

# Sino Biopharma

## New blockbuster drugs keep high growth **BUY (from HOLD)**

### Financial summary

Year to Dec	07A	08A	09F	10F	11F
Turnover (HK\$m)	1,164.32	2,282.22	986.33	480.03	933.9
Net Profit (HK\$m)	224.4	297.6	383.8	473.1	555.8
EPS (HK\$)	0.074	0.099	0.127	0.157	0.184
EPS Δ%	58.9	32.7	29.0	23.3	17.5
P/E (x)	23.7	17.9	13.8	11.2	9.6
P/B (x)	2.63	2.38	1.77	1.50	1.14
EV/EBITDA (x)	15.2	6.8	5.1	3.6	1.9
Yield (%)	2.6	2.6	2.6	4.0	4.7
ROE (%)	11.4	14.0	14.7	14.5	13.6
ROCE (%)	12.3	22.3	23.5	24.7	23.5
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

Source: SBI E2Capital

### Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	+8.8	+23.4	+75.2
Actual price changes (%)	+10.5	+44.3	+103.2

  

	09F	10F	11F
Consensus EPS (HK\$)	0.130	0.160	0.195
Previous forecasts (HK\$m)	379.5	460.3	540.9
Previous EPS (HK\$)	0.126	0.152	0.179

### Price Chart



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HK\$473.1m for FY12/10F (from HK\$460.3) to reflect the better margin level of the company. Lately, Hong Kong pharmaceutical sector has been drive up by the listing of Sinopharm (1099 HK). We think that SB is an attractive stock in Hong Kong pharmaceutical sector for its growth potential, good profitably, strong cash position and improved liquidity. We revised up our target price to HK\$2.29, representing 18.0x and 14.5x ex-cash FY12/09 P/E and 14.6x and 10.5x ex-cash FY12/10 P/E. Upgrade to BUY.

Ticker:	1177.HK	12 mth range:	HK\$0.53-1.95
Price:	HK\$1.76	Market cap:	US\$681.6m
Target:	HK\$2.29 (+30%)	Daily t/o, 3 mth:	US\$1.0m
		Free float %:	43.5%

### Key points:

- \* 2Q FY12/09A revenue increased 33.5% to HK\$727.0m and net profit was up 52.1% YoY.
- \* New blockbuster drugs are keeping a high growth, showing that SB has strong capability in promoting the new drugs, particularly cardio-cerebral drugs and hepatitis drugs.
- \* Cash on hand of HK\$1,835.5m and dividend payout ratio of 41.6%.
- \* Revised up earnings estimate to HK\$383.8m for FY12/09F and HK\$473.1m for FY12/10F.
- \* Re-evaluate the counter with target price HK\$2.29, representing 18.0x and 14.5x ex-cash FY12/09F P/E. Upgrade to BUY.

**2Q FY12/09A results.** For 2Q FY12/09A, the revenue of Sino Biopharmaceutical (SB) was up 33.5% YoY to HK\$727.0m while the net profit jumped 52.1% YoY to HK\$87.1m. The revenue growth was mainly driven by the strong growth in its new blockbuster drugs. The net profit jump was driven by surprised gross margin expansion of 9.0 pcp to 86.8% and lower effective tax rate of 18.7% (30.5% in 2Q FY12/08A) while the selling and distribution expenses increased 69.6% to HK\$327.1m. The top line was lower than our estimate but the bottom line was in line, which was due to the company cutting the sales of lower margin product.

**New blockbuster drugs keep high growth.** For 2Q FY12/09A, the Sales of Tianqingning injections (launched in 2007) increased 69.0% YoY to HK\$23.1m. The sales of Tianqingganmei injections (launched in 2005) increased 132.8% YoY to HK\$86.2m. The sales of Mingzheng capsules (launched in 2006) increased 56.7% to HK\$147.4m. The sales of Kaifen injections (launched in 2005) increased 54.9% to HK\$49.1m was very strong for 4Q FY12/08A. The quick development of these new blockbuster drugs shows SB's strong capability in promoting the new drugs, particularly cardio-cerebral drugs and hepatitis drugs.

**Cash and dividend.** By the end of June 2009, SB had net cash of HK\$1,835.5m (Q1 FY12/09A: HK\$1,839.3m). The dividend payout ratio is 41.6% for 2Q FY12/09A (1Q FY12/09A: 38.1%).

**Upgrade to BUY, revised target price to 2.29.** We revised up our earnings forecast to HK\$383.8m (from HK\$379.5m) for FY12/09F and

**Table 1: 2Q 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\$)
2Q FY09	727.0	631.2	86.8	184.6	18.7	87.1	0.028	0.012
1Q FY09	845.4	596.2	70.5	170.2	17.6	89.2	0.029	0.011
QoQ (%)	(14.0)	5.9	-	8.5	-	(2.4)	(2.4)	9.0
2Q FY08	544.5	423.7	77.8	136.9	30.5	57.3	0.019	0.011
YoY (%)	33.5	49.0	-	34.9	-	52.1	52.1	9.0

Notes: \*EPS and DPS were calculated based on the total shares after rights issue

Source: Company data

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

3 months to Dec (HK\$m)	Revenue	YoY change (%)	% of turnover
Cardio-cerebral medicines	162.0	50.6	22.3
Hepatitis medicines	413.2	71.6	56.8
Oncology medicines	41.4	77.6	5.7
Others	110.3	(36.2)	15.2
<b>Total</b>	<b>727.0</b>	<b>33.5</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	2,986.3	3,480.0	3,933.9
Cost of sales	(205.8)	(473.2)	(567.9)	(678.6)	(759.3)
<b>Gross profit</b>	<b>958.5</b>	<b>1,809.0</b>	<b>2,418.3</b>	<b>2,801.4</b>	<b>3,174.7</b>
Other income and gains	98.4	95.0	69.7	74.1	76.8
Selling and distribution costs	(503.8)	(876.6)	(1,219.1)	(1,357.2)	(1,494.9)
Administrative expenses	(154.7)	(305.5)	(349.8)	(417.6)	(472.1)
Other operating expenses	(53.7)	(112.5)	(176.0)	(208.8)	(236.0)
<b>Operating profit</b>	<b>344.7</b>	<b>609.4</b>	<b>743.2</b>	<b>891.9</b>	<b>1,048.4</b>
Finance costs, net	(2.6)	(9.1)	(9.6)	(7.0)	(5.9)
Share of profits of an associated	0.2	-	-	-	-
<b>Profit before taxation</b>	<b>342.3</b>	<b>600.3</b>	<b>733.6</b>	<b>884.9</b>	<b>1,042.5</b>
Taxation	(34.0)	(118.3)	(140.2)	(221.2)	(260.6)
<b>Profit after tax</b>	<b>308.3</b>	<b>482.0</b>	<b>593.4</b>	<b>663.7</b>	<b>781.9</b>
Minority interests	(84.0)	(184.4)	(209.5)	(190.6)	(226.1)
<b>Profit attributable to shareholders</b>	<b>224.4</b>	<b>297.6</b>	<b>383.8</b>	<b>473.1</b>	<b>555.8</b>
% chg	58.9	32.6	29.0	23.3	17.5
Dividends	135.8	135.8	138.2	212.9	250.1

Source: Company data & SBI E2Capital

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