

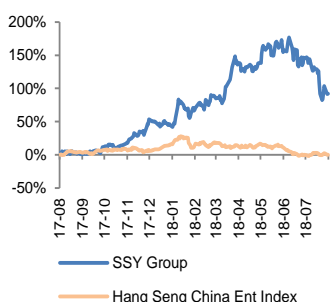
28 August 2018

BUY
Transfer of coverage

Market Data: 27 August

Closing Price (HK\$)	6.87
Price Target (HK\$)	10.20
HSCEI	11,049
HSCCI	4,328
52-week High/Low (HK\$)	9.46/3.21
Market Cap (US\$m)	2,638
Market Cap (HK\$m)	20,706
Shares Outstanding (m)	3,014
Exchange Rate (Rmb-HK\$)	1.15

Price Performance Chart:



Source: Bloomberg

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量价齐升

SSY Group (02005:HK)

Financial summary and valuation

	2016	2017	2018E	2019E	2020E
Revenue (HK\$ m)	2,361.25	3,076.37	4,274.21	5,359.23	6,097.15
YoY (%)	6.27	30.29	38.94	25.39	13.77
Net income (HK\$ m)	489.54	664.72	920.84	1,226.93	1,466.13
YoY (%)	21.35	35.79	38.53	33.24	19.50
EPS (HK\$)	0.17	0.23	0.31	0.41	0.49
Diluted EPS (HK\$)	0.17	0.23	0.31	0.41	0.49
ROE (%)	19.31	21.61	24.27	27.04	26.80
Debt/asset (%)	43.42	40.94	33.15	27.62	22.33
Dividend Yield (%)	0.80	1.02	1.37	1.82	2.18
PE (x)	39.66	29.44	22.46	16.88	14.12
PB (x)	7.24	5.60	5.02	4.16	3.46
EV/Ebitda (x)	24.68	19.68	15.33	11.72	9.78

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 年上半年收入为 21 亿港币，同比增长 57.9%，净利润为 4.46 亿港币，同比增长 54.7%。人民币口径下，收入同比增长 46%，净利润同比增长 43%。我们认为公司业绩的强劲增长主要由于大输液产品均价和销量的提升，以及公司整体毛利率提升。

产品结构优化，综合毛利率提升。由于高毛利品种销售占比的提升，尤其是治疗性输液产品占大输液产品销售额的比重从 2017 年上半年的 14.1% 提升至 2018 年上半年的 19.8%，2018 年上半年公司整体毛利率提升 8.2 个百分点至 63.1%。此外，今年上半年销售费用率大幅提升 12.5 个百分点至 30.1%。我们认为主要受“两票制”影响，以及公司销售网络的扩张。

销量和均价齐升。由于高毛利品种销售占比的上升，以及现有产品价格上涨，18 年上半年公司静脉输液产品的均价（不含增值税）同比增长 38% 至 2.61 港币。我们预计静脉输液产品的均价将逐步提升至 18 年 2.7 港币，19 年 3.0 港币，20 年 3.3 港币。目前，公司大输液产品的年产能 16 亿瓶/袋，并且计划 18 年新增产能 1 亿瓶/袋，19 年新增产能 0.5 亿瓶/袋。我们预计公司输液产品的销量将上升至 18 年的 1.5 亿瓶/袋，19 年的 1.6 亿瓶/袋，20 年的 1.7 亿瓶/袋，分别同比增长 12%/10%/4%。

高附加值品种。目前公司大多数在研品种均为高毛利品种，例如，治疗性输液产品、大容量软袋包装产品、口服化药等。公司于 2017 年 11 月获得 CFDA 关于醋酸钠林格注射剂的生产批件，我们预计该品种的峰值销售额有望达到 3 亿元。此外，其他新品种中，我们预计腹膜透析液的峰值销售额有望达到 5 亿元，氨溴索注射液（直立软袋）的峰值销售额有望达到 2 亿元。

高利润咖啡因业务。2017 年 8 月，公司以 3,500 万元从天津中安药业收购咖啡因等七个原料药批文。公司将投资约 2.5 亿元于天津新建 5,000 吨咖啡因相关的原料药产能，预计于 19 年投入生产。我们预计咖啡因原料药于 19 年贡献收入约 2.6 亿港币，20 年贡献收入约 3.0 亿港币。

