

United Laboratories

Expects more

to summarize...

- Share price rallied 69.4% after results announcement.
- Current 6-APA and Amoxicillin bulk medicine price is stable.
- Trading at a lower valuation comparing to its peers.
- Maintain BUY call with revised target price of HK\$10.60 based on peers' average P/E level of 19.6x FY12/10F

Share price jumped lately. ULI's share price rallied 69.4% after its annual results announcement in 22 March, which we think was encouraged by: 1) better than the market expected results; 2) encouraged industry environment; 3) comparatively low valuation.

Limited down side potential in 6-APA. Our channel check shows that the current 6-APA and amoxicillin bulk medicine price is stable at RMB180/kg (incl.VAT) and RMB220/kg (incl.VAT) respectively. At the moment, with the increasing demand in amoxicillin finished drugs and government's increasing effort in protecting the environment, the downside potential for 6-APA is limited. We think the trend would be favorable for ULI's development.

BUY with target price of HK\$10.60. In Hong Kong stock market, ULI is a comparable peer with China Pharmaceutical (1093 HK), Sino Biopharmaceutical (1177 HK), and China Shineway Pharmaceutical (2877 HK). We think ULI is now worth to trade at a premium to China Pharmaceutical because ULI currently shows a more positive outlook. However, ULI's anti-biotic and API business is less attractive than Sino Biopharmaceutical and China Shineway Pharmaceutical's specialized pharmaceutical business. In considering this factor, we think it is fair for ULI to trade at average P/E of above three peers, which was 19.6x FY12/10F based on market consensus, to derive a new target price of HK\$10.60. We keep our BUY call on the counter. At the same time, we think our current net profit estimate maybe in conservative side. We will closely follow up ULI for updated information.

Ticker	3933 HK
Rating	BUY(Unchanged)
Price (HK\$)	8.96
Target Price (HK\$)	10.60(+18%)
12m Price Range (HK\$)	2.66-9.59
Market cap. (US\$m)	1,379.3
Daily t/o (US\$m)	1.9
Free float (%)	27.8

Financial summary

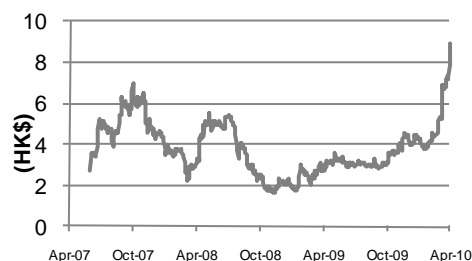
Year to Dec	08A	09A	10F	11F	12F
Turnover (HK\$m)	3,755.9	4,643.2	5,177.3	5,895.6	6,175.5
Net Profit (HK\$m)	430.2	541.4	649.1	796.4	849.7
EPS (HK\$)	0.358	0.451	0.541	0.664	0.708
P/E (x)	25.0	19.9	16.6	13.5	12.7
P/B (x)	3.82	3.37	3.01	2.26	2.01
EV/EBITDA (x)	4.7	3.8	3.1	2.3	1.9
Yield (%)	1.7	2.1	2.4	2.6	2.8
ROE (%)	16.3	18.0	19.2	19.1	16.8
ROCE (%)	20.4	22.4	25.8	26.0	23.2
N. Gear. (%)	50.3	49.2	35.9	6.2	Cash

Source: SBI/Bloomberg

	10F	11F	12F
Consensus EPS (HK)	0.565	0.683	0.808
Previous earnings (HK\$m)	649.1	796.4	849.7
Previous EPS (HK)	0.541	0.664	0.708

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	+61.9	+107.3	+133.1
Actual price changes (%)	+68.4	+109.3	+227.0



Source: Bloomberg

Helena Qiu

(852) 2533 3709

helenaqiu@sbie2capital.com

Table 1. Valuation comparison

Company name	Ticker	Mkt cap (US\$m)	Last Price (Local)	His P/E (x)	1-Yr P/E (x)	2-Yr P/E (x)	PB (x)	Est ROE (%)
HK-listed								
China Pharm	1093 HK	1,039.7	5.28	8.3	10.8	13.6	1.7	24.0
Sino Biopharm	1177 HK	2,012.6	3.28	37.4	25.2	20.5	6.5	14.0
China Shineway	2877 HK	2,657.6	25.05	26.9	22.8	17.4	6.7	31.6
Average				24.2	19.6	17.2		

