

COMPANY RESULTS

Sino Biopharmaceutical (1177 HK)

1H23: Revenue And Adjusted Earnings Flat; Maintain Positive Revenue Growth Guidance For 2023

Sino Biopharm posted slow 1H23 revenue growth of 0.5% yoy, and adjusted net earnings rose by 1.2% yoy, due to the significant impact from the unprecedented COVID-19 outbreak in 1Q23. Management maintains its guidance of positive revenue growth for 2023. The challenging business environment may cloud the revenue growth outlook of the company in the short term. Maintain HOLD with a lower target price of HK\$3.00.

1H23 RESULTS

Year to 31 Dec (Rmbm)	1H22	1H23	yoy %
Revenue	15,194	15,277	0.5%
Hepatitis	2,009	2,289	14.0%
Surgery/analgesia	2,521	2,332	-7.5%
Oncology	4,957	4,492	-9.4%
Respiratory system	1,513	1,682	11.2%
Gross profit	12,234	12,021	-1.7%
Selling expense	(5,752)	(5,382)	-6.4%
G&A expense	(1,182)	(1,062)	-10.2%
R&D expense	(2,049)	(2,357)	15.1%
EBIT	3,161	3,125	-1.1%
Finance expense	(169)	(304)	79.7%
Share of profits and losses of associates/JVs	503	(219)	-143.6%
Income tax	(571)	(525)	-8.2%
Net profit to shareholders	1,921	1,259	-34.5%
Adj. net profit to shareholders	1,460	1,477	1.2%
Adjusted EPS	0.08	0.08	1.7%
Ratios (%)	1H22	1H23	ppt
GP margin %	80.5%	78.7%	(1.8)
Selling expense as % of revenue	37.9%	35.2%	(2.6)
G&A expense as % of revenue	7.8%	7.0%	(0.8)
R&D expense as % of revenue	13.5%	15.4%	1.9
OP margin %	20.8%	20.5%	(0.3)
Net profit margin%	12.6%	8.2%	(4.4)
Adj. net profit margin%	9.6%	9.7%	0.1

Source: Sino Biopharm, UOB Kay Hian

RESULTS

- 1H23 revenue and earnings growth within expectations. Sino Biopharmaceutical (Sino Biopharm) reported revenue of Rmb15.28b in 1H23, up 0.5% yoy. Adjusted net profit attributable to shareholders rose 1.2% yoy to Rmb1.48b in 1H23. The results are in line with our estimates but lower than consensus' 2023 full-year revenue and adjusted earnings growth estimates of 10.2% yoy and 30.8% yoy, respectively. Sino Biopharm declared an interim dividend of 2 HK cents/share for 1H23.

KEY FINANCIALS

Year to 31 Dec (Rmbm)	2021	2022	2023F	2024F	2025F
Net turnover	26,861.4	28,780.4	29,318.3	31,848.4	34,619.7
EBITDA	5,114.8	6,881.4	6,353.4	6,886.0	7,505.9
Operating profit	4,191.8	5,861.3	5,277.3	5,732.7	6,231.5
Net profit (rep./act.)	14,608.4	2,543.6	2,525.7	2,765.3	2,989.8
Net profit (adj.)	2,564.8	2,986.3	3,025.7	3,265.3	3,489.8
EPS (Fen)	13.7	16.0	16.2	17.5	18.7
PE (x)	20.5	17.4	17.2	16.0	14.9
P/B (x)	1.7	1.8	1.7	1.7	1.6
EV/EBITDA (x)	12.3	9.1	9.9	9.1	8.4
Dividend yield (%)	2.5	3.8	3.8	3.8	3.8
Net margin (%)	54.4	8.8	8.6	8.7	8.6
Net debt/(cash) to equity (%)	(8.8)	5.0	(0.2)	(8.7)	(14.4)
Interest cover (x)	16.6	15.7	14.7	20.6	23.9
ROE (%)	62.1	8.5	8.4	9.0	9.5
Consensus net profit	-	-	3,326	3,917	4,298
UOBKH/Consensus (x)	-	-	0.91	0.83	0.81

Source: Sino Biopharm, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	HK\$3.01
Target Price	HK\$3.00
Upside	-0.2%
(Previous TP)	HK\$3.70

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

GLCS sector	Health Care
Bloomberg ticker:	1177 HK
Shares issued (m):	18,801.2
Market cap (HK\$m):	56,591.7
Market cap (US\$m):	7,215.5
3-mth avg daily t'over (US\$m):	19.4

Price Performance (%)

Price Performance (%)				
52-week high/low HK\$4.99/HK\$2.95				
1mth	3mth	6mth	1yr	YTD
(14.2)	(22.4)	(26.9)	(28.0)	(34.1)

