

Company Report: Sihuan Pharmaceutical (00460 HK)

公司报告: 四环医药 (00460 HK)

Kay Mai 麦梓琪
(86755) 2397 6685
maiziqi@gtjas.com
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Corporate Reform Will Amplify Value, "Accumulate"

公司改革将提升价值, “收集”

- **1H2020 results missed.** 1H2020 revenue of Sihuan Pharma was down by 36.4% YoY to RMB1,055 mn. Revenue from CCV products decreased YoY by 58.0% to RMB610 mn, tied down by the COVID-19 pandemic and the cancelation of reimbursement qualification of key products by basic medical insurance. Revenue from non-CCV products surged YoY by 114.6% to RMB445 mn, attributable to an increase in hospital coverage of growth-stage products. The Company recorded shareholders' profit of RMB170 mn in 1H2020, whose margin reached 16.2%, lower than the historical average of around 50%, due to 1) a fall in gross profit margin due to decreasing sales from CCV products, enjoying higher margin than others; 2) increasing investment in R&D; and 3) continuing efforts in expanding market share.
- **Corporate reform is expected to amplify corporate value.** Multiple functional business units have been formed by dividing the Company through integrating R&D, production, clinical development and marketing to facilitate operating efficiency. Moreover, M&As, spinoffs, integration, investments, partnerships, and in-licensing are expected to be adopted to enrich R&D pipeline, optimize APIs, advance production process and thereby enhance independent operation and market competitiveness of each unit.
- Trim down EPS projections for 2020-2022 to RMB0.058/ RMB0.063/ RMB0.077, respectively, primarily to factor in larger-than-expected decrease in gross profit margin and increase in operating expenses. However, **we maintain TP of HK\$1.15, which represents 18.1x/ 16.5x 2020 PER/ 2021 PER, and investment rating of "Accumulate", with potential M&As, spinoffs and other capital operations.**
- **2020年上半年业绩差于预期。**四环医药2020年上半年收入同比下降36.4%至人民币10.55亿元。心脑血管产品收入同比下降58.0%至人民币6.10亿元,皆因受到新冠肺炎疫情和重磅产品被取消基本医疗保险报销资格的影响。非心脑血管产品的收入同比激增114.6%至人民币4.45亿元,归因于成长期产品的医院覆盖率增加。公司于2020年上半年实现股东利润人民币1.7亿元,利润率达到16.2%,低于50%左右的历史平均水平,主要原因是:1)拥有相对其他品种较高利润率的心脑血管产品销量下降导致毛利率下滑;2)研发投入加大;以及3)持续投入扩大市场份额。
- **公司改革有望提升公司价值。**通过整合研发、生产、临床开发、营销,公司将其划分为多个业务单位以提高运营效率。此外,公司还将通过并购、分拆、整合、投资、合作、引入等方式丰富研发渠道、优化原料药、升级生产流程以增强各单位的独立运作以及市场竞争能力。
- 下调2020-2022年每股净利预测至人民币0.058元/人民币0.063元/人民币0.077元,主要考虑到毛利率降幅以及营运费用升幅超过预期。然而,我们维持1.15港元的目标价(对应18.1倍2020年以及16.5倍2021年市盈率)以及“收集”的投资评级不变,以反映潜在的并购、分拆和其他资本操作。

Rating:

Accumulate

Maintained

评级:

收集 (维持)

6-18m TP 目标价:

HK\$1.15

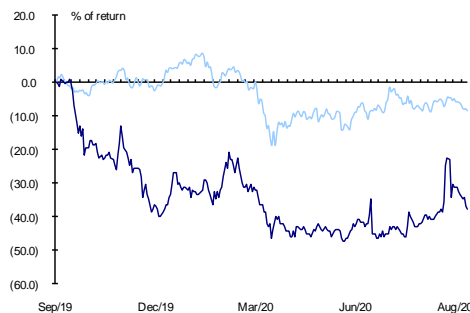
HK\$1.15

Share price 股价:

HK\$0.850

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. %	4.9	22.5	(28.5)
绝对变动 %			
Rel. % to HS Index	4.6	24.8	(20.2)
相对恒指变动 %			
Avg. Share price(HK\$)	0.9	0.8	0.9
平均股价 (港元)			

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2018A	2,917	1,620	0.171	11.8	4.4	1.321	0.6	0.017	2.3	13.7
2019A	2,887	(2,753)	(0.291)	(270.2)	(2.6)	1.015	0.7	0.123	16.2	(24.9)
2020F	2,284	547	0.058	n.a.	12.9	0.937	0.8	0.046	6.1	5.9
2021F	2,857	599	0.063	8.6	11.9	0.959	0.8	0.032	4.3	6.7
2022F	3,494	730	0.077	22.2	9.7	1.002	0.7	0.039	5.2	7.9
Shares in issue (m) 总股数 (m)				9,465.7	Major shareholder 大股东				Dr. Che Fengsheng 63.3%	
Market cap. (HK\$ m) 市值 (HK\$ m)				8,045.8	Free float (%) 自由流通比率(%)				36.7	
3 month average vol. 3 个月平均成交股数('000)				25,901.8	FY20 Net gearing (%) FY20 净负债/股东资金 (%)				Net cash	
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				1.215 / 0.616	FY20 Est. NAV (HK\$) FY20 每股估值 (港元)				1.2	

Source: the Company, Guotai Junan International.

1H2020 results missed. 1H2020 revenue of Sihuan Pharma (the "Company") was down by 36.4% YoY to RMB1,055 mn. The Company recorded shareholders' profit of RMB170 mn in 1H2020, whose margin reached 16.2%, lower than the historical average of around 50%, due to 1) gross profit margin falling YoY by 7.8 pts induced by decreased sales of CCV drugs which had better profit margin; 2) R&D expenses increasing 20.5% YoY, representing 28.5% of revenue (up 13.5 pts YoY); and 3) S&D expenses increasing 13.5% YoY, representing 12.9% of revenue (up 5.7 pts YoY), mainly due to continuing efforts in expanding and developing market share. The Company declared interim cash dividend of RMB0.1 cents per share and a special cash dividend of RMB3.0 cents per share.

