WuXi AppTec (603259 CH)

Accelerated growth in 3Q20 driven by strong performance in CDMO and China-base lab service

- **Strong growth acceleration in 3Q20.** WuXi AppTec reported third-quarter revenue of RMB4.58bn, up 35.4% YoY, Non-IFRS net profit was up 44.3% YoY to RMB958mn. Attributable net profit decreased 8.1% YoY to RMB651mn, mainly due to foreign exchange loss. Third-quarter has achieved significant growth compared to the first half of 2020, where China-based laboratory services, CDMO services, US - based laboratory services and Clinical research & other CRO services realized 38.9%/ 54.9%/ -13.5%/ 16.8% YoY change in revenue.
- **CDMO and China-based lab service continue to be major growth driver**. CDMO service and China-base lab service recorded a YoY growth of 54.9%/ 38.9% in 3Q20 and 36.5%/ 30.9% in 9M20. Such strong performance offset the challenges faced by the US-based laboratory services due to the COVID-19 pandemic. Thanks to follow-the-molecule strategy, the Company added 440 new molecules into its CDMO pipeline YTD and total CDMO pipeline has grown to more than 1,100 active projects, including 26 commercialized projects, 42 Phase III projects. During the same period, WuXi AppTec has submitted IND filings for 18 new chemical entities (NCE) for its customers and obtained 20 CTAs in China. Cumulatively, WuXi AppTec has submitted 103 NCE IND filings with the NMPA and obtained 77 CTAs including 1 project in Phase III clinical trial, 9 projects in Phase II clinical trials, and 56 projects in Phase I clinical trials.
- **Globalization strategy to enable innovation worldwide**. YTD, WuXi AppTec added over 900 new customers and provided services to a wide range of over 4,100 active customers, including all the top 20 big pharma companies worldwide. In 9M20, overseas customers contributed 76.4% of total revenue, while China customers accounted for 23.6% of revenue, representing a YoY growth of 25.3% and 34.4%, respectively. Driven by the "long-tail" strategy, "Long-tail" & China customers 67.2% of total revenue, up 28.4% YoY in 9M20.
- **We lifted SOTP-based TP from RMB131.98 to RMB139.05 to reflect strong long-term growth outlook for WuXi AppTec.** We forecast WuXi AppTec's adjusted Non-IFRS attributable net profit to grow by 35%/33%/32% YoY in FY20E/21E/22E respectively, and attributable net profit to increase 85%/22%/32% YoY in FY20E/21E/22E. Moreover, WuXi AppTec maintained a diversified investment portfolio which will bring significant investment gains over the long term.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	9,614	12,872	16,424	21,586	27,900
YoY growth (%)	*24%*	*34%*	*28%*	*31%*	*29%*
Net income (RMB mn)	2,261	1,855	3,438	4,183	5,529
YoY growth (%)	*84.2%*	*-18.0%*	*85.4%*	*21.7%*	*32.2%*
Adjusted Non-IFRS net income (RMB mn)	1,742	2,407	3,238	4,299	5,654
YoY growth (%)	*23.2%*	*38.2%*	*34.6%*	*32.8%*	*31.5%*
EPS (RMB)	1.59	1.14	1.41	1.71	2.26
Change (%)	*22%*	*-28%*	*24%*	*22%*	*34%*
Consensus EPS (RMB)	N/A	N/A	1.15	1.49	1.93
P/E (x)	70.77	98.90	80.08	65.82	49.80
P/B (x)	8.81	10.55	8.38	7.68	6.93
ROE (%)	12.85	10.98	10.54	11.77	14.02
Net gearing (%)	Net cash	0.68	Net cash	Net cash	Net cash

Source: Company data, Wind, CMBIS estimates

BUY (Maintain)

Target Price	**RMB139.05**
(Previous TP	RMB131.98)
Up/Downside	**+23.32%**
Current Price	**RMB112.75**

China Healthcare Sector

Jill Wu, CFA
(852) 3900 0842
jillwu@cmbi.com.hk

Sam HU, PhD
(852) 3900 0882
samhu@cmbi.com.hk

Mkt. Cap. (RMB mn)	273,533
Avg. 3mths t/o (RMB mn)	1,491.47
52W High/Low (RMB)	118.5/60.2
Total Issued Shares (mn)	2,135

Source: Bloomberg

Shareholding Structure

Management	26.63%
A-share public shareholders	60.47%
H-share public shareholders	12.90%

