

# Sino Biopharma

*Continues to execute*

**HOLD (unchanged)**

## Financial summary

Year to Dec	07A	08A	09F	10F	11F
Turnover (HK\$m)	1,164.32	2,282.23	427.94	400.44	642.2
Net Profit (HK\$m)	224.4	297.6	379.5	460.3	540.9
EPS (HK\$)	0.099	0.131	0.168	0.203	0.239
EPS Δ%	58.9	32.7	27.5	21.3	17.5
P/E (x)	18.9	14.2	11.2	9.2	7.8
P/B (x)	2.10	1.90	1.40	1.20	0.90
EV/EBITDA (x)	10.6	4.7	3.3	2.1	0.5
Yield (%)	3.2	3.2	3.2	4.9	5.7
ROE (%)	11.4	14.0	14.5	14.0	13.1
ROCE (%)	12.3	22.3	23.1	24.0	22.8
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

Source: SBI E2Capital

## Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	+14.7	+12.9	+52.4
Actual price changes (%)	+29.0	+52.0	+3.9

	09F	10F	11F
Consensus EPS (HK\$)	0.165	0.205	0.230
Previous forecasts (HK\$m)	369.3	437.1	509.0
Previous EPS (HK\$)	0.163	0.193	0.225

## Price Chart



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Ticker:	1177.HK	12 mth range:	HK\$0.70-1.88
Price:	HK\$1.87	Market cap:	US\$543.1m
Target:	HK\$1.68 (-10%)	Daily t/o, 3 mth:	US\$0.5m
		Free float %:	43.5%

## Key points:

- \* IQ FY12/09A revenue is better than our expectation with 66.4% YoY growth while the net profit is in line with 16.0% YoY growth.
- \* Margin squeeze due to the mixed effect of more discount or lower ASP and low margin contribution from Qingdao Haier Pharma.
- \* Strong top line growth was driven by new blockbuster drug and contribution from Qingdao Haier Pharma.
- \* SB has Cash on hand of HK1, 839.3m and dividend pay our ratio of 38.1%.
- \* Bonus share issue (1 share issued for every 3 shares held) may potentially be benefit for the counter, given its lack of liquidity in the past.
- \* Maintain HOLD, revising up our target price to HK\$1.68, representing 10.0x and 4.9 ex-cash FY12/09F P/E.

**IQ FY12/09A results.** For IQ FY12/09, the revenue is better than our expectation with 66.4% YoY growth to HK\$845.4m while the net profit is in line with our expectation with 16.0% YoY growth to HK\$89.2m. The growth was mainly driven by its new potential blockbuster product. The gross margin decreased 6.7 pcp YoY to 70.5% with net margin down 4.5 pcp YoY to 10.6%. We think the margin squeeze may be because of the mix of more discount or lower ASP SB give for improving its sales and low margin contribution from Qingdao Haier Pharma.

## Strong new blockbuster drug and new drugs drive up growth.

Sales of Cardio-cerebral medicine increased 41.4% YoY to HK\$133.6m. Sales of Kaishi injection increased 17.6% YoY to HK\$155.36m. Tianqingning injection was up 128.7% YoY to HK\$26.2m. Other Cardio-cerebral medicine increased around 80.0% YoY because the organic growth and the new contribution from Qingdao Haier Pharma. Sales of hepatitis medicine increased 30.2% YoY to HK\$343.1m. Tianqingganping increased 77.6% YoY to HK\$40.3m. Tianqingganmei increased 182.0% YoY to HK\$65.3m while Mingzheng Capsule increased 45.0% YoY to HK\$161.7m. Oncology drugs increased 82.4% YoY to HK\$39.5m. Other drugs increased 156.9% YoY to HK\$329.2m driving by the new blockbuster drug such as Taibai (up 70.1% YoY) and contribution of Qingdao Haier Pharma.

**Cash and dividend.** By the end of Mar. 2009, SB had net cash of HK\$1,839.3m (4Q FY12/08A: HK\$1,772.8m), accounting for 43.4% of its market value. The dividend payout ratio is 38.1% for IQ FY12/09A (FY12/08A: 45.6%) and the management indicate that the dividend would keep the same absolute value as FY12/08A.

**Bonus share would improve the liquidity.** SB announced on 18 April that it will issue one bonus share for every three existing shares for improving liquidity of the company. The total bonus share would be about 754.6m shares. We expect that the share price would be adjusted after the book closure day (from 5 June to 8 June). While this will dilute the company's EPS, we think that the increased number of shares may actually help the stock price, given that the counter's lack of liquidity has traditionally been a negative for the stock price.

**Maintain HOLD, revised target price to 1.68.** We revised up our earnings forecast to HK\$379.5m for FY12/09F and HK\$460.3m for FY12/10F (from HK\$369.3m and HK\$437.1m). Given that the bonus share issue would be helpful in improving the liquidity of the counter, we revalued the counter and revised our target price to HK\$1.68, representing 10.0x and ex-cash 4.9x FY12/09F P/E. We maintain HOLD call. SB is currently trading at 11.2x P/E and 6.3x ex-cash P/E on FY12/09 earnings. Note that our target price has yet to incorporate the dilution from the bonus share issue.

**Table 1: 1Q FY12/09 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\$)
1Q FY09	845.4	596.2	70.5	170.2	17.6	89.2	0.040	0.015
4Q FY08	645.2	537.7	83.4	190.9	8.3	96.8	0.043	0.020
YoY (%)	31.0	10.9	-	(10.8)	-	(7.9)	(7.9)	-
1Q FY08	507.9	392.1	77.2	133.7	16.6	76.9	0.034	0.015
YoY (%)	66.4	52.0	-	27.3	-	16.0	16.0	-

Source: Company data

**Table 2: 1Q FY12/09A revenue breakdown**

3 months to Mar (HK\$m)	Revenue	YoY change (%)	QoQ change (%)	% of turnover
Cardio-cerebral medicines	133.6	41.4	81.6	15.8
Hepatitis medicines	343.1	30.2	6.2	40.6
Oncology medicines	39.5	82.4	36.7	4.7
Others	329.2	156.9	50.0	38.9
<b>Total</b>	<b>845.4</b>	<b>66.4</b>	<b>31.0</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	3,427.9	4,000.4	4,642.2
Cost of sales	(205.8)	(473.2)	(941.9)	(1,139.2)	(1,391.6)
Gross profit	958.5	1,809.0	2,486.0	2,861.2	3,250.6
Other income and gains	98.4	95.0	76.3	81.4	84.4
Selling and distribution costs	(503.8)	(876.6)	(1,238.1)	(1,404.9)	(1,583.8)
Administrative expenses	(154.7)	(305.5)	(416.3)	(420.0)	(441.0)
Other operating expenses	(53.7)	(112.5)	(170.2)	(240.0)	(278.5)
Operating profit	344.7	609.4	737.7	877.7	1,031.7
Finance costs, net	(2.6)	(9.1)	(14.2)	(8.0)	(7.0)
Share of profits of an associated	0.2	-	-	-	-
Profit before taxation	342.3	600.3	723.5	869.6	1,024.7
Taxation	(34.0)	(118.3)	(151.7)	(217.4)	(256.2)
Profit after tax	308.3	482.0	571.8	652.2	768.5
Minority interests	(84.0)	(184.4)	(192.2)	(192.0)	(227.6)
Profit attributable to shareholders	224.4	297.6	379.5	460.3	540.9
% chg	58.9	32.6	27.5	21.3	17.5
Dividends	135.8	135.8	135.8	207.1	243.4

Source: Company data & SBI E2-Capital

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