Major Shareholders

Tse Family	41.4
FY23 NAV/Share (HK\$)	1.63
FY23 Net Cash/Share (HK\$)	0.00

PRICE CHART



Source: Bloomberg

ANALYST(S)

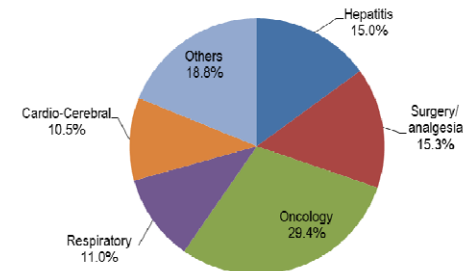
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STOCK IMPACT

- Revenue was flat in 1H23.** The company posted total revenue of Rmb15.28b in 1H23, up merely 0.5% yoy. Oncology drugs reported a revenue decline of 9.4% yoy to reach Rmb4.49b in 1H23. Hepatitis drugs saw revenue rise 14.0% yoy to Rmb2.29b. Revenue of surgery/analgesia medicines decreased 7.5% yoy to Rmb2.33b in 1H23. Revenue of respiratory system drugs rose by 11.2% yoy to Rmb1.68b in 1H23. Cardio-cerebral drugs and other products saw revenue increase by 3.2% yoy and 9.0% yoy respectively. According to management, the relatively slow revenue growth was mainly due to the significant impact from the COVID-19 outbreak, especially in 1Q23. Innovative drugs brought in approximately Rmb3.86b or 25.3% of total revenue in 1H23, up from Rmb3.49b or 22.9% in 1H22. According to management, revenue surged over 30% yoy in 2Q23 as the business environment in China returned to normal after the COVID-19 outbreak in 1Q23.
- Operating efficiency.** Gross margin stood at 78.7% in 1H23, down by 1.8ppt from 80.5% in 1H22. Selling expense-to-sales ratio declined further by 2.6ppt yoy to 35.2% and G&A-to-sales ratio decreased 0.8ppt yoy to 7.0%, reflecting an improved efficiency of SG&A resources. Its increasing efforts in new product innovation resulted in R&D expenses rising by 15.1% yoy, which led to a 1.9 ppt increase in R&D-to-sales ratio to 15.4% in 1H23. As a result, operating margin decreased by 0.3ppt to 20.5%. Adjusted net margin rose 0.1ppt to 9.7% in 1H23.
- Challenging business environment to cloud revenue growth outlook in 2023.** Management targets a positive growth in revenue in 2023. We attribute the weak outlook for 2023 to the challenging market conditions given the anti-corruption campaign has slowed down academic promotion activities of the industry. Moreover, management expects further improvement in operating efficiency by enhancing cost control efforts on marketing and sales activities. In addition, the company will continue to increase investment in R&D, and expects to further raise the R&D/revenue ratio from 15.4% in 1H23 to 19% in 2023.
- Expects to launch three innovative products in 1H23.** The company currently has 46 innovative drug candidates in R&D pipeline and plans to launch eight innovative products during 2023-25. Among them, **Annikie** (Penpulimab monoclonal antibody) injection has been granted new indication approval for the treatment of first-line locally advanced or metastatic squamous non-small cell lung cancer (NSCLC) with chemotherapy. F-627 (Efemalenograstim alpha, long-acting G-CSF), is currently the only G-CSF drug on the market that has conducted simultaneous head-to-head research with both short-acting and long-acting G-CSF in large sample sizes. It has completed Phase III trials and submitted marketing applications in China and the US, and expected to receive market approval in China in 2023. **TQB2450** (Anti-PD-L1), has initiated several head-to-head studies in China, including the Phase III clinical trials of TQB2450 combined with Anlotinib in treating first-line NSCLC vs Keytruda used alone. Sino Biopharm expects TQB2450 to become one of the important complementary products to Anlotinib.
- Significant achievement in business development.** It has made significant achievement in business development (BD). It completed seven BD projects in 1H23, including two license-out projects, four license-in projects and one acquisition (F-Star).

1H23 REVENUE BY SEGMENT



Source: Sino Biopharm, UOB Kay Hian

EARNINGS REVISION/RISK

- We lower our revenue growth assumption from 5.1% yoy to 1.9% yoy for 2023 to reflect the company's weak revenue growth outlook in 2023.
- Risks include: a) worse-than-expected impact from the anti-corruption campaign, b) possible failure in R&D and new product launches; and c) intensifying market competition.