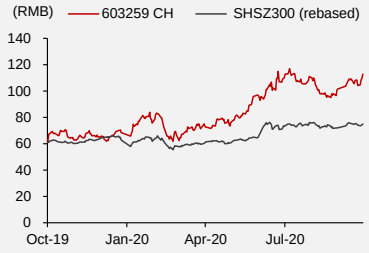
Source: Bloomberg

Share performance

	Absolute	Relative
1-mth	12.1%	7.8%
3-mth	2.9%	0.8%
6-mth	54.0%	24.7%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

Related Reports

1. Enhance leading position amid COVID-19 pandemic – 17 Aug 2020
2. Strong core business growth – 26 Mar 2020
3. Strengthening leading position in global CRO/CDMO industry – 13 Dec 2019

Figure 1: CMBIS earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	16,424	21,586	27,900	16,193	21,090	26,289	1.43%	2.35%	6.13%
Gross profit	6,234	8,443	10,997	6,178	8,214	10,287	0.92%	2.80%	6.90%
Operating profit	3,075	4,381	5,836	2,901	4,165	5,425	6.02%	5.18%	7.57%
Net profit	3,438	4,183	5,529	3,216	3,998	5,163	6.93%	4.63%	7.10%
EPS (RMB)	1.41	1.71	2.26	1.35	1.68	2.17	4.20%	1.96%	4.37%
Gross margin	37.96%	39.11%	39.41%	38.15%	38.95%	39.13%	-0.19ppt	+0.17ppt	+0.28ppt
Operating margin	18.72%	20.30%	20.92%	17.91%	19.75%	20.64%	+0.81ppt	+0.55ppt	+0.28ppt
Net Margin	20.94%	19.38%	19.82%	19.86%	18.96%	19.64%	+1.08ppt	+0.42ppt	+0.18ppt

Source: CMBIS estimates

Figure 2: CMBIS vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	16,424	21,586	27,900	16,315	20,949	26,544	0.67%	3.04%	5.11%
Gross profit	6,234	8,443	10,997	6,287	8,271	10,540	-0.84%	2.08%	4.34%
Operating profit	3,075	4,381	5,836	3,490	4,501	5,737	-11.88%	-2.67%	1.72%
Net profit	3,438	4,183	5,529	2,856	3,668	4,698	20.39%	14.05%	17.69%
EPS (RMB)	1.41	1.71	2.26	1.15	1.49	1.93	22.76%	14.90%	17.49%
Gross margin	37.96%	39.11%	39.41%	38.54%	39.48%	39.71%	-0.58ppt	-0.37ppt	-0.29ppt
Operating margin	18.72%	20.30%	20.92%	17.91%	19.75%	20.64%	+0.81ppt	+0.55ppt	+0.28ppt
Net Margin	20.94%	19.38%	19.82%	19.86%	18.96%	19.64%	+1.08ppt	+0.42ppt	+0.18ppt

Source: Bloomberg, CMBIS estimates

Figure 2: SOTP valuation

SOTP valuation	2021E
Attributable Non-IFRS net profit (RMB mn)	4,299
PE multiple of core business	65.0
Valuation of CRO/CDMO business (RMB mn)	**279,457**
Fair value of other non-current financial assets (RMB mn)	10,017
PB multiple of investment business	6.0
Valuation of investment business (RMB mn)	**60,100**
SOTP valuation (RMB mn)	**339,556**
# of shares	2,442,020,829
Target price (RMB per share)	**139.05**

Source: CMBIS estimates

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	**9,614**	**12,872**	**16,424**	**21,586**	**27,900**
China-based lab services	5,113	6,473	8,484	11,029	14,338
CMO/CDMO services	2,699	3,752	5,111	6,900	8,970
US-based laboratory services	1,204	1,563	1,592	1,990	2,428
Clinical research & other CRO services	585	1,063	1,209	1,632	2,122
Others	13	21	28	34	43
Cost of sales	(5,821)	(7,858)	(10,189)	(13,143)	(16,904)
Gross profit	**3,793**	**5,014**	**6,234**	**8,443**	**10,997**
Business taxes	(29)	(28)	(36)	(47)	(61)
Selling & distribution expenses	(338)	(439)	(596)	(712)	(893)
Administrative expenses	(1,131)	(1,482)	(1,826)	(2,374)	(3,008)
R&D expenses	(437)	(590)	(701)	(928)	(1,200)
Operating profit	**1,859**	**2,474**	**3,075**	**4,381**	**5,836**
Finance costs, net	(56)	(24)	(36)	0	0
Investment gains	80	48	458	80	100
Net gain from FV changes	606	(259)	342	340	461
Other gains	92	98	129	160	160
Pre-tax profit	**2,581**	**2,337**	**3,967**	**4,961**	**6,557**
Income tax	(247)	(426)	(501)	(744)	(984)
Minority interests	(73)	(57)	(28)	(34)	(45)
Net profit	**2,261**	**1,855**	**3,438**	**4,183**	**5,529**

