	Under review	2017-07-27
CYHS1201344	转化糖电解质注射液	Electrolytes and invert sugar injection	Electrolytes	CT Fenghai	6	Under review	2013-06-27
CYHS1700079	骨化三醇软膏	Calcitriol Ointment	Psoriasis	SH Tongyong	6	Under review	2017-08-29
CYHS1700337	沙格列汀片	Saxagliptin tablet	Diabetes	CT Tianqing	4	Under review	2017-11-16
CYHS1700258	注射用多黏菌素E甲磺酸钠	Colomycin injection	Anti-infectives	CT Tianqing	3.1	Under review	2017-12-07
CYHS1700333	枸橼酸托法替布片	Tofacitinib citrate tablet	RA, AS	CT Tianqing	4	Under review	2017-12-08
CYHS1700349	他达拉非片	Tadalafil tablet	ED	NJCTT	4	Under review	2018-01-08
CYHS1700472	替格瑞洛片	Ticagrelor tablet	CCV	NJCTT	4	Under review	2018-01-10

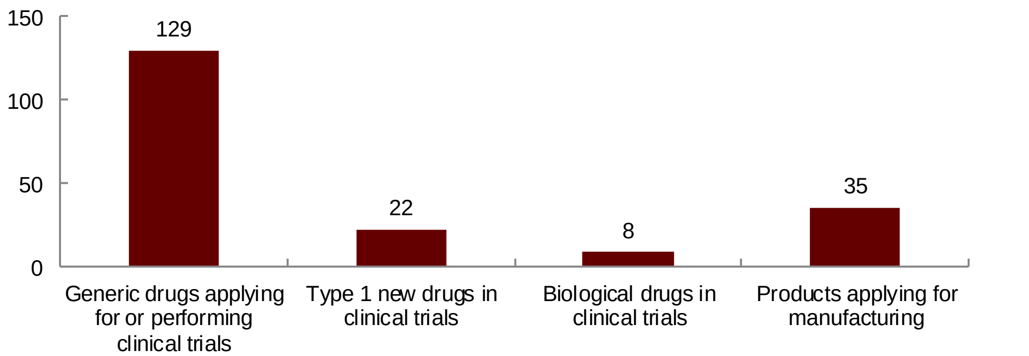
Source: CFDA, CICC Research

Figure 31: Innovative drug and biological drug pipelines

Application No.	Drug name (CN)	Drug name (EN)	Therapeutic area	Company	Category	Status	Status start time
Type 1 chemical durgs in clinical trials							
CXL20021774	多非利特片	Dofetilide tablet	CCV	CT Tianqing	2	Clinical trial ongoing	2004-02-03
CXL20021775	多非利特胶囊	Dofetilide capsule	CCV	CT Tianqing	2	Clinical trial ongoing	2004-02-03
CXL20022903	甲磺酸帕珠沙星氯化钠注射液	Pazufloxacin mesylate and sodium chloride injection	Anti-infectives	CT Tianqing	2	Clinical trial ongoing	2004-02-03
CXHL0502353	注射用法罗培南钠	Faropenem	Anti-infectives	CT Tianqing	2	Clinical trial ongoing	2008-08-19
CXHL0800554	注射用喜诺替康	Sinotecean	Oncology	CT Tianqing	1.1	Clinical trial ongoing	2009-06-22
CXHL1100438	马来酸舒布替尼胶囊	n.a.	Oncology	CT Tianqing	1.1	Clinical trial ongoing	2011-09-20
CXHL1500065	TQ-B3234胶囊	TQ-B3234 capsule	Oncology	CT Tianqing	1.1	Clinical trial ongoing	2015-04-08
CXHL1501076	TQ-B3395胶囊	TQ-B3395 capsule	Oncology	CT Tianqing	1.1	Clinical trial ongoing	2015-06-15
CXHL1501759	TQ-B3139胶囊	TQ-B3139 capsule	Oncology	CT Tianqing	1.1	Clinical trial ongoing	2015-09-21
CXHL1501928	TQ-B3101胶囊	TQ-B3101 capsule	Oncology	CT Tianqing	1.1	Clinical trial ongoing	2015-10-29
CXHL1402248	AL2846胶囊	AL2846 capsule	Oncology	CT Tianqing	1.1	Clinical trial ongoing	2016-02-29
CXHL1600104	TQ-F3083胶囊	TQ-F3083 capsule	Oncology	CT Tianqing	1.1	Clinical trial ongoing	2016-04-15
CXHL1600170	注射用TQ-B3203	TQ-B3203 injection	Oncology	CT Tianqing	1	Clinical trial ongoing	2016-10-11
CXHL1600172	TQ-B3233胶囊	TQ-B3233 capsule	Oncology	CT Tianqing	1	Clinical trial ongoing	2016-10-11
CXHL1600199	TQ-A3334片	TQ-A3334 tablet	Oncology	CT Tianqing	1	Clinical trial ongoing	2016-10-25
CXHL1600235	TQ-B3525片	TQ-B3525 tablet	Oncology	CT Tianqing	1	Clinical trial ongoing	2017-06-09
CXHL1600233	艾酚福韦片	n.a.	Hepatitis	CT Tianqing	2.1	Clinical trial ongoing	2017-06-28
