

## Sino Biopharmaceutical

### Keeping hold

to summarize...

- Revenue increased 19.3% YoY to HK\$769.8m while the net profit was up 27.0% YoY to HK\$122.9m for 4Q FY12/09A.
- The growth was mainly driven by the 101.0% YoY growth in Cardio-cerebral medicines while Hepatitis medicines increased 13.4% and Oncology medicines increased 62.1%.
- Net cash of HK\$1,826.2m. But the M&A progress is still slow.
- We estimate that the company could have 30.5% YoY growth in net profit in FY12/10F benefiting from favorable industry environment and the company's strong distribution network.
- We revised our target price to HK\$3.16, Maintain HOLD.

**4Q FY12/09A results.** Revenue increased 19.3% YoY to HK\$769.8m while the net profit increased 27.0% YoY to HK\$122.9m for 4Q FY12/09A. The results are in line with our estimate. The gross margin widened 2.9 pcp YoY to 86.3% while the net margin increased 1.0 pcp YoY to 16.0%. The dividend payout ratio was 73.7%.

Table 1. 4Q FY12/09A results

3 months to Dec	Turnover (HK\$m)	Gross Profit Ble (HK\$m)	Gross margin (%)	Pre-tax profit (HK\$m)	Tax rate (%)	Net profit (HK\$m)
4Q FY09	769.8	664.0	86.3	240.9	11.0	122.9
3Q FY09	901.4	712.6	79.1	203.8	21.6	97.7
QoQ(%)	(14.6)	(6.8)		18.2		25.8
4Q FY08	645.2	537.7	83.4	190.9	8.3	96.8
YoY (%)	19.3	23.5		26.2		27.0

Source: Company data

**Growth driver.** The 4Q growth was mainly driven by 101.0% YoY growth to HK\$148.0m from Cardio-cerebral medicines with Tianqingning Injections up 152.4% YoY to HK\$25.5m, Tianqinggan up 332.0% YoY to HK\$11.1m while Kaishi Injection increased 19.1% YoY to HK\$189.8m. The sales of Hepatitis medicines increased 13.4% YoY to HK\$366.4m with Tianqingganmei Injection increased 45.7% YoY to HK\$85.3m while Mingzheng Capsule growth slowed down to 9.1% YoY growth to HK\$152.1m. the sales of Oncology medicines increased 62.1% YoY to HK\$46.8m.

**Strong cash position but M&A progress still slow.** By the end of 2009, the company has net cash of HK\$1,826.2m. However, as the company is taking a conservative M&A strategy and increasing valuation in the pharmaceutical industry in China, the M&A progress is still slow.

**Outlook.** We estimate that the company could have 30.5% YoY growth in net profit in FY12/10F from: 1) the continuing promotion of potential existing drugs, such as Tianqingning, Tianqinggan, Tianqingganmei Tianqingganping; 2) favorable industry environment; 3) established strong distribution network; 4) potential in improving the whole year margin in 2010.

**Valuation.** We revised our estimate of the revenue for FY12/10F and FY12/11F to HK\$3,940.3 (from HK\$4,072.6m) and HK\$4,756.7m (from HK\$4,637.5m) while the net profit is estimated to be HK\$518.1m (from HK\$477.6m) and HK\$617.9m (HK\$576.0m). We estimate the net profit for FY12/12F is HK700.2m. Based on 11.0% discount rate and 3% terminal growth rate, our DCF-derived price is HK\$3.16. We keep the HOLD call.

Ticker	1177 HK
Rating	HOLD(Unchanged)
Price (HK\$)	3.10
Target Price (HK\$)	3.16(+2%)
12m Price Range (HK\$)	0.60-3.22
Market cap. (US\$m)	1,900.9
Daily t/o (US\$m)	7.0
Free float (%)	48.9

#### Financial summary

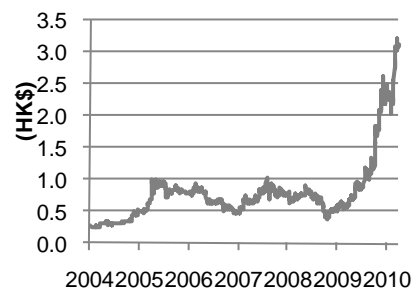
Year to Dec	08A	09A	10F	11F	12F
Turnover (HK\$m)	2,282.2	3,243.6	3,940.3	4,756.7	5,486.3
Net Profit (HK\$m)	297.6	397.0	518.1	617.9	700.2
EPS (HK\$)	0.066	0.088	0.108	0.129	0.146
P/E (x)	47.2	35.4	28.6	24.0	21.2
P/B (x)	6.30	5.67	4.82	3.97	3.26
EV/EBITDA (x)	23.7	17.6	15.3	12.3	10.4
Yield (%)	1.0	1.5	1.6	1.9	2.1
ROE (%)	14.0	16.9	18.7	18.1	16.9
ROCE (%)	22.3	27.2	28.5	29.0	28.1
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

Source: SBI/Bloomberg

	10F	11F	12F
Consensus EPS (HK\$)	0.140	0.175	-
Previous earnings (HK\$m)	477.6	576.0	-
Previous EPS (HK\$)	0.105	0.127	-

#### Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	+6.7	+33.4	+198.6
Actual price changes (%)	+9.9	+31.4	+342.9