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total net profit	**2,334**	**1,911**	**3,466**	**4,217**	**5,573**
Depreciation and amortization	650	814	937	1,077	1,163
Change in working capital	(837)	(497)	33	(548)	(611)
Investment loss (gain)	(676)	219	(797)	(420)	(561)
Other operating activities	170	469	192	149	149
Net cash from operating	**1,640**	**2,916**	**3,831**	**4,476**	**5,714**
Capex	(2,249)	(2,532)	(2,000)	(1,500)	(1,500)
Acquisition of subsidiaries	(124)	(785)	-	-	-
Other investing activities	(2,904)	(1,658)	(2,000)	(2,000)	(1,500)
Net cash from investing	**(5,277)**	**(4,975)**	**(4,000)**	**(3,500)**	**(3,000)**
Net proceeds from shares issued	9,252	769	13,030	-	-
Net borrowings	(1,518)	4,510	(3,000)	-	-
Acquisition of non-controlling Dividends and interests paid	(103)	(730)	(1,068)	(1,255)	(1,658)
Other financing activities	(647)	(2,991)	-	-	-
Net cash from financing	**6,984**	**1,558**	**8,962**	**(1,255)**	**(1,658)**
FX changes	(56)	(33)	-	-	-
Net change in cash	3,348	(501)	8,793	(279)	1,055
Cash at the beginning of the year	2,466	5,758	5,227	14,020	13,742
Cash at the end of the year	**5,758**	**5,223**	**14,020**	**13,742**	**14,797**

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	**10,861**	**16,576**	**20,280**	**22,973**	**25,221**
Fixed asset	3,491	4,333	5,586	6,202	6,732
Intangible assets	626	918	847	776	705
Financial assets	2,079	4,009	6,803	9,223	11,284
Goodwill	1,144	1,362	1,362	1,362	1,362
Other non-current assets	3,520	5,954	5,682	5,410	5,138
Current assets	**11,807**	**12,663**	**21,661**	**22,764**	**25,492**
Cash	5,761	5,227	14,020	13,742	14,797
Inventories	952	1,742	1,759	2,268	2,918
Trade and bills receivables	1,997	2,961	3,150	4,021	5,045
Prepayments, deposits and other receivables	168	123	123	123	123
Other current assets	2,929	2,609	2,609	2,609	2,609
Current liabilities	**3,762**	**6,634**	**5,372**	**6,205**	**7,267**
Borrowings	120	1,604	104	104	104
Trade and other payables	399	592	830	1,663	2,724
Other current liabilities	3,243	4,438	4,438	4,438	4,438
Non-current liabilities	**740**	**5,195**	**3,695**	**3,695**	**3,695**
Borrowings	15	762	762	762	762
Other non-current liabilities	725	4,433	2,933	2,933	2,933
Total net assets	**18,165**	**17,410**	**32,874**	**35,836**	**39,751**
Minority interest	**477**	**97**	**125**	**159**	**203**
Shareholders' equity	**17,688**	**17,312**	**32,749**	**35,678**	**39,548**

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
China-based lab services	53	50	52	51	51
CMO/CDMO services	28	29	31	32	32
US-based laboratory services	13	12	10	9	9
Clinical research and other CRO services	6	8	7	8	8
Others	0	0	0	0	0
Profit & loss ratios (%)					
Gross margin	39	39	38	39	39
EBITDA margin	34	25	30	28	28
Pre-tax margin	27	18	24	23	24
Net margin	24	14	21	19	20
Effective tax rate	10	18	13	15	15
Balance sheet ratios					
Current ratio (x)	3	2	4	4	4
Trade receivables turnover days	68	70	70	68	66
Trade payables turnover days	118	103	103	103	103
Net debt to total equity ratio (%)	Net cash	1	Net cash	Net cash	Net cash
Returns (%)					
ROE	13	11	11	12	14
ROA	10	7	8	9	11
Per share					
EPS (RMB)	1.59	1.14	1.41	1.71	2.26
DPS (RMB)	0.06	0.34	0.42	0.51	0.68
BVPS (RMB)	12.80	10.69	13.46	14.67	16.28

Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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