

Sino Biopharma

Current price is fair

HOLD (from BUY)

Financial summary

Year to Dec	07A	08A	09F	10F	11F
Turnover (HK\$m)	1,164.32	282.23	360.64	072.64	637.5
Net Profit (HK\$m)	224.4	297.6	385.9	477.6	576.0
EPS (HK\$)	0.074	0.099	0.128	0.158	0.191
EPS Δ%	58.9	32.7	29.7	23.8	20.6
P/E (x)	41.7	31.4	24.3	19.6	16.2
P/B (x)	4.63	4.20	3.47	2.89	2.40
EV/EBITDA (x)	32.5	14.6	10.8	8.3	6.5
Yield (%)	1.5	1.5	1.8	2.3	2.8
ROE (%)	11.4	14.0	15.7	16.1	16.2
ROCE (%)	12.3	22.3	25.8	27.6	28.4
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

Source: SBI E2Capital

Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	+11.4	+65.1	+144.0
Actual price changes (%)	+16.5	+81.3	+313.3

	09F	10F	11F
Consensus EPS (HK\$)	0.130	0.170	0.210
Previous forecasts (HK\$m)	383.8	473.1	555.8
Previous EPS (HK\$)	0.127	0.157	0.184

Price Chart



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shares for the purpose of further improving liquidity. It also proposed to increase authorized share capital from HK\$100m to HK\$150.0m.

Hold call with target price of HK\$3.21. We revised slightly our earnings forecast to HK\$385.9m (from HK\$383.8m) for FY12/09F and HK\$477.6m for FY12/10F (from HK\$473.1m). The share price of the counter has up 76.1 % since our last report in September 2009. According to our DCF model based on discount rate of 13% and Terminal growth rate of 1%, the fair value for the counter is HK\$3.2, representing 20.3x and ex-cash 16.1x FY12/10F P/E. We move our call to HOLD from BUY.

Ticker:	1177.HK	12 mth range:	HK\$0.68-3.28
Price:	HK\$3.10	Market cap:	US\$1,200.5m
Target:	HK\$3.21(+3.5%)	Daily t/o, 3 mth:	US\$1.5m
		Free float %:	43.5%

Key points:

- * 3Q FY12/09A revenue increased 54.2% to HK\$901.4m and net profit was up 46.7% YoY to HK\$97.7.
- * New blockbuster drugs are the key growth driver.
- * R&D support the long-term growth.
- * Cash on hand of HK\$1,846.0m and dividend payout ratio of 55.6%.
- * Plan to issue one bonus share for every two existing shareholders for improving liquidity.
- * DCF-derived fair value at HK\$3.2, representing 20.3x and ex-cash 16.1x FY12/10F P/E. Call from BUY to HOLD

3Q FY12/09A results. For 3Q FY12/09A, Sino Biopharmaceutical (SB) reported 54.2% YoY growth to HK\$901.4m in revenue with net profit up 46.7% YoY to HK\$97.7m. The gross margin widened 1.2 pcp YoY to 79.1% while the net margin narrowed 0.6 pcp YoY to 10.8%. The top line is better than our expectation, but the bottom line is in line with our expectation.

New blockbuster drugs were the key. For 3Q FY12/09A, the Sales of Tianqingning injections increased 73.0% YoY to HK\$28.4m. The sales of Tianqingganmei injections increased 96.8% YoY to HK\$97.1m. The sales of Mingzheng capsules increased 41.2% to HK\$171.3m. The sales of Tianqingganping capsules increased 41.2% to HK\$54.0m. The sales of Kaifen injections increased 54.4% to HK\$58.5m.

R&D is capable for the long term development. For 3Q FY12/09A, SB got the product approval for 2 new drugs. Currently, it is developing 16 cardio-cerebral medicines, 12 hepatitis medicines, 4 oncology medicines, 5 respiratory system medicines and 28 other medicines. With SB's strong product promotion capability, particularly for cardio-cerebral medicines, we think that it would come out with some new blockbuster drugs in later stage.

Cash and dividend. By the end of September 2009, SB had net cash of HK\$1,846.0m (2Q FY12/09A: HK\$1,835.5m). The dividend payout ratio is 55.6% for 2Q FY12/09A (2Q FY12/09A: 41.6%).

Issue bonus share again. Following up its bonus share issues in August 2009, SB plans to issue one bonus share for every two existing

Table 1: 3Q FY12/09A results summary

3 months to June.	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 FY09	901.4	712.6	79.1	203.8	21.6	97.7		0.015
2Q FY09	727.0	631.2	86.8	184.6	18.7	87.1	0.028	0.012
QoQ (%)	24.0	12.9	-	10.4	-	12.2		
3Q FY08	584.6	455.4	77.9	138.8	27.7	66.6		
YoY (%)	54.2	56.5	-	46.8	-	46.7		

Source: Company data

Table 2: 3Q FY12/09A revenue breakdown

3 months to September (HK\$m)	Revenue	YoY change (%)	% of turnover
Cardio-cerebral medicines	169.5	47.9	18.8
Hepatitis medicines	443.0	40.7	49.1
Oncology medicines	54.2	15.3	6.0
Others	234.8	117.0	26.1
Total	901.4	54.2	100.0

Source: Company data

Table 3: DCF valuation reference table

WACC	Terminal Growth				
	0.5%	1.0%	1.5%	2.0%	2.5%
11.0%	3.89	4.00	4.12	4.26	4.42
12.0%	3.48	3.57	3.67	3.77	3.88
13.0%	3.15	3.21	3.29	3.37	3.46
14.0%	2.86	2.92	2.98	3.04	3.11

Source: SBI E2-Capital

Table 4: P&L

Year to Dec (HK\$m)	07A	08A	09F	10F	11F
Turnover	1,164.3	2,282.2	3,360.6	4,072.6	4,637.5
Cost of sales	(205.8)	(473.2)	(693.5)	(834.9)	(927.5)
Gross profit	958.5	1,809.0	2,667.2	3,237.7	3,710.0
Other income and gains	98.4	95.0	58.9	36.0	36.8
Selling and distribution costs	(503.8)	(876.6)	(1,328.5)	(1,588.3)	(1,762.3)
Administrative expenses	(154.7)	(305.5)	(424.3)	(488.7)	(556.5)
Other operating expenses	(53.7)	(112.5)	(200.4)	(244.4)	(278.3)
Operating profit	344.7	609.4	772.9	952.4	1,149.8
Finance costs, net	(2.6)	(9.1)	(7.8)	(8.1)	(7.0)
Share of profits of an associated	0.2	0.0	0.0	0.0	0.0
Profit before taxation	342.3	600.3	765.0	944.2	1,142.9
Taxation	(34.0)	(118.3)	(149.7)	(236.1)	(285.7)
Profit after tax	308.3	482.0	615.3	708.2	857.2
Minority interests	(84.0)	(184.4)	(229.4)	(230.6)	(281.2)
Profit attributable to shareholders	224.4	297.6	385.9	477.6	576.0
% chg	58.9	32.6	29.7	23.8	20.6
Dividends	135.8	135.8	169.8	214.9	259.2

Source: Company data & SBI E2Capital

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