维持买入评级。由于大输液产品销量和均价的提升，我们维持 2018 年稀释每股盈利为 0.31 港币（同比增长 35%），将 19 年预测从 0.40 港币上调至 0.41 港币（同比增长 32%），将 2020 年预测从 0.48 港币上调至 0.49 港币（同比增长 20%）。我们维持目标价 10.20 港币（对应 33 倍 18 年市盈率，以及 25 倍 19 年市盈率）。目标价对应 48% 的上涨空间，维持买入评级。

Investment Highlight:

SSY Group reported 1H18 revenue of HK\$2.1bn (+57.9% YoY) and net profit of HK\$446m (+54.7% YoY). Excluding the impact from foreign exchange, revenue grew 46% YoY and net profit increased 43% YoY. We attribute the strong performance mainly to the rising average selling price (ASP) and sales volume of intravenous infusion solutions, as well as improved blended gross margin. We maintain our 18E diluted EPS forecast of HK\$0.31 in 18E (+35% YoY), and revise up our forecasts from HK\$0.40 to HK\$0.41 in 19E (+32% YoY) and from HK\$0.48 to HK\$0.49 in 20E (+20% YoY). We maintain our target price of HK\$10.20 (33x 18E PE and 25x 19E PE) and, with 48% upside, maintain BUY.

Margin expansion thanks to product mix upgrades. In 1H18, SSY Group's blended gross margin improved by 8.2ppts to 63.1%. This is mainly due to the rising sales contribution from high-margin products, especially therapeutic infusion solutions (14.1% of total revenue of intravenous infusion solutions in 1H17 vs 19.8% in 1H18). In addition, selling expense ratio increased 12.5ppts to 30.1% in 1H18. We think the rising selling expense ratio was mainly due to the impact of "the two-invoice scheme" and channel penetration into new regions.

Rising ASP and sales volume. As a higher percentage of sales is from high-margin products and price hikes of existing products, ASP (excluding VAT) of SSY Group's intravenous infusion solutions increased to HK\$2.61 (+38% YoY) in 1H18 and we expect ASP to gradually rise to HK\$2.7 in 18E, HK\$3.0 in 19E and HK\$3.3 in 20E. In addition, sales volume of intravenous infusion solutions increased 15% YoY to 721m bottles/bags in 1H18. SSY Group currently has a total capacity of 1,600m bottles/bags per annum and will add 100m bottle/bags of capacity in 18E and 50m bottle/bags of capacity in 19E. We forecast SSY Group's infusion sales volume to rise to 1,450m bottles/bags in 18E (+12% YoY), 1,589m bottles/bags in 19E (+10% YoY), and 1,657m bottles/bags in 20E (+4% YoY).

High-value-added products. Most of SSY Group's products under development are high-margin products, such as therapeutic infusion solutions, large-volume solutions in soft bag packaging and oral chemical drugs. SSY received CFDA approval for ringer's acetate solution injection in November 2017 and we forecast Rmb300m peak sales for the drug. Moreover, we forecast Rmb500m peak sales for peritoneal dialysis solutions and Rmb200m peak sales for ambroxol injection in upright soft bags.

Lucrative return from caffeine business. In August 2017, SSY Group acquired seven caffeine-related bulk medicines from Tianjin Zhong'an Pharmaceutical with a consideration of Rmb35m. The company will spend c.Rmb250m to build 5,000 tons of caffeine-related bulk medicines capacity in Tianjin. The facilities will commence operation in 19E. We forecast caffeine business to contribute sales of HK\$263m in 19E and HK\$300m in 20E.

Maintain BUY. Given the sales volume growth and ASP increase of IV infusion products, we maintain our 18E diluted EPS forecast of HK\$0.31 in 18E (+35% YoY), and revise up our forecasts from HK\$0.40 to HK\$0.41 in 19E (+32% YoY) and from HK\$0.48 to HK\$0.49 in 20E (+20% YoY). We maintain our target price of HK\$10.20 (33x 18E PE and 25x 19E PE) and, with 48% upside, maintain our BUY rating.

