

Sino Biopharma



New blockbusters emerging

Key points:

- FY12/07A net profit at HK\$224.4m beats expectations.
- Regulatory tightening extends the product life cycle of incumbent blockbuster drugs – sales of Kaishi injections up 42.8% YoY at HK\$443.2m.
- New blockbuster drugs to fuel growth – sales of Mingzheng capsules up 569.6% YoY at HK\$206.4m.
- Potential spin off of 60.0%-owned JCTT may further unlock value.
- Reiterate BUY with a target price of HK\$2.27, representing 18.5x FY12/08F P/E and 16.9x FY12/08F ex-cash P/E.

FY12/07A better than expected. Sino Biopharmaceutical's (SB) FY12/07A exceeded our expectations. Revenue rose 58.5% YoY to HK\$1,164.3m and net profit 58.9% to HK\$224.4m. Gross and net margins (82.3% and 19.3%, respectively) were stable (FY12/06A: 81.1% and 19.2%). Revenue fell 3.1% QoQ to HK\$324.9m in 4Q FY12/07A, after an exceptionally strong 3Q, still better than our forecast, reflecting the sustained strong demand for SB's products. Net profit increased 21.6% QoQ to HK\$75.9m in 4Q due to seasonal factors and a lower effective tax rate. In general, 4Q results are usually stronger as the company's tends to incur more selling and distribution expenses in 3Q.

Existing blockbusters remain cash cows. SB's Kaishi injections sales grew 42.8% YoY to HK\$443.2m. We believe NDRC's and SFDA's new policies, which tend to extend life cycles of good quality and well-branded drugs with solid market shares, have boosted the position of Kaishi injections, one of SB's blockbuster drugs. We estimate that sales of SB's more mature Ganlixin injections and capsules were stable at HK\$268.7m. These drugs remain strong cash generators for SB.

New blockbuster drugs emerge. Another positive aspect shown in the company's FY12/07A results is the emergence of new blockbuster drugs which will drive growth. Sales of Mingzheng capsules, launched in 2006, rose 569.6% YoY to HK\$206.4m and of Tianqingganping enteric capsules, the next generation of Ganlixin capsules, 31.0% YoY to HK\$69.7m.

Potential spin off to unlock value. The company has announced that it may spin off its 60.0%-owned subsidiary, Jiangsu Chia Tai – Tianqing Pharmaceutical Co. (JCTT) on the Shenzhen Stock Exchange. JCTT submitted a formal application to the CSRC to this effect on 28 March 2008. The move may potentially unlock value in the Hong Kong listco, but much will depend on the size of the spin-off, listing valuations and SB's equity stake after the move. JCTT is SB's key subsidiary manufacturing Hepatitis medicines, with sales of HK\$688.4m in FY12/07A, up 42.9% YoY, accounting for

BUY (unchanged)

China Pharmaceuticals

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Kennedy Tsang / Helena Qiu

(852) 2533 3713 / 3709

kennedytsang / helenaqiu@sbie2capital.com

Stock data

Price	HK\$1.48
Target price	HK\$2.27 (+53%)
12 mth range	HK\$1.21-2.20
Market cap.	US\$430.2m
Daily t/o, 3 mth	US\$0.1m
Free float %	44.7%
Ticker	1177.HK/1177 HK

Financial summary

Year to Dec	06A	07A	08F	09F	10F
Turnover (HK\$m)	734.7	1164.3	1497.3	1819.4	2149.2
Net profit (HK\$m)	141.2	224.4	278.2	335.8	400.0
EPS (HK\$m)	0.062	0.099	0.123	0.148	0.177
EPS Δ%	(91.3)	58.9	24.0	20.7	19.1
P/E (x)	21.4	13.4	10.8	9.0	7.5
P/B (x)	1.58	1.49	1.26	1.15	1.04
EV/EBITDA (x)	13.7	5.9	3.8	2.7	1.8
Yield (%)	3.8	4.5	5.5	6.7	8.0
ROE (%)	7.5	11.4	12.6	13.4	14.5
ROCE (%)	6.3	12.4	15.5	17.5	19.6
N. Gear. (%)	84.1	83.5	79.6	77.0	77.1

Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	-4.7	+10.4	-5.2
Actual price changes (%)	0	-2.6	+13.8

	08F	09F	10F
Consensus EPS (HK\$)	0.130	0.140	0.170
Previous forecasts (HK\$m)	231.9	257.9	
Previous EPS (HK\$)	0.102	0.114	

Price Chart



59.1% of overall turnover.

Table 1: 4Q FY12/07A 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\$)
4Q FY06	197.7	169.0	85.4	74.1	14.9	46.3	0.020	0.020
4Q FY07	324.9	278.3	85.6	106.2	4.9	75.9	0.034	0.020
YoY (%)	64.4	64.7	-	43.3	-	64.1	64.1	-

Source: Company data

Table 2: 4Q FY12/07A revenue breakdown

3 months to Dec (HK\$m)	Revenue	YoY change (%)	% of turnover
Cardio-cerebral medicines	78.3	107.2	24.1
Hepatitis medicines	191.3	39.1	58.9
Oncology medicines	7.8	(35.0)	2.4
Others	47.6	355.3	14.6
Total	324.9	64.4	100.0

Source: Company data

Cash position. At end-FY12/07A, SB had net cash of HK\$1,717.4m (HK\$0.76/share). Its cash per share represents 51.4% of its share price.

Lifting net profit estimates. We have revised up our FY12/08F and FY12/09F net profit estimates by 24.0% and 20.7% to HK\$278.2m and HK\$335.8m, respectively. We remain positive on SB because of: 1) cash generation ability of its existing blockbuster drugs; 2) emerging new blockbuster drugs and 3) its strong cash position. We reiterate our BUY call with a target price of HK\$2.27, representing 18.5x FY12/08F P/E and 16.9x FY12/08F ex-cash P/E.

Table 3: P&L

Year to Dec (HK\$m)	06A	07A	08F	09F	10F
Turnover	734.7	1,164.3	1,497.3	1,819.4	2,149.2
Cost of sales	(138.8)	(205.8)	(284.5)	(345.7)	(408.3)
Gross profit	595.9	958.5	1,212.8	1,473.7	1,740.8
Other income and gains	91.5	98.4	93.3	94.6	99.1
Selling and distribution costs	(327.7)	(503.8)	(643.8)	(764.2)	(902.7)
Administrative expenses	(121.8)	(154.7)	(179.7)	(218.3)	(236.4)
Other operating expenses	(31.3)	(53.7)	(29.9)	(36.4)	(43.0)
Operating profit	206.6	344.7	452.7	549.4	657.8
Finance costs, net	(2.2)	(2.6)	(2.7)	(3.6)	(4.3)
Share of profits of an associated	0.7	0.2	0.3	0.4	0.4
Exceptionals	-	-	-	-	-
Profit before taxation	205.1	342.3	450.3	546.2	654.0
Taxation	(22.1)	(34.0)	(67.5)	(81.9)	(98.1)
Profit after tax	183.0	308.3	382.7	464.3	555.9
Minority interests	(41.8)	(84.0)	(104.6)	(128.5)	(155.9)
Profit attributable to shareholders	141.2	224.4	278.2	335.8	400.0
% chg	-	58.9	24.0	20.7	19.1
Dividends	(113.2)	(135.8)	(166.9)	(201.5)	(240.0)

Source: Company data

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