Non-CCV products continued to deliver robust sales growth while CCV products remained affected by policies despite the effects of the COVID-19 pandemic. Revenue from CCV products decreased YoY by 58.0% to RMB610 mn and accounted for 57.8% of the Company's total revenue (down 29.4 pts YoY), tied down by a decrease in hospital visits triggered by control and prevention measures for the COVID-19 pandemic and the implementation of new rules of basic medical insurance in which provinces were asked to kick out products in the Key Monitoring Drug List (KMDL) from their reimbursement drug lists (RDL) in three years. Revenue from non-CCV products surged YoY by 114.6% to RMB445 mn and accounted for 42.2% of the Company's total revenue (up 29.4 pts YoY), attributable to an increase in hospital coverage of growth-stage products.

As at 30 June 2020, if final dividend payable for the year 2019 is excluded, the Company had net cash of approximately RMB3,256 million, down by 22.5% YoY; adjusted gearing (debt-to-shareholders' equity) ratio is 6.6%, up 6.6 pts YoY, and adjusted liabilities to assets ratio is 25.4%, up 3.4 pts YoY, indicating that **financial position remained healthy**.

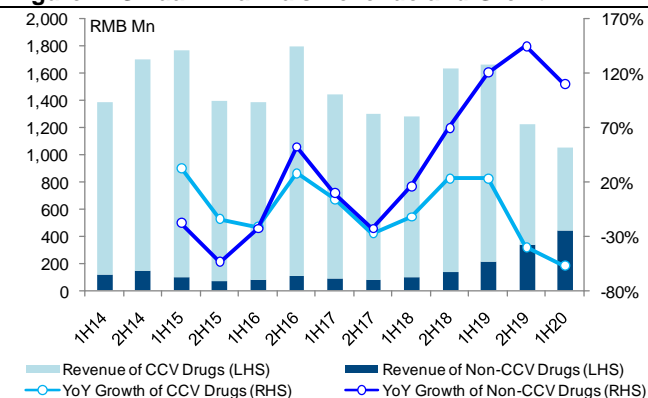
Table-1: Sihuan Pharma's 1H2020 Results Review

RMB million	1H2019	1H2020	YoY
Revenue	1,662	1,055	(36.6%)
- CCV portfolio	1,450	610	(58.0%)
---Kelinao/Anjieli	153	11	(93.0%)
---Quao/Ruiqituofen	12	7	(38.6%)
---Aogan/Xiangtong	93	36	(61.5%)
---Oudimei/Aofutai/Weitong/Jielixin*	518	154	(70.2%)
---Yuanzhijiu/Xingwei/Xinshengtong*	312	91	(70.8%)
---Yimaining/Yikangning	64	9	(85.2%)
---Yeduoqia*	40	54	37.4%
---Wei'ao	162	52	(67.9%)
---Mainuokang*	29	58	98.2%
---Nicotinamide injection	40	116	187.2%
- Non-CCV portfolio	212	445	109.9%
---Renao	9	19	104.5%
---Jieao	63	70	11.3%
---Huineng*	38	89	137.3%
---Xinnuoao	8	4	(44.5%)
---Shucheng	26	57	116.2%
---Weiaoqi	0	8	n.a.
---Diprophylline for injection	8	22	162.6%
Gross profit	1,368	786	(42.5%)
Distribution costs	(120)	(137)	13.5%
Administrative expenses	(228)	(212)	(6.9%)
R&D expenses	(250)	(301)	20.5%
Operating profit	(1,717)	315	(118.4%)
Finance costs	(3)	(2)	(37.0%)
Share of profit of associates&JV	(7)	(11)	61.1%
Profit before tax	(1,727)	302	(117.5%)
Taxation	(237)	(133)	(43.8%)
Profit after tax	(1,964)	169	(108.6%)
Shareholder's profit	(2,020)	170	(108.4%)
Basic EPS (cent)	-21.33	1.80	(108.4%)
Adjusted operating profit	1,127	315	(72.0%)
Adjusted PAT	880	169	(80.8%)
Adjusted net profit	824	170	(79.3%)
Gross margin	82.3%	74.5%	-7.8 pts
Operating margin	(103.3%)	29.9%	133.2 pts
PAT margin	(118.2%)	16.0%	134.2 pts
Net margin	(121.5%)	16.2%	137.7 pts
Adjusted operating margin	67.8%	29.9%	-37.9 pts
Adjusted PAT margin	52.9%	16.0%	-36.9 pts
Adjusted net margin	49.6%	16.2%	-33.4 pts

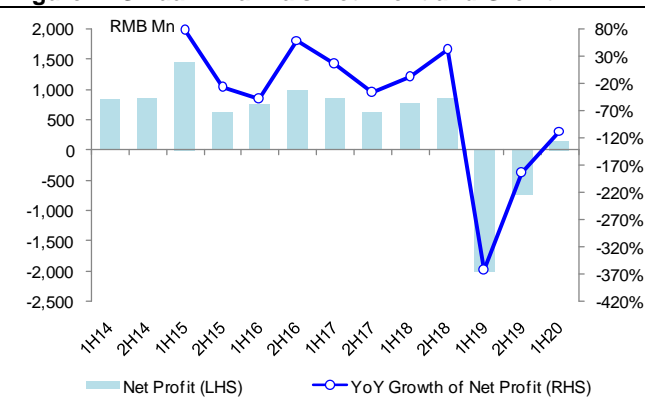
Source: the Company, Guotai Junan International.

Note 1: * = product exclusive to Sihuan Pharma.

Note 2: Adjusted figures exclude one-off impairment losses on goodwill, intangible assets, investments accounted for using the equity method, and PPE.

