WuXi AppTec (603259 CH)

Enhance leading position amid COVID-19 pandemic

- **Strong growth not interrupted by COVID-19 pandemic.** WuXi AppTec reported 1H20 revenue of RMB7.23bn, up 23% YoY, largely inline with our estimate. Non-IFRS net profit was up 29% YoY to RMB1.52bn. Attributable net profit surged 62% YoY to RMB1.72bn, mainly due to the RMB408mn investment income and RMB222mn fair value gains, offset by RMB487mn fair value loss from derivative component of convertible bonds.
- **Fast expanding customer base during COVID-19 pandemic.** In 1H20, WuXi AppTec added c. 600 new customers which contributed 5.5% of the Company's total revenue. WuXi AppTec has provided services to a wide range of over 4,000 customers, including all the top 20 big pharma companies worldwide. Top 20 pharma companies contributed 31.9% of the Company's total revenue in 1H20.
- **CDMO income to further accelerate on expanding capacity.** In 1H20, CDMO revenue grew 26% YoY to RMB2.16bn, contributing 30% of the total revenue. Thanks to follow-the-molecule strategy, the Company added 269 new molecules into its CDMO pipeline. The CDMO business has rich pipelines with 26 commercialized projects, 42 Phase III projects, 184 Phase II projects and 861 early-stage projects. In order to meet the strong demand, the Company boosted its annual manufacturing capacity of high potency APIs to 100 kg level by Jun 2020 and will further expand its CDMO capacity.
- **DDSU projects allows the Company to share profit from innovative drugs.** In 1H20, WuXi AppTec has submitted 13 INDs for DDUS projects, accounting for 19% of innovative small molecule IND filings accepted by the NMPA. Cumulatively, the Company's DDSU projects have completed 98 IND filings and 66 clinical approvals. In addition, 84 DDSU projects are in discovery or preclinical phase.
- **We lifted SOTP-based TP from RMB118.32 to RMB131.98 to reflect strong long-term growth outlook for WuXi AppTec.** We forecast WuXi AppTec's adjusted Non-IFRS net profit to grow by 27%/33%/29% YoY in FY20E/21E/22E, respectively; and attributable net profit to increase 73%/24%/29% YoY in FY20E/21E/22E. Moreover, WuXi AppTec maintained a diversified investment portfolio with 90+ companies and funds which will bring significant investment gains over the long term.
- **Catalysts:** 1) Higher-than-expected earnings growth, 2) Overseas acquisitions. **Risk:** Operation disrupted by the COVID-19 Pandemic.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	9,614	12,872	16,193	21,090	26,289
YoY growth (%)	*24%*	*34%*	*26%*	*30%*	*25%*
Net income (RMB mn)	2,261	1,855	3,216	3,998	5,163
YoY growth (%)	*84.2%*	*-18.0%*	*73.4%*	*24.3%*	*29.1%*
Adjusted Non-IFRS net income (RMB mn)	1,742	2,407	3,056	4,069	5,242
YoY growth (%)	*23.2%*	*38.2%*	*27.0%*	*33.2%*	*28.8%*
EPS (RMB)	1.59	1.14	1.35	1.68	2.17
Change (%)	*22%*	*-28%*	*19%*	*24%*	*29%*
Consensus EPS (RMB)	1.94	1.12	1.16	1.49	1.90
P/E (x)	67.72	94.63	79.84	64.21	49.73
P/B (x)	8.43	10.10	9.76	8.81	7.83
ROE (%)	12.85	10.98	12.32	13.83	15.86
Net gearing (%)	Net cash	0.68	Net cash	Net cash	Net cash

Source: Company data, Wind, CMBIS estimates

BUY (Maintain)

Target Price	**RMB131.98**
(Previous TP	RMB118.32)
Up/Downside	**+22.34%**
Current Price	**RMB107.88**

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Mkt. Cap. (RMB mn)	254,446
Avg. 3mths t/o (RMB mn)	1,589.18
52W High/Low (RMB)	118.5/48.6
Total Issued Shares (mn)	2,073