Appendix

Consolidated Income Statement

HK\$m	2016	2017	2018E	2019E	2020E
Revenue	2,361	3,076	4,274	5,359	6,097
Cost of Sales	(1,144)	(1,269)	(1,532)	(1,899)	(2,064)
Gross Profit	1,217	1,807	2,742	3,460	4,033
Other Income	65	6	0	0	0
Selling/General/Admi. Expenses	(642)	(962)	(1,618)	(1,940)	(2,232)
Ebitda	885	1,107	1,395	1,791	2,072
Ebit	641	851	1,124	1,520	1,801
Finance Costs	(52)	(54)	(44)	(42)	(35)
Profit before tax	588	797	1,081	1,478	1,766
Income tax expense	(98)	(134)	(159)	(251)	(300)
Minority interests	(1)	1	(1)	0	0
Profit for the year	490	665	921	1,227	1,466

Source: Company data, SWS Research

Consolidated Cash Flow Statement

HK\$m	2016	2017	2018E	2019E	2020E
Profit before taxation	588	797	1,081	1,478	1,766
Plus: Depr. and amortisation	244	256	271	271	271
Finance cost	53	57	44	42	35
Losses from investments	2	0	0	0	0
Change in working capital	(76)	(380)	(215)	(416)	(273)
Others	22	1	(11)	(2)	(2)
CF from operating activities	833	731	1,169	1,372	1,797
Capex	(323)	(373)	(300)	(300)	(300)
Other CF from investing activities	38	(0)	11	2	2
CF from investing activities	(285)	(374)	(289)	(298)	(298)
Equity financing	0	0	0	0	0
Net change in liabilities	(201)	151	(400)	(200)	(200)
Dividend and interest paid	(71)	(171)	(283)	(377)	(451)
Other CF from financing activities	(2)	47	0	0	0
CF from financing activities	(274)	27	(683)	(577)	(651)
Net cash flow	128	206	(6)	204	513
FCFF	388	219	721	823	1,199
FCFE	133	314	277	581	964

Source: Company data, SWS Research

Consolidated Balance Sheet

HK\$m	2016	2017	2018E	2019E	2020E
Current Assets	1,680	2,511	2,749	3,422	4,232
Bank balances and cash	447	687	682	886	1,399
Trade and other receivables	857	1,231	1,464	1,835	2,088
Inventories	278	398	408	506	550
Other current assets	97	196	196	196	196
Long-term investment	0	0	0	0	0
PP&E	2,393	2,549	2,549	2,549	2,549
Intangible and other assets	671	844	873	903	932
Total Assets	4,744	5,904	6,171	6,874	7,713
Current Liabilities	1,096	1,500	1,128	982	805
Borrowings	633	900	500	300	100
Trade and other payables	174	194	222	275	299
Other current liabilities	289	406	406	406	406
Long-term liabilities	964	917	917	917	917
Total Liabilities	2,060	2,417	2,045	1,898	1,722
Minority Interests	8	11	13	13	13
Shareholder Equity	2,676	3,475	4,113	4,963	5,978
Share Capital	64	64	64	64	64
Reserves	2,613	3,411	4,049	4,898	5,914
Total Equity	2,684	3,487	4,126	4,975	5,991
Total Liabilities and equity	4,744	5,904	6,171	6,874	7,713

Source: Company data, SWS Research

Key Financial Ratios

	2016	2017	2018E	2019E	2020E
Ratios per share (HK\$)					
Earnings per share	0.17	0.23	0.31	0.41	0.49
Diluted EPS	0.17	0.23	0.31	0.41	0.49
Operating CF per share	0.24	0.19	0.32	0.36	0.49
Dividend per share	0.06	0.07	0.09	0.13	0.15
Net assets per share	0.95	1.23	1.37	1.65	1.99
Key Operating Ratios (%)					
ROIC	11.30	12.20	15.40	18.61	19.47
ROE	19.31	21.61	24.27	27.04	26.80
Gross profit margin	51.56	58.74	64.15	64.56	66.14
Ebitda Margin	37.46	35.98	32.63	33.41	33.98
Ebit Margin	27.13	27.67	26.30	28.36	29.54
Growth rate of Revenue(YoY)	6.27	30.29	38.94	25.39	13.77
Growth rate of Profit(YoY)	21.35	35.79	38.53	33.24	19.50
Debt-to-asset ratio	43.42	40.94	33.15	27.62	22.33
Turnover rate of net assets	0.88	0.88	1.04	1.08	1.02
Turnover rate of total assets	0.50	0.52	0.69	0.78	0.79
Effective tax rate (%)	16.61	16.76	14.67	17.00	17.00
Dividend yield (%)	0.80	1.02	1.37	1.82	2.18
Valuation Ratios (x)					
PE	39.66	29.44	22.46	16.88	14.12
PB	7.24	5.60	5.02	4.16	3.46
EV/Sale	9.25	7.08	5.00	3.92	3.32

Source: Company data, SWS Research

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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.

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