Source: Bloomberg

Chart 1: 6-APA price trend

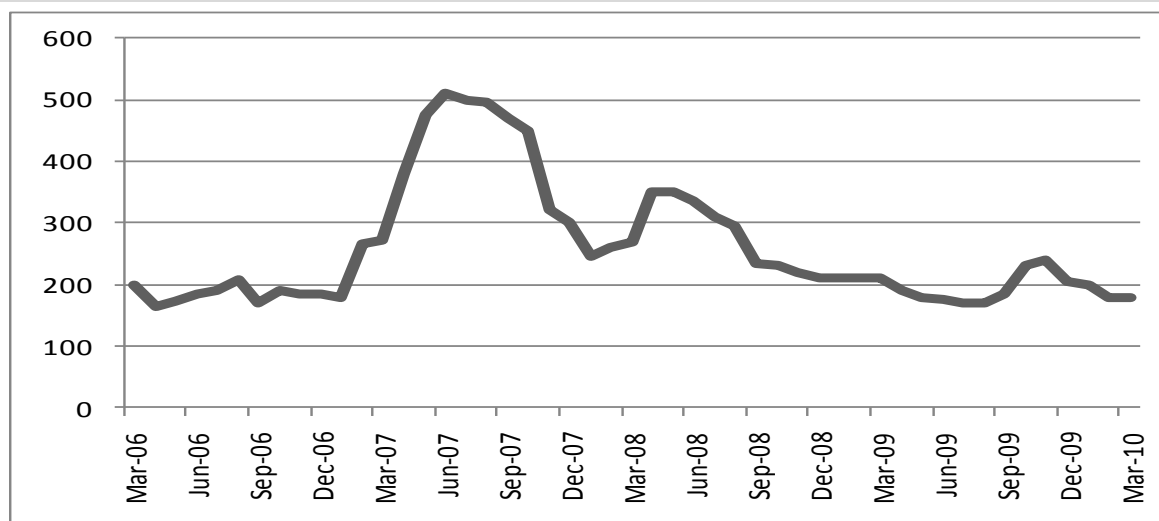
Source: www.healthoo.com, and SBI E2-Capital

Table 2: P & L

Year to Dec (HK\$m)	08A	09A	10F	11F	12F
Turnover*					
Intermediates	742.4	808.1	717.0	820.8	879.4
Bulk Medicines	1,712.2	2,248.9	2,536.6	2,862.6	2,862.6
Finished Product	1,301.3	1,586.2	1,923.7	2,212.3	2,433.5
	3,755.9	4,643.2	5,177.3	5,895.6	6,175.5
Cost of sales	(2,326.3)	(2,829.2)	(3,022.9)	(3,426.2)	(3,506.7)
Gross profit	1,429.6	1,814.0	2,154.3	2,469.5	2,668.8
Other income and gains	63.0	22.6	8.1	8.5	8.9
Selling and distribution costs	(554.5)	(718.0)	(811.7)	(879.5)	(983.6)
Administrative expenses	(247.6)	(291.9)	(324.7)	(376.9)	(421.5)
Other operating expenses	(40.9)	(44.9)	(20.0)	(20.0)	(10.0)
Operating profit	649.7	781.9	1,006.0	1,201.4	1,262.6
Finance costs, net	(117.2)	(88.5)	(78.8)	(63.8)	(48.8)
Profit before taxation	532.5	693.4	927.3	1,137.7	1,213.8
Taxation	(102.4)	(151.9)	(278.2)	(341.3)	(364.1)
Net profit	430.2	541.4	649.1	796.4	849.7

Source: Company data and SBI E2-Capital

*External sales only

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HOLD : absolute return of -10% to +10% over the next six months

SELL : absolute downside of >10% over the next six months

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