

## SMALL/MID CAP HIGHLIGHTS

### Tianjin Pharmaceutical Da Ren Tang (TIAN SP)

Benefitting From Higher Drug Demand And New Growth Impetuses Injected

Some of DRT's TCMs are on the Chinese authority's recommended drug list for treating COVID-19 symptoms. Its 25% JV with GSK is a leading producer of Ibuprofen products which saw demand surge. DRT has achieved consistent earnings growth in the past years, riding on China's ageing population. The recent mixed ownership reform and management changes are likely to have injected new growth impetuses. DRT's S-share (6.8x 2023F consensus PE) is trading at only 26% of its A-share price.

#### WHAT'S NEW

- **Benefitting from outbreak of pandemic in China, with direct earnings exposure estimated at 10-20%.** According to numerous media in China and our checks on the JD.com pharmaceutical portal, drugs that can relieve COVID-19 symptoms were out of stock in many Chinese cities in Dec 22 (the shortage also extended into January this year in some cities) due to the outbreak of the pandemic following the Chinese government's abrupt shifts in COVID-19 policies. With a number of Chinese and Western drug products that can relieve COVID-19 symptoms, Da Ren Tang (DRT) is likely a beneficiary of the pandemic outbreak.
- **25% ownership in Sino-American Tianjin SmithKline & French Lab (SATSK&FL), a leading producer of Ibuprofen products in China.** SATSK&FL is a JV between DRT and GlaxoSmithKline (GSK). 25%-owned by DRT, SATSK&FL contributed to about 20% of DRT's 2021 net profit. SATSK&FL was the first and still is a leading producer of Ibuprofen products in China. Known for relieving pains and fever symptoms, Ibuprofen saw demand surge in the recent pandemic wave and was out of stock in many parts of China. According to brand analytics website Maigoo, SATSK&FL's Fenbid (芬必得) brand Ibuprofen product is the top recognised Ibuprofen product in the Chinese market.
- **Several TCM products on the authority's recommended lists.** Qing Yan Di Wan (清咽滴丸), DRT's exclusive product (2021 sales of >Rmb100m, gross margin at about 60%) that relieves pains in the throat, is on the National Health Commission's (NHC) recommended list for treating COVID-19 symptoms. Huoxiang Zhengqi Water/Capsule (藿香正气水/胶囊), a TCM known for treating cold symptoms, which DRT is also capable of producing (though not exclusively), is also on NHC's list. There are also other products that are recommended on respective local (municipal) governments' extended lists. For example, 15 of DRT's products (13 TCM, 2 Western) are on Beijing Municipal Health Commission's recommended list. Some well-known ones include Yingqiao Detoxification Pills (银翘解毒片) and Qingwen Detoxification Pills (清瘟解毒片).
- **Drug purchases might have extended beyond the COVID-19-related.** We note that there might have been some panic purchases of medicines in China in the initial few weeks of opening up. The drug purchases were not necessarily limited to COVID-19 treatment-related drugs and there might also have been some spillover to some frequently used drugs, likely because people wanted to reduce their visits to hospitals/pharmacies in order to avoid catching COVID-19 and/or they might be concerned about the crowding out effects on the supplies of other hospital resources due to the wave of COVID-19 cases. As such, some non-COVID-19-related general medicines might have also seen better sales.

Click [here](#) for Blue Top dated 8 Mar 23

#### KEY FINANCIALS

Year to 31 Dec (Rmbm)	2018	2019	2020	2021	9M22*
Net turnover	6,359	6,994	6,604	6,908	5,563
EBITDA	520	609	637	687	692
Operating profit	439	508	523	569	588
Net profit (rep./act.)	555	626	662	769	729
EPS (Rmb)	0.73	0.81	0.86	1.00	0.95
PE (x)	13.0	11.7	11.0	9.5	8.7
P/B (x)	1.5	1.4	1.3	1.1	1.1
EV/EBITDA (x)	7.3	6.4	6.4	5.7	5.5
Dividend yield (%)	2.1	2.9	2.9	4.8	n.a.
Net margin (%)	8.7	8.9	10.0	11.1	13.1
Net debt/(cash) to equity (%)	(27.9)	(31.5)	(34.6)	(41.9)	(33.6)
ROE (%)	11.8	12.1	11.8	12.6	12.7

\* PE, EV/EBITDA and ROE for 9M22 are calculated based on 12m trailing figures; the rest of the metrics are based on actual reported figures.  
Source: Da Ren Tang, Bloomberg, UOB Kay Hian

## NOT RATED

Share Price	US\$1.36
Target Price	n.a.
Upside	n.a.

