



Company Report: Sihuan Pharmaceutical (00460 HK)

公司报告: 四环医药 (00460 HK)

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Profit Growth Bottoms Out, Maintain "Accumulate"

利润增速触底反弹，维持“收集”

- **1H18 shareholders' profit was down 9.1% YoY to RMB766 million, basically in line.** 1H18 revenue of CCV portfolio slumped by 12.9% YoY to RMB1,182 million, depressed by tightening control of medical expenditure. Revenue of non-CCV portfolio hiked by 15.9% YoY to RMB96 million in 1H18, supported by robust growth in new products, namely Huineng and Jieao. Although academic promotions and R&D input was increased, NM improved by 1.4 pts YoY to 61.5%, mainly thanks to product mix optimization and substantial increase in government grants, triggered by the implementation of the two-invoice system.
- Looking forward, sales from the CCV portfolio is estimated to be continuously depressed by tightening control of medical expenditure and the reform of reimbursement model, with impact marginally decreasing as we believe that Weiao and Yuanzhijiu/ Xingwei will have some growth potential through penetration into low-tier markets. We expect that the solid growth momentum of new products, especially Jieao and Huineng which were newly included in 8 and 3 additional PRDLs in 1H18, respectively, will be maintained. Moreover, the expansion of the generics pipeline is expected to further drive up the performance of the Company in the near term. **We, therefore, estimate profit growth to bottom out in 2018 and return to high single-digit percentage growth.**
- **Revise up 2018F/ 2019F/ 2020F EPS by 5.7%/ 5.2%/ 6.9% to RMB0.164/ RMB0.178/ RMB0.195, respectively. Maintain investment rating of "Accumulate" and TP of HK\$2.30 for Sihuan Pharma, which represents 12.0x/ 11.2x 2018/ 2019 PER.**
- **2018年上半年股东净利同比倒退9.1%至人民币766百万元，基本符合预期。**受医保控费影响，2018年上半年心血管组合收入同比下滑12.9%至人民币1,182百万元。受新产品强劲增长支持（特别是杰澳与回能），2018年上半年非心血管组合收入同比上升15.9%至人民币96百万元。尽管学术推广以及研发投入不断增加，净利润同比上升1.4个百分点至61.5%，主要受益于产品组合优化以及由两票制实施引起的政府补贴的大幅度上升。
- 展望未来，心血管组合销售预计将继续受到来自医保控费以及医保支付方式改革的压力，但是该等影响有望逐步减少，因为我们认为威澳以及源之久/杏唯通过渠道下沉将具备一定的销售增长潜力。我们预计新产品的强劲增速将会维持，特别是杰澳与回能：它们分别在2018年上半年被新纳入8个与3个省级医保目录。另外，仿药产线的扩张预计将为公司近期业绩增长带来新的驱动力。**我们因此预料利润增速将在2018年触底反弹并重返高个位数。**
- **分别上调2018-2020年每股净利5.7%/5.2%/6.9%至人民币0.164/人民币0.178/人民币0.195。维持四环医药“收集”的投资评级以及2.30港币的目标价，对应12.0倍/11.2倍2018年/2019年的市盈率。**

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

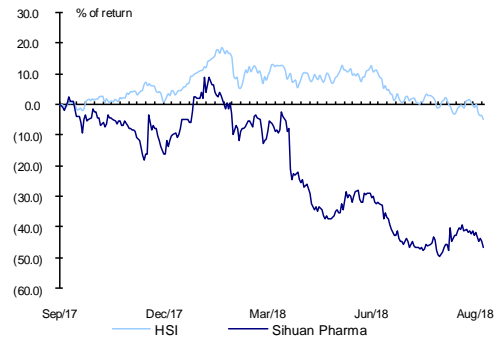
HK\$2.30
HK\$2.30

Share price 股价:

HK\$1.590

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(1.2)	(23.6)	(46.8)
Rel. % to HS Index 相对恒指变动 %	4.9	(9.5)	(43.0)
Avg. Share price(HK\$) 平均股价 (港元)	1.7	1.7	2.4

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2016A	3,186	1,708	0.169	(15.3)	8.4	1.075	1.3	0.107	7.5	15.5
2017A	2,746	1,449	0.153	(9.3)	8.7	1.166	1.1	0.031	2.3	13.2
2018F	2,688	1,556	0.164	7.5	8.3	1.307	1.0	0.033	2.4	13.3
2019F	2,919	1,681	0.178	8.0	7.7	1.451	0.9	0.036	2.6	12.9
2020F	3,218	1,845	0.195	9.7	7.0	1.609	0.8	0.039	2.8	12.7
Shares in issue (m) 总股数 (m)				9,471.1	Major shareholder 大股东				Dr. Che Fengsheng 62.4%	
Market cap. (HK\$ m) 市值 (HK\$ m)				15,059.0	Free float (%) 自由流通比率 (%)					37.6
3 month average vol. 3 个月平均成交股数 ('000)				17,192.6	FY18 Net gearing (%) FY18 净负债/股东资金 (%)					Net cash
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				3.310 / 1.480	FY18 Est. NAV (HK\$) FY18 每股估值 (港元)					2.8

Source: the Company, Guotai Junan International.

