

# China CRO/CDMO sector

## Deep dive into valuation of China CXO sector

China CRO/CDMO (collectively, CXO) sector is highly dependent on global contracts and has been deeply integrated into the global pharmaceutical value chain. Hence, we believe it is reasonable to look at the valuation level of China CXO sector from a global perspective. We believe China CXO sector is trading at attractive valuation level while the fundamentals remain solid given China CXO companies continue gaining global market thanks to their improving global competency. Our top picks are WuXi Bio, WuXi AppTec and Tigermed.

- **China CXO sector trading at attractive valuation level.** CXO sector has always been trading at a significant valuation premium to pharma sector both in China and global markets. We believe this is attributable to fast growth and clear earnings visibility of CXO sector. The valuation premium widened since the beginning of COVID-19 pandemic because of the strong global demand in CXO industry. China CXO was trading at 55% premium to average P/E of China pharma sector before COVID-19 outbreak and 138% premium after the outbreak, while foreign CXO sector was trading at 38% premium to average P/E of foreign pharma sector before the outbreak and 106% premium after the outbreak. Nevertheless, with the recent share price correction, China CXO sector's relative P/E to foreign CXO sector has reached the lowest level since the outbreak of COVID-19, indicating a good entry point for the sector.
- **China CXO gaining global market share.** COVID-19 pandemic has provided a good opportunity for China CXOs to showcase their capabilities to global clients. In addition, reliable operation during the pandemic also helps China CXOs to win global orders. As a result, China CXOs experienced revenue growth acceleration in 2021 (average 36%/58% YoY in 2020/1H21), which significantly outpaced that of foreign peers (average 15%/30% YoY in 2020/1H21). Based on our estimates, WuXi AppTec will obtain 4.4% global CRO market share in 2023E (vs. 2.1% in 2020 and 1.1% in 2016) and WuXi Bio will take 2.8% global CDMO market share in 2023E (vs. 1.1% in 2020 and 0.4% in 2016). We think China CXOs, especially leading players, will continue to win market share from foreign peers over the next 5-10 years.
- **Maintain positive view on China CXO sector; Prefer WuXi Bio, WuXi AppTec and Tigermed.** We see WuXi Bio will benefit from the surging demand in biologics CDMO. We expect WuXi AppTec to further strengthen its leading position thanks to its integrated one-stop service capabilities. For Tigermed, we think its overseas business has made a big leap by assisting Chinese clients to carry out global clinical trials.

### Valuation Table

Name	Ticker	Rating	Mkt Cap (USDmn)	Price (LC)	TP (LC)	Upside	P/E (x) 2021E	P/B (x) 2021E	ROE 2021E
WuXi Bio	2269.HK	BUY	56,681	104.1	159.2	52.9%	108.5	15.0	14.9
WuXi AppTec	603259.CH	BUY	62,329	134.8	167.4	24.2%	76.2	10.9	14.4
Tigermed	300347.CH	BUY	18,380	139.2	212.6	52.7%	53.8	6.7	13.5

Source: Bloomberg, CMBIS estimates

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### China Healthcare Sector

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## China CXO sector trading at attractive valuation

China CRO/CDMO (collectively, CXO) sector is highly dependent on global contracts and has been deeply integrated into the global pharmaceutical value chain. Hence, we believe it is reasonable to look at the valuation level of China CXO sector from a global perspective.

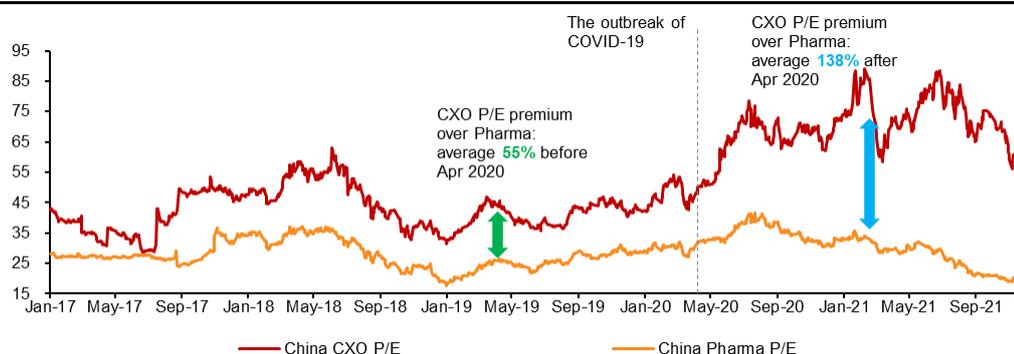
We selected leading listed Chinese and foreign CXO and pharma companies (see the full company list in the notes of Figure 1 & 2) and conducted a deep-dived analysis in sector valuation. We think the outbreak of COVID-19 divided the CXO industry into two different stages given the dramatic changes in global demand and competition landscape.

