

三生制药 [1530.HK]

股价过度调整；评级上调至买入

在9月13日的行业报告中，我们提到从上到下去看行业的话，三生制药是我们的重点推荐股份之一。在其股价调整后，我们重新审视其基本面，我们认为针对通过一致性评估的化学仿制药的GPO（联合带量采购）对公司生物制药业务的影响有限。因此，我们保留了对现有业务的盈利预测。我们之前的目标价不包括曲妥珠单抗的潜在贡献。考虑到妥珠单抗在2020-2021年以后会产生良好的贡献，而这不反映在市盈率估值中，因此我们另进行了贴现现金流估值，并估计曲妥珠单抗的价值约为1.6港元/股。在计及曲妥珠单抗的因素后，我们将目标价从15.4港元（23倍2019年市盈率，约0.9倍市盈增长率）提升至17港元，相当于32/25/21倍2018/19/20年市盈率。目前，公司的市盈率较历史平均值低1个标准差（图3）。由于预计GPO不会对现有业务产生太大影响，而曲妥珠单抗在2019年初的推出将成为短期内的催化剂，我们认为其股价调整过度，而我们之前对公司在提升益赛普和胰岛素销售方面的执行力的忧虑，已大致反映于股价上，我们将评级从持有上调至买入。

投资亮点

曲妥珠单抗价值每股1.6港元：曲妥珠单抗用于治疗乳腺癌，三生制药于2016年撤销其NDA的申请，并于2018年第三季重新提交。根据中国新药研发监测数据库，于9月10日，国家食品药品监督管理总局药品审评中心显示三生制药的曲妥珠单抗的状态由已提交生产批准更新为正在审核中。这是公司发布新药的重要一步。预计它将成为罗氏在中国的原始药物HERCEPTIN的第一个生物相似性的曲妥珠单抗。根据贴现现金流估值，我们估计三生制药的曲妥珠单抗价值1.6港元（图1）。随着曲妥珠单抗的前景越来越清晰，我们相信每股约1.6港元的价值会逐渐反映，这是我们现在将其纳入计算目标价的考虑因素的原因。曲妥珠单抗估值进一步上升的动力来自：1）更快地取得市场份额（价格比原药更低、三生制药进行公司营销、医保支付价格等）；2）利润率高于预期；3）曲妥珠单抗的竞争药品推出进展缓慢。

市场过度调整：我们认为，公司股价调整主要是受医药板块整体下跌影响，而不是与公司基本面相关，因为生物制药并未直接受到GPO政策的影响。目前，公司的市盈率为24.5/19.3/16.1倍（比历史平均低约1个标准偏差，盈利预测不包括曲妥珠单抗在2020年潜在带来的贡献），若考虑到2017 - 2020年预期每股盈利复合年增长率为24.2%，我们认为股份估值不高，值得吸纳。

截至12月底止年度	2016A	2017A	2018E	2019E	2020E
收入（百万元人民币）	2,797	3,734	5,127	6,088	7,207
净利润（百万元人民币）	713	958	1,172	1,494	1,792
净利润率（%）	25.5	25.6	22.9	24.5	24.9
每股盈利（人民币）	0.282	0.369	0.462	0.589	0.707
百分比变动	21.0	30.7	25.3	27.4	20.0
每股核心盈利（人民币）	40.2	30.8	24.5	19.3	16.1
百分比变动	4.2	3.8	3.3	2.9	2.5
市盈率（倍）	11.6	12.8	14.8	16.4	19.7
市净率（倍）	30.8	22.1	16.3	13.2	11.2

来源：公司，中国银河国际证券研究部

中国医药行业

买入

收盘价：12.90港元（2018年9月13日）

目标价：17.0港元（+31.8%）

股价表现



市值	41.80亿美元
已发行股数	25.323亿股
核数师	E&Y
自由流通量	46.4%
52周交易区间	12.1-22.5港元
三个月日均成交量	2,640万港元
主要股东	CS Sunshine Investment (28.3%)

来源：公司，彭博

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3SBio [1530.HK]