Figure-1: Sihuan Pharma's Revenue and Growth


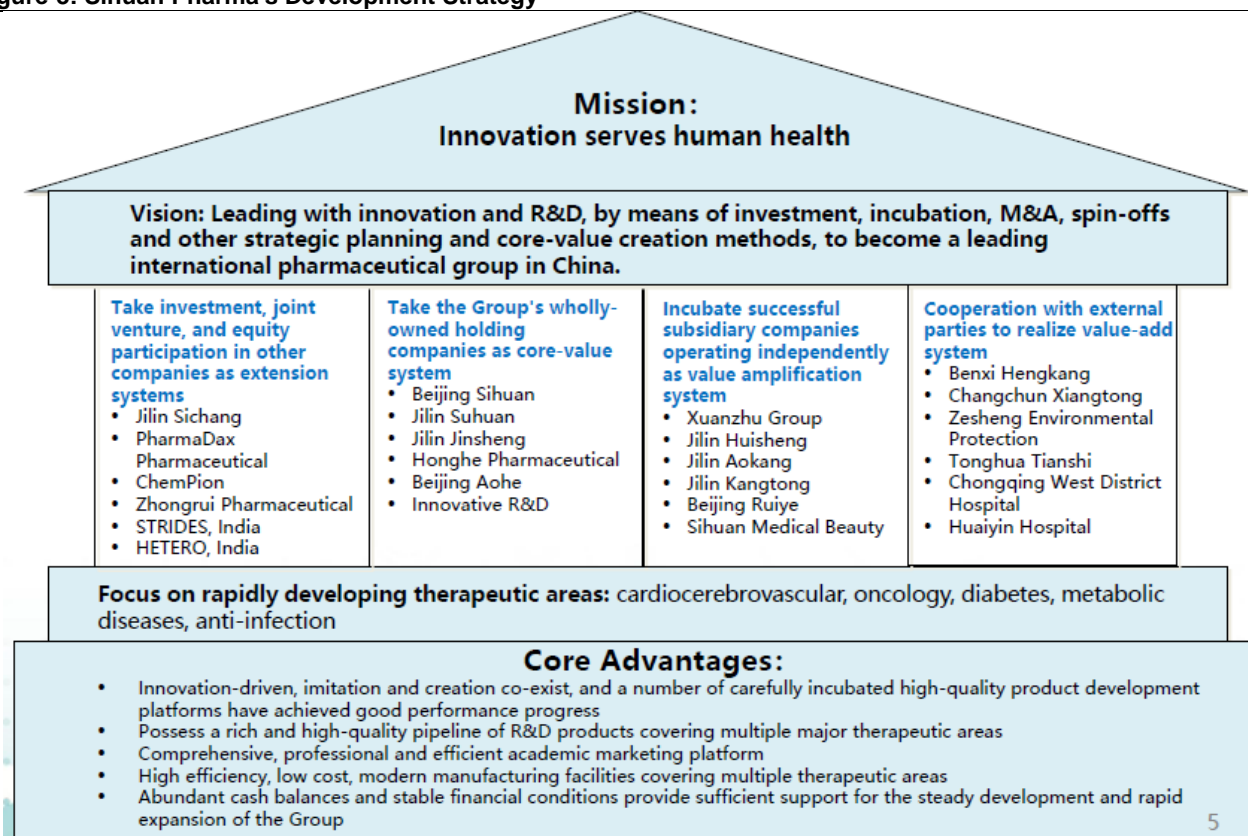
Source: the Company, Guotai Junan International.

Figure-2: Sihuan Pharma's Net Profit and Growth


Source: the Company, Guotai Junan International.

Profit is expected to rebound starting from 2H2020 on numerous positive factors: 1) Marginal impact of the removal of CCV products of in the KMDL from provincial RDL is expected to decrease starting from 2H2020; 2) the efficacy of cinepazide maleate injection (Kelinao) for the treatment of acute ischemic stroke was proven by large-scale clinical verification research with 1,301 patients enrolled, and Kelinao is expected to get NDA approval for this indication and achieve sales recovery in 2021. 3) Five products namely Mainuokang, Jieao, Yeduojia, midazolam oromucosal solution and ibuprofen injection are expected to seek new opportunities in the new round of national RDL adjustment; 4) the Company has 42 products pending production approval, which are expected to launch into the market in the next few years, and levetiracetam concentrated solution for injection, ticagrelor tablet, clopidogrel hydrogen sulphate tablet, gabapentin capsule, caspofungin acetate for injection, rivaroxaban tablet, and moxifloxacin hydrochloride sodium chloride injection are expected to obtain production approval in 2020; and 5) as for innovative pipeline, we expect insulin aspart injection and janagliflozin to get production approval in 2022, with over RMB1,000 million in peak sales potential, followed by anaprazole, birociclib and insulin degludec injection.

Corporate reform is expected to amplify corporate value. Multiple functional business units have been formed by dividing the Company through integrating R&D, production, clinical development and marketing to facilitate operating efficiency. The core of Sihuan Pharma's development is six production bases (including Jilin Sihuan, Beijing Sihuan, Jilin Jinsheng, Jilin Huisheng, Jilin Kangtong and Jilin Aokang) and three independent R&D platforms: 1) Xuanzhu Biopharmaceutical, spun off in 1H2020, is an independent R&D platform of innovative drugs equipped with technique introduced from Europe and the US, focusing both large and small molecules in the research field of oncology, metabolic diseases, and anti-infective field, etc.; It had 18 projects under research and 7 projects in clinical trial stages; 2) Jilin Huisheng Biological, a biopharmaceutical R&D center, is committed to building a full product-line platform in the field of diabetes, covering products from biosimilar insulin products to oral preparations and compound preparations; Current research products include 13 insulin and its analogs and GLP-1 analogs; It is actively introducing other varieties and plans to become an independent spinoff and get listed in the future; and 3) Beijing Aohe Research Institute, a generic drug R&D center which has very mature technology looking for varieties with high-tech barriers in APIs, dosage forms, and preparation processes in key therapeutic areas for R&D process; It had 103 projects under research and 42 projects which has been submitted to ANDA. Moreover, M&As, spinoffs, integration, investments, partnerships, and in-licensing are expected to be adopted to enrich R&D pipeline, optimize APIs, advance production process and thereby enhance independent operation and market competitiveness of each unit.

Figure-3: Sihuan Pharma's Development Strategy


Source: the Company, Guotai Junan International.