## Valuation premium of CXO over pharma widened after COVID-19 outbreak

CXO sector has always been trading at a significant valuation premium to pharma sector both in China and global markets. We believe this is attributable to fast growth and clear earnings visibility of CXO sector. The valuation premium widened since the beginning of COVID-19 pandemic because of the strong global demand in CXO industry.

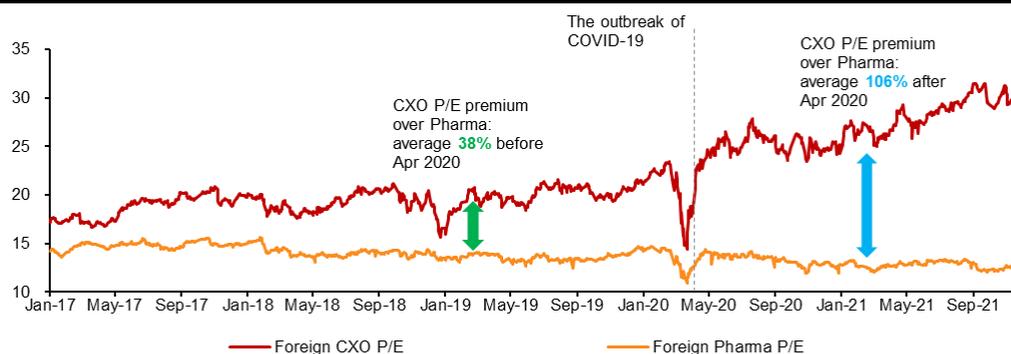
China CXO was trading at 55% premium to average P/E of China pharma sector before COVID-19 outbreak and 137% premium after the outbreak, while foreign CXO sector was trading at a 38% premium to average P/E foreign pharma sector before the outbreak and 106% premium after the outbreak.

**Figure 1: 12-month forward P/E of China CXO and Pharma (as of 25 Nov 2021)**



Source: Bloomberg, CMBIS

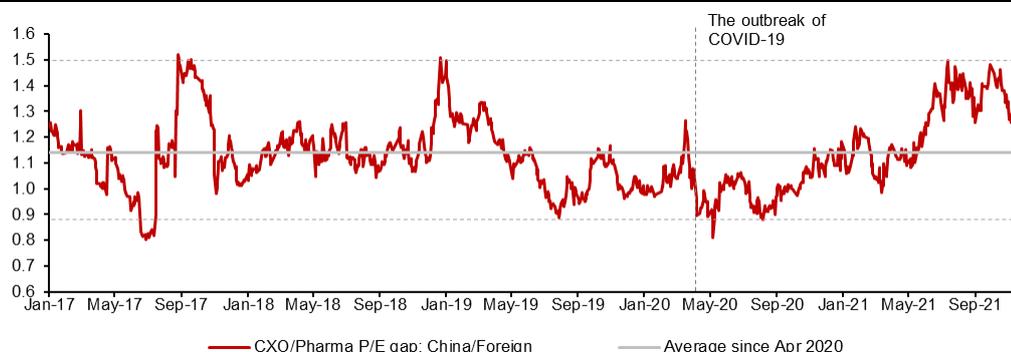
Note: China CXO names include: Asymchem (002821.CH), ChemPartners (300149.CH), Frontage (1521.HK), Hitgen (688222.CH), Jiuzhou Pharma (603456.CH), Joynn Lab (603127.CH/6127.HK), Medicilon (688202.CH), PharmaBlock (300725.CH), Pharmaron (300759.CH/3759.HK), Porton (300363.CH), Tigermed (300347.CH/3347.HK), Viva (1873.HK), WuXi AppTec (603259.CH/2359.HK), and WuXi Bio (2269.HK). China Pharma names include: Betta (300558.CH), CSPC (1093.HK), Fosun (600196.CH/2196.HK), Hansoh (3692.HK), Hengrui (600276.CH), Kanghong (002773.CH), Kelun (002422.CH), Livzon (000513.CH/1513.HK), Sino Bio (1177.HK), and Shanghai Pharma (601607.CH/2607.HK).