Correction overdone; Upgrade to BUY

In our sector report dated September 13, 3SBio is one of our conviction calls from a top-down point of view. We revisited its fundamentals after the correction and believe the GPO (Group Procurement Organization), which is targeting chemical generics that passed the consistency evaluation, will have a limited impact on its biological business. We therefore kept our earnings projections for the existing business. Note that our previous Target Price didn't include the potential contribution from Trastuzumab. Considering its expected meaningful contribution from 2020-2021E onwards, which is not reflected in the PER-based valuation, we did a separate DCF valuation and estimate that Trastuzumab is worth ~HK\$1.6. We thus lift our Target Price from HK\$15.4 (23x 2019E PER, ~0.9x PEG) to HK\$17 with the inclusion of Trastuzumab, equivalent to 32/25/21x 2018/19/20 PER. Currently, the Company is trading at 1sd below its historical average (Figure 3). Since the GPO should not have much impact on its existing business, and with the Trastuzumab launch in early 2019 as a near-term catalyst, we believe the correction is overdone, and since our previous concern about the Company's execution of the Yisaipu and insulin business ramp-up has largely been priced in, we upgrade our rating from HOLD to BUY.

Investment thesis

Trastuzumab is worth HK\$1.6: Trastuzumab is for breast cancer. 3SBio withdrew its NDA in 2016 and re-submitted it in Q3 2018. According to the China Pharmaceutical Pipeline Monitor (CPM), 3SBio's Trastuzumab's status was updated from "production approval application submitted" to "under review" by the China Center for Drug Evaluation (CDE) on September 10. This is a big step towards its final launch. It is expected to be the first bio-similar Trastuzumab to Roche's original drug HERCEPTIN in China. We estimate that 3SBio's Trastuzumab is worth HK\$1.6 based on the DCF valuation (Figure 1). With the Trastuzumab outlook becoming clearer, we believe the ~HK\$1.6 value per share will gradually be reflected; this is why we include it in our Target Price now. Further Trastuzumab valuation upside includes: 1) faster market share gain (lower pricing than the original drug, 3SBio Company marketing, medical reimbursement payment price, etc.); 2) higher-than-expected profit margin; and 3) slower progress in the launch of Trastuzumab competitors.

Market correction overdone: We believe Company's share price was pulled down mainly by the healthcare sector correction rather than anything related to Company's fundamentals, as biological drugs are not directly affected by the GPO policy. Currently, the Company is trading at 24.5/19.3/16.1x PER (~1sd below its historical average, and the earnings projection does not include the potential Trastuzumab contribution in 2020) vs. expected 24.2% EPS CAGR in 2017-2020E, which we believe is undemanding, making the stock worth accumulating.

Y/E Dec 31	2016A	2017A	2018E	2019E	2020E
Turnover (RMB m)	2,797	3,734	5,127	6,088	7,207
Net profit (RMB m)	713	958	1,172	1,494	1,792
Net margin (%)	25.5	25.6	22.9	24.5	24.9
EPS (RMB)	0.282	0.369	0.462	0.589	0.707
YoY change	21.0	30.7	25.3	27.4	20.0
PER (x)	40.2	30.8	24.5	19.3	16.1
PBR (x)	4.2	3.8	3.3	2.9	2.5
ROE(%)	11.6	12.8	14.8	16.4	19.7
EV/EBITDA (x)	30.8	22.1	16.3	13.2	11.2

Sources: Company, CGIS Research

China Healthcare Sector

BUY

(Upgrade from HOLD)

Close: HK\$12.90 (Sep 13, 2018)

Target Price: HK\$17.0 (+31.8%)

Price Performance



Market Cap	US\$4,180m
Shares Outstanding	2,532.3m
Auditor	E&Y
Free Float	46.4%
52W range	HK\$12.1-22.5
3M average daily T/O	US\$26.4m
Major Shareholding	CS Sunshine Investment (28.3%)

Sources: Company, Bloomberg

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Trastuzumab valuation

According to the China Pharmaceutical Pipeline Monitor (CPM), the status of 3SBio's *Trastuzumab* (for advanced breast cancer) was updated from "production approval application submitted" to "under review" by the CDE on September 10. This is a big step towards its final launch. It is expected to be the first bio-similar *Trastuzumab* to Roche's original drug *HERCEPTIN* in China.