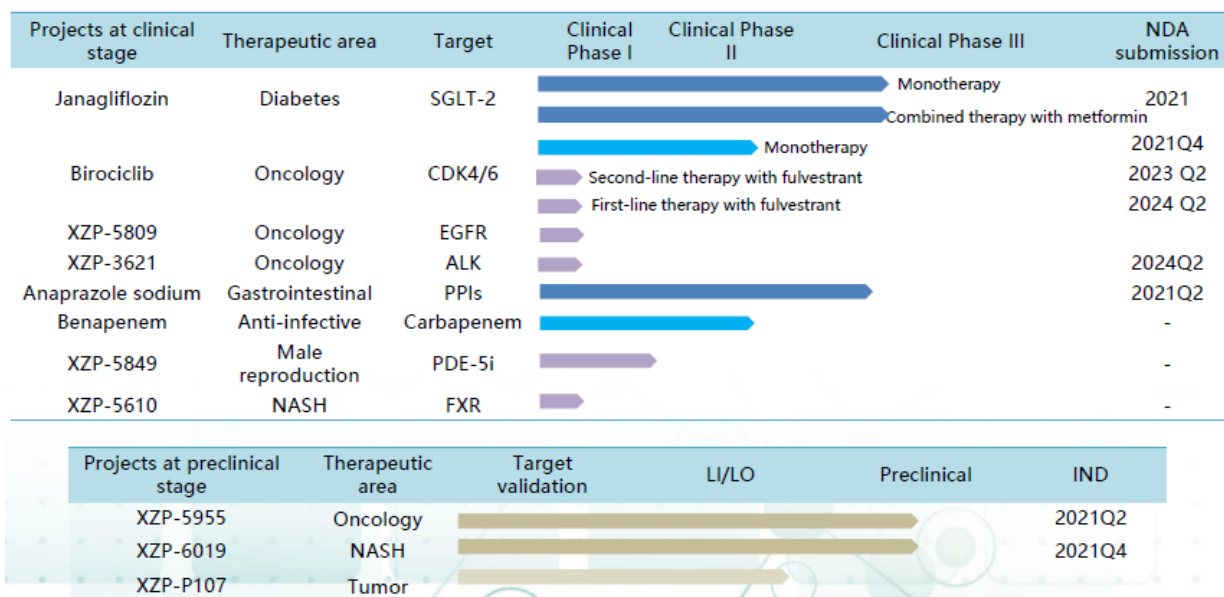
Trim down EPS projections for 2020-2022 to RMB0.058/ RMB0.063/ RMB0.077, primarily to factor in a larger-than-expected decrease in gross profit margin due to a change in product structure and larger-than-expected operating expenses in R&D, market development and capital operations. **However, we maintain TP of HK\$1.15, which represents 18.1x/ 16.5x 2020 PER/ 2021 PER**, and investment rating of "Accumulate", with potential M&As, spinoffs and other capital operations.

Table-2: Key Earnings Adjustments for Sihuan Pharma

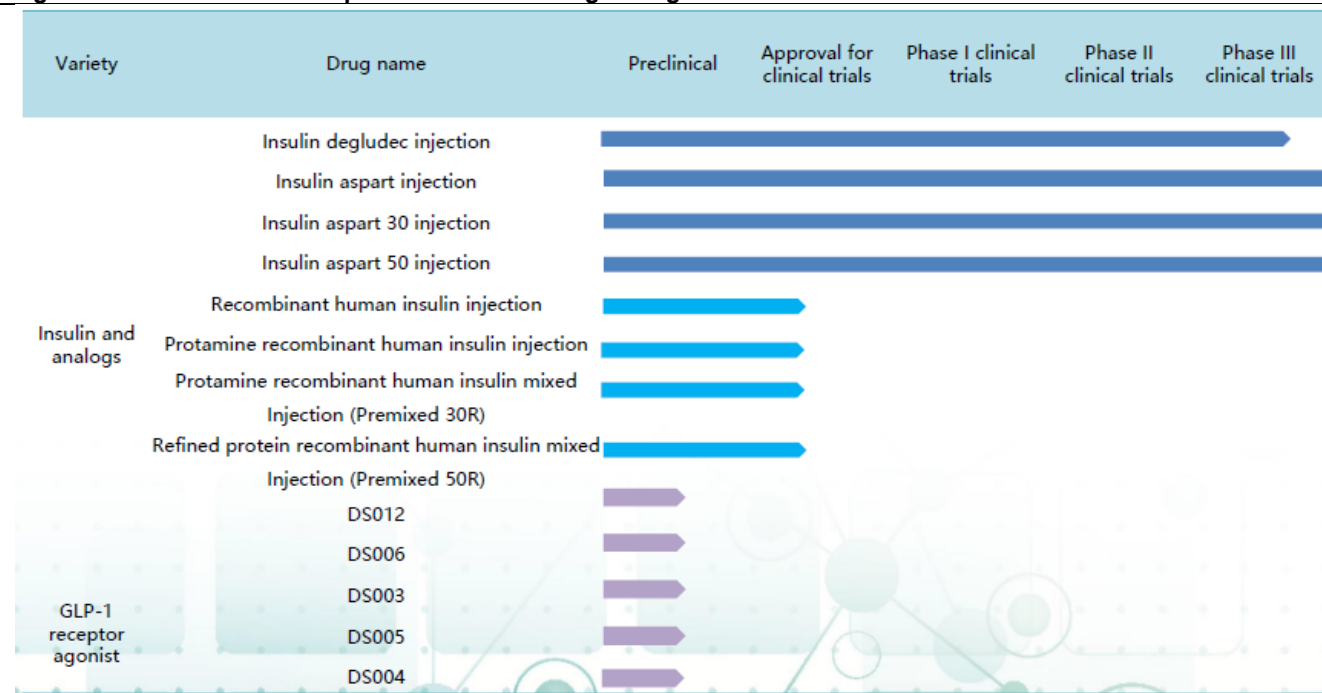
RMB million	Old			New			Change		
	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2021F
Revenue	2,284	2,857	3,494	2,284	2,857	3,494	0.0%	0.0%	0.0%
- CCV products	1,339	1,406	1,476	1,339	1,406	1,476	0.0%	0.0%	0.0%
- Non-CCV products	946	1,451	2,018	946	1,451	2,018	0.0%	0.0%	0.0%
Gross profit	1,770	2,224	2,731	1,690	2,083	2,513	-4.5%	-6.3%	-8.0%
Distribution costs	(199)	(254)	(317)	(274)	(343)	(419)	37.9%	34.9%	32.2%
Admin expenses	(383)	(444)	(506)	(429)	(496)	(563)	11.9%	11.6%	11.2%
R&D expenses	(662)	(798)	(944)	(685)	(866)	(1,069)	3.4%	8.4%	13.3%
Operating profit	1,069	1,302	1,641	744	901	1,067	-30.4%	-30.8%	-35.0%
Profit After Tax	923	1,042	1,338	547	600	730	-40.7%	-42.5%	-45.4%
Shareholder's Profit	863	978	1,259	547	599	730	-36.6%	-38.7%	-42.0%
Basic EPS (cent)	9.12	10.33	13.30	5.78	6.33	7.71	-36.6%	-38.7%	-42.0%
Gross Margin	77.5%	77.8%	78.2%	74.0%	72.9%	71.9%	-3.5 pts	-4.9 pts	-6.2 pts
Operating Margin	46.8%	45.6%	47.0%	32.6%	31.6%	30.5%	-14.2 pts	-14.0 pts	-16.4 pts
Net Profit Margin	37.8%	34.2%	36.0%	23.9%	21.0%	20.9%	-13.8 pts	-13.3 pts	-15.2 pts

Source: Guotai Junan International.

