

COMPANY UPDATE

Sino Biopharmaceutical (1177 HK)

Expects 1H23 Revenue To Be Flat From 1H22; Lowers 2023 Revenue Growth Guidance To Single Digits

Sino Biopharm expects 1H23 revenue to be flat yoy. The sluggish revenue growth was mainly due to: a) the COVID-19 outbreak significantly impacted the company's 1Q23 sales performance, and b) oncology products failed to maintain their sales momentum in 2Q23. The company has also lowered its yoy revenue growth guidance from double digits to single digits for 2023. Maintain HOLD with a lower target price of HK\$3.70.

WHAT'S NEW

- Sino Biopharmaceutical (Sino Biopharm) expects 1H23 revenue to be flat yoy, and has lowered its revenue growth target for 2023 from double digits to single digits.

STOCK IMPACT

- Expects 1H23 revenue to be flat yoy.** According to our channel check, Sino Biopharm may have experienced a decline in revenue in 1Q23 due to the impact of the COVID-19 outbreak. Anlotinib, in particular, registered a significant decrease in 1Q23. The gradual recovery in its business operations may lead to a mild increase in revenue growth in 2Q23, but is unlikely to support a double-digit sales expansion in 1H23. According to management, 1H23 revenue is likely to be flat yoy. Moreover, the company's blockbuster, Anlotinib, generated approximately Rmb4b in sales in 2022. In addition, with the approval for 1L SCLC for the combination therapy of Anlotinib + PD-L1 + chemo expected to only come in 1H24, Anlotinib is likely to see a mild increase in sales growth in 2023. Another key product, Annike (Penpulimab monoclonal antibody, co-developed with Akeso Inc. (9926 HK/NOT RATED), generated sales revenue of approximately Rmb500m in 2022), may also experience slower expansion in 2023 as the transfer of manufacturing agreement with Akeso Inc. has been slow. Hence, management has guided down domestic revenue and earnings yoy growths from double digits to single digits in 2023.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	26,861.4	28,780.4	30,240.2	33,332.2	36,744.3
EBITDA	5,114.8	6,881.4	7,188.2	8,076.1	9,035.2
Operating profit	4,191.8	5,861.3	6,112.1	6,916.4	7,744.0
Net profit (rep./act.)	14,608.4	2,543.6	2,636.6	2,993.1	3,359.6
Net profit (adj.)	2,564.8	2,986.3	3,136.6	3,493.1	3,859.6
EPS (Fen)	13.7	16.0	16.8	18.8	20.7
PE (x)	23.1	19.7	18.8	16.9	15.3
P/B (x)	2.0	2.0	1.9	1.9	1.8
EV/EBITDA (x)	12.8	9.5	9.1	8.1	7.3
Dividend yield (%)	2.2	3.3	3.3	3.3	3.3
Net margin (%)	54.4	8.8	8.7	9.0	9.1
Net debt/(cash) to equity (%)	(8.8)	1.8	(13.3)	(18.6)	(30.1)
Interest cover (x)	16.6	15.7	14.1	16.5	19.2
ROE (%)	62.1	8.5	8.8	9.7	10.5
Consensus net profit	-	-	3,444	4,060	4,362
UOBKH/Consensus (x)	-	-	0.91	0.86	0.88

Source: Sino Biopharm, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	HK\$3.43
Target Price	HK\$3.70
Upside	+8.0%
(Previous TP)	HK\$4.80)

COMPANY DESCRIPTION

Sino Biopharmaceutical is a leading pharmaceutical provider in China. It offers a broad range of drugs in the therapeutic areas of cardio cerebral vascular diseases, hepatitis, oncology, analgesic, respiratory, and diabetic medicines etc.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	1177 HK
Shares issued (m):	18,801.2
Market cap (HK\$m):	64,488.2
Market cap (US\$m):	8,254.3
3-mth avg daily t'over (US\$m):	16.9

Price Performance (%)

52-week high/low HK\$4.99/HK\$3.33

1mth	3mth	6mth	1yr	YTD
3.0	(22.4)	(29.1)	(27.2)	(24.9)

