

## WuXi AppTec (603259 CH)

### Strong core business growth

- Core earnings slightly beat.** WuXi AppTec reported FY19 revenue of RMB12.87bn, up 34% YoY, inline with our estimate. Non-IFRS net profit was up 38% YoY to RMB2.4bn, 4% above our estimate. Meanwhile, attributable net profit decreased 18% YoY to RMB1.9bn, 13% below our estimate, mainly due to the RMB107mn investments fair value loss and RMB98mn fair value loss from convertible loans. WuXi AppTec had 21,744 employees as of end-2019, up 23% YoY. Fast expansion of staff team drives revenue growth given that the CRO/CDMO business is labor-intensive. Revenue contributed per employee rose 10% YoY to RMB0.65mn in FY19, indicating improving operating efficiencies.
- Phenomenal growth in CDMO and clinical services segment.** In FY19, CDMO revenue grew 39% YoY to RMB3.8bn, contributing 29% of the total revenue. The CDMO business has strong pipelines with 21 commercialized projects, 40 Phase III projects, 117 Phase II projects and 756 early-stage projects. Revenue from clinical services increased 82% YoY to RMB1.1bn thanks to both high organic growth and additional contribution from acquisitions. WuXi AppTec will further look for overseas acquisition opportunities in clinical service area in order to enhance its global presence in clinical service industry. In FY19, China/US-based laboratory services delivered 27%/30% YoY growth, respectively. China/US-based laboratory services accounted for 50%/12% of the total FY19 revenue, respectively. WuXi AppTec acquired 1,200 new customers in FY19 while long-tail and domestic customers contributed 68% of the total revenue in FY19.
- Share placement to bring sufficient funding for future expansion.** The Company plans to raise c.RMB6.5bn from placement of c.75mn new A shares and aims to place c.68.2mn new H shares. Total new issued shares will account for 8.67% of existing outstanding shares. Upon completion of the share issuance, WuXi AppTec will have rich funding for capacity expansion and overseas acquisitions, in our view.
- We lifted SOTP-based TP from RMB114.73 to RMB118.32 to reflect strong long-term growth outlook for WuXi AppTec.** We forecast WuXi AppTec's non-IFRS net profit to grow by 27%/30%/29% YoY in FY20E/21E/22E, respectively; and attributable net profit to increase 54%/32%/31% YoY in FY20E/21E/22E. Moreover, WuXi AppTec maintained a diversified investment portfolio with 80+ companies and funds which will bring significant investment gains over the long term.
- Catalysts:** 1) Higher-than-expected earnings growth, 2) Good acquisitions.

#### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	9,614	12,872	16,400	21,385	27,375
YoY growth (%)	24%	34%	27%	30%	28%
Net profit (RMB mn)	2,261	1,855	2,860	3,761	4,914
YoY growth (%)	84.2%	-18.0%	54.2%	31.5%	30.7%
EPS (RMB)	1.59	1.14	1.73	2.28	2.98
Change (%)	22%	-28%	52%	32%	30%
Consensus EPS (RMB)	1.31	1.35	1.70	2.16	2.69
ROE (%)	60.65	84.76	55.80	42.42	32.47
ROA (%)	7.55	9.04	8.03	6.94	5.93
Net gearing (%)	12.85	10.98	14.69	16.70	18.63
Current ratio (x)	Net cash	0.68	1.58	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **RMB118.32**  
 (Previous TP **RMB114.73**)  
 Up/Downside **+22.4%**  
 Current Price **RMB96.63**

#### China Healthcare Sector

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Mkt. Cap. (RMB mn)	158,575
Avg. 3mths t/o (RMB mn)	855
52W High/Low (RMB)	119.3/52.7
Total Issued Shares (mn)	1651

Source: Bloomberg

#### Shareholding Structure

Management	27.42%
A-share public shareholders	62.26%
H-share public shareholders	10.33%

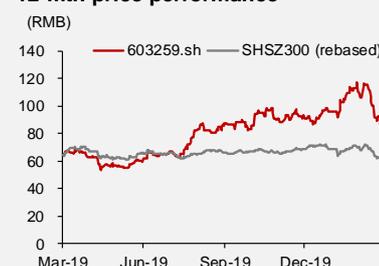
Source: Bloomberg

#### Share performance

	Absolute	Relative
1-mth	-17.7%	-9.7%
3-mth	6.0%	-6.7%
6-mth	11.9%	-3.8%

Source: Bloomberg

#### 12-mth price performance



Source: Bloomberg

Auditor: Deloitte Touche Tohmatsu

#### Related Reports

- Strengthening leading position in global CRO/CDMO industry – 13 Dec 2019

**Figure 1: CMBIS earnings revisions**

(RMB mn)	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	16,400	21,385	16,616	21,139	-1.30%	1.16%
Gross profit	6,384	8,384	6,433	8,256	-0.76%	1.55%
Operating profit	3,160	4,154	2,977	3,796	6.15%	9.43%
Net profit	2,860	3,761	2,839	3,591	0.74%	4.73%
EPS (RMB)	1.73	2.28	1.73	2.19	0.00%	4.11%
Gross margin	38.93%	39.21%	38.72%	39.06%	+0.21ppt	+0.15ppt
Operating margin	19.27%	19.42%	17.92%	17.96%	+1.35ppt	+1.47ppt
Net Margin	17.44%	17.59%	17.09%	16.99%	+0.35ppt	+0.60ppt