#### COMPANY DESCRIPTION

Tianjin Pharmaceutical Da Ren Tang (previously known as Tianjin Zhongxin) is a time-honoured traditional Chinese medicine manufacturing enterprise in China.

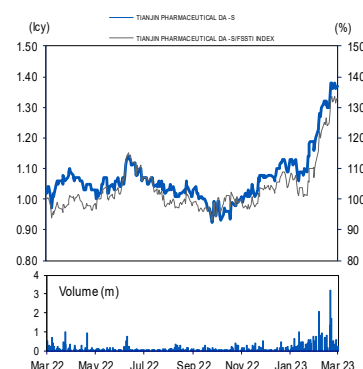
#### STOCK DATA

GICS sector			Pharmaceutical	
Bloomberg ticker:			TIAN SP	
Shares issued (m):			773.4	
Market cap (\$m):			4,459	
Market cap (US\$m):			3,291	
3-mth avg daily t'over (US\$m):			0.28	
<b>Price Performance (%)</b>				
52-week high/low			US\$0.93/US\$1.40	
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
17.2	25.9	34.7	31.7	22.3

#### Major Shareholders

Tianjin Pharmaceutical Holdings	42.8%
-	-
-	-
NAV/Share (Rmb)	8.71
Net Cash/(Debt)/Share (Rmb)	3.00

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

Llleythan Tan  
+65 6590 6624  
yirong@uobkayhian.com

# STOCK IMPACT

• **Su Xiao Jiu Xin Pill (速效救心丸) is DRT's exclusive TCM and a household brand in China which treats myocardial infarction.** Su Xiao Jiu Xin Pill (blunt translation: fast-effect heart-saving pills) is a well-known household brand name in China. Even if some of the Chinese people may have never used it themselves, they are likely to have heard of it. Benefitting from China's ageing population, it is popular among older people who are concerned about heart attacks and some deem it as the TCM-equivalent of Nitroglycerin. Su Xiao Jiu Xin Pill is DRT's exclusive product with annual sales of over Rmb1.3b (gross margin of 50-60%). On a rough estimate, it contributed to about 30% of DRT's earnings.

• **Long-term organic growth driven by China's ageing population.** Riding the trend of China's ageing population, the profitability of DRT has been on a long-term growth trend, achieving an earnings CAGR of over 10% over the past eight years, driven mostly by organic growth. See charts of financials in the full report for more details.

• **Sector outlook: Favourable government policies providing strong support for TCM industry.** On 28 Feb 23, China's State Council issued the "Implementation Plan for Major Projects for the Revitalisation and Development of Traditional Chinese Medicine" to further increase support for the revitalisation and development of TCM during the nation's 14th Five-Year Plan period. The plan emphasised TCM's pillar position in China's social medical system and deployed a number of key initiatives including: a) promoting the high-quality development of TCM and healthcare services; b) promoting inheritance, innovation and modernisation of TCM; c) strengthening the talent pool of TCM; d) enhancing the quality of TCM; and e) promoting the culture of TCM etc.

• **Completed mixed-ownership reform injecting new impetuses.** DRT's 42% major shareholder Tianjin Pharmaceutical Holdings (TPH), previously an SOE 100%-owned by Tianjin Bohai State-owned Assets Management, completed the mixed-ownership reform in 2021 by introducing some strategic private sector investors into its shareholding structure. A 67% controlling stake of TPH was acquired by Jinhushen Biological Medical Science and Technology Co, which is co-owned by the Shanghai Municipal government (35%) and some private sector investors (collectively 65%, hence controlling power collectively). This change of the ultimate controlling party is believed to have injected impetuses into DRT.

