

Sino Biopharmaceutical: Continuing its trajectory

Recommendation: BUY (unchanged)

China Pharmaceutical

Price	HK\$1.60	Year to Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gear.
Target price	HK\$2.27(+42%)	Dec	HK\$m	HK\$	Δ %	x	x	x	%	%	%
12 mth range	HK\$0.90-2.20	05A	1,532.9	0.713	-	2.2	2.0	12.1	6.9	82.7	8.1
Market cap.	US\$486.4m	06A	141.2	0.062	(91.3)	25.7	1.9	15.2	3.1	7.5	6.3
Daily t/o, 3 mth	US\$0.29m	07F	193.2	0.085	36.9	18.7	1.8	7.4	3.2	9.8	11.0
Free float %	25.0%	08F	231.9	0.102	20.0	15.6	1.6	5.4	3.8	10.9	12.9
Ticker	1177.HK/1177 HK	09F	257.9	0.114	11.2	14.0	1.5	4.4	4.3	11.22	13.6

Relative to Hang Seng Index (1 mth, 3 mth, 12 mth): -2.9%, -29.7%, +2.2%

Actual price changes (1 mth, 3 mth, 12 mth): -4.2%, -14.1%, +59.0%

Consensus EPS (05F-06F): HK\$0.06, HK\$0.07

Previous forecasts (07F-09F): HK\$193m (\$0.085), HK\$224m (\$0.099), HK\$249.7m (\$0.110)

Key points:

- 3Q revenue up 62.8% YoY and net profit 66.5% YoY driven by incumbent and new blockbuster drugs, sustaining pace of growth seen in 1Q and 2Q.
- New blockbuster drugs, such as Mingzheng capsules and Tianqing Ganmei emerging to become main future growth drivers.
- Search for M&A opportunities supported by HK\$1,808.9m cash in hand.
- We leave our FY12/07F estimates intact but revised up slightly our net profit forecasts for FY12/08F to HK\$231.9m and FY12/09F to HK\$257.9m. We maintain BUY call with a target price HK\$2.27, representing 22.5x FY12/08F P/E and 14.4x ex-cash P/E FY12/08F.

Strong 3Q FY12/07A. After a 52.3% YoY rise in 2Q, Sino Biopharmaceutical's revenue increased 62.8% YoY and 21.1% QoQ to HK\$335.5m in 3Q FY12/07A. Net profit surged 66.5% YoY and 15.7% QoQ to HK\$62.4m. Hepatitis drugs generated 57.5% of total revenue (up 44.1% YoY and 12.0% QoQ), cardio-cerebral drugs 21.5% (up 76.4%YoY and 9.3% QoQ) and oncology drugs 6.0% (up 75.3% YoY and 38.8% QoQ). Other medicines, accounted for 15% of total revenue, up 153.2% YoY and 107.8% QoQ from a small base. Overall, margins are stable with a gross margin of 81.4% and net margin of 18.6%.

Table 1: 3Q FY12/07A results

Three months to Sep	Turnover (HK\$m)	Gross profit (HK\$m)	Gross margin (%)	Pre-tax profit (HK\$m)	Tax rate (%)	Net profit (HK\$m)	EPS (HK\$)	DPS (HK\$)
3Q FY06	206.1	164.1	79.6	55.0	12.4	37.5	0.017	0.01
3Q FY07	335.5	272.9	80.4	98.1	8.0	62.4	0.028	0.01
YoY (%)	62.8	66.3	-	78.4	-	66.5	66.5	-

Source: Company data

Table 2: 3QFY12/07 revenue by business

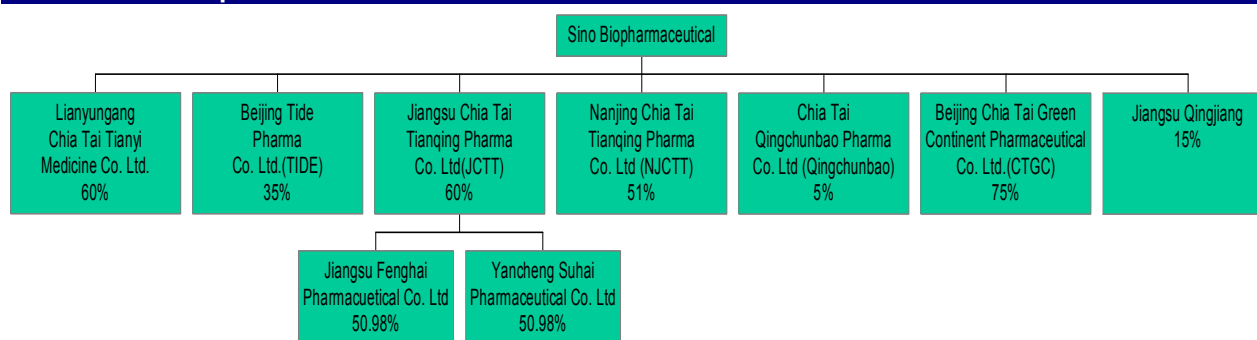
Business segment	Revenue (HK\$m)	Change (% YoY)	% of turnover	EBIT Margin
Cardio-cerebral medicines	72.0	76.4	21.5	45.6
Hepatitis medicines	192.9	44.1	57.5	27.0
Oncology medicines	20.4	75.3	6.0	26.1
Investment	0	(11.6)	0	-
Others	50.2	153.2	15.0	34.4
Total	335.5	62.8	100	-

Source: Company data

Driven by old and new blockbuster products. Old and new blockbuster drugs made by 60%-owned JCTT and 51%-owned NJCT drove growth. The sales of Kaishi injections increased 36.4% YoY to HK\$320.5m in the first nine months in FY12/07A and of Ganlixin injections 1.9% YoY to HK\$203.3m. These two old blockbuster drugs are mature and would expect to deliver nominal growth in the future and still a future cash generator for the company, providing support for company to continue its R&D for future new drugs. The company's new blockbuster drugs are growing quickly. The sales of Mingzheng capsules (hepatitis drug launched in July 2006) reached HK\$132.6m in the Jan-Sep period. The sales of Tianqing Ganmei (hepatitis drug launched in 2006) rose 178.4% YoY to HK\$34.7m in the period and of Tianqing Ganping (for hepatitis) 26.3% YoY to HK\$50.9m.