Source: Bloomberg

Shareholding Structure

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

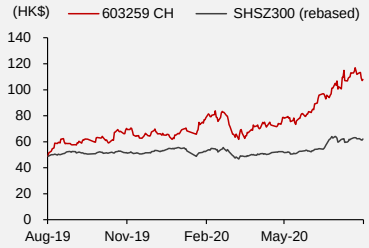
Source: Bloomberg

Share performance

	Absolute	Relative
1-mth	4.3%	6.5%
3-mth	37.0%	14.3%
6-mth	37.6%	16.6%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

Related Reports

1. Strong core business growth – 26 Mar 2020
2. Strengthening leading position in global CRO/CDMO industry – 13 Dec 2019

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Figure 1: CMBIS earnings revisions

(RMB mn)	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	16,193	21,090	16,400	21,385	-1.26%	-1.38%
Gross profit	6,178	8,214	6,384	8,384	-3.23%	-2.03%
Operating profit	2,901	4,165	3,160	4,154	-8.21%	0.27%
Net profit	3,216	3,998	2,860	3,761	12.44%	6.31%
EPS (RMB)	1.35	1.68	1.73	2.28	-21.89%	-26.31%
Gross margin	38.15%	38.95%	38.93%	39.21%	-0.78ppt	-0.26ppt
Operating margin	17.91%	19.75%	19.27%	19.42%	-1.36ppt	+0.33ppt
Net Margin	19.86%	18.96%	17.44%	17.59%	+2.42ppt	+1.37ppt

Source: Company data, CMBIS estimates

Figure 2: SOTP valuation

SOTP valuation	2021E
Attributable Non-IFRS net profit (RMB mn)	4,069
PE multiple of core business	65.0
Valuation of CRO/CDMO business (RMB mn)	**264,466**
Fair value of other non-current financial assets (RMB mn)	9,922
PB multiple of investment business	5.0
Valuation of investment business (RMB mn)	**49,611**
SOTP valuation (RMB mn)	**314,076**
# of shares	2,379,782,543
Target price (RMB per share)	**131.98**

Source: CMBIS estimates

Figure 3: Peers' valuation

			Price	Mkt Cap	Net profit YoY			P/E (x)		P/B (x)		ROE (%)	
Company	Ticker	Rating	(LC)	(US$ mn)	FY20E	FY21E	FY22E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
H-share													
WuXi AppTec	2359 HK	BUY	112.00	36,609	73.4%	24.3%	29.1%	79.8	64.2	9.8	8.8	12.3	13.8
WuXi Biologics	2269 HK	BUY	161.40	28,264	26.8%	40.7%	33.7%	89.5	63.6	8.1	7.2	9.5	12.0
Pharmaron	3759 HK	NR	83.30	10,303	57.2%	22.3%	32.1%	65.5	53.2	6.6	5.9	10.3	11.7
Frontage	1521 HK	NR	3.70	970.6	33.2%	29.0%	24.4%	36.7	28.1	3.3	3.0	9.8	10.2
VIVA Biotech	1873 HK	NR	10.34	767	57.7%	41.8%	41.6%	39.0	29.9	5.8	4.6	17.7	21.3
	Average				**49.6%**	**31.6%**	**32.2%**	**62.1**	**47.8**	**6.7**	**5.9**	**11.9**	**13.8**
A-share													
WuXi AppTec	603259 CH	BUY	107.88	36,609	73.4%	24.3%	29.1%	79.8	64.2	9.8	8.8	15.5	18.5
Tigermed	300347 CH	BUY	100.48	12,357	-0.1%	39.3%	35.8%	68.6	49.2	11.9	10.0	18.4	20.9
Pharmaron	300759 CH	NR	93.28	10,303	60.1%	30.3%	31.4%	85.4	64.5	8.6	7.5	10.3	12.0
Joinn Lab	603127 CH	NR	87.71	2,861	39.1%	35.4%	31.9%	71.0	52.3	18.5	14.4	23.9	25.1
Asymchem Lab	002821 CH	NR	227.92	7,586	33.4%	32.8%	31.7%	71.1	53.6	13.5	10.9	19.5	20.9
	Average				**41.2%**	**32.4%**	**32.0%**	**75.2**	**56.8**	**12.5**	**10.3**	**17.5**	**19.5**

Source: Bloomberg, CMBIS estimates, as at 14 Aug 2020.