• **Rebranding exercise.** The group completed a rebranding exercise in 2022, changing its name from Tianjin Zhongxin to Da Ren Tang (达仁堂), which was the name of one of its key branch companies. The Da Ren Tang brand name is well-recognised in China due to its rich heritage that dates back to the 16th century, as Da Ren Tang was a key TCM supplier to the Qing Dynasty's royal family.

• **Management and corporate structure changes, aggressive growth target set by new management.** After the reform, some new top management personnel were brought in to drive the company's growth going forward. We understood that there were also a major organisation restructuring and significant changes at the middle management level, all aiming to better position the company to be more sales- and growth-oriented. The new management has announced an exciting growth target for the revenue of DRT's TCM manufacturing segment (the core segment with high gross margin of 55-60%) to grow more than 18% p.a. in 2023-25 (from 2021 base numbers).

• **Solid balance sheet (Rmb2.32b net cash) and healthy cash-generating capability.** As of end-Sep 22, DRT had Rmb2.32b net cash on its balance sheet, leading to Rmb3.0 net cash per share, equivalent to 37% of DRT's S-share price. DRT has been generating positive free cash flows (operating cash flow less capex) over the past few years.

• **Valuation.** DRT's S-share is trading at a steep 74% discount to its A-share price of Rmb32.00. The S-share price implies 8.7x trailing-twelve-month (TTM) PE (5.9x if excluding net cash), a 1.09x trailing P/B and a 4.7% net dividend yield (after a 10% withholding tax). DRT trades at 2022/23F PE of 8.4x/6.8x if consensus forecast is adopted.

• Key corporate events to watch out for:

- 4Q22 financial performance (to be released at end-Mar 23);
- 2022 dividend declaration together with 4Q22 results (if 50% payout maintained on growing EPS);
- 1Q23 financial performance (to be released in late-Apr 23); and
- Possible proposal of new 2023-25 dividend policy (around mid-23, if any).

## FENBID IBUPROFEN SUSTAINED RELEASE CAPSULES, TOP RECOGNISED IBUPROFEN PRODUCT IN CHINA



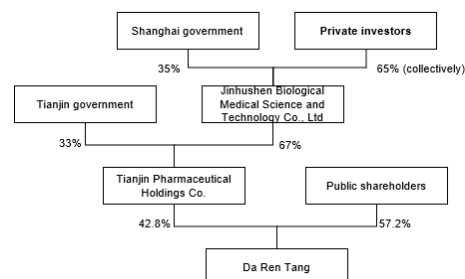
Source: DRT, UOB Kay Hian

## SU XIAO JIU XIN PILL, DA REN TANG'S EXCLUSIVE TCM PRODUCT, IS A HOUSEHOLD BRAND IN CHINA



Source: DRT, UOB Kay Hian

## COMPLETED MIXED OWNERSHIP REFORM: CO-CONTROLLED BY PRIVATE INVESTORS AND TIANJIN AND SHANGHAI GOVERNMENTS



Source: DRT, UOB Kay Hian

## HISTORICAL PE BAND



Source: UOB Kay Hian, Bloomberg

**PROFIT & LOSS**

Year to 31 Dec (Rmbm)	2018	2019	2020	2021
Net turnover	6,358.6	6,993.9	6,603.7	6,907.5
EBITDA	520.1	609.1	636.5	686.6
Deprec. & amort.	81.3	101.2	113.6	117.8
EBIT	438.8	507.9	523.0	568.8
Total other non-operating income	41.4	54.0	68.9	69.8
Associate contributions	163.2	173.7	150.6	185.6
Net interest income/(expense)	(2.8)	7.6	25.6	48.6
<b>Pre-tax profit</b>	<b>640.6</b>	<b>743.1</b>	<b>768.1</b>	<b>872.8</b>
Tax	(72.8)	(107.8)	(88.4)	(85.9)
Minorities	(6.1)	(9.8)	(18.0)	(17.7)
<b>Net profit</b>	<b>554.5</b>	<b>625.6</b>	<b>661.7</b>	<b>769.1</b>