1H18 Results Review

Sihuan Pharma (the "Company") reported basically in-line 1H18 shareholders' profit of RMB766 million, down 9.1% YoY, accounting for 52.0% of our full-year forecast. Revenue fell 11.2% YoY to RMB1,278 million, continuously depressed by sluggish performance of CCV portfolio. However, we saw that top-line YoY growth obviously rebounded in 1H18 from -27.4% in 2H17, on the back of diminishing impact from destocking in distribution channels. Excluding the investment gain from disposal of Beijing Boren Hospital in 1H17, 1H18 growth of shareholders' profit turned positive to 6.8% YoY. 1H18 EPS was RMB8.08 cents and an interim dividend of RMB0.4 cents per share was declared.

Solid growth of new products. CCV portfolio recorded 1H18 revenue of RMB1,182 million, down 12.9% YoY. The decline in CCV portfolio sales was mainly attributable to tightening control of medical expenditure. However, we highlight that Yuanzhijiu/Xingwei and Weiao recorded desirable growth of 26.4% and 80.8% respectively, primarily thanks to increasing penetration into low-tier markets. Revenue of non-CCV portfolio increased by 15.9% YoY to RMB96 million in 1H18, supported by robust growth of new products, namely Huineng and Jieao (up 74.1% YoY and 51.6% YoY, respectively).

Improving margins. Gross profit margin ("GM") rose by 9.5 pts YoY to 80.2%, due to 1) the fact that the margin of products from a joint venture which was previously distributed by the Company, namely Jilin Sichang Pharmaceutical Co., Ltd. ("Jilin Sichang"), was consolidated into the overall group account after Sihuan Pharma's acquisition of its controlling stake, and 2) product mix optimization. With significant increase in academic promotion activities and R&D input, distribution costs ratio/administrative expenses ratio increased YoY by 3.0 pts/ 9.5% pts to 7.9%/ 28.1% in 1H18, respectively. Nevertheless, operating profit margin ("OM") increased by 6.7pts to 73.9%, primarily thanks to the doubling of government grants triggered by the implementation of the two-invoice system, which is expected to be kept at current levels, according the management. Net profit margin ("NM") was ultimately moderately up 1.4 pts YoY to 61.5% due to a surge in NCI along with the acquisition of Jilin Sichang's controlling stake.

Strong operating cash flow. The Company recorded operating cash flow of RMB1,004 million in 1H18, up 11.3% YoY, representing 131.2% shareholders' profit. The strong cash position was mainly brought about by the implementation of the two-invoice system which led to a change in the Company's business model and a sharp rise in accrued reimbursement to distributors (from RMB174 million in 1H17 to RMB989 mn in 1H18) without a steady increase in accounts receivable. Bulging with cash, the Company is expected to complement its pipeline and promote synergies through M&As or collaborations.

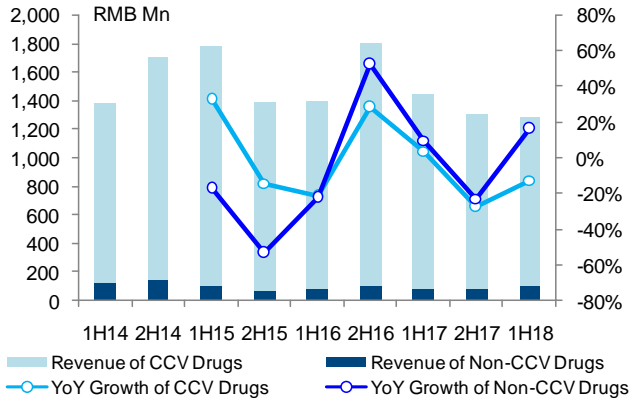
Table-1: Sihuan Pharma's 1H18 Results Review