VALUATION/RECOMMENDATION

- Maintain HOLD with a lower target price of HK\$3.00**, based on SOTP valuation, comprising: a) HK\$1.10/share at 6x 2024F PE for existing drugs, and b) NAV-derived pipeline value of HK\$1.90/share (11.1% WACC, 3.5% perpetual growth rate).

PROFIT & LOSS

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Net turnover	28,780.4	29,318.3	31,848.4	34,619.7
EBITDA	6,881.4	6,353.4	6,886.0	7,505.9
Deprec. & amort.	1,020.1	1,076.1	1,153.2	1,274.4
EBIT	5,861.3	5,277.3	5,732.7	6,231.5
Total other non-operating income	509.3	1,000.0	1,000.0	1,000.0
Associate contributions	(153.0)	0.0	0.0	0.0
Net interest income/(expense)	(439.1)	(433.1)	(334.2)	(313.7)
Pre-tax profit	5,778.6	5,844.2	6,398.5	6,917.9
Tax	(776.0)	(876.6)	(959.8)	(1,037.7)
Minorities	(2,459.0)	(2,441.8)	(2,673.4)	(2,890.4)
Net profit	2,543.6	2,525.7	2,765.3	2,989.8
Net profit (adj.)	2,986.3	3,025.7	3,265.3	3,489.8

BALANCE SHEET

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Fixed assets	8,480.3	9,362.3	10,335.3	11,370.4
Other LT assets	29,649.0	29,827.4	29,987.7	30,138.1
Cash/ST investment	8,654.8	6,759.3	9,015.4	10,537.8
Other current assets	17,280.1	16,956.0	17,412.8	18,436.8
Total assets	64,064.3	62,904.9	66,751.2	70,483.1
ST debt	6,217.2	6,017.2	5,817.2	5,617.2
Other current liabilities	13,933.5	14,155.6	15,375.3	16,083.3
LT debt	3,933.9	685.6	485.6	285.6
Other LT liabilities	2,036.2	1,604.5	1,709.0	1,814.1
Shareholders' equity	29,747.0	30,306.3	31,105.1	32,128.3
Minority interest	8,196.5	10,135.8	12,259.0	14,554.6
Total liabilities & equity	64,064.3	62,904.9	66,751.2	70,483.1

CASH FLOW

Year to 31 Dec (Rmbm)	2022	2023F	2024F	2025F
Operating	6,265.2	6,323.4	7,537.0	7,004.3
Pre-tax profit	5,778.6	5,844.2	6,398.5	6,917.9
Tax	(989.8)	(1,136.5)	(943.3)	(1,022.2)
Deprec. & amort.	1,020.1	1,076.1	1,153.2	1,274.4
Associates	0.0	0.0	0.0	0.0
Working capital changes	943.2	308.9	796.7	(277.1)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(487.0)	230.7	131.8	111.3
Investing	(4,070.8)	(1,868.5)	(2,030.0)	(2,206.8)
Capex (growth)	(2,036.6)	(2,070.9)	(2,232.4)	(2,409.2)
Investments	(292.7)	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(1,741.5)	202.4	202.4	202.4
Financing	(3,186.4)	(6,350.4)	(3,250.9)	(3,275.0)
Dividend payments	(2,472.6)	(2,469.0)	(2,516.7)	(2,561.3)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(1,827.5)	(3,448.2)	(400.0)	(400.0)
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	1,113.7	(433.1)	(334.2)	(313.7)
Net cash inflow (outflow)	(992.1)	(1,895.5)	2,256.1	1,522.4
Beginning cash & cash equivalent	9,599.5	8,654.8	6,759.3	9,015.4
Changes due to forex impact	47.3	0.0	0.0	0.0
Ending cash & cash equivalent	8,654.8	6,759.3	9,015.4	10,537.8

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	23.9	21.7	21.6	21.7
Pre-tax margin	20.1	19.9	20.1	20.0
Net margin	8.8	8.6	8.7	8.6
ROA	4.1	4.0	4.3	4.4
ROE	8.5	8.4	9.0	9.5
Growth				
Turnover	7.1	1.9	8.6	8.7
EBITDA	34.5	(7.7)	8.4	9.0
Pre-tax profit	(68.9)	1.1	9.5	8.1
Net profit	(82.6)	(0.7)	9.5	8.1
Net profit (adj.)	16.4	1.3	7.9	6.9
EPS	17.4	1.3	7.9	6.9
Leverage				
Debt to total capital	21.1	14.2	12.7	11.2
Debt to equity	34.1	22.1	20.3	18.4
Net debt/(cash) to equity	5.0	(0.2)	(8.7)	(14.4)
Interest cover (x)	15.7	14.7	20.6	23.9

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