

Rebounding nicely

China Pharmaceutical

Sino-Biopharmaceutical (1177 HK, HK\$1.64)

Not Rated

We have visited Sino-Biopharma (SB) recently. Key takeaways are as follows:

Rebounding nicely. The company said its 1Q FY12/07A revenue surged 56.2% YoY to RMB226.9m thanks to its new marketing strategy of refocusing on existing blockbuster drugs rather than just on new products and the normalization of China's pharmaceutical industry after a period of restructuring, which started in late 2005 and lasted throughout 2006. Net profit was up 16.4% YoY at RMB32.2m, slower than the top line, due to increased minority interest payments (some revenue drivers came from 60%-owned JCTT and 51%-owned NJCTT) and a higher effective tax rate after the tax holiday of several subsidiaries expired. SB focuses on three main categories of pharmaceutical products: 1) cardio-cerebral medicines; 2) hepatitis medicines; and 3) oncology medicines.

Table 1: 1Q FY12/07A results

Three months to Mar	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 FY06	145.2	116.6	80.3	33.6	8.2	27.6	0.012	0.01
1Q FY07	226.9	181.0	79.8	50.9	12.0	32.2	0.014	0.01
YoY (%)	56.2	55.2	-	51.6	-	16.4	16.4	-

Source: Company data

Organic growth and contribution from new products. Revenue growth was driven mainly by the rebounding sales of its principal blockbuster drugs as well as ramp up of newer products. The sales of Ganlixin injections and capsules, one of blockbuster drugs, grew 50.5% YoY to RMB60.6m, while Kaishi injections sales remained relatively stable at RMB80.3m, down 4.7% YoY. The sales of Tianqingganping capsules, one of newer products, grew 39.2% YoY to RMB13.4m and an initial contribution of RMB31.9m from Mingzheng capsules, launched in 2H FY12/06 boosted the top line.

Table 2: 1QFY12/07 revenue breakdown by business segment

Business segment	Revenue (HK\$m)	Change (% YoY)	% of turnover	EBIT Margin
Cardio-cerebral medicines	45.8	1.9	20.2	24.6
Hepatitis medicines	132.1	83.0	58.2	20.9
Oncology medicines	14.0	77.6	6.2	20.2
Investment	5.0	(11.6)	2.2	-
Others	29.9	106.5	13.2	3.8
Total	226.8	56.2	100	-

Source: Company data

New product line ramp up on track. SB's new product roll out has been steady. With a solid pipeline of new drugs targeted to become blockbusters between 2007-2010, the company appears to have its growth drivers lined up. It aims to launch up to seven new drugs a year in the next two to three years. Thanks to various new drugs either recently launched or already in the ramp up phase, the company is buffered against the more stringent product approval process introduced by the SFDA. It can focus on driving sales of new products while many of its competitors are still trying to obtain product approvals. At the end of 2006, the company had 24 patents approved, 39 invention patents announced and 26 applications for invention patents.

Table 3: Newly launched blockbuster products

Product	Therapeutic category	Launch date	Target to become blockbuster product
Tianqingganping enteric capsules	Hepatitis	May 2004	2007
Tianqingganmei injections	Hepatitis	Nov 2005	2008
Tianqingyitai injections	Oncology	Jan 2005	2008
Kaifen injections	Analgesic	Jan 2005	2009
Mingzheng capsules	Hepatitis	July 2006	2009
Tianqingning injections	Cardio-cerebral	Nov 2006	2010
Tianqingzhengs	Respiratory ailments	2006	2010

Source: Company data

Note: Blockbuster product-annual sales over RMB100 million

Cash pile increases. SB continues to build its cash hoard. At the end of 1Q FY12/07A, it was in a net cash position of RMB1,771.7m, or RMB0.78 per share (47.6% of the share price). Management budgets an annual capex of RMB20.0-30.0m suggesting that there is plenty of ammunition for M&A activities.

Coal-to-olefin project delayed. The company's 43%-owned JV formed in Sep 2006 with three other parties, including Shaanxi Coal Chemical, to refine coal into olefin products appears to be delayed. At present, management does not expect to start investing in the project until FY12/08. The company has pledged RMB752.0m for FY12/08F-10F.

Consensus estimates and valuation. We expect SB to grow 20-30% YoY over the next couple of years. The counter is currently trading at 26.4x FY12/07F and 22.5x FY12/08F P/E based on consensus. However, on an ex-cash basis, the valuation drops to 13.8x FY12/07F and 11.6x FY12/08F P/E, which appears attractive, given its substantial discount to industry comparables. Even if we exclude the RMB752.0m earmarked for the coal-to-olefin project, the P/E valuation of 18.9x FY12/07F and 15.9x FY12/08F remains very reasonable in our view.

Table 4: P&L

Year to Dec (HK\$m)	04A	05A	06A	1Q 06A	1Q 07A
Turnover	664.3	756.1	734.7	145.2	226.9
Cost of sales	(133.2)	(139.4)	(138.8)	(28.6)	(45.9)
Gross profit	531.1	616.7	595.9	116.6	181.0
Other income and gains	7.1	28.6	91.5	16.3	14.0
Selling and distribution costs	(253.4)	(310.6)	(327.7)	(64.8)	(100.3)
Administrative expenses	(101.9)	(110.9)	(121.8)	(23.1)	(27.8)
Other operating expenses	(33.4)	(42.2)	(31.3)	(11.4)	(15.9)
Operating profit	149.5	181.6	206.6	33.6	51.0
Finance costs, net	(1.1)	(2.7)	(2.2)	(0.1)	(0.1)
Share of profits and losses of jointly controlled entities	-	-	-	-	-
Share of profits of an associated	-	-	0.7	-	0.1
Exceptionals	-	(66.3)	-	-	-
Profit before taxation	148.5	112.5	205.1	33.5	51.0
Taxation	(15.4)	(18.3)	(22.1)	(2.8)	(6.1)
Profit from continuing operations	133.1	94.2	183.0	30.8	44.7
Profit from discontinued operations	152.1	1,558.4	-	-	-
Profit after tax	285.2	1,652.6	183.0	30.8	44.7
Minority interests	(116.7)	(119.7)	(41.8)	(3.2)	(12.6)
Profit attributable to shareholders	168.5	1,532.9	141.2	27.6	32.2
Dividends	(109.2)	(250.6)	(113.2)	(22.6)	(22.6)

Source: Company data

Table 5: Valuation comparison

Company name	Ticker	Mkt Cap (US\$m)	Price	Cur Yr P/E (x)	Nxt Yr P/E (x)	Est Div Yield (%)	ROE (%)
Sino-Biopharmaceutical	1177 HK	491.4	HK\$1.7	26.4	22.5	2.6	7.5
Guangzhou Pharma	874 HK	1,448.0	HK\$8.0	22.2	18.1	1.4	7.8
China Pharmaceutical	1093 HK	596.4	HK\$3.0	14.7	18.3	1.0	0.6
Hua Han Bio-Pharma	587 HK	280.0	HK\$2.4	15.5	11.4	0.9	16.3
SD Luoxin Pharma	8058 HK	234.4	HK\$3.1	-	-	-	32.1
Shangdong Xinhua	719 HK	374.6	HK\$3.5	-	-	-	1.7
China Shineway	2877 HK	559.7	HK\$5.4	12.0	23.3	4.2	19.6
Mingyuan Medical	233 HK	462.4	HK\$1.3	30.9	22.5	1.1	13.9
Average				20.2	19.4		

Source: Bloomberg