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	**9,614**	**12,872**	**16,193**	**21,090**	**26,289**
China-based lab services	5,113	6,473	8,240	10,547	13,289
CMO/CDMO services	2,699	3,752	4,908	6,527	7,833
US-based laboratory services	1,204	1,563	1,720	2,236	2,862
Clinical research & other CRO services	585	1,063	1,297	1,752	2,277
Others	13	21	28	28	28
Cost of sales	(5,821)	(7,858)	(10,015	(12,876	(16,002
Gross profit	**3,793**	**5,014**	**6,178**	**8,214**	**10,287**
Business taxes	(29)	(28)	(35)	(46)	(58)
Selling & distribution expenses	(338)	(439)	(588)	(696)	(841)
Administrative expenses	(1,131)	(1,482)	(1,872)	(2,378)	(2,833)
R&D expenses	(437)	(590)	(782)	(928)	(1,130)
Operating profit	**1,859**	**2,474**	**2,901**	**4,165**	**5,425**
Finance costs, net	(56)	(24)	(36)	0	0
Investment gains	80	48	438	80	80
Net gain from FV changes	606	(259)	272	336	456
Other gains	92	98	129	160	160
Pre-tax profit	**2,581**	**2,337**	**3,703**	**4,741**	**6,122**
Income tax	(247)	(426)	(462)	(711)	(918)
Minority interests	(73)	(57)	(25)	(32)	(41)
Net profit	**2,261**	**1,855**	**3,216**	**3,998**	**5,163**

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total net profit	**2,334**	**1,911**	**3,241**	**4,030**	**5,203**
Depreciation and amortization	650	814	937	1,077	1,163
Change in working capital	(837)	(497)	58	(510)	(482)
Investment loss (gain)	(676)	219	(707)	(416)	(536)
Other operating activities	170	469	192	149	149
Net cash from operating	**1,640**	**2,916**	**3,721**	**4,331**	**5,498**
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	6,630	-	-
Net borrowings	(1,518)	4,510	(3,000)	-	-
Acquisition of non-controlling					
Dividends and interests paid	(103)	(730)	(1,001)	(1,199)	(1,548)
Other financing activities	(647)	(2,991)	-	-	-
Net cash from financing	**6,984**	**1,558**	**2,629**	**(1,199)**	**(1,548)**
FX changes	(56)	(33)	-	-	-
Net change in cash	3,348	(501)	2,350	(368)	949
Cash at the beginning of the year	2,466	5,758	5,227	7,577	7,209
Cash at the end of the year	**5,75**	**5,22**	**7,57**	**7,20**	**8,15**

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	**10,861**	**16,576**	**20,190**	**22,879**	**25,102**
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	6,713	9,129	11,165
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**	**15,143**	**16,093**	**18,406**
Cash	5,761	5,227	7,577	7,209	8,158
Inventories	952	1,742	1,729	2,222	2,762
Trade and bills receivables	1,997	2,961	3,105	3,929	4,754
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**	**5,323**	**6,130**	**7,012**
Borrowings	120	1,604	104	104	104
Trade and other payables	399	592	780	1,588	2,470
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**	**26,316**	**29,146**	**32,801**
Minority interest	**477**	**97**	**123**	**155**	**195**
Shareholders' equity	**17,688**	**17,312**	**26,193**	**28,992**	**32,605**

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
China-based lab services	53	50	51	50	51
CMO/CDMO services	28	29	30	31	30
US-based laboratory services	13	12	11	11	11
Clinical research and other CRO services	6	8	8	8	9
Others	0	0	0	0	0
Profit & loss ratios (%)					
Gross margin	39	39	38	39	39
EBITDA margin	34	25	29	28	28
Pre-tax margin	27	18	23	22	23
Net margin	24	14	20	19	20
Effective tax rate	10	18	12	15	15
Balance sheet ratios					
Current ratio (x)	3	2	3	3	3
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	12	14	16
ROA	10	7	9	10	12
Per share					
EPS (RMB)	1.59	1.14	1.35	1.68	2.17
DPS (RMB)	0.06	0.34	0.41	0.50	0.65
BVPS (RMB)	12.80	10.69	11.06	12.25	13.78

Source: Company data, CMBIS estimates

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