RMB million	1H17	1H18	YoY	YoY on hospital sales
<u>Revenue</u>	<u>1,440</u>	<u>1,278</u>	<u>-11.2%</u>	
- <u>CCV portfolio</u>	<u>1,357</u>	<u>1,182</u>	<u>-12.9%</u>	
---Kelinao/ Anjieli	214	151	-29.2%	-38.2%
---Quao/ Ruiqituofen	45	16	-63.7%	-21.9%
---Aogan/ Xiangtong	80	68	-15.1%	-28.8%
---Oudimei/ Aofutai/ Weitong/ Jielixin	393	278	-29.2%	-17.6%
---Yuanzhijiu/ Xingwei	224	283	26.4%	0.5%
---Yimaining/ Yikangning	113	80	-29.3%	-26.8%
---Yeduoqia	69	76	9.1%	
---Wei'ao	87	158	80.8%	54.5%
---Mainuokang	20	25	27.4%	
---Nicotinamide injection	2	14	552.1%	
- <u>Non-CCV portfolio</u>	<u>83</u>	<u>96</u>	<u>15.9%</u>	
---Renao	12	9	-27.6%	
---Jieao	17	26	51.6%	
---Huineng	10	17	74.1%	
---Xinnuao	10	9	-13.5%	
---Nicotinic acid injection (vitamins)	0	11	n.a.	
<u>Gross profit</u>	<u>1,018</u>	<u>1,026</u>	<u>0.7%</u>	
Distribution costs	(71)	(101)	42.2%	
Administrative expenses	(269)	(360)	33.8%	
<u>Operating profit</u>	<u>968</u>	<u>944</u>	<u>-2.5%</u>	
Finance costs	0	(2)	n.a.	
Share of profit of associates&JV	29	(21)	-173.9%	
<u>Profit before tax</u>	<u>997</u>	<u>921</u>	<u>-7.6%</u>	
Taxation	(157)	(135)	-14.0%	

Profit After Tax	840	786	-6.5%
Shareholder's Profit	842	766	-9.1%
Basic EPS (cent)	8.87	8.08	-8.9%
Gross Margin	70.7%	80.2%	9.5 ppts
Operating Margin	67.2%	73.9%	6.7 ppts
PAT Margin	58.4%	61.5%	3.2 ppts
Net Profit Margin	58.5%	59.9%	1.4 ppts

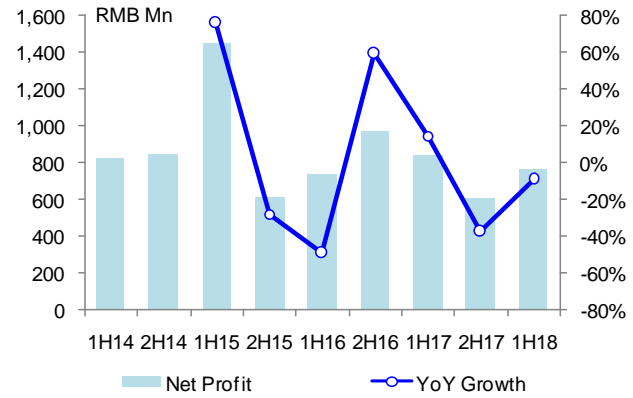
Source: the Company, IMS, GuotaiJunan International.

Figure-1: Sihuan Pharma's Revenue and Growth



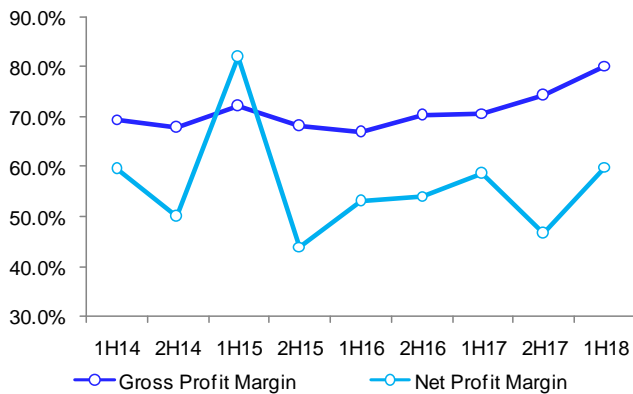
Source: the Company, Guotai Junan International.