Major Shareholders

	%
Tse Family	41.4
FY23 NAV/Share (HK\$)	1.63
FY23 Net Cash/Share (HK\$)	0.22

PRICE CHART



Source: Bloomberg

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- Started consolidating financials of F-Star in Mar 23.** On 8 Mar 23, the company completed the acquisition of all the issued and outstanding shares of F-star Therapeutics, Inc. (F-star, a clinical-stage biotech firm pioneering bispecifics in immunotherapy) for a total consideration of US\$161m. Sino Biopharm expects the acquisition to strengthen its oncology franchise and pipeline, build an integrated biologics platform, and accelerate the clinical development of its global multi-centre trials. With its strength in bispecific development, F-star has generated licensing income from collaborating with various global partners on R&D of bispecifics. It reported revenue of US\$3.68m and net loss of US\$49.49m in 9M22. Since Mar 23, F-star has entered the second and third licence agreement with Takeda on its proprietary fully-human FcabTM and tetravalent mAb²TM platforms to research and develop next-generation multi-specific immunotherapies for patients with cancer, which will bring F-star an undisclosed upfront payment and potential future milestone payments of up to approximately US\$1b. Given considerably high R&D expenses, we believe the consolidation of F-star will bring substantial disruption for Sino Biopharmaceutical's financial performance in the next few years. Management states that it is streamlining the pipeline and expects F-star to achieve cash flow breakeven 2024. We have not included F-star's financials in our forecasts given the unclear allocation of upfront and milestone payments in the next few years.

- Innovative product launches well on track.** The company has launched an increasing number of innovative products to the market, and innovative products are expected to contribute around 30%/35%/40% of total revenue in 2023/24/25, respectively. It obtained Annike (Penpulimab monoclonal antibody) injection's new indication approval for the treatment of first-line locally advanced or metastatic squamous non-small cell lung cancer (NSCLC) with chemotherapy in Jan 23. F-627 (Yilishu, 億立舒, Efbemalenograstim alpha) is a new generation of long-acting granulocyte colony-stimulation factor (G-CSF) that stimulates the proliferation and differentiation of neutrophil precursors, preventing the side effects of chemotherapy-induced neutropenia in cancer patients and avoiding the resultant reduction in the dose of chemotherapy drugs or delay in their administration, which may affect the effectiveness of tumour treatment. Yilishu received market approval in China in May 23 and is expected to generate sales revenue of Rmb400m in 2023. TQB2450 (Anti-PD-L1 mAb), has initiated several head-to-head studies in China, including the Phase III clinical trials of TQB2450 combined with Anlotinib in treating first-line SCLC vs Keytruda used alone. Sino Biopharm expects TQB2450 to become one of the important complementary products to Anlotinib in 1H24.

- Actively engages in BD opportunities to enrich pipeline.** Besides focusing primarily on in-housing R&D, the company also actively engages in business development opportunities by targeting to licence 10-15 products in three years, to further enrich its pipeline with potential first-in-class and best-in-class drug candidates. It targets to complete five BD projects in 2023 and has completed three ytd, including: a) it has entered into an exclusive commercial cooperation agreement with Jiangsu ProteLight Pharmaceutical & Biotechnology Co., Ltd. for PL-5, an antimicrobial peptide product for the treatment of secondary wound infections, in China; b) It has obtained the exclusive commercialisation right from Boan Biotechnology Co., Ltd. for Denosumab Injection (Boyoubai, a human immunoglobulin G2 monoclonal antibody of the RANK ligand) in Mainland China; and c) It has also formed a partnership with Gmax Biopharm International Ltd. and obtained greater China rights to develop and commercialise the obesity candidate GMA-106.

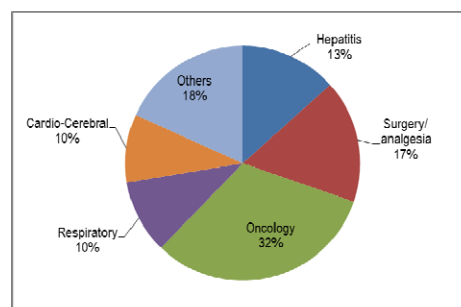
EARNINGS REVISION/RISK

- We lower our revenue growth assumptions from 13.1% yoy to 5.1% yoy for 2023 to reflect the company's lower revenue growth guidance.
- Risks include: a) possible failure in R&D and new product launches; and b) intensifying market competition.