Asset injections. On 9 December 2007, JCTT acquired 50.98% of Jiangsu Fenghai at RMB48.4m, representing 10.1x FY12/06A P/E and 50.98% of Yancheng Suhai at RMB4.7m, representing 6.4x FY12/06A P/E. Both companies are principally engaged in the manufacturing of pharmaceutical raw materials and products to treat bacterial, inflammatory and cardio cerebral diseases. After the acquisition, Sino Biopharmaceutical will own 30.59% of Jiangsu Fenghai and Yancheng Suhai. Other shareholders include Ace Elite, Jiangsu Agribusiness, Da Feng Hang Chang, which directly or indirectly hold stakes in Sino Biopharmaceutical. The companies' revenue will be consolidated into Sino Biopharmaceutical's results from 1Q FY12/08. We would see the asset as streamline business to further strengthen company's productivity.

Table 3: Sino Biopharmaceutical structure



Source: Company data

Cash position. The company has HK\$1,808.9m (HK\$0.8 per share) in hand excluding its payment on the new acquisition of HK\$31.9m (60% of the total payment made by JCTT). We expect it to look for more M&A opportunities to speed up its development.

Coal-to-olefin project – no risk. The Chinese National Development and Reform Commission (NDRC) tightened certification rules for coal-to-olefin businesses in July 2006. We believe this will not affect Sino Biopharmaceutical as the company plans to invest in such projects only after its partners get NDRC approval.

Valuation. We leave our FY12/07F estimate intact but revised up slightly net profit for FY12/08F to HK\$231.9m (from HK\$224.0m) and for FY12/09F to HK\$257.9m (from HK\$249.7m) corresponding to the increased value from its acquisition. We maintain a BUY call on the counter with a target price of HK\$2.27, representing 22.2x FY12/08F P/E and 14.1x ex-cash FY12/08F P/E.

Table 4: P&L

Year to Dec (HK\$m)	05A	06A	07F	08F	09F
Turnover	756.1	734.7	1037.9	1369.3	1653.7
Cost of sales	(139.4)	(138.8)	(192.0)	(267.0)	(330.8)
Gross profit	616.7	595.9	845.9	1102.3	1323.0
Other income and gains	28.6	91.5	103.8	109.5	115.8
Selling and distribution costs	(310.6)	(327.7)	(446.3)	(595.6)	(727.6)
Administrative expenses	(110.9)	(121.8)	(134.9)	(164.3)	(198.5)
Other operating expenses	(42.2)	(31.3)	(54.0)	(71.2)	(86.0)
Operating profit	181.6	206.6	314.5	380.7	426.7
Finance costs, net	(2.7)	(2.2)	(2.3)	(2.5)	(3.3)
Share of profits and losses of jointly controlled entities	-	-	-	-	-
Share of profits of an associated	-	0.7	1.0	1.4	1.7
Exceptionals	(66.3)	-	-	-	-
Profit before taxation	112.5	205.1	313.3	379.6	425.0
Taxation	(18.3)	(22.1)	(47.0)	(56.9)	(63.8)
Profit from continuing operations	94.2	183.0	266.3	322.6	361.3
Profit from discontinued operations	1,558.4	-	-	-	-
Profit after tax	1,652.6	183.0	266.3	322.6	361.3
Minority interests	(119.7)	(41.8)	(73.1)	(90.7)	(103.4)
Profit attributable to shareholders	1,532.9	141.2	193.2	231.9	257.9
% chg	-	-	36.8	20.0	11.2
Dividends	(250.6)	(113.2)	(115.9)	(139.1)	(154.7)

Source: Company data, SBI E2-Capital

Table 5: Valuation comparison

Company name	Ticker	Country	Mkt Cap (US\$m)	Last price (local)	Est Curr Yr P/E (x)	Est Next Yr P/E (x)	ROE (%)
HK Listed							
Mingyuan Medicare	233 HK	China	469.3	1.26	31.5	21.0	13.9
Hua Han Bio-Pharma	587 HK	China	225.9	2.00	10.4	8.0	14.1
Shangdong Luoxin	8058 HK	China	340.1	4.60	na	na	32.1
Guangzhou Pharma	874 HK	China	1456.1	7.75	21.6	17.4	7.8
China Pharma	1093 HK	China	621.4	3.11	13.7	13.4	0.6
Sino Bio-Pharma	1177 HK	China	486.4	1.60	25.2	24.1	7.5
Wuyi Pharma	1889 HK	China	311.4	1.42	9.2	8.8	58.5
China Shineway	2877 HK	China	604.6	5.59	12.4	17.4	19.6
Shangdong Xinhui	719 HK	China	357.7	2.59	na	na	1.7
Average					17.7	15.7	
Others							
Simcere Pharmaceutical	SCR US	China	895.6	14.3	22.4	17.2	54.2
Asia pharmaceutical	APHM SP	China	33.5	0.55	11.6	7.8	15.6
C&O Pharmaceutical	COPT SP	China	199.8	0.44	11.2	9.3	15.7
Average					15.1	11.4	
Sector average					16.9	14.4	

Source: Bloomberg

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