Source: Company data, CMBIS estimates

**Figure 2: CMBIS estimates vs consensus**

(RMB mn)	CMBI		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	16,400	21,385	16,046	20,333	2.21%	5.17%
Gross profit	6,384	8,384	6,361	8,097	0.37%	3.55%
Operating profit	3,160	4,154	3,355	4,301	-5.81%	-3.42%
Net profit	2,860	3,761	2,780	3,571	2.88%	5.32%
EPS (RMB)	1.73	2.28	1.70	2.16	1.76%	5.56%
Gross margin	38.93%	39.21%	39.64%	39.82%	-0.71ppt	-0.61ppt
Operating margin	19.27%	19.42%	20.91%	21.15%	-1.64ppt	-1.73ppt
Net Margin	17.44%	17.59%	17.33%	17.56%	+0.11ppt	+0.02ppt

Source: Company data, CMBIS estimates

**Figure 3: Peers' valuation**

Company	Ticker	Rating	Mkt Cap (US\$ mn)	Net profit YoY			P/E (x)		P/B (x)		ROE (%)	
				FY20E	FY21E	FY22E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
<b>H-share</b>												
WuXi AppTec	2359 HK	BUY	22,416	54.2%	31.5%	30.7%	55.8	42.4	8.0	6.9	14.7	16.7
WuXi Biologics	2269 HK	BUY	17,155	42.8%	46.8%	N/A	76.5	52.1	10.3	8.6	14.4	17.9
Pharmaron	3759 HK	NR	5,959	44.6%	40.4%	27.8%	51.2	37.2	4.4	4.0	8.8	11.3
Frontage	1521 HK	NR	926	29.8%	34.8%	35.9%	28.7	23.0	2.7	2.5	10.2	11.7
VIVA Biotech	1873 HK	NR	767	109.4%	50.4%	N/A	17.2	10.7	2.6	2.2	13.9	17.7
	<b>Average</b>			56.1%	40.8%	31.5%	45.9	33.1	5.6	4.8	12.4	15.1
<b>A-share</b>												
WuXi AppTec	603259 CH	BUY	22,416	54.2%	31.5%	30.7%	55.8	42.4	8.0	6.9	14.7	16.7
Tigermed	300347 CH	BUY	7,465	19.5%	30.7%	N/A	56.6	43.3	11.9	10.2	18.4	20.9
Pharmaron	300759 CH	NR	5,959	36.8%	30.9%	25.2%	60.6	47.3	9.1	7.8	18.2	20.1
Joynn Lab	603127 CH	NR	1,618	41.5%	37.3%	N/A	50.6	36.9	12.2	9.8	23.7	26.3
Asymchem Lab	002821 CH	NR	5,657	31.3%	32.0%	N/A	53.7	40.7	10.9	8.8	18.4	19.5
	<b>Average</b>			36.6%	32.5%	27.9%	55.5	42.1	10.4	8.7	18.7	20.7

Source: Bloomberg, CMBIS estimates, as at 25 Mar 2020.