Figure-2: Sihuan Pharma's Net Profit and Growth



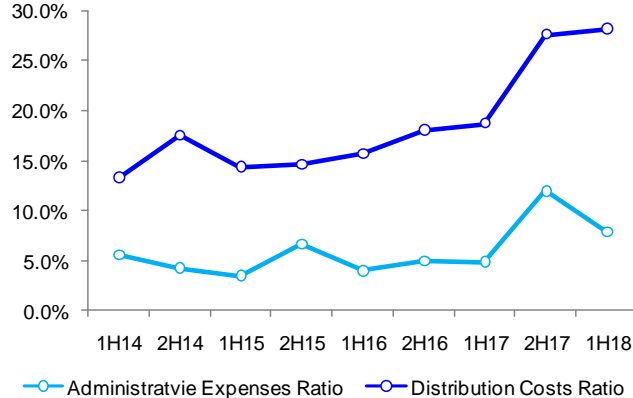
Source: the Company, Guotai Junan International.

Figure-3: Sihuan Pharma's Margins



Source: the Company, Guotai Junan International.

Figure-4: Sihuan Pharma's Expenses Ratios



Source: the Company, Guotai Junan International.

Smooth progression of Innovative projects and expansion of the generic drug pipeline. Class 1.1 new drugs Pirotinib, Benapenem and Anaprazole Sodium have moved to Phase II clinical trials and are expected to be submitted to the NDA in 2022, according to the management. Moreover, the Company is expanding its generic drug pipeline. Currently, the Company has 71 preparation projects and 48 active pharmaceutical ingredient projects in therapeutic areas of central nervous system, endocrine system, digestive system, anti-viral and anesthesia under development, of which bio-equivalence tests have commenced for 7 products. The management expects the launch of 5-10 generics each year in the short to medium term. It is expected that Vinpocetine injection, amlodipine mesylate tablets and levetiracetam injection will obtain production approval in the near term. We also expect metformin tablet to pass the consistency of quality and efficacy evaluation of generic drugs in 2H18-1H19.

Table-2: Review of Sihuan Pharma's Pipeline

Project	Classification	Therapeutic Area	Status	Approval
Benapenem	Chemical 1.1	Anti-infective	Phase II clinical trials	2022E-2023E
Pirotinib	Chemical 1.1	Oncology	Phase II clinical trials	2022E-2023E
Anaprazole Sodium	Chemical 1.1	Gastrointestinal disease	Phase II clinical trials	2022E-2023E
Janagliflozin	Chemical 1.1	Diabetes	Phase I clinical trials	
Birociclib	Chemical 1.1	Oncology	Phase I clinical trials	
Tylerdipine Hydrochloride	Chemical 1.1	CCV	Phase I clinical trials completed	
XZP-3621-1001	Chemical 1.1	Oncology	Phase I clinical trials	
Fadanafil	Chemical 1.1	BPH- LUTS,ED	Phase I clinical trials	

Insulin Degludec Injection	Therapeutic Biologics 7	Diabetes	IND approval	
Ticagrelor Tablet	Chemical 4	Hematologic hematopoietic system	ANDA	2019E-2021E
Rivastigmine Hydrogen Tartrate Capsule	Chemical 4	CNS	ANDA	2019E-2020E
Ibuprofen Injection	Chemical 3	Anti-inflammatory	ANDA	2019E-2020E
Levetiracetam Injection	Chemical 4	CNS	ANDA	2019E-2020E
Amlodipine Mesylate Tablet	Chemical 4	CCV	ANDA	2019E-2020E
Levetiracetam Tablet	Chemical 4	CNS	ANDA	2019E-2020E
Metformin tablet		Diabetes	Consistency evaluation	2018E-2019E
Midazolam Oromucosal Solution	Chemical 3	CNS	ANDA, under priority review	2019E-2020E
Caspofungin Acetate for Injection	Chemical 6	Anti-infective	ANDA	2019E-2020E
Esomeprazole Sodium for Injection	Chemical 6	Gastrointestinal disease	ANDA	2019E-2020E
Oxiracetam Injection	Chemical 6	CNS	ANDA	2019E-2020E
Quetiapine Fumarate ER tablet (PharmaDax)	Chemical 4	CNS	ANDA, under priority review	2018E-2019E
Glyburide tablet (PharmaDax)	Chemical 4	Diabetes	ANDA, under priority review	2018E-2019E
Fasudil Hydrochloride Injection	Chemical 6	CCV	ANDA	2018E-2019E
Ornithine Aspartate Injection	Chemical 6	Hepatitis	ANDA	2021E-2022E
Vinpocetine Injection	Chemical 6	CNS	ANDA	2020E-2021E
Insulin Aspart 50 Injection	Therapeutic Biologics 15	Diabetes	Approval for clinical trial	
Insulin Aspart 30 Injection	Therapeutic Biologics 15	Diabetes	Approval for clinical trial	
Paediatric Compound Amino Acid Injection (18 AA- II)	Chemical 6	Parenteral nutritious	ANDA	2020E-2021E
Multiple Electrolytes Injection (II)	Chemical 6	Hematologic hematopoietic system	ANDA	2018E-2019E
Oral Rehydration Salts III	Chemical 6	Gastrointestinal disease	ANDA	2020E-2021E

Source: the Company, CDE, Menet, GuotaiJunan International.