HERCEPTIN (*Trastuzumab*) is a recombinant DNA-derived humanized monoclonal antibody that selectively binds with high affinity in a cell-based assay to the extracellular domain of the human epidermal growth factor receptor 2 protein (HER2), whose overexpression is observed in 25%-30% of primary breast cancers. *HERCEPTIN*'s beneficial treatment effects were largely limited to patients with the highest level of HER2 protein overexpression. It was approved by the FDA in Sep 1998 and introduced in China in 2002.

Now China's most promising *Trastuzumab* bio-similar is 3SBio's, followed by Henlius's HLX02 (subsidiary of Fosun [2196.hk]), which is conducting Phase III, an international multi-center clinical trial of 606 patients, 406 of whom are in China. Next is Zhejiang Hisun (600267.CH), which completed Phase III bio-equivalence clinical trial registration for its *Trastuzumab* in April 2018. Shanghai Pharm [2607.hk] just gained clinical trial approval.

The *HERCEPTIN* market in China was valued at ~RMB4bn in 2012 and ~RMB9bn in 2017, implying a CAGR of 17% in the past five years according to PDB data. Its growth rate slowed to ~0.8% in 1H2018, as *Trastuzumab* was included in the NRDL in 2017, resulting in a 70% ASP cut. Previously *HERCEPTIN* was RMB22,000/unit with a ~17 unit/treatment course with no NRDL reimbursement, i.e. ~RMB300,000, all self-paid by patients. Now *HERCEPTIN* is ~RMB7600/unit, with NRDL/PRDL coverage up to 50-70%. The sharp cut in the ASP was triggered strong demand, and in 1H2018 there was a shortage of *HERCEPTIN* supply. We believe that 3SBio's *Trastuzumab* will take market share from *HERCEPTIN* because of its price advantage and that 3SBio's *Trastuzumab* growth will be driven by incremental growth in the breast cancer market. We expect 3SBio's *Trastuzumab* to get production approval in early 2019. With the *Trastuzumab* outlook becoming clearer, we believe the ~HK\$1.6 value per share will gradually be reflected in the share price. Further *Trastuzumab* valuation upside includes: 1) faster market share gain (lower priced than the original drug, 3SBio Company marketing, NRDL etc.); 2) higher-than-expected profit margin; and 3) slower progress in the launch of *Trastuzumab* competitors.

Figure 1: *Trastuzumab* DCF valuation

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
RMB(bn)	9	9.2	10.1	11.1	12.2	13.4	14.8	16.3	17.9	
YoY	25%	2%	10%	10%	10%	10%	10%	10%	10%	
3SBio market share				3.0%	5.0%	8.0%	10.0%	12.0%	13.0%	
Revenue (RMBm)				333	611	1,075	1,478	1,952	2,326	
Profit margin				3%	5%	10%	13%	15%	18%	
Profit(RMBm)				10	31	108	192	293	419	
Terminal value										6,877
NPV (discount to Year 2018)				8	23	73	119	165	215	3,208
Market cap (RMBm)		3,812								
Share price (HK\$) fully diluted		1.6								

1. Assuming profit equals free cash, i.e. Capex approximately equals D&A
2. WACC assumes as 10%
3. Terminal growth rate 3%
4. Market share gain is slower after 2022 with competitors come out
5. HKD/RMB=0.88
6. Shares out. Included potential 188m shares dilution from CB

Source: CGIS Research estimates

Key financials

Balance Sheet

Year ended Dec 31 (RMB m)	2016A	2017A	2018E	2019E	2020E
Cash & cash equivalents	1,040	3,103	2,594	2,759	3,422
Inventories	262	377	569	614	704
Trade & note receivables	786	1,324	1,818	2,159	2,555
Others	153	472	472	472	472
Current assets	2,241	5,276	5,453	6,004	7,154
PP&E	1,763	1,760	1,957	2,120	2,249
Intangible assets	2,289	2,254	2,274	2,294	2,369
Goodwill	4,126	3,924	3,924	3,924	3,924
Others	621	540	542	543	545
Non-current assets	8,798	8,477	8,695	8,880	9,087
Total assets	11,039	13,753	14,148	14,884	16,240
Trade and bills payables	59	275	422	469	554
Other payables	502	696	805	860	942
ST borrowings	518	1,087	1,000	600	200
Others	64	138	138	138	138
Current liabilities	1,144	2,196	2,364	2,066	1,834
LT borrowings	2,541	3,319	2,500	2,200	2,200
Others	588	609	609	609	609
Long-term liabilities	3,129	3,928	3,109	2,809	2,809
Total liabilities	4,272	6,123	5,473	4,875	4,643
Shareholders' equity	6,522	7,397	8,429	9,747	11,315
Minority interests	244	233	246	262	283
Total equity	6,766	7,630	8,675	10,009	11,598