Source: Bloomberg

Helena Qiu

(852) 2533 3709

helenaqiu@sbie2capital.com

Table 2: 4Q FY12/09A revenue breakdown

3 months to December (HK\$m)	Revenue	YoY change (%)	% of turnover
Cardio-cerebral medicines	148.0	101.0	19.2
Hepatitis medicines	366.4	13.4	47.6
Oncology medicines	46.8	62.1	6.1
Others	208.6	(4.9)	27.1
<b>Total</b>	<b>769.8</b>	<b>19.3</b>	<b>100.0</b>

Source: Company data

Table 3: DCF valuation reference table

WACC	Terminal Growth				
	1.0%	2.0%	3.0%	4.0%	5.0%
10.0%	3.10	3.40	3.70	4.10	4.70
11.0%	2.75	2.93	3.16	3.45	3.83
12.0%	2.46	2.60	2.76	2.97	3.24
13.0%	2.22	2.32	2.45	2.60	2.80

Source: SBI E2-Capital

Table 4: P&amp;L

Year to Dec (HK\$m)	08A	09A	10F	11F	12F
<b>Turnover</b>	<b>2,282.2</b>	<b>3,243.6</b>	<b>3,940.3</b>	<b>4,756.7</b>	<b>5,486.3</b>
Cost of sales	(473.2)	(639.6)	(750.2)	(951.3)	(1,080.8)
<b>Gross profit</b>	<b>1,809.0</b>	<b>2,604.0</b>	<b>3,190.0</b>	<b>3,805.3</b>	<b>4,405.5</b>
Other income and gains	95.0	53.2	36.2	37.0	37.9
Selling and distribution costs	(876.6)	(1,287.5)	(1,635.8)	(1,991.1)	(2,316.5)
Administrative expenses	(305.5)	(416.9)	(472.8)	(523.2)	(576.1)
Other operating expenses	(112.5)	(151.6)	(157.6)	(166.5)	(219.5)
<b>Operating profit</b>	<b>609.4</b>	<b>801.3</b>	<b>960.0</b>	<b>1,161.5</b>	<b>1,331.4</b>
Finance costs, net	(9.1)	(2.8)	(7.9)	(7.1)	(8.2)
Share of profits of an associated	-	0.9	4.0	4.8	5.8
<b>Profit before taxation</b>	<b>600.3</b>	<b>799.5</b>	<b>956.1</b>	<b>1,159.2</b>	<b>1,329.0</b>
Taxation	(118.3)	(135.0)	(191.2)	(243.4)	(285.7)
<b>Profit after tax</b>	<b>482.0</b>	<b>664.4</b>	<b>764.9</b>	<b>915.8</b>	<b>1,043.2</b>
Minority interests	(184.4)	(267.5)	(246.8)	(297.9)	(343.0)
<b>Profit attributable to shareholders</b>	<b>297.6</b>	<b>397.0</b>	<b>518.1</b>	<b>617.9</b>	<b>700.2</b>
% chg	32.6	33.4	30.5	19.3	13.3
Dividends	135.8	215.1	233.1	278.1	315.1

Source: Company data &amp; SBI E2Capital

---

SBI E2-Capital is a dedicated small/mid cap investment banking/ stockbrokerage house. Find our research on: [sbie2capital.com](http://sbie2capital.com), [thomsononeanalytics.com](http://thomsononeanalytics.com), [factset.com](http://factset.com) and [multex.com](http://multex.com)

**SBI E2-Capital stock ratings:**

**STRONG BUY** : absolute upside of >50% over the next three months

**BUY** : absolute upside of >10% over the next six months

**HOLD** : absolute return of -10% to +10% over the next six months

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

Investors should assume that SBI E2-Capital is seeking or will seek investment banking or other related businesses with the companies in this report.

**Analyst certification:** The views expressed in this report accurately reflect the analyst's personal views of the subject securities and that the analyst has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

**Disclaimer:** This research report is not an offer to sell or the solicitation of an offer to buy or subscribe for any securities. The securities referred to in this report may not be eligible for sale in some jurisdictions. The information contained in this report has been compiled by the Research Department of SBI E2-Capital Securities Limited ('SBI E2-Capital') from sources that it believes to be reliable but no representation, warranty or guarantee is made or given by SBI E2-Capital or any other person as to its accuracy or completeness. All opinions and estimates expressed in this report are (unless otherwise indicated) entirely those of SBI E2-Capital as of the date of this report only and are subject to change without notice. Neither SBI E2-Capital nor any other person, accepts any liability whatsoever for any loss howsoever arising from any use of this report or its contents or otherwise arising in connection therewith. Each recipient of this report shall be solely responsible for making its own independent investigation of the business, financial condition and prospects of the companies referred to in this report. SBI E2-Capital and their respective officers, directors and employees, including persons involved in the preparation or issuance of this report, may from time to time (1) have positions in, and buy or sell, the securities of companies referred to in this report (or related investments); (2) have a consulting, investment banking or broking relationship with any company referred to in this report; and (3) to the extent permitted under applicable law, have acted upon or used the information contained or referred to in this report including effecting transactions for their own account in an investment (or related investment) in respect of any company referred to in this report, prior to or immediately following its publication. This report may not have been distributed to all recipients at the same time. This report is issued only for the information of and may only be distributed to professional investors and dealers in securities and must not be copied, published, reproduced or redistributed (in whole or in part) by any recipient for any purpose. This report is distributed in Hong Kong by SBI E2-Capital. Any recipient of this report who requires further information regarding any securities referred to in this report should contact the relevant office of SBI E2-Capital located in such recipient's home jurisdiction.

Copyright © SBI E2-Capital Securities Limited 2008. All rights reserved.

---