**Figure 2: 12-month forward P/E of foreign CXO and Pharma (as of 25 Nov 2021)**


Source: Bloomberg, CMBIS

Note: Foreign CXO names include: Catalent (CTLT.US), Charles River (CRL.US), ICON (ICLR.US), IQVIA (IQV.US), LabCorp (LH.US), Lonza (LONN.SW), Medpace (MEDP.US), PRA Health (PRAH.US), PPD (PPD.US), Syneos (SYNH.US), and Thermo Fisher (TMO.US). Foreign Pharma names include: AbbVie (ABBV.US), Amgen (AMGN.US), AstraZeneca (AZN.LN), Bayer (BAYN.GR), BMS (BMY.US), GSK (GSK.LN), J&J (JNJ.US), Merck (MRK.US), Novartis (NOVN.SW), Pfizer (PFE.US), Roche (ROG.SW), and Sanofi (SAN.FP).

We also compared the relative valuation premium of China CXO/Pharma and Foreign CXO/Pharma (see the calculation methodology in the note of Figure 3). China CXO/Pharma's valuation premium vs foreign peers showed an upward trend during the COVID-19 pandemic, but has retreated significantly since Sep 2021. We notice that China pharma sector also experienced significant correction during recent months. Thus, the valuation drop of China CXO sector was worse than what was shown in Figure 3.

**Figure 3: Relative P/E premium: China CXO/Pharma vs Foreign CXO/Pharma (as of 25 Nov 2021)**


Source: Bloomberg, CMBIS

Note: China CXO/Pharma P/E gap: (a) = P/E of China CXO divided by that of China Pharma. Foreign CXO/Pharma P/E gap: (b) = P/E of Foreign CXO divided by that of Foreign Pharma. CXO/Pharma relative P/E gap: (a) divided by (b).

### Good bottom-fishing opportunity for China CXO sector

Looking at China CXO sector's relative P/E to foreign CXO sector, we found that China CXO's relative valuation multiple has fallen to the lowest level since the outbreak of COVID-19, indicating a good bottom-fishing opportunity. We believe the fundamentals of China CXO sector remain solid given that China CXO companies continue gaining global market thanks to their improving global competency.

**Figure 4: Relative P/E: China CXO vs Foreign CXO (as of 25 Nov 2021)**

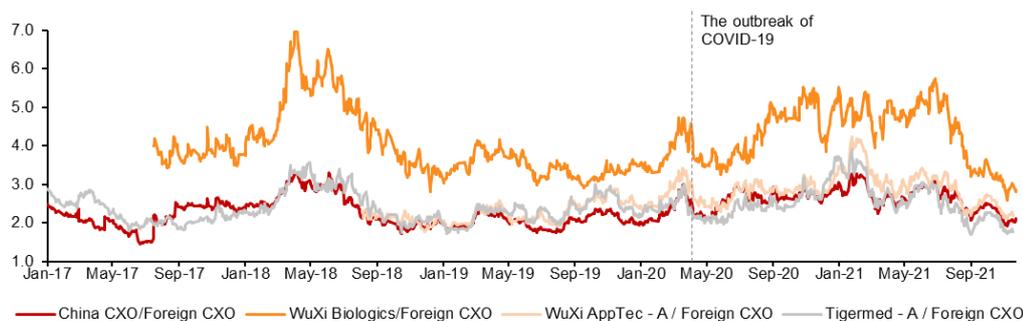


Source: Bloomberg, CMBIS

Note: Relative P/E = P/E of China CXO divided by that of Foreign CXO

For WuXi Bio (2269.HK, BUY), WuXi AppTec (603259.CH, BUY) and Tigermed (300347.CH, BUY), their relative P/E over foreign CXO sector have all dropped to the lowest levels post the COVID-19 outbreak. We believe current valuation level is attractive.

