

# Sino Biopharma

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*Good fundamentals, no catalysts though* **HOLD (unchanged)**

## Financial summary

Year to Dec	07A	08A	09F	10F	11F
Turnover (HK\$m)	1,164.32	2,282.22	2,696.03	1,411.13	644.9
Net Profit (HK\$m)	224.4	297.6	369.3	437.1	509.0
EPS (HK\$)	0.099	0.131	0.163	0.193	0.225
EPS Δ%	58.9	32.7	24.1	18.4	16.4
P/E (x)	12.4	9.4	7.5	6.4	5.5
P/B (x)	1.38	1.25	0.99	0.87	0.66
EV/EBITDA (x)	4.6	2.0	1.5	0.8	-
Yield (%)	4.9	4.9	8.0	9.4	11.0
ROE (%)	11.4	14.0	14.7	14.6	13.7
ROCE (%)	12.3	22.3	22.9	24.5	23.3
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

Source: SBI E2Capital

## Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	+6.0	+24.7	+39.4
Actual price changes (%)	+11.8	+17.1	-18.5

	09F	10F
Consensus EPS (HK\$)	0.155	0.195
Previous forecasts (HK\$m)	313.0	368.4
Previous EPS (HK\$)	0.138	0.163

## Price Chart



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(FY12/07A: 61.0%) and 4.9% yield.

**Maintain HOLD, revised target price to 1.30.** We revised up our earnings forecast to HK\$369.3m for FY12/09F and HK\$437.1m for FY12/10F (from HK\$313.0m and HK\$368.4m). Though we think the company's fundamentals (being a beneficiary of Chinese government's medical investment into rural areas), product portfolio resiliency and new drugs pipeline is more solid than other cash-rich peers such as Shineway (2877 HK) and Wuyi (1889 HK). It seems however, that the stock's limited liquidity and lack of clear near term catalysts, may cap the stock's upside. We maintain our HOLD call on the counter, with a revised target price of HK\$1.30, representing 8.0x FY12/09F P/E. SB is currently trading at 7.5x P/E and 3.3x ex-cash P/E on FY12/09 earnings.

Ticker:	1177.HK	12 mth range:	HK\$0.70-1.88
Price:	HK\$1.23	Market cap:	US\$357.2m
Target:	HK\$1.30 (+5.7%)	Daily t/o, 3 mth:	US\$0.1m
		Free float %:	44.6%

## Key points:

- \* 4Q FY12/08A revenue up 98.5% YoY to HK\$645.2m. Net profit up a lesser 27.5% YoY to HK\$96.8m on higher effective tax rate and minority interest expenses
- \* Hepatitis medicine key growth driver, up 69.0% YoY. Cardio-cerebral drugs down 6.0% YoY
- \* Cash on hand of HK\$1,772.8m (63.7% of market value)
- \* Fundamentals, portfolio resiliency and new drugs pipeline stronger than peers Shineway (2877 HK) and Wuyi (1889 HK)
- \* Low liquidity and lack of near term catalyst may cap stock's upside
- \* Maintain HOLD call, target price HK\$1.30

**4Q FY12/08A results.** For 4Q FY12/08A, the revenue of Sino Biopharmaceutical (SB)'s revenue beat our expectations with a 98.5% YoY growth to HK\$645.2m and net profit up 27.5% YoY to HK\$96.8m. The top line growth was mainly driven by the growth of its hepatitis medicine, which accounted for 50.1% of the total sales with a 69.0% YoY growth. Gross margin shrunk 2.3pcp YoY to 83.4% and net margin down 8.4pcp YoY to 15.0% due to a higher effective tax rate (from 4.9% to 8.3%) and an increase in minority interest payments (from HK\$25.1m to HK\$78.2m).

**Strong hepatitis medicine growth.** Sales of hepatitis medicine was very strong for 4Q FY12/08A. Total sales of hepatitis medicine increased 69.0% YoY to HK\$323.2 with Tianqingganmei surging 163.6% YoY to HK\$58.5m, Tianqingfuxin up 92.5% YoY to HK\$40.2m, Mingzheng increasing 88.9% to HK\$139.4m and Tianqingganping up 125.7% to HK\$42.4m. Sales of cardio-cerebral medicine dropped 6.0% YoY to HK\$73.6m. Kaishi injection still grew 29.9% YoY to HK\$159.4m, but Spring injections decreased 4.8% YoY to HK\$8.3m, Tianqinggan injections dropped 57.1% YoY to HK\$2.6m and other cardio-cerebral medicines dropped 57.5% YoY to HK\$18.8m (note that SB's revenue only include 35% sales in Beijing Tide pharm and 60% Jiangsu Chia Tai Tianqing Pharm).

**Cash and dividend.** By end-FY12/08A, SB had net cash of HK\$1,772.8m (3Q FY12/08A: HK\$1,763.8m), accounting for 63.7% of its market value. The dividend payout ratio is 45.6% for FY12/08A

**Table 1: 4Q FY12/08 results summary**

3 months to Dec.	Turnover (HK\$m)	Gross profit (HK\$m)	Gross margin (%)	Pre-tax profit (HK\$m)	Tax rate (%)	Net profit (HK\$m)	EPS (HK\$)	DPS (HK\$)
4Q FY08	645.2	537.7	83.4	190.9	8.3	96.8	0.043	0.020
4Q FY07	325.0	278.3	85.7	106.2	4.9	75.9	0.034	0.020
YoY (%)	98.5	93.2	-	79.7	-	27.5	27.5	-

Source: Company data

**Table 2: 4Q FY12/08A revenue breakdown**

3 months to Dec (HK\$m)	Revenue	YoY change (%)	% of turnover
Cardio-cerebral medicines	73.6	(6.0)	11.4
Hepatitis medicines	323.2	69.0	50.1
Oncology medicines	28.9	271.5	4.5
Others	219.4	361.2	34.0
<b>Total</b>	<b>645.1</b>	<b>98.5</b>	<b>100.0</b>

Source: Company data

**Table 3: P&L**

Year to Dec (HK\$m)	07A	08A	09F	10F	11F
Turnover	1,164.3	2,282.2	2,696.0	3,141.1	3,644.9
Cost of sales	(205.8)	(473.2)	(540.3)	(661.0)	(796.1)
Gross profit	958.5	1,809.0	2,155.6	2,480.2	2,848.8
Other income and gains	98.4	95.0	78.4	81.4	84.4
Selling and distribution costs	(503.8)	(876.6)	(1,063.0)	(1,256.5)	(1,476.2)
Administrative expenses	(154.7)	(305.5)	(308.1)	(329.8)	(346.3)
Other operating expenses	(53.7)	(112.5)	(153.2)	(150.8)	(149.4)
Operating profit	344.7	609.4	709.8	824.5	961.3
Finance costs, net	(2.6)	(9.1)	(13.5)	(6.3)	(5.5)
Share of profits of an associated	0.2	-	-	-	-
Profit before taxation	342.3	600.3	696.3	818.2	955.8
Taxation	(34.0)	(118.3)	(153.2)	(204.6)	(239.0)
Profit after tax	308.3	482.0	543.1	613.7	716.9
Minority interests	(84.0)	(184.4)	(173.8)	(176.5)	(207.9)
Profit attributable to shareholders	224.4	297.6	369.3	437.1	509.0
% chg	58.9	32.6	24.1	18.4	16.4
Dividends	135.8	135.8	221.6	262.3	305.4

Source: Company data &amp; SBI E2Capital

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**SELL** : absolute downside of >10% over the next six months

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