Risks include: 1) government policy risks; 2) margin erosion triggered by further price cuts in key products; and 3) delays in the Company's pipeline.

Figure-4: Sihuan Pharma's Pipeline - Xuanzhu Biopharmaceutical


Source: the Company, Guotai Junan International.

Figure-5: Sihuan Pharma's Pipeline - Jilin Huisheng Biological


Source: the Company, Guotai Junan International.

Figure-6: Sihuan Pharma's Pipeline - Beijing Aohe Generic Drug R&D Center Part 1

Indications	Drug name	Pharmaceutical Research	BE	Registered	Estimated time to market	Registration Classification
Neuropsychiatric	Midazolam oromucosal solution				Approved (2019)	3
	levetiracetam tablet				Approved (2020)	4
	Rivastigmine hydrogen tartrate capsule				Approved (2020)	4
	Ibuprofen injection				Approved (2020)	3
	Gabapentin capsule				2020	4
	levetiracetam injection concentrated solution				2021	4
	Flurbiprofen injection				2021	3
	Lakosamine tablet				2021	4
	AH001				2022	-
	AH002				2022	4
Digestive system diseases	AH003 (Consistency evaluation)				2022	-
	Octreotide Acetate Injection*				Approved (2018)	6
	Pantoprazole sodium for injection (Consistency evaluation)				2021	-
	Rosartidine acetate hydrochloride SR capsule				2022	3
	AH004				2022	-
	AH005				2022	4
	AH006				2022	4
	AH007				2022	-

Source: the Company, Guotai Junan International.

Figure-7: Sihuan Pharma's Pipeline - Beijing Aohe Generic Drug R&D Center Part 2

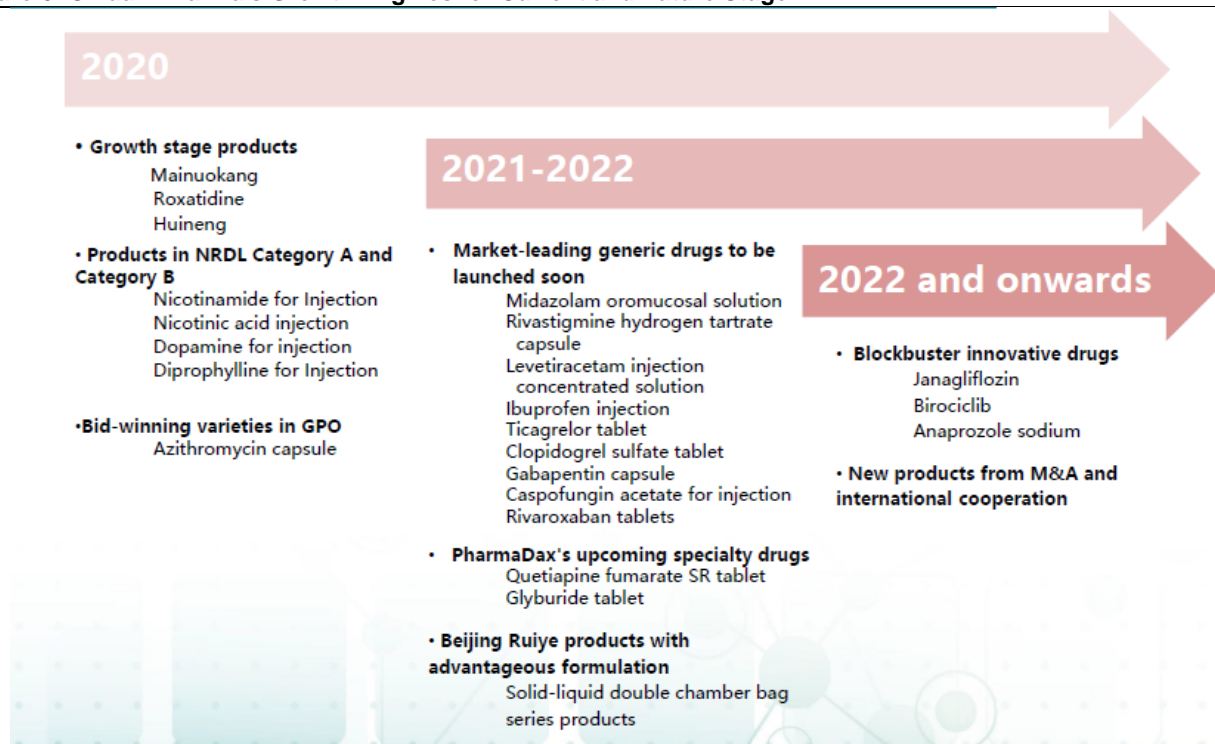
Indications	Name of the Drug	Pharmaceutical Research	BE	Registered	Estimated time to market	Registration Classification
Anti-diabetic	AH008				2022	4
	AH009				2022	4
	AH010				2022	4
	AH011				2022	4
Cardiovascular system	Sacubitril valsartan sodium tablet				2021	4
	AH012				2022	3
	AH013				2022	3
	AH014				2022	3
Thrombotic disease	Olprinone hydrochloride injection				2022	3
	Clopidogrel sulfate tablet				2020	4
	Rivaroxaban tablets				2020	4
	Sulfonda sodium injection				2021	4
	Ticagrelor tablet				2021	4
	AH015				2022	4
	Agathaban injection				2022	4

Source: the Company, Guotai Junan International.