**Figure 5: Relative P/E: CMBI-covered CXO/Foreign CXO (as of 25 Nov 2021)**



Source: Bloomberg, CMBIS

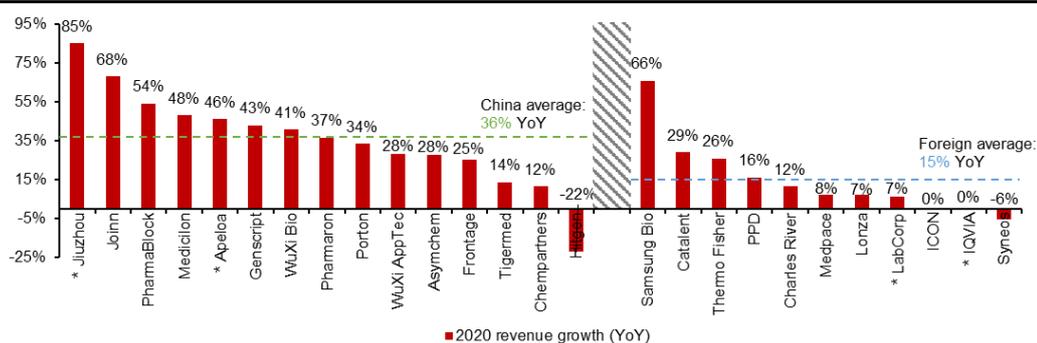
## China CXO is gaining global market share

### China CXO maintaining strong growth momentum

COVID-19 pandemic has provided a good opportunity for China CXOs to showcase their capabilities to global clients. In addition, reliable operation during the pandemic also helps China CXOs to win global orders. As a result, China CXOs experienced revenue growth acceleration in 2021 (average 36%/58% YoY in 2020/1H21), whose growth significantly outpaced that of foreign peers (average 15%/30% YoY in 2020/1H21).

We expect China CXO sector to maintain the strong growth momentum in 2021 and 2022, supported by rapid backlog growth and solid global demand.

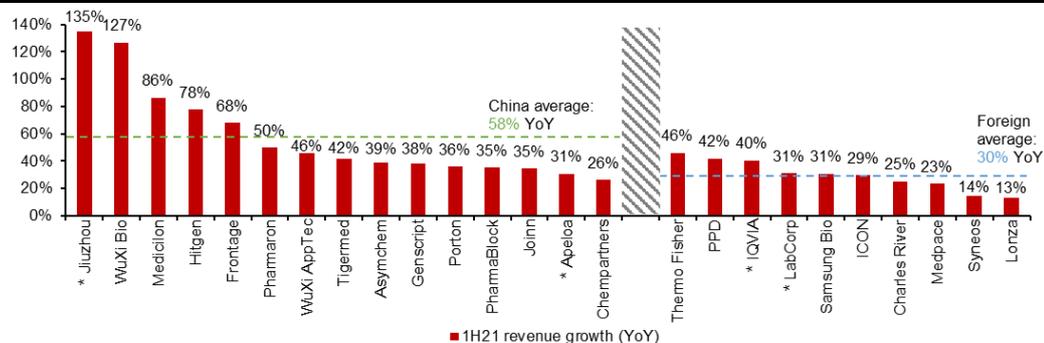
**Figure 6: Global CXO revenue growth comparison (2020)**



Source: Company data, CMBIS

Note: \* refers to "CDMO" segment for Jiuzhou and Apeloa, "Research & Development Solutions" segment for IQVIA, and "Drug Development (DD)" segment for LabCorp

**Figure 7: Global CXO revenue growth comparison (1H21)**



Source: Company data, CMBIS

Note: \* refers to "CDMO" segment for Jiuzhou and Apeloa, "Research & Development Solutions" segment for IQVIA, and "Drug Development (DD)" segment for LabCorp