CXHL1700149	TQ05510胶囊	TQ05510 capsule	Oncology	CT Tianqing	1	Clinical trial ongoing	2017-07-27
CXHL1700168	TQB3456片	TQB3456 tablet	Oncology	CT Tianqing	1	Clinical trial ongoing	2017-08-18
CXHL1700049	TQ-A3326片	TQ-A3326 tablet	Oncology	CT Tianqing	1	Clinical trial ongoing	2017-11-30
CXHL1700149	TQ-05510胶囊	TQ-05510 capsule		CT Tianqing	1	IND approved	2018-01-04
CXHL1700168	TQ-B3456片	TQ-B3456 tablet		CT Tianqing	1	IND approved	2018-01-10
CXHL1700214	TQ-05105片	TQ-05105 tablet		CT Tianqing	1	Applying for IND	2017-10-16
CXHL1700210	TQ-B3616胶囊	TQ-B3616 capsule		CT Tianqing	1	Applying for IND	2017-10-31
CXHL1700218	TQ-B3455片	TQ-B3455 tablet		CT Tianqing	1	Applying for IND	2017-11-02
Biological drugs in clinical trials							
CXSL1100054	化重组人铜锌超氧化物歧化酶			Beijing Tide	1	Clinical trial ongoing	2015-06-25
CXSL1400063	注射用重组人凝血因子Ⅷ	Recombinant coagulation factor Ⅷ for injection	Blood disease	CT Tianqing	10	Clinical trial ongoing	2015-10-29
CXSL1300049	聚乙二醇干扰素α-2a注射液	Peginterferon alfa-2a solution for injection	Hepatitis	CT Tianqing	15	Clinical trial ongoing	2016-07-14
CXSL1500056	利妥昔单抗注射液	Rituximab	Oncology	CT Tianqing	2	Clinical trial ongoing	2016-09-04
CXSL1400013	注射用曲妥珠单抗	Trastuzumab	Oncology	CT Tianqing	2	Clinical trial ongoing	2016-09-26
CXSL1400137	贝伐珠单抗注射液	Bevacizumab	Oncology	CT Tianqing	2	Clinical trial ongoing	2016-09-26
CXSL1500037	阿达木单抗注射液	Adalimumab	RA	CT Tianqing	2	Clinical trial ongoing	2017-02-13
CXSL1700018	TQB2450注射液(PD-L1)	TQB2450 injection (PD-L1)	Oncology	CT Tianqing	1	Clinical trial ongoing	2017-11-01
CXSL1700090	帕妥珠单抗注射液	Pertuzumab for injection	Oncology	CT Tianqing	2	Applying for IND	2017-10-16
CXSL1700093	利拉鲁肽注射液	Liraglutide for injection	Diabetes	CT Tianqing	10	Applying for IND	2017-09-25

Source: CFDA, CICC Research

Figure 32: No. of products at each stage of R&D for SBP



Source: Company data, CFDA, CICC Research

M&A to boost growth

The Tide deal is the first step toward future M&A. On January 5, 2018, SBP announced that the company plans to issue 1.013bn new shares at HK$12.73/sh to Miss Tse, to acquiring a 24% stake in Beijing Tide from her. Upon completion, SBP will hold a 57.6% stake in Beijing Tide (vs. 33.6% previously), while Miss Tse will hold a 12.02% stake in SBP in exchange. Although the Tide deal brings a slight EPS dilution in the near term, we expect it to be a positive over the long-term, as: 1) the shareholding structure is likely improved, as the Tse family's stake will rise from 41.63% to 48.65%; and, 2) the injection of Tide assets will likely strengthen the financial position and market cap of SBP, which might help the company to become a potential candidate for the HSI.

