

CK Life Sciences International Holdings, Inc. ("CKLS")



- High leverage (4.46) and Debt-to-Assets 52.7% exposes them to refinancing risks, limiting financial flexibility, yet details about the debt profile weren't available.
- Strong EBITDA margin (22.2%) reflects operational efficiency, but declining ROCE (10.4%), liquidity, and a dramatic drop in Net Income (-89% FY-23 vs FY-21) are concerning.

Strengths

- Product and Geographic Diversification:** 63% of revenue comes from health (primarily via Vitaquest) and 37% from agricultural products, with operations spread across the APAC and North America.
- Operational Efficiency:** The company has maintained a consistently strong EBITDA margin of 22.2% in FY-23, significantly higher than the peer median of 10.7%.
- Innovative Growth Strategies:** They are expanding their pharmaceutical portfolio - USD\$100mn merger of Wex Pharmaceuticals with Virios Therapeutics.

Challenges

- High Leverage/Transparency:** Their leverage ratio of 4.46 significantly exceeds the peer median of 3.02, due to a substantial reliance on debt financing, which may stress financial flexibility if profitability falters. No insights about the entity's debt profile was available.
- Declining Liquidity:** The current ratio dropped to 0.97 in T6 FY-24 from 1.42 in FY-23, which may impact short-term obligations, particularly if operational cash flow continues to decline.
- Lower Return on Capital / Net Income:** The ROCE of 10.4% underperformed compared to the peer median of 15.3%, reflecting inefficiencies in capital utilization despite strong EBITDA margins.FY-24 (H1) suggests a dramatic drop in Net Income (HD\$1mn vs HK\$163mn per FY-21)

Scorecard Summary

Financial vs Business Risk Weighting Factors					
	Ownership	Public			
	Company Stage	Stabilized			
	Financials	Complete			
	Weight	Score	Dimension	Weight	Score
Financial	75%	6.2	Liquidity	25%	5.6
			Leverage	38%	3.3
			Profitability	38%	6.3
Business	25%	7.1	Industry Risk	20%	6.5
			Competitive Position	50%	6.6
			Mgmt / Governance	30%	8.3
			Sponsor / Parent		
Modifiers		-1.6	Trend Analysis		(0.3)
			Financial Flexibility		(0.25)
			Fixed Cost Coverage Risk		(0.50)

Company Overview

Headquarters	Hong Kong
Type	Public
Employees	~1,800
Year Founded	2000
Website	https://www.ck-lifesciences.com/eng/
Business	Biotechnology solutions for health and agriculture.
Revenues	\$5,322.7M

- Company Overview:** CKLS is a biotechnology and life sciences company focusing on health and agriculture solutions. Its product lines include nutraceuticals, pharmaceuticals, dietary supplements, and fertilizers.
- Product:** Vitaquest, a wholly-owned US-based subsidiary that contributes about 44% to CKLS' revenue and 50% to its' net income - consequently the majority of CKLS' health-segment relates to - offers human-grade dietary supplements and nutraceuticals. In agriculture, the company provides fertilizers and crop protection products.
- Customers:** They serve healthcare providers, distributors, and agricultural businesses across Asia-Pacific and North America.
- Ownership:** CK Life Sciences is a subsidiary of CK Hutchison Holdings Limited, with additional major stakes held by the Li Ka Shing Foundation. However, CKLS plays a very marginal role with about 1% revenue contribution to CK Hutchison.
- Debt Structure:** N/A - publicly available records did not provide details about their debt structure and/or a maturity profile in much detail.
- Modifiers:** H1-24 financials suggest a continued decline in revenue, declining liquidity, EBITDA Margin, lower ROCE, and higher Debt to Assets. Yet, we only had the financials for the first half of 2024 available. Also, considering the size of CKLS and ownership relations, we only applied 0.25-point penalties for limited (not strained) financial flexibility, as well as a moderate negative trend. Country Risk (-0.30), limited financial transparency (e.g. Debt Structure) (-0.25), and an FCCR below 1.0 (-0.5) completed the modifier landscape.

Financial Benchmarking & Debt Maturity Profile

# of Benchmarks:	23	Industry Median	Company Metric	Percentile Rank
Liquidity	Current Ratio	1.56	1.42	50%
	Quick Ratio	0.82	0.85	51%
Leverage	Net Debt / EBITDA	3.02	4.46	41%
	Debt to Assets	34.5%	52.7%	31%
Profitability	EBITDA Margin	10.7%	22.2%	82%
	ROCE %	15.3%	10.4%	46%
	Revenue	\$712M	\$681M	

Industry Benchmarks - Primary: Health Care Distributors | Secondary: Fertilizers and Agricultural Chem



Financial Statement Highlights

HKD '000s	(C) Dec-21 T12	(B) Dec-22 T12	(A) Dec-23 T12	Change	
				(C) to (B)	(B) to (A)
Income Statement					
Total Revenue	5,402,312	5,275,590	5,322,733		0.9%
Gross Profit	1,629,970	1,625,986	1,637,208		0.7%
Adjusted EBITDA	1,191,002	1,218,767	1,181,448		-3.1%
Gross Profit Margin	30.2%	30.8%	30.8%		(6) bps
Net Income	162,801	131,952	17,250		-86.9%
Balance Sheet					
Cash And Cash Equivalents	890,801	691,934	664,320		-4.0%
Total Current Assets	3,169,150	3,124,997	2,992,480		-4.2%
Total Assets	11,731,018	11,266,762	11,247,410		-0.2%
Total Current Liabilities	2,075,102	4,062,475	2,100,561		-48.3%
Total Debt	6,213,006	5,946,165	5,931,108		-0.3%
Total Equity	4,500,844	4,155,450	4,189,253		0.8%
Key Ratios					
Current Ratio	1.53	0.77	1.42		85.2%
Quick Ratio	0.92	0.45	0.85		87.9%
Net Debt / EBITDA	4.47	4.31	4.46		3.4%
Debt to Assets	53.0%	52.8%	52.7%		(4) bps
EBITDA Margin	22.0%	23.1%	22.2%		(91) bps
ROCE %	9.8%	13.7%	10.4%		(335) bps

- Revenue remained consistent at around HK\$5.3bn from FY-21 to FY-23, with minor fluctuations attributed to demand variances in the health and agriculture segments.
- Net income fell from HK\$131.95mn in FY-22 to HK\$17.25mn in FY-23, driven by rising interest expenses and marginal revenue growth, impacting overall profitability. However, a net income of just HK\$1mn in H1-24 is alarming!

Business Risk Highlights

- Industry:** Both the health care distribution and agricultural chemicals sectors face regulatory risk. Demand for health products remains robust, but agricultural product sales are susceptible to seasonal and climate-related fluctuations. The global CAGR-projections are 6.5% from 2024 to 2031, and 5.4% from 2024 to 2030, respectively.
- Competitive Position:** Vitaquest's strong market position in nutraceuticals, contributing 44% to CK Life Sciences' revenue, offers an advantage in the health sector. However, the company's reliance on this segment adds concentration risk.
- Management:** CK Life Sciences is part of the CK Hutchison Group, benefitting from strong governance. However, ongoing reliance on leveraged financing could indicate a need for tighter cash management oversight.
- PE Sponsor:** CK Hutchison Holdings could potentially provide financial backing, yet CKLS' relative relevance to CKHHs revenue is just about 1%. CKLS' high debt levels may be a turn off if profitability or cash flow does not improve.