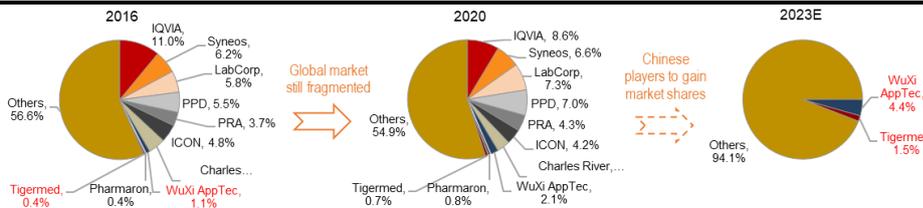
## Global CXO market still fragmented and Chinese companies gaining global market share

The global CXO industry is fragmented yet we expect leading players to gradually consolidate market share. Based on Frost & Sullivan data and our calculation, the global top-5 CRO companies accounted for 33.7% of the global CRO market share in 2020 (vs. 32.1% in 2016). The global CDMO market (chemicals + biologics) is more fragmented, with the top-5 companies taking only 16.3% of the global market share in 2020 (vs. 14.6% in 2016). Most global leading CXO companies has expanded their global market share over 2016-2020, indicating a Matthew Effect (where strong companies get stronger, indicating industry consolidation).

China-based CXO companies have been gaining global market share thanks to their continuously improving capabilities. Based on our estimates, WuXi AppTec will obtain 4.4% global CRO market share by 2023E (vs. 2.1% in 2020 and 1.1% in 2016) and WuXi Bio will take 2.8% global CDMO market (chemicals + biologics) share by 2023E (vs. 1.1% in 2020 and 0.4% in 2016). Currently, China-based clinical CRO companies only have a small fragment of share in the global clinical CRO market. For instance, Tigermed, the largest clinical CRO in China, only took 1.1% share of the global clinical CRO market in 2020. However, the COVID-19 pandemic has paved the way for China clinical CRO companies to go overseas. We believe China CXOs, especially leading players, will continue to win market share from foreign peers over the next 5-10 years.

Similarly, we have observed the Matthew Effect in China CXO industry. WuXi AppTec, as China's No.1 player in both pre-IND CRO market and chemicals CDMO market, has further enhanced its leading position since 2016. Our calculations indicate that WuXi AppTec grew market share in China pre-IND CRO market from 32.8% in 2016 to 34.4% in 2020 and will further grow to 45.1% in 2023E. We also estimate WuXi AppTec to expand its market share in China CDMO market from 20.5% in 2016 to 23.4% in 2020 and further to 28.4% in 2023E. We believe leading CXO companies will be more adaptive to future market dynamics and to consistently consolidate the industry.

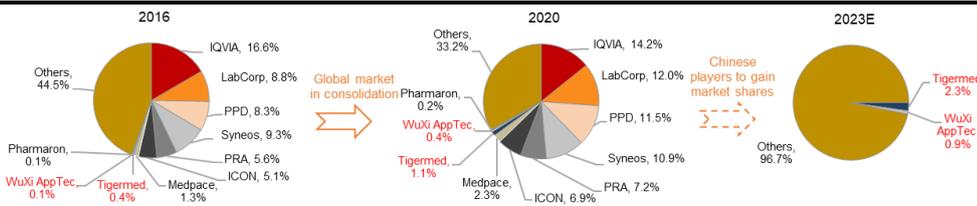
**Figure 8: Competitive landscape of global CRO market (non-CMO/CDMO market)**



Source: Frost & Sullivan, Company, CMBIS estimates

Note: 2023 market shares for WuXi AppTec and Tigermed are based on CMBIS's forecasts of their 2023E revenue

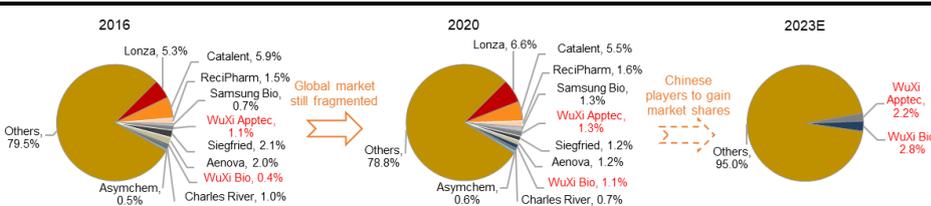
**Figure 9: Competitive landscape of global clinical CRO market**