Note: We only include projects searchable in CDE without those undergoing clinical trials.

Outlook, Earnings Revisions & Valuation

Looking forward, sales from the CCV portfolio is estimated to be continuously depressed by tightening control of medical expenditure and the reform of reimbursement model, with impact marginally decreasing as we believe that Weiao and Yuanzhijiu/ Xingwei will have some growth potential through penetration into low-tier markets. We expect that the solid growth momentum of new products, especially Jieao and Huineng which were newly included in 8 and 3 additional PRDLs in 1H18, respectively, will be maintained. Moreover, the expansion of the generics pipeline is expected to further drive up the performance of the Company in the near term. We, therefore, estimate profit growth to bottom out in 2018 and return to high single-digit percentage growth.

Key Earnings Adjustments for Sihuan Pharma

- 1) Cut 2018F/ 2019F/ 2020F revenue forecasts by 9.0%/ 9.8%/ 9.2% to RMB2,688 million/ RMB2,919 million/ RMB3,218 million, respectively, to reflect below-expectation growth of most products.
- 2) Lift 2018F/ 2019F/ 2020F GM by 5.0 ppt/ 5.0 ppt/ 5.0 ppt, respectively, to reflect product mix optimization as well as the acquisition of the controlling interest of Jilin Sichang (projections for NCI and share of profit of associates & JVs are therefore adjusted accordingly).
- 3) Revise down 2018F/ 2019F/ 2020F D&S expenses by 12.7%/ 16.3%/ 18.6%, respectively, to reflect the cut in top line as well as slower-than-expected progression in the set-up of direct sales team, and lift 2018F/ 2019F/ 2020F G&A expenses by 4.3%/ 6.3%/ 6.3%, respectively, to reflect larger-than-expected R&D expenses.
- 4) Factor in the sustainable substantial increase in government grants triggered by the two-invoice system and the expansion of the generics pipeline.

Therefore, 2018F/ 2019F/ 2020F shareholders' profit forecasts have been revised up by 5.7%/ 5.2%/ 6.9% to RMB1,556 million/ RMB1,681 million/ RMB1,845 million, respectively, with EPS for 2018F/ 2019F/ 2020F revised to RMB0.164/ RMB0.178/ RMB0.195, respectively. The new EPS projections for 2018F/ 2019F/ 2020F indicate YoY growth of 7.5%, 8.0% and 9.7%, respectively.

Maintain investment rating of "Accumulate" and TP of HK\$2.30 for Sihuan Pharma, representing 12.0x/ 11.2x 2018/ 2019 PER.

Table-3: Key Earnings Adjustments for Sihuan Pharma

RMB million	New			Old			Change		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
Revenue	2,688	2,919	3,218	2,955	3,236	3,546	-9.0%	-9.8%	-9.2%
- CCV products	2,457	2,589	2,731	2,701	2,849	2,997	-9.0%	-9.1%	-8.9%
- Non-CCV products	232	330	487	254	387	549	-8.9%	-14.6%	-11.2%
Gross profit	2,151	2,332	2,567	2,216	2,424	2,652	-3.0%	-3.8%	-3.2%
Distribution costs	(223)	(246)	(275)	(256)	(294)	(338)	-12.7%	-16.3%	-18.6%
Admin expenses	(744)	(851)	(965)	(713)	(800)	(907)	4.3%	6.3%	6.3%
R&D expenses	377	438	520	339	374	426	11.4%	17.1%	22.1%
Operating profit	1,935	2,070	2,262	1,735	1,889	2,049	11.5%	9.6%	10.4%
Profit After Tax	1,613	1,745	1,919	1,503	1,631	1,761	7.3%	7.0%	8.9%
Shareholder's Profit	1,556	1,681	1,845	1,472	1,598	1,725	5.7%	5.2%	6.9%
Basic EPS (cent)	16.43	17.75	19.48	15.55	16.87	18.22	5.7%	5.2%	6.9%
Gross Margin	80.0%	79.9%	79.8%	75.0%	74.9%	74.8%	5.0 ppt	5.0 ppt	5.0 ppt
Operating Margin	72.0%	70.9%	70.3%	58.7%	58.4%	57.8%	13.3 ppt	12.5 ppt	12.5 ppt
Net Profit Margin	57.9%	57.6%	57.3%	49.8%	49.4%	48.7%	8.1 ppt	8.2 ppt	8.7 ppt

Source: Guotai Junan International.

Risks

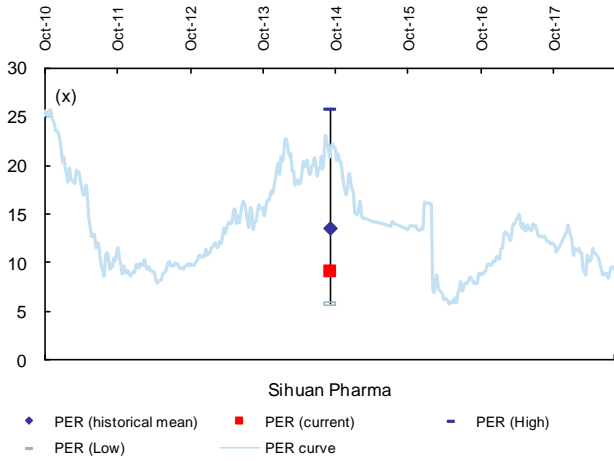
- 1) Government policy risks;
- 2) margin erosion triggered by further price cuts in key products;
- 3) slower-than-expected tender progress;
- 4) delays in the Company's pipeline.

Table-4: Peers Group Comparison of Sihuan Pharma

Company	Stock Code	Currency	Last price	Market Cap HKD mil	PE (fiscal year)				PB (fiscal year)				PEG	ROE (%)	ROA (%)	EV/EBITDA		
					17A	18F	19F	20F	17A	18F	19F	20F		18F	18F	17A	18F	19F
HK - Listed Peers																		
Sihuan Pharma	460 HK	HKD	1.59	15,059	9.0	9.2	8.6	7.9	1.1	1.1	1.0	0.9	2.1	12.6	10.0	9.9	6.3	5.3
Sino Biopharma	1177 HK	HKD	8.97	113,361	39.8	32.9	27.2	22.9	9.0	6.3	5.2	4.3	1.6	25.4	13.7	22.6	17.9	13.7
Fosun Pharma-H	2196 HK	HKD	30.05	83,167	20.5	19.3	16.2	13.8	2.5	2.2	2.1	1.9	1.4	12.1	4.8	31.0	23.2	18.9
Luye Pharma	2186 HK	HKD	6.73	22,041	19.3	15.0	12.7	11.0	2.7	2.3	1.9	1.7	0.7	16.3	10.0	11.9	12.3	10.3
Livzon Pharma-H	1513 HK	HKD	28.60	26,867	4.0	16.5	14.3	12.4	1.6	1.6	1.4	1.3	n.a.	9.7	6.8	18.3	11.2	9.8
United Lab	3933 HK	HKD	6.95	11,396	119.7	16.2	13.3	11.7	1.7	1.7	1.5	1.3	0.1	9.4	3.7	11.8	6.7	5.5
Fudan Zhangjiang	1349 HK	HKD	4.00	3,692	42.5	29.0	21.7	17.4	3.5	n.a.	n.a.	n.a.	0.8	n.a.	n.a.	27.1	n.a.	n.a.
CSPC Pharma	1093 HK	HKD	18.88	117,868	41.5	31.8	24.9	19.5	7.7	6.6	5.7	4.5	1.1	21.9	15.8	22.5	21.2	16.7
Simple Average					37.0	21.2	17.4	14.6	3.7	3.1	2.7	2.3	1.1	15.3	9.3	19.4	14.1	11.5
Weighted Average					33.8	26.1	21.3	17.6	5.8	4.6	4.0	3.3	1.3	18.9	11.3	22.7	18.5	14.7
China - Listed Peers																		
Hengrui Medicine	600276 CH	CNY	63.98	269,431	67.9	59.2	46.3	36.9	15.2	12.2	9.8	7.7	2.6	21.3	18.9	45.7	46.9	35.9
Fosun Pharma-A	600196 CH	CNY	28.95	83,168	22.8	20.6	17.3	14.6	2.9	2.6	2.3	2.1	1.3	12.7	5.1	31.0	21.2	17.5
Kelun Pharma	002422 CH	CNY	27.23	44,836	52.4	33.5	25.9	19.0	3.3	3.0	2.7	2.4	0.8	9.9	4.2	25.8	n.a.	n.a.
Livzon Pharma-A	000513 CH	CNY	36.66	26,867	5.9	23.6	20.2	17.4	2.4	2.3	2.1	1.9	n.a.	9.8	6.8	18.3	11.3	9.8
Shyndec Pharma	600420 CH	CNY	9.70	11,716	20.9	11.7	10.2	n.a.	1.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	8.9	n.a.	n.a.
Zhejiang Medicine	600216 CH	CNY	9.29	10,259	34.4	7.8	7.3	8.1	1.2	1.1	1.0	0.9	0.1	13.2	n.a.	18.0	n.a.	n.a.
Hisun Pharma	600267 CH	CNY	11.67	12,886	1,167.0	n.a.	n.a.	n.a.	1.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	20.0	n.a.	n.a.
Lukang Pharma	600789 CH	CNY	11.63	9,005	58.2	n.a.	n.a.	n.a.	3.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	21.3	n.a.	n.a.
Haisco Pharma	002653 CH	CNY	13.26	16,381	60.3	n.a.	n.a.	n.a.	7.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	42.1	n.a.	n.a.
Huadong Medicine	000963 CH	CNY	42.85	71,454	35.1	28.2	22.8	18.5	7.4	6.2	5.2	4.3	1.2	22.7	12.5	19.5	19.6	15.7
North China Pharma	600812 CH	CNY	4.47	8,336	372.5	n.a.	n.a.	n.a.	1.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	18.5	n.a.	n.a.
Northeast Pharma	000597 CH	CNY	12.19	7,940	48.8	n.a.	n.a.	n.a.	2.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	15.5	n.a.	n.a.
Salubris Pharm	002294 CH	CNY	28.00	33,494	20.1	17.5	14.8	13.1	4.8	4.0	3.4	2.9	1.1	23.4	20.1	25.5	13.2	10.7
Simple Average					151.2	25.3	20.6	18.2	4.2	4.5	3.8	3.2	1.2	16.1	11.3	23.8	22.5	17.9
Weighted Average					76.8	41.1	32.6	26.5	9.0	8.0	6.5	5.2	1.9	18.6	14.1	33.8	34.1	26.6