Figure-8: Sihuan Pharma's Pipeline - Beijing Aohe Generic Drug R&D Center Part 2

Indications	Name of the Drug	Pharmaceutical Research	BE	Registered	Estimated time to market	Registration Classification
Anti-infection	Azithromycin capsules (Consistency evaluation)				Approved (2019)	-
	Caspofungin acetate for injection				2020	6
	Sophobovir tablet				2021	4
	Propofol fumarate tenofovir tablets				2021	4
	AH016				2022	3
	AH017				2022	3
	AH018				2022	4
	AH019				2022	4
	AH020				2022	4
	Moxifloxacin hydrochloride sodium chloride injection				2020	4
Hemostasis	Linezolid glucose injection				2023	4
	Tranexamic acid injection				2023	4
Nutritional therapy	Pediatric compound amino acid injection (18AA-II)				Approved (2020)	6
	Compound amino acid injection (20AA)				Approved (2019)	6
Anesthetic	Ropivacaine hydrochloride injection				2022	4
Electrolyte supplement	Multiple Electrolytes Injection (II)				Approved (2019)	6
	Potassium aspartate injection				2022	3
Osteoporosis	Zoledronic acid injection				2022	4
Respiratory system	Tebutaline sulfate injection				2022	3
	Bromohexine hydrochloride injection				2022	3 ⁹

Source: the Company, Guotai Junan International.

Figure-9: Sihuan Pharma's Growth Engines for Current and Future Stage


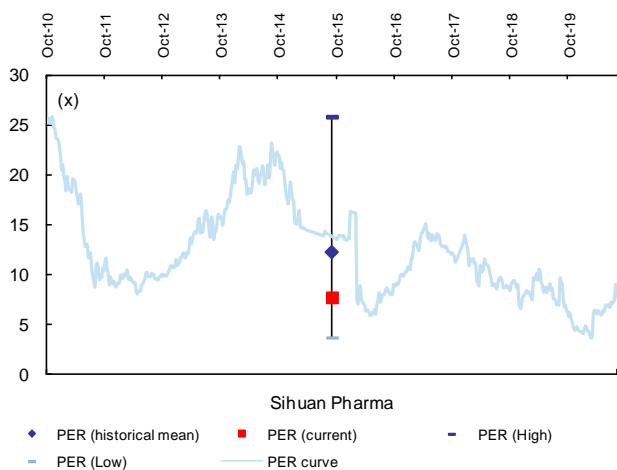
Source: the Company, Guotai Junan International.