Source: Frost & Sullivan, Company, CMBIS estimates

Note: 2023 market shares for WuXi AppTec and Tigermed are based on CMBIS's forecasts of their 2023E revenue

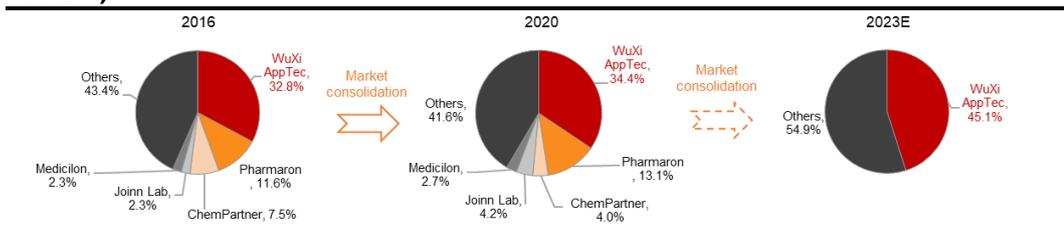
**Figure 10: Competitive landscape of global CDMO market (chemicals + biologics)**



Source: Bloomberg, CMBIS estimates

Note: 2023 market shares for WuXi AppTec and WuXi Bio are based on CMBIS's forecasts of their 2023E revenue

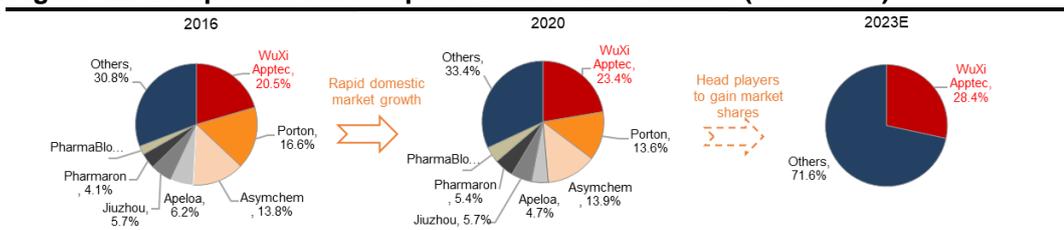
**Figure 11: Competitive landscape of China pre-IND CRO market (discovery + pre-clinical)**



Source: Frost & Sullivan, Company, CMBIS estimates

Note: 2023 market share for WuXi AppTec is based on CMBIS's forecast of its 2023E revenue

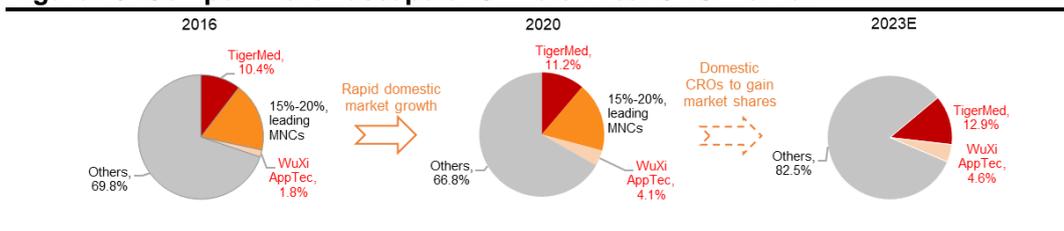
**Figure 12: Competitive landscape of China CDMO market (chemicals)**



Source: Frost & Sullivan, Company, CMBIS estimates

Note: 2023 market share for WuXi AppTec is based on CMBIS's forecast of its 2023E revenue

**Figure 13: Competitive landscape of China clinical CRO market**



Source: Frost & Sullivan, Company, CMBIS estimates

Note: 2023 market shares for WuXi AppTec and Tigermed are based on CMBIS's forecasts of their 2023E revenue

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