Cash Flow

Year ended Dec 31 (RMB m)	2016A	2017E	2018E	2019E	2020E
Profit before tax	850	1,102	1,483	1,889	2,268
Depreciation & amortization	161	244	333	367	346
Change in working cap.	468	(479)	(430)	(283)	(320)
Income tax paid	(122)	(178)	(298)	(379)	(455)
Others	(352)	134	126	84	43
Operating cash flow	1,004	823	1,215	1,677	1,881
CAPEX	(5,186)	(460)	(550)	(550)	(550)
Change in other assets	805	20	19	21	27
Investment cash flow	(4,381)	(440)	(531)	(529)	(523)
Issuance of shares	0	0	0	0	0
Net change in debt	2,654	1,347	(906)	(700)	(400)
Others	56	(141)	(287)	(282)	(296)
Financing cash flow	2,710	1,206	(1,193)	(982)	(696)
Net change in cash	(667)	1,588	(510)	166	662
Cash at beginning of the year	1,299	678	2,399	1,889	2,055
Effect from foreign exchange	45	133	0	0	0
Cash at the end of the year	678	2,399	1,889	2,055	2,717

Profit and Loss

Year ended Dec 31 (RMB m)	2016A	2017A	2018E	2019E	2020E
<i>Yisaipu</i>	786	1,013	1,114	1,393	1,741
<i>TPIAO</i>	765	975	1,511	1,964	2,455
<i>EPIAO</i>	677	705	726	762	823
<i>SEPO</i>	96	151	211	274	343
<i>Byetta</i>	-	131	150	165	182
<i>Bydureon</i>	-	-	15	50	100
<i>Others</i>	473	760	1,400	1,479	1,564
Revenue	2,797	3,734	5,127	6,088	7,207
Cost of goods sold	(402)	(676)	(1,054)	(1,172)	(1,386)
Gross profit	2,395	3,058	4,073	4,916	5,821
Other gains / (losses)	59	56	178	78	78
Selling expense	(1,017)	(1,333)	(1,948)	(2,222)	(2,631)
Admin & other expenses	(301)	(315)	(333)	(377)	(447)
R&D expenses	(243)	(257)	(360)	(421)	(511)
Operating profit	893	1,209	1,610	1,973	2,311
Net finance cost	(124)	(120)	(128)	(86)	(45)
Share of results of JV & associates	(12)	(14)	2	2	2
Non-operating items	93	49	0	0	0
Pretax income	850	1,124	1,483	1,889	2,268
Income taxes	(136)	(178)	(298)	(379)	(455)
Non-controlling interests	2	(11)	13	16	20
Net profit	713	958	1,172	1,494	1,792
Core net profit	706	893	1,172	1,494	1,792
EBITDA	1,054	1,452	1,943	2,340	2,656
Basic EPS (RMB)	0.28	0.37	0.46	0.59	0.71
Fully diluted EPS (RMB)	0.28	0.35	0.42	0.54	0.65
Basic core EPS (RMB)	0.28	0.35	0.46	0.59	0.71
Fully diluted core EPS (RMB)	0.28	0.34	0.42	0.54	0.65
Dividend (RMB)	0.00	0.06	0.07	0.09	0.11