Table-3: Peers Group Comparison of Sihuan Pharma

Company	Stock Code	Currency	Last price	Market Cap HKD mil	PE (fiscal year)				PB (fiscal year)				PEG	ROE(%)	ROA(%)	EV/EBITDA			
					19A	20F	21F	22F	19A	20F	21F	22F		20F	20F	19A	20F	21F	22F
HK-listed Pharmaceuticals																			
Sihuan Pharma	460 HK	HKD	0.85	8,046	n.a.	8.6	7.1	5.6	0.7	0.7	0.7	0.6	n.a.	8.9	7.4	n.a.	n.a.	n.a.	
CSPC Pharma	1093 HK	HKD	15.58	116,595	23.0	22.0	18.8	15.6	4.7	4.5	3.9	3.3	2.1	21.6	16.0	19.0	13.7	11.1	10.3
Sino Biopharm	1177 HK	HKD	8.78	165,702	35.9	44.6	36.4	29.6	3.2	4.1	3.5	3.1	n.a.	9.7	6.2	18.8	20.5	16.6	13.4
Luye Pharma	2186 HK	HKD	4.62	15,010	8.9	8.6	7.7	7.0	1.5	1.2	1.1	1.0	1.1	15.4	8.4	8.6	6.5	5.6	5.1
Livzon Pharma-H	1513 HK	HKD	33.85	43,818	21.5	18.0	15.6	13.7	2.5	2.3	2.1	1.9	1.0	13.4	9.3	11.8	16.7	14.6	12.9
HEC-H	1558 HK	HKD	10.76	9,468	2.2	5.1	4.6	4.4	1.0	1.4	1.2	1.0	n.a.	30.0	16.7	7.0	3.8	3.4	3.3
3Sbio Inc	1530 HK	HKD	8.45	21,493	19.6	13.4	11.5	9.9	2.0	1.7	1.5	1.3	0.4	13.4	9.4	15.5	9.3	7.7	6.2
Fosun Pharma-H	2196 HK	HKD	31.00	126,633	21.0	20.4	17.3	14.7	2.2	2.0	1.9	1.7	2.0	9.4	4.0	15.5	30.9	28.1	22.1
Fosun Int.	656 HK	HKD	8.52	72,480	4.3	5.6	4.1	3.4	0.5	0.5	0.4	0.4	2.4	8.3	1.6	5.5	11.8	8.7	9.9
SSY Group	2005 HK	HKD	4.65	14,064	12.4	13.6	10.2	8.8	2.8	2.5	2.1	1.8	1.4	19.3	12.4	12.1	n.a.	n.a.	n.a.
United Lab.	3933 HK	HKD	8.71	16,030	19.6	15.9	13.7	12.5	1.9	1.8	1.6	1.4	0.8	12.0	5.9	6.6	7.5	6.7	6.2
Xinhua Pharma-H	719 HK	HKD	4.00	5,530	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
China Grand Pharma	512 HK	HKD	6.94	24,634	19.8	17.8	14.5	11.9	2.8	2.5	2.2	1.9	1.1	14.3	9.5	8.6	n.a.	n.a.	n.a.
GZ BYS Pharma	874 HK	HKD	19.30	53,200	8.7	8.6	7.6	7.9	1.2	1.1	1.0	0.9	1.3	12.2	5.5	11.2	7.9	6.7	7.0
Essex Bio Tech	1061 HK	HKD	4.55	2,630	8.7	7.5	6.5	5.0	2.2	1.8	1.4	1.2	0.5	29.2	16.9	8.8	n.a.	n.a.	n.a.
Dawnrays Pharma	2348 HK	HKD	1.03	1,597	5.6	n.a.	n.a.	n.a.	0.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4.1	n.a.	n.a.	n.a.
LEE's Pharma	950 HK	HKD	5.36	3,152	25.3	13.1	12.6	10.7	1.4	1.3	1.2	1.1	0.3	8.6	5.0	9.7	n.a.	n.a.	n.a.
Fudan-Zhangjiang-H	1349 HK	HKD	4.11	19,718	14.5	n.a.	n.a.	n.a.	3.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	11.1	n.a.	n.a.	n.a.
Nt Pharma	1011 HK	HKD	0.12	232	n.a.	n.a.	n.a.	n.a.	2.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Jacobson Pharma Corp Ltd	2633 HK	HKD	1.20	2,321	9.2	11.0	9.0	7.5	0.9	0.9	n.a.	n.a.	9.0	8.3	4.9	7.1	8.3	n.a.	n.a.
Simple Average					15.3	14.6	12.3	10.5	2.0	1.9	1.7	1.5	1.8	14.6	8.7	10.7	12.5	10.9	9.6
Weighted Average					21.1	22.6	18.8	15.7	2.6	2.7	2.4	2.1	1.7	12.9	7.7	14.3	17.7	15.0	12.8
China-listed Pharmaceuticals																			
Hengrui Medicine	600276 CH	CNY	90.30	542,473	75.3	70.7	55.1	44.1	16.1	15.1	12.1	9.7	4.2	22.6	21.1	59.0	59.9	46.5	37.2
Fosun Pharma-A	600196 CH	CNY	48.11	126,632	37.0	34.1	28.3	23.3	3.9	3.6	3.2	2.9	2.4	10.3	4.9	15.5	26.1	21.4	15.8
Kelun Pharma	002422 CH	CNY	23.59	38,420	35.7	33.6	25.6	22.7	2.5	2.5	2.3	2.2	1.8	6.7	2.6	15.9	15.9	n.a.	n.a.
Livzon Pharma-A	000513 CH	CNY	46.80	43,817	33.7	27.2	23.4	20.0	3.9	3.7	3.3	3.0	1.4	13.7	9.8	11.8	15.8	13.5	11.6
Shyndec Pharma	600420 CH	CNY	9.83	11,428	15.7	n.a.	n.a.	n.a.	1.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.1	n.a.	n.a.	n.a.
Zhejiang Medicine	600216 CH	CNY	16.73	18,279	46.5	12.4	10.1	8.9	2.1	1.9	1.6	1.5	0.1	14.2	10.4	14.2	n.a.	n.a.	n.a.
Hisun Pharma	600267 CH	CNY	17.06	18,647	170.6	n.a.	n.a.	n.a.	2.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Lukang Pharma	600789 CH	CNY	8.88	8,849	63.4	n.a.	n.a.	n.a.	2.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	23.2	n.a.	n.a.	n.a.
Haisco Pharma	002653 CH	CNY	23.19	28,207	50.4	43.8	30.9	22.7	10.5	8.1	6.5	5.0	1.6	18.7	n.a.	34.8	n.a.	n.a.	n.a.
Huadong Medicine	000963 CH	CNY	24.58	48,689	15.3	14.0	12.0	10.6	3.5	3.0	2.5	2.1	1.1	21.6	13.1	11.3	9.8	n.a.	n.a.
North China Pharma	600812 CH	CNY	11.75	21,692	125.0	n.a.	n.a.	n.a.	3.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	19.6	n.a.	n.a.	n.a.
Northeast Pharma	000597 CH	CNY	6.30	9,639	31.4	n.a.	n.a.	n.a.	1.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	16.3	n.a.	n.a.	n.a.
Salubris Pharm-A	002294 CH	CNY	37.75	44,701	55.5	63.3	48.5	37.1	6.1	5.8	5.5	5.1	9.1	9.8	7.3	18.1	38.1	30.2	23.5
Huahai Pharma-A	600521 CH	CNY	35.54	58,523	79.0	56.5	40.2	28.4	8.4	8.0	6.9	5.9	1.4	15.5	9.7	17.5	38.3	26.7	20.0
Jingxin Pharma-A	002020 CH	CNY	11.54	9,470	15.8	17.0	14.9	12.1	2.1	2.0	1.8	1.6	5.5	11.8	9.1	8.6	n.a.	n.a.	n.a.
Simple Average					56.7	37.2	28.9	23.0	4.7	5.4	4.6	3.9	2.9	14.5	9.8	19.4	29.1	27.7	21.6
Weighted Average					63.7	55.8	43.6	34.8	10.6	10.5	8.6	7.0	3.5	18.5	15.5	39.2	46.0	38.5	30.5
Global Pharmaceuticals																			
Abbvie Inc	ABBV US	USD	90.22	1,234,044	17.0	8.6	7.5	6.7	(16.3)	28.8	15.3	7.8	0.2	141.6	14.3	10.5	9.4	7.8	6.8
BMS Co	BMJ US	USD	58.53	1,022,454	29.0	9.3	7.9	7.3	2.5	2.4	2.1	1.9	0.1	29.1	6.0	22.5	7.0	6.2	5.5
Eli Lilly & Co	LLY US	USD	149.31	1,106,839	16.7	20.7	18.7	17.0	54.8	26.4	20.0	14.6	n.a.	158.7	15.5	21.9	18.5	n.a.	n.a.
Johnson & Johnson	JNJ US	USD	147.26	3,004,904	25.7	18.6	16.2	14.9	6.5	6.0	5.6	5.0	0.7	32.2	11.9	14.3	13.9	12.0	10.5
Merck & Co. Inc.	MRK US	USD	83.33	1,633,487	21.7	14.6	13.3	12.2	8.2	6.6	5.5	4.5	0.5	51.0	15.3	15.9	11.4	10.2	9.3
Pfizer Inc	PFE US	USD	35.93	1,547,435	12.3	12.8	12.0	11.0	3.1	3.0	2.7	2.5	8.8	24.3	7.3	9.4	n.a.	n.a.	n.a.
Mylan Nv	MYL US	USD	15.64	62,642	521.2	3.5	3.4	3.3	0.7	0.7	0.6	0.6	0.0	19.3	7.8	8.1	5.3	4.7	4.0
Simple Average					91.9	12.6	11.3	10.4	8.5	10.5	7.4	5.3	1.7	65.2	11.1	14.6	10.9	8.2	7.2
Weighted Average					24.3	14.8	13.2	12.1	8.4	10.5	7.6	5.6	2.0	62.3	11.8	15.0	12.4	9.9	8.8

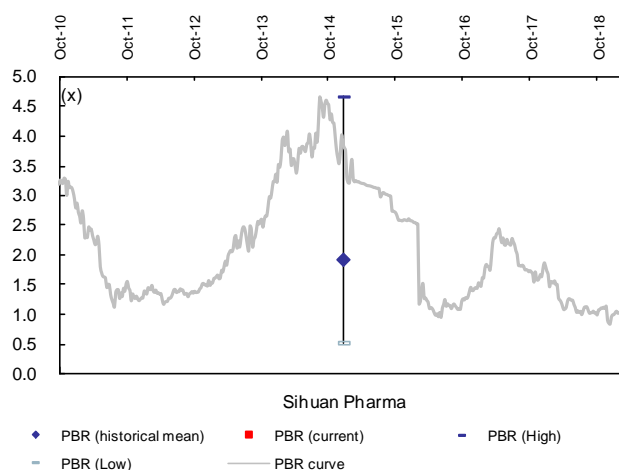
Source: Bloomberg, Guotai Junan International.