Figure 33: Tide acquisition's impact on valuation of Sino Biopharm

Details of the deal			
Newly issued shares (mn)	1,013		
Issuing price (HK$)	12.73		
Total consideration (HK$ bn)	12.9		
Acquiring stake	24%		
Total valuation of Beijing Tide (HK$ bn)	53.7		
	2017E	**2018E**	**2019E**
Implied P/E multiple for Beijing Tide	40.5x	32.3x	27.6x
Trading P/E multiple of SBP (Jan 5)	38.9x	30.3x	23.8x
	2017E	**2018E**	**2019E**
EPS of SBP before the deal (Rmb)	0.30	0.37	0.47
EPS of SBP after the deal (Rmb)	0.30	0.36	0.46
EPS dilution	0%	-1%	-2%

Source: Company data, CICC Research

Figure 34: Tide acquisition's impact on financial results of Sino Biopharm

Rmb mn	2016	2017E	2018E	2019E
Revenue (current estimation)	13,895	15,334	18,141	22,401
YoY	*15%*	*10%*	*18%*	*23%*
Revenue (After Tide consolidation)	13,895	15,334	20,228	27,284
YoY	*15%*	*10%*	*32%*	*35%*
Change (%)	***0.0%***	***0.0%***	***11.5%***	***21.8%***
Net profit (current estimation)	1,680	2,252	2,714	3,454
YoY	*13%*	*34%*	*21%*	*27%*
Net profit (After Tide consolidation)	1,680	2,252	2,880	3,842
YoY	*13%*	*34%*	*28%*	*33%*
Change (%)	***0.0%***	***0.0%***	***6.1%***	***11.2%***
EPS (current estimation, Rmb)	0.23	0.30	0.37	0.47
YoY	*13%*	*34%*	*21%*	*27%*
EPS (After Tide consolidation, Rmb)	0.23	0.30	0.36	0.46
YoY	*13%*	*34%*	*20%*	*25%*
Change (%)	***0.0%***	***0.0%***	***-0.7%***	***-2.1%***

Source: Company data, CICC Research; note: Assuming Tide consolidated from 2H18.

Additionally, we expect SBP to continue to increase shareholding in its subsidiaries and accelerate M&A. In October 2017, the company completed the acquisition of a 42% stake in Qingdao CT Haier (orthopedic medicines), for a total consideration of Rmb352mn. Upon completion, SBP will own a 93% equity stake in Qingdao CT Haier.

Earnings forecast and valuation

As we re-evaluated SBP's pipeline, **we raise our 2018/19 revenue forecasts by 1.1%/4.5% to Rmb18.1bn/22.4bn, and lift our 2018/19e EPS by 0.6%/3.4% to Rmb0.37/0.47**, not considering the consolidation of Tide.

Figure 35: Earnings forecast revisions

Rmb mn		2016A	2017E	2018E	2019E
Revenue	Before	13,895	15,284	17,944	21,428
	After	13,895	15,334	18,141	22,401
	(+/-)	0.0%	0.3%	1.1%	4.5%
COGS	Before	2,890	3,148	3,643	4,243
	After	2,890	3,158	3,683	4,368
	(+/-)	0.0%	0.3%	1.1%	3.0%
Net profit attributable to owners	Before	1,680	2,245	2,699	3,339
	After	1,680	2,252	2,714	3,454
	(+/-)	0.0%	0.3%	0.6%	3.4%
Total shares(mn)	Before	7,412	7,412	7,412	7,412
	After	7,412	7,412	7,412	7,412
	(+/-)	0.0%	0.0%	0.0%	0.0%
EPS (Rmb)	Before	0.23	0.30	0.36	0.45
	After	0.23	0.30	0.37	0.47
	(+/-)	0.0%	0.3%	0.6%	3.4%