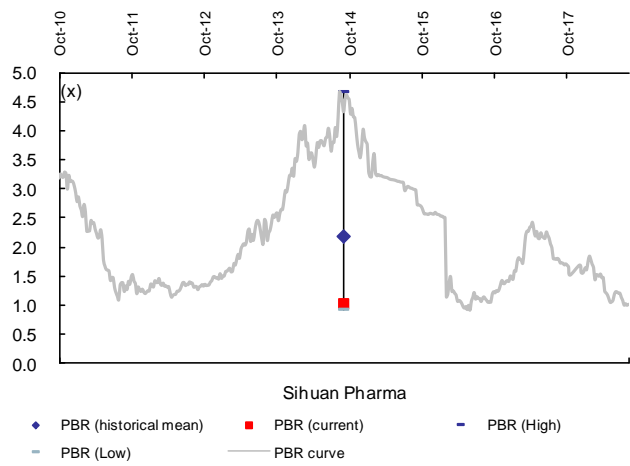
Source: Bloomberg, Guotai Junan International.

Figure-5: Forward PE Band of Sihuan Pharma



Source: Bloomberg, Guotai Junan International.

Figure-6: Forward PB Band of Sihuan Pharma



Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F	Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
Total Revenue	3,186	2,746	2,688	2,919	3,218	PPE	2,104	2,454	2,903	2,906	2,952
Cost of Sales	(997)	(759)	(538)	(587)	(651)	Goodwill	2,248	2,844	2,844	2,844	2,844
Gross Profit	2,189	1,987	2,151	2,332	2,567	Intangible Assets	579	1,338	1,361	1,411	1,494
Other Income	166	137	150	195	244	Other Non-current Assets	2,062	2,182	2,207	2,169	2,156
Other Gains-Net	491	440	619	659	711	Total Non-current Assets	6,993	8,818	9,315	9,330	9,446
Distribution Costs	(146)	(228)	(223)	(246)	(275)	Cash & Cash Equivalents	2,407	832	1,443	2,712	3,954
Administrative Expenses	(540)	(629)	(744)	(851)	(965)	Inventories	201	228	306	264	293
Other Expenses	(29)	(18)	(19)	(19)	(20)	Trade and Other Receivables	877	747	914	1,022	1,158
Operating Profit	2,131	1,688	1,935	2,070	2,262	Other Current Assets	1,710	2,967	3,006	3,006	3,006
Finance Costs	(0)	(0)	0	0	0	Total Current Assets	5,195	4,774	5,670	7,004	8,412
Share of Profit of Associates & JV	22	41	(40)	(14)	5	Total Assets	12,188	13,592	14,985	16,335	17,859
Profit Before Tax	2,153	1,729	1,894	2,056	2,267	Short-term Borrowings	8	0	0	0	0
Income Tax	(473)	(250)	(281)	(311)	(348)	Trade and Other Payables	827	1,805	1,914	1,938	1,993
profit After Tax	1,680	1,479	1,613	1,745	1,919	Others Current Liabilities	203	99	94	94	94
Non-controlling Interest	28	(30)	(56)	(64)	(74)	Total Current Liabilities	1,038	1,903	2,008	2,032	2,087
Shareholders' Profit / Loss	1,708	1,449	1,556	1,681	1,845	Long-term Borrowings	0	0	0	0	0
Basic EPS	0.169	0.153	0.164	0.178	0.195	Others Non-current Liabilities	178	352	260	161	58
						Total Non-current Liabilities	178	352	260	161	58
						Total Liabilities	1,217	2,256	2,268	2,192	2,146
						Total Shareholders' Equity	10,901	11,057	12,381	13,742	15,239
						Minority Interest	70	279	336	400	474