Figure-10: Forward PE Band of Sihuan Pharma



Source: Bloomberg, Guotai Junan International.

Figure-11: Forward PB Band of Sihuan Pharma



Source: Bloomberg, Guotai Junan International.

10 September 2020

Sihuan Pharmaceutical 四环医药 (00460 HK)

Company Report

Financial Statements and Ratios

Income Statement					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Total Revenue	2,917	2,887	2,284	2,857	3,494
Cost of Sales	(538)	(592)	(594)	(774)	(981)
Gross Profit	2,379	2,295	1,690	2,083	2,513
Other Income	215	213	166	171	169
Other Gains-Net	610	(725)	298	375	460
Impairment Loss on Goodwill	0	(2,844)	0	0	0
Distribution Costs	(271)	(252)	(274)	(343)	(419)
Administrative Expenses	(396)	(485)	(429)	(496)	(563)
R&D Expenses	(480)	(633)	(685)	(866)	(1,069)
Other Expenses	(30)	(24)	(22)	(23)	(24)
Operating Profit	2,026	(2,455)	744	901	1,067
Finance Costs	(6)	(5)	(8)	(19)	(26)
Share of Profit of Associates & JV	(8)	(7)	(16)	4	10
Profit Before Tax	2,012	(2,467)	720	886	1,051
Income Tax	(333)	(290)	(172)	(286)	(321)
profit After Tax	1,679	(2,757)	547	600	730
Non-controlling Interest	(59)	4	(1)	(1)	(1)
Shareholders' Profit / Loss	1,620	(2,753)	547	599	730
Basic EPS	0.171	(0.291)	0.058	0.063	0.077

Cash Flow Statement					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
PBT	2,012	(2,467)	720	886	1,051
D&A	307	355	293	304	304
Other Adjustments	(250)	3,874	(115)	(149)	(157)
Changes in WC	228	166	56	327	351
Income tax paid	(505)	(509)	(180)	(199)	(237)
Cash from Operating Activities	1,793	1,418	773	1,168	1,312
Capital Expenditure	(389)	(646)	(464)	(352)	(821)
Others	1,212	1,198	23	27	22
Cash from Investing Activities	823	552	(441)	(325)	(800)
Issues of Shares	0	0	0	0	0
Repurchase of Shares	0	(9)	(9)	0	0
Debt Paid/Raised	87	(88)	(399)	(153)	(175)
Dividends Paid	(240)	(199)	(1,279)	(389)	(322)
Others	20	128	8	19	25
Cash from Financing Activities	(133)	(168)	(1,680)	(523)	(472)
Net Changes in Cash	2,483	1,802	(1,347)	319	40
Cash at Beg of Year	832	3,315	5,117	3,770	4,089
Cash at End of Year	3,315	5,117	3,770	4,089	4,129

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
PPE	2,775	2,731	2,855	2,857	3,328
Goodwill	2,844	0	0	0	0
Intangible Assets	1,252	480	508	534	559
Other Non-current Assets	2,796	3,055	3,066	3,247	3,445
Total Non-current Assets	9,667	6,266	6,430	6,638	7,332
Cash & Cash Equivalents	3,315	5,117	3,770	4,089	4,129
Inventories	301	410	416	542	686
Trade and Other Receivables	857	630	640	800	978
Other Current Assets	1,303	148	290	290	290
Total Current Assets	5,776	6,305	5,116	5,721	6,085
Total Assets	15,443	12,571	11,545	12,360	13,416
Short-term Borrowings	0	0	(359)	(497)	(654)
Trade and Other Payables	1,687	1,906	1,978	2,504	3,083
Others Current Liabilities	562	355	342	424	514
Total Current Liabilities	2,249	2,261	1,960	2,431	2,943
Long-term Borrowings	0	0	(40)	(55)	(73)
Others Non-current Liabilities	420	368	424	572	726
Total Non-current Liabilities	420	368	384	516	654
Total Liabilities	2,669	2,629	2,344	2,948	3,596
Total Shareholders' Equity	12,510	9,607	8,865	9,075	9,483
Minority Interest	264	336	336	337	337
Total Equity	12,774	9,942	9,201	9,412	9,820

Financial Ratios					
	2018A	2019A	2020F	2021F	2022F
Growth and Profitability					
Revenue	6.2%	-1.0%	-20.9%	25.1%	22.3%
EBITDA	14.8%	-190.6%	-148.4%	18.4%	14.3%
Operating profit	20.0%	-221.2%	-130.3%	21.1%	18.4%
Net Profit	11.8%	-270.0%	-119.9%	9.6%	21.8%
ROE	13.7%	-24.9%	5.9%	6.7%	7.9%
ROA	11.6%	-19.7%	4.5%	5.0%	5.7%
ROIC	16.9%	-38.5%	11.2%	12.5%	15.4%
Margins and Liquidity					
Gross margin	81.5%	79.5%	74.0%	72.9%	71.9%
EBITDA margin	79.7%	-73.0%	44.7%	42.3%	39.5%
Operating margin	69.4%	-85.0%	32.6%	31.6%	30.5%
Net Profit margin	55.5%	-95.4%	23.9%	21.0%	20.9%
Dividend Payout Ratio	9.9%	-42.3%	80.0%	50.0%	50.0%
Net Debt/Equity	Net cash	Net cash	Net cash	Net cash	Net cash
Liabilities/Assets	17.3%	20.9%	20.3%	23.8%	26.8%
Current ratio	2.6x	2.8x	2.6x	2.4x	2.1x
Quick ratio	2.4x	2.6x	2.4x	2.1x	1.8x
Dupont Analysis					
Leverage	1.2x	1.3x	1.3x	1.3x	1.4x
Asset turnover	0.2	0.2	0.2	0.2	0.3
EBIT margin	69.2%	-85.3%	31.9%	31.7%	30.8%
Interest burden	99.7%	100.2%	98.8%	97.9%	97.6%
Tax burden	83.5%	111.8%	76.1%	67.7%	69.5%
Shareholders' profit/PAT	96.5%	99.9%	99.9%	99.9%	99.9%
ROE	13.7%	-24.9%	5.9%	6.7%	7.9%

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk