

United Laboratories

No catalyst for 6-APA

HOLD (from BUY)

Financial summary

Year to Dec	07A	08A	09F	10F	11F
Turnover (HK\$m)	2,594.93	755.93	599.03	851.64	225.1
Net Profit (HK\$m)	510.5	430.2	361.8	479.2	593.7
EPS (HK\$)	0.425	0.358	0.301	0.399	0.495
EPS Δ%	193.6	(15.7)	(15.9)	32.4	23.9
P/E (x)	7.4	8.8	10.4	7.9	6.4
P/B (x)	1.37	1.34	1.40	1.29	1.22
EV/EBITDA (x)	5.0	4.7	4.8	4.0	3.4
Yield (%)	5.4	4.8	3.3	4.4	5.5
ROE (%)	27.1	16.3	13.1	17.0	19.7
ROCE (%)	26.9	20.7	17.6	22.1	25.4
N. Gear. (%)	33.0	50.3	41.0	36.7	22.8

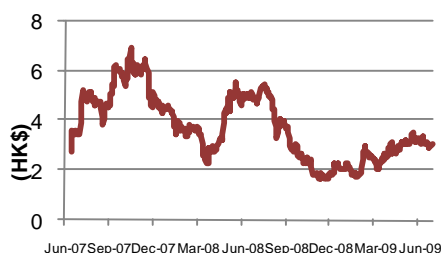
Source: SBI E2-Capital

Price performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	-10.4	-24.6	-32.5
Actual price changes (%)	0.3	-	-38.9

	09F	10F	11F
Consensus EPS (HK\$)	0.396	0.486	0.493
Previous forecasts (HK\$m)	501.8	611.0	720.2
Previous EPS (HK\$)	0.418	0.509	0.600

Price chart



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catalogue of essential drugs by the government. Based on our current estimate that finished products account for 79.1% of total EBIT. The new product schedule is in line with expectation. Acetaminophen and Dextromethorphan Hydrobromide Oral Solution (氨酚沙芬口服溶液) was launched in 1H 2009 and it is expect to make contribution to the company soon. Imipenem Cilastatin Sodium for injection was launched also launched in 1H 2009, but it would start make contribution next year because of the affect of procurement policy in different provinces. ULI also the ULI announced in May that it has received the SFDA approval for a new prescription antiviral drug (盐酸金刚乙胺颗粒) for prevention and treatment of the avian flu. The product was scheduled to launched at the end of 2009. ULI currently expect to get the SFDA approval for Isophane protamine human insulin injection for treatment of type I & II diabetes by the end of 2009 and plan to launch it in 2010.

Ticker:	3933.HK	12 mth range:	HK\$1.68-5.04
Price:	HK\$3.08	Market cap:	US\$474.2m
Target:	HK\$3.19 (+4%)	Daily t/o, 3 mth:	US\$1.7m
		Free float %:	27.8%

Key points:

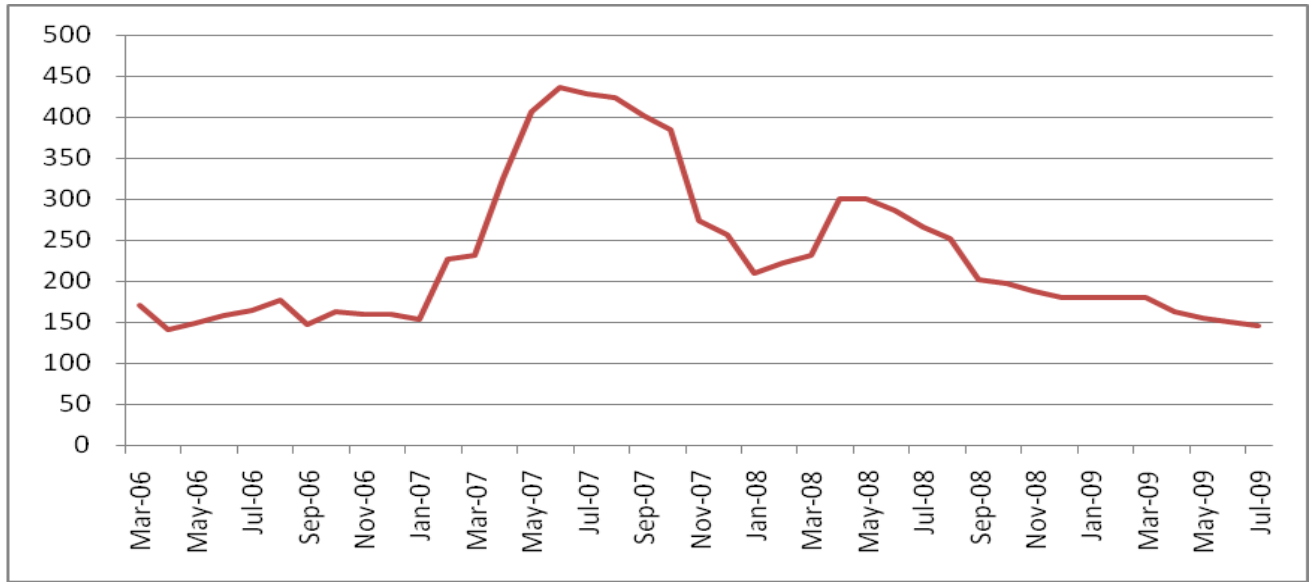
- * 6-APA and amoxicillin bulk medicine price remain weak with near term outlook remaining pessimistic. We revised down our estimate of the contribution from intermediate product and bulk medicine.
- * Slightly revising up the operating profit factoring the lower cost in 2009 and revising down the top line factoring the effect from delay in issuing of catalogue of essential drugs.
- * Finished products account for 79.1% of total EBIT.
- * Downgrade the counter to HOLD call, revising SOTP target price to HK\$3.19, representing 10.8x blended FY12/09F P/E.

No catalyst for 6-APA. We have expected the 6-APA price to slight recovered in the average level of RMB197.6/kg (ex-VAT) in our previous report. However, based on our observation and data available so far, price remains moderate at about RMB145.0/kg (ex-VAT) in July versus RMB180.0/kg (ex-VAT) in January. The amoxicillin