Key Ratios

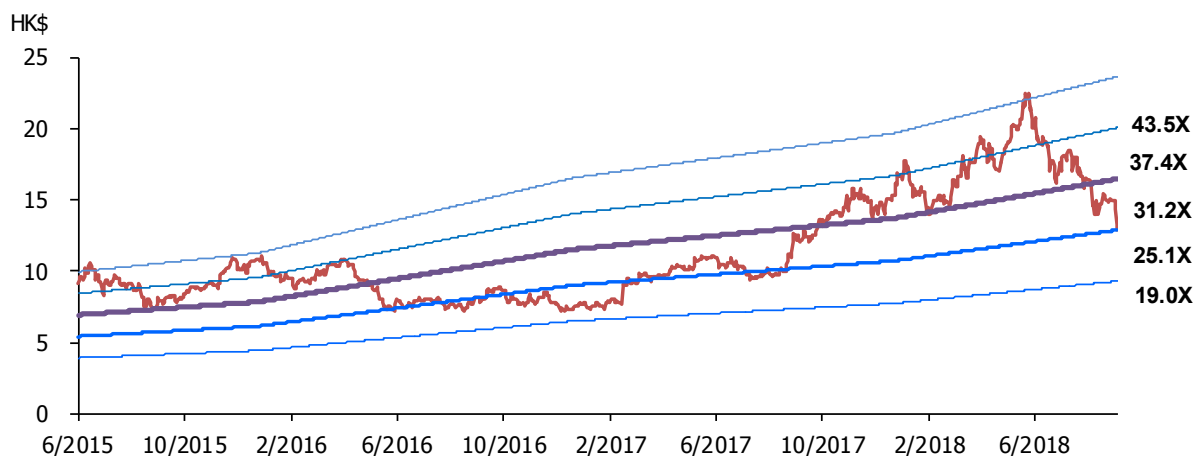
Year ended Dec 31	2016A	2017A	2018E	2019E	2020E
Growth (% YoY)					
Sales	67.2	33.5	37.3	18.7	18.4
Operating profit	102.3	32.9	35.7	22.6	17.1
EBITDA	103.2	37.8	33.8	20.4	13.5
Core net profit	25.9	26.5	31.2	27.4	20.0
Basic EPS	210	30.7	25.3	27.4	20.0
Core basic EPS	12.5	25.9	31.2	27.4	20.0
Profitability (%)					
Gross margin	85.6	81.9	79.4	80.7	80.8
Operating margin	31.9	32.4	31.4	32.4	32.1
EBITDA margin	37.7	38.9	37.9	38.4	36.9
Core net profit margin	25.2	23.9	22.9	24.5	24.9
ROA	8.0	7.2	8.4	10.3	12.3
ROE	11.6	12.8	14.8	16.4	19.7
Balance sheet ratios					
Current ratio (X)	2.0	2.4	2.3	2.9	2.9
Quick ratio (X)	0.6	1.2	0.9	1.1	2.6
Cash ratio (X)	0.6	1.2	0.8	1.1	1.3
Trade & bill receivables days	89	59	47	59	53
Trade & bill payable days	32	77	82	85	88
Inventory turnover days	180	172	164	164	174
Total debt to equity ratio (%)	47	60	42	29	21

Figure 2: Peer comparison

Company	Ticker	Price	Mkt cap	PER(x)			PBR(x)			ROE(%)			EV/EBITDA (x)		
		HK\$	HK\$m	2017	2018E	2019E	2017	2018E	2019E	2017	2018E	2019E	2017	2018E	2019E
Biology drugs															
3SBIO INC	1530	12.90	33,831	32.6	25.4	19.7	3.9	3.4	2.9	12.2	14.2	15.8	21.9	17.0	13.5
ESSEX BIO-TECH	1061	6.11	3,517	20.9	16.5	13.7	4.9	3.7	3.0	26.6	24.8	24.7	n.a	13.8	11.1
SINO BIOPHARM	1177	7.38	94,783	34.2	26.8	22.3	6.9	5.2	4.3	23.5	25.0	23.5	22.3	14.8	11.2
GENSCRIPT BIOTEC	1548	15.24	25,318	107.9	84.4	77.7	17.2	7.2	6.9	16.7	11.9	9.9	n.a	n.a	n.a
WUXI BIOLOGICS C	2269	69.90	81,513	229.0	120.6	73.1	17.8	10.3	8.5	15.2	10.9	13.4	124.2	78.6	44.2
Median				34.2	26.8	22.3	6.9	5.2	4.3	16.7	14.2	15.8	22.3	15.9	12.3

Sources: Bloomberg

Figure 3: PER band since listed



Sources: Bloomberg

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