## Financial Statements

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>9,614</b>	<b>12,872</b>	<b>16,400</b>	<b>21,385</b>	<b>27,375</b>	<b>Total net profit</b>	<b>2,334</b>	<b>1,911</b>	<b>2,918</b>	<b>3,838</b>	<b>5,015</b>
China-based lab services	5,113	6,473	7,897	10,109	12,636	Depreciation and amortization	650	814	937	1,078	1,164
CMO/CDMO services	2,699	3,752	5,065	6,737	8,893	Change in working capital	(837)	(497)	18	(512)	(578)
US-based laboratory services	1,204	1,563	1,876	2,438	3,121	Investment loss (gain)	(676)	219	(260)	(348)	(441)
Clinical research & other CRO services	585	1,063	1,541	2,080	2,705	Other operating activities	170	469	277	277	277
Others	13	21	21	21	21	<b>Net cash from operating</b>	<b>1,640</b>	<b>2,916</b>	<b>3,890</b>	<b>4,333</b>	<b>5,437</b>
Cost of sales	(5,821)	(7,858)	(10,016)	(13,001)	(16,541)	Capex	(2,249)	(2,532)	(2,000)	(1,500)	(1,500)
<b>Gross profit</b>	<b>3,793</b>	<b>5,014</b>	<b>6,384</b>	<b>8,384</b>	<b>10,834</b>	Acquisition of subsidiaries	(124)	(785)	-	-	-
Business taxes	(29)	(28)	(36)	(47)	(60)	Other investing activities	(2,904)	(1,658)	(1,500)	(1,500)	(1,500)
Selling & distribution expenses	(338)	(439)	(558)	(716)	(917)	<b>Net cash from investing</b>	<b>(5,277)</b>	<b>(4,975)</b>	<b>(3,500)</b>	<b>(3,000)</b>	<b>(3,000)</b>
Administrative expenses	(1,131)	(1,482)	(1,893)	(2,526)	(3,234)	Net proceeds from shares issued	9,252	769	400	400	400
R&D expenses	(437)	(590)	(738)	(941)	(1,177)	Net borrowings	(1,518)	4,510	-	-	-
<b>Operating profit</b>	<b>1,859</b>	<b>2,474</b>	<b>3,160</b>	<b>4,154</b>	<b>5,446</b>	Acquisition of non-controlling					
Finance costs, net	(56)	(24)	(127)	(127)	(127)	Dividends and interests paid	(103)	(730)	(985)	(1,256)	(1,602)
Investment gains	80	48	60	60	60	Other financing activities	(647)	(2,991)	-	-	-
Net gain from FV changes	606	(259)	200	288	381	<b>Net cash from financing</b>	<b>6,984</b>	<b>1,558</b>	<b>(585)</b>	<b>(856)</b>	<b>(1,202)</b>
Other gains	92	98	140	140	140	FX changes	(56)	(33)	-	-	-
<b>Pre-tax profit</b>	<b>2,581</b>	<b>2,337</b>	<b>3,433</b>	<b>4,515</b>	<b>5,900</b>	Net change in cash	3,348	(501)	(195)	477	1,235
Income tax	(247)	(426)	(515)	(677)	(885)	Cash at the beginning of the year	2,466	5,758	5,227	5,032	5,509
Minority interests	(73)	(57)	(58)	(77)	(100)	<b>Cash at the end of the year</b>	<b>5,758</b>	<b>5,223</b>	<b>5,032</b>	<b>5,509</b>	<b>6,744</b>
<b>Net profit</b>	<b>2,261</b>	<b>1,855</b>	<b>2,860</b>	<b>3,761</b>	<b>4,914</b>						
<b>Balance sheet</b>						<b>Key ratios</b>					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>10,861</b>	<b>16,576</b>	<b>19,249</b>	<b>21,370</b>	<b>23,498</b>	<b>Sales mix (%)</b>					
Fixed asset	3,491	4,333	5,589	6,204	6,734	China-based lab services	53	50	48	47	46
Intangible assets	626	918	847	776	705	CMO/CDMO services	28	29	31	32	32
Financial assets	2,079	4,009	5,770	7,618	9,559	US-based laboratory services	13	12	11	11	11
Goodwill	1,144	1,362	1,362	1,362	1,362	Clinical research and other CRO services	6	8	9	10	10
Other non-current assets	3,520	5,954	5,682	5,410	5,138	Others	0	0	0	0	0
<b>Current assets</b>	<b>11,807</b>	<b>12,663</b>	<b>12,639</b>	<b>14,469</b>	<b>17,281</b>	<b>Profit &amp; loss ratios (%)</b>					
Cash	5,761	5,227	5,032	5,509	6,744	Gross margin	39	39	39	39	40
Inventories	952	1,742	1,729	2,244	2,855	EBITDA margin	34	25	27	27	26
Trade and bills receivables	1,997	2,961	3,145	3,984	4,950	Pre-tax margin	27	18	21	21	22
Prepayments, deposits and other receivables	168	123	123	123	123	Net margin	24	14	17	18	18
Other current assets	2,929	2,609	2,609	2,609	2,609	Effective tax rate	10	18	15	15	15
<b>Current liabilities</b>	<b>3,762</b>	<b>6,634</b>	<b>6,823</b>	<b>7,665</b>	<b>8,664</b>	<b>Balance sheet ratios</b>					
Borrowings	120	1,604	1,604	1,604	1,604	Current ratio (x)	3	2	2	2	2
Trade and other payables	399	592	781	1,623	2,622	Trade receivables turnover days	68	70	70	68	66
Other current liabilities	3,243	4,438	4,438	4,438	4,438	Trade payables turnover days	118	103	103	103	103
<b>Non-current liabilities</b>	<b>740</b>	<b>5,195</b>	<b>5,195</b>	<b>5,195</b>	<b>5,195</b>	Net debt to total equity ratio (%)	Net cash	1	2	Net cash	Net cash
Borrowings	15	762	762	762	762	<b>Returns (%)</b>					
Other non-current liabilities	725	4,433	4,433	4,433	4,433	ROE	13	11	15	17	19
<b>Total net assets</b>	<b>18,165</b>	<b>17,410</b>	<b>19,870</b>	<b>22,979</b>	<b>26,920</b>	ROA	10	7	9	11	12
<b>Minority interest</b>	<b>477</b>	<b>97</b>	<b>156</b>	<b>233</b>	<b>333</b>	<b>Per share</b>					
<b>Shareholders' equity</b>	<b>17,688</b>	<b>17,312</b>	<b>19,714</b>	<b>22,747</b>	<b>26,587</b>	EPS (RMB)	1.59	1.14	1.73	2.28	2.98
						DPS (RMB)	0.06	0.34	0.52	0.68	0.89
						BVPS (RMB)	12.80	10.69	12.03	13.92	16.30

Source: Company data, CMBIS estimates

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