Source: Company data, CICC Research

Company valuation: raise TP to HK$19.00

We use the DCF method to reflect long-term value. Assuming a WACC of 9.5% and perpetual growth of 2.8%, we estimate SBP's fair value at HK$19.00 per share, implying 22% upside from its current stock price. **We estimate 2017/18/19 EPS to grow 34.0%/20.5%/27.3% respectively to Rmb0.30/0.37/0.47.**

Our TP of HK$19.00 is equivalent to 42x 2018e P/E, or 1.4x 2018e PEG. To break down, the existing generic business was valued at HK$79.2bn (25x 2018e P/E), accounting for 56% of its total valuation; while pipeline products (including anlotinib and tenofovir) were valued at HK$61.7bn, accounting for 44% of its total valuation.

Figure 36: DCF valuation

Free cashflow forecast	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Net Revenue	18,141	22,401	27,529	32,731	37,874	42,901	47,347	50,541	52,905	54,031
YoY	*18.3%*	*23.5%*	*22.9%*	*18.9%*	*15.7%*	*13.3%*	*10.4%*	*6.7%*	*4.7%*	*2.1%*
EBIT	4,581	5,808	7,215	8,732	10,338	11,938	13,570	15,161	16,960	19,092
YoY	*25.8%*	*19.0%*	*26.8%*	*24.2%*	*21.0%*	*18.4%*	*15.5%*	*13.7%*	*11.7%*	*11.9%*
EBIT Margin	*25.1%*	*25.3%*	*25.9%*	*26.2%*	*26.7%*	*27.3%*	*27.8%*	*28.7%*	*30.0%*	*32.1%*
+ Depreciation and Amortization	395	493	612	746	799	940	1,111	1,302	1,510	1,729
EBITDA	4,976	6,301	7,827	9,477	11,137	12,878	14,681	16,463	18,469	20,821
- Change in working capital	-129	-269	-506	-945	-916	-1,196	-1,638	-2,391	-3,449	-5,164
- Capex	-1,088	-1,232	-1,376	-1,309	-1,738	-1,969	-2,173	-2,320	-2,428	-2,480
- Tax	-727	-918	-1,135	-1,368	-1,615	-1,862	-2,114	-2,361	-2,641	-2,971
Free Cash Flows	**3,032**	**3,882**	**4,810**	**5,856**	**6,868**	**7,850**	**8,755**	**9,390**	**9,951**	**10,206**
YoY		*28.0%*	*23.9%*	*21.7%*	*17.3%*	*14.3%*	*11.5%*	*7.3%*	*6.0%*	*2.6%*

DCF Analysis		关键假设	Key assumptions	
PV of FCF	44,254	税率	Tax rate	14.0%
Terminal value	158,494	目标债务水平(D/D+E)	Debt ratio	15.0%
PV of terminal value	70,219	公司股权Beta	Beta	1.35
Enterprise Value	114,474	无风险利率	Risk free rate	2.8%
Net Cash/(Debt), Minority interests	-1,061	风险溢价	Risk permium	5.5%
Equity Value	113,413	股权成本率	Equity cost	10.2%
Equity value per share (HK$)	19.00	债务成本率	Debt cost	6.0%
		债务成本(税后)	Debt cost (After tax)	5.2%
		WACC	WACC	9.5%
		永续增长率	Perpetual Growth	2.8%

Source: Company data, CICC Research

Figure 37: Valuation breakdown

	2018 EPS (HK$)	Implied 2018e P/E	Valuation per share (HK$)	Valuation (HK$ bn)	as % of total	2016-19 EPS CAGR
Existing drugs	0.43	25.0x	10.7	79.2	56%	23%
Pipeline drugs	0.03		8.3	61.7	44%	
Total	**0.45**	**41.8x**	**19.0**	**140.8**	**100%**	**30%**

Source: Company data, CICC Research. Note: Anlotinib and Tenofovir are included in pipeline drugs.