						Total Equity	10,971	11,336	12,717	14,142	15,713

Cash Flow Statement					
Year end 31 Dec (RMB m)	2016A	2017A	2018F	2019F	2020F
PBT	2,153	1,729	1,894	2,056	2,267
D&A	291	297	329	368	370
Other Adjustments	(96)	(252)	(71)	(140)	(206)
Changes in WC	266	585	(136)	(42)	(110)
Income tax paid	(596)	(442)	(398)	(432)	(476)
Cash from Operating Activities	2,018	1,918	1,618	1,810	1,844
Capital Expenditure	(365)	(487)	(914)	(400)	(480)
Others	365	(1,610)	139	180	226
Cash from Investing Activities	0	(2,097)	(775)	(220)	(254)
Issues of Shares	0	0	0	0	0
Repurchase of Shares	(1,237)	(252)	0	0	0
Debt Paid/Raised	0	(4)	0	0	0
Dividends Paid	(607)	(1,144)	(232)	(320)	(348)
Others	(50)	4	0	0	0
Cash from Financing Activities	(1,894)	(1,396)	(232)	(320)	(348)
Net Changes in Cash	125	(1,575)	611	1,269	1,242
Cash at Beg of Year	2,282	2,407	832	1,443	2,712
Cash at End of Year	2,407	832	1,443	2,712	3,954

Financial Ratios					
	2016A	2017A	2018F	2019F	2020F
Growth and Profitability					
Revenue	0.6%	-13.8%	-2.1%	8.6%	10.2%
EBITDA	-21.3%	-17.1%	9.7%	9.0%	8.8%
Operating profit	-20.9%	-20.8%	14.6%	7.0%	9.3%
Net Profit	-17.2%	-15.2%	7.4%	8.0%	9.7%
ROE	15.5%	13.2%	13.3%	12.9%	12.7%
ROA	13.7%	11.5%	11.3%	11.1%	11.2%
ROIC	19.2%	15.5%	14.8%	15.4%	16.5%
Margins and Liquidity					
Gross margin	68.7%	72.4%	80.0%	79.9%	79.8%
EBITDA margin	76.7%	73.8%	82.7%	83.0%	81.9%
Operating margin	66.9%	61.5%	72.0%	70.9%	70.3%
Net Profit margin	53.6%	52.8%	57.9%	57.6%	57.3%
Dividend Payout Ratio	60.0%	20.3%	20.0%	20.0%	20.0%
Net Debt/Equity	Net cash	Net cash	Net cash	Net cash	Net cash
Liabilities/Assets	10.0%	16.6%	15.1%	13.4%	12.0%
Current ratio	5.0x	2.5x	2.8x	3.4x	4.0x
Quick ratio	4.8x	2.4x	2.7x	3.3x	3.9x
Dupont Analysis					
Leverage	1.1x	1.2x	1.2x	1.2x	1.2x
Asset turnover	0.3	0.2	0.2	0.2	0.2
EBIT margin	67.6%	63.0%	70.5%	70.4%	70.4%
Interest burden	100.0%	100.0%	100.0%	100.0%	100.0%
Tax burden	78.0%	85.5%	85.1%	84.9%	84.6%
Shareholders' profit/PAT	101.7%	98.0%	96.5%	96.3%	96.1%
ROE	15.5%	13.2%	13.3%	12.9%	12.7%

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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