**BALANCE SHEET**

Year to 31 Dec (Rmbm)	2018	2019	2020	2021
Fixed assets	1,398.1	1,565.5	1,685.2	1,704.4
Other LT assets	927.2	1,142.9	994.6	937.7
Cash/ST investment	1,520.4	1,523.0	1,987.3	2,767.6
Other current assets	3,259.6	3,611.8	3,616.3	3,657.3
<b>Total assets</b>	<b>7,105.3</b>	<b>7,843.2</b>	<b>8,283.4</b>	<b>9,067.1</b>
ST debt	252.0	1.0	1.0	31.6
Other current liabilities	1,662.1	2,156.2	2,128.1	2,370.3
LT debt	0.0	32.7	31.7	1.6
Other LT liabilities	136.8	130.1	137.9	117.8
Shareholders' equity	4,927.0	5,388.2	5,843.2	6,396.5
Minority interest	127.4	135.0	141.5	149.4
<b>Total liabilities &amp; equity</b>	<b>7,105.3</b>	<b>7,843.2</b>	<b>8,283.4</b>	<b>9,067.1</b>

**CASH FLOW**

Year to 31 Dec (Rmbm)	2018	2019	2020	2021
<b>Operating</b>	<b>339.0</b>	<b>480.6</b>	<b>643.3</b>	<b>817.4</b>
Pre-tax profit	567.8	635.4	679.7	786.9
Tax	(85.8)	(140.8)	(126.4)	(93.2)
Deprec. & amort.	81.3	101.2	113.6	117.8
Associates	(163.2)	(173.7)	(150.6)	(185.6)
Working capital changes	(128.5)	(29.9)	65.5	164.4
Non-cash items & other op	67.4	88.4	61.6	27.2
<b>Investing</b>	<b>401.8</b>	<b>(85.9)</b>	<b>101.8</b>	<b>(276.9)</b>
Capex	(175.8)	(205.6)	(189.2)	(156.9)
Investments	0.0	0.0	(1.0)	0.0
Others	577.6	119.7	292.0	(119.9)
<b>Financing</b>	<b>(260.8)</b>	<b>(370.4)</b>	<b>(237.3)</b>	<b>(244.7)</b>
Dividend payments	(153.0)	(168.3)	(230.8)	(230.9)
Net proceeds from borrowings	(82.0)	(223.1)	(1.1)	(1.4)
Others/interest paid	(25.9)	21.1	(5.4)	(12.4)
<b>Net cash inflow (outflow)</b>	<b>480.0</b>	<b>24.3</b>	<b>507.9</b>	<b>295.8</b>
Beginning cash & cash equivalent	975.1	1,455.1	1,479.4	1,987.3
Changes due to forex impact	0.0	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>1,455.1</b>	<b>1,479.4</b>	<b>1,987.3</b>	<b>2,283.2</b>

**KEY METRICS**

Year to 31 Dec (%)	2018	2019	2020	2021
<b>Profitability</b>				
EBITDA margin	8.2	8.7	9.6	9.9
Pre-tax margin	10.1	10.6	11.6	12.6
Net margin	8.7	8.9	10.0	11.1
ROA	8.3	8.5	8.4	9.1
ROE	11.8	12.1	11.8	12.6
<b>Growth</b>				
Turnover	11.8	10.0	(5.6)	4.6
EBITDA	30.8	17.1	4.5	7.9
Pre-tax profit	20.6	16.0	3.4	13.6
Net profit	17.6	12.8	5.8	16.2
EPS	17.7	11.0	6.2	16.3
<b>Leverage</b>				
Debt to total capital	4.7	0.6	0.5	0.5
Debt to equity	5.0	0.6	0.5	0.5
Net debt/(cash) to equity	(27.9)	(31.5)	(34.6)	(41.9)

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