Appendix: company background

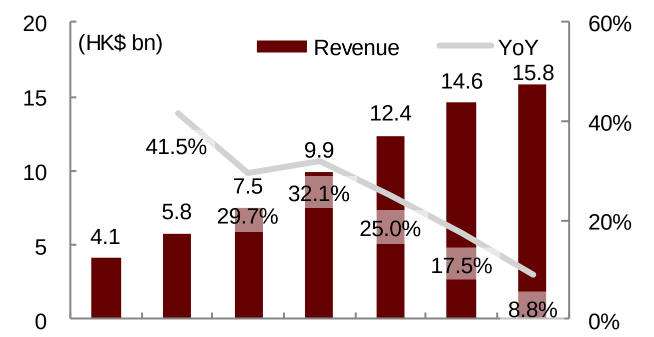
SBP's major subsidiary, Chia Tai Tianqing Pharmaceutical, was founded in 1997. In 2000, SBP, which contained high quality assets from Chia Tai Pharmaceutical Group, was listed on the GEM of the Hong Kong Exchange under the ticker of 8027.HK. Soon after, SBP was transferred to the main board of the Hong Kong Exchange in 2003, under the ticker of 1177.HK. SBP is a holding group with multiple subsidiaries, covering various treatment areas such as hepatitis, cardio-cerebral diseases, oncology, analgesics, orthopedics, diabetes and anti-infective. By the end of 2016, its total number of employees reached 14,872. The company has 28 products with sales exceeding Rmb1bn. It is the leader in the hepatitis market in China with a 22.4% market share in 2016.

Figure 38: Historical milestones

Year	Event
1994	The former Lianyungang Dongfeng Pharmaceutical Factory changed its name to Jiangsu Tianqing Pharmaceutical Factory.
	GanLiXin (diammonium glycyrrhizinate for injection & capsule) was launched.
1997	Jiangsu Tianqing and Chia Tai Group jointly formed the Chia Tai Tianqing Pharmaceutical Co. Ltd.
2000	Sino Biopharmaceutical Co. Ltd. (8027.HK), which contained Chia Tai Pharmaceutical Group's high-quality assets, was listed on GEM (Growth Enterprise Market) of the Hong Kong Stock Exchange.
2001	Nanjing CT Tianqing was founded.
2003	Sino Biopharmaceutical Co. Ltd. (1177.HK) was transferred onto the main-board of Hong Kong Stock Exchange.
	Sino Biopharm acquired 35% of the equity interests in Beijing Tide Pharma.
2004	Zolebronate acid injection (brand name: TianQingYiTai) was launched, which was the company's first product in the oncology field.
2006	Adefovir dipivoxil capsules (brand name: MingZheng) was launched, which was the company's first anti-HBV drug.
2008	The company launched its key chemotherapy antiemetic product, palonosetron hydrochloride injection.
	Sino Biopharm acquired 51% of the equity interests in Qingdao Haier Pharma.
2013	CT Tianqing entered the anti-tumor field by launching three products for hematological cancer: QingWeiKe (decitabine for injection), Gelike (imatinib mesylate capsule), Yinishu (dasatinib tablet).
2016	CT Tianqing and Janssen Pharma entered into an agreement that saw CT Tianqing grant the international development license of a new drug for hepatitis to Janssen, receiving a total payment up to US$250mn.
2017	The company's generic version of tenofovir was approved by the CFDA, which became the first to complete clinical trails according to the consistency evaluation standard.

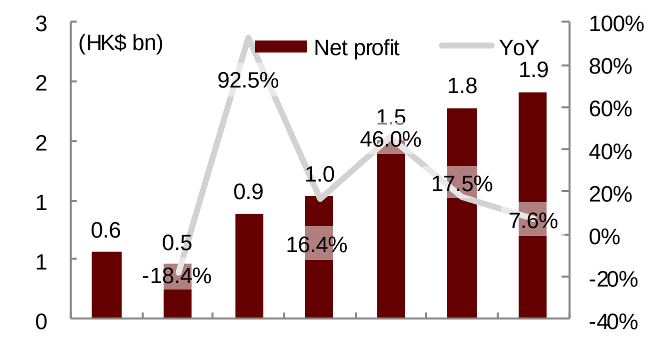
Source: Company data, company website, CICC Research

Figure 39: Revenue growth for SBP



Source: Company data, CICC Research

Figure 40: Net profit growth for SBP



Source: Company data, CICC Research

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