VALUATION/RECOMMENDATION

- **Maintain HOLD and target price of HK\$3.70**, based on SOTP valuation, comprising: a) HK\$1.72/share at 9x 2023F PE for existing drugs, and b) NAV-derived pipeline value of HK\$1.98/share (10.1% WACC, 3.5% perpetual growth rate).

2022 REVENUE BY SEGMENT



Source: Sino Biopharm, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	28,780.4	30,240.2	33,332.2	36,744.3
EBITDA	6,881.4	7,188.2	8,076.1	9,035.2
Deprec. & amort.	1,020.1	1,076.1	1,159.7	1,291.3
EBIT	5,861.3	6,112.1	6,916.4	7,744.0
Total other non-operating income	509.3	500.0	500.0	500.0
Associate contributions	(153.0)	0.0	0.0	0.0
Net interest income/(expense)	(439.1)	(511.5)	(490.9)	(470.3)
Pre-tax profit	5,778.6	6,100.7	6,925.5	7,773.6
Tax	(776.0)	(915.1)	(1,038.8)	(1,166.0)
Minorities	(2,459.0)	(2,549.0)	(2,893.6)	(3,248.0)
Net profit	2,543.6	2,636.6	2,993.1	3,359.6
Net profit (adj.)	2,986.3	3,136.6	3,493.1	3,859.6

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	6,988.8	9,514.5	6,961.4	9,505.3
Pre-tax profit	5,778.6	6,100.7	6,925.5	7,773.6
Tax	(989.8)	(837.3)	(969.6)	(1,094.9)
Deprec. & amort.	1,020.1	1,076.1	1,159.7	1,291.3
Associates	0.0	0.0	0.0	0.0
Working capital changes	943.2	2,865.9	(442.7)	1,267.3
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	236.7	309.1	288.5	268.0
Investing	(2,224.6)	(1,927.4)	(2,124.7)	(2,342.4)
Capex (growth)	(2,036.6)	(2,129.7)	(2,327.1)	(2,544.8)
Investments	(292.7)	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	104.7	202.4	202.4	202.4
Financing	(4,739.1)	(3,402.5)	(3,452.9)	(3,505.3)
Dividend payments	(2,472.6)	(2,491.1)	(2,562.0)	(2,634.9)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(1,827.5)	(400.0)	(400.0)	(400.0)
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(439.1)	(511.5)	(490.9)	(470.3)
Net cash inflow (outflow)	25.2	4,184.6	1,383.9	3,657.6
Beginning cash & cash equivalent	9,599.5	9,624.7	13,809.3	15,193.2
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	9,624.7	13,809.3	15,193.2	18,850.7

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	8,480.3	9,421.1	10,482.3	11,636.1
Other LT assets	29,649.0	29,852.5	30,039.1	30,221.7
Cash/ST investment	9,624.7	13,809.3	15,193.2	18,850.7
Other current assets	16,310.2	13,723.7	15,592.1	15,151.8
Total assets	64,064.3	66,806.6	71,306.8	75,860.4
ST debt	6,217.2	6,017.2	5,817.2	5,617.2
Other current liabilities	13,933.5	14,203.7	15,590.5	16,362.8
LT debt	3,933.9	3,733.9	3,533.9	3,333.9
Other LT liabilities	2,036.2	2,213.8	2,402.5	2,611.2
Shareholders' equity	29,747.0	30,417.1	31,443.7	32,836.8
Minority interest	8,196.5	10,220.9	12,519.0	15,098.6
Total liabilities & equity	64,064.3	66,806.6	71,306.8	75,860.4

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	23.9	23.8	24.2	24.6
Pre-tax margin	20.1	20.2	20.8	21.2
Net margin	8.8	8.7	9.0	9.1
ROA	4.1	4.0	4.3	4.6
ROE	8.5	8.8	9.7	10.5
Growth				
Turnover	7.1	5.1	10.2	10.2
EBITDA	34.5	4.5	12.4	11.9
Pre-tax profit	(68.9)	5.6	13.5	12.2
Net profit	(82.6)	3.7	13.5	12.2
Net profit (adj.)	16.4	5.0	11.4	10.5
EPS	17.4	5.0	11.4	10.5
Leverage				
Debt to total capital	21.1	19.4	17.5	15.7
Debt to equity	34.1	32.1	29.7	27.3
Net debt/(cash) to equity	1.8	(13.3)	(18.6)	(30.1)
Interest cover (x)	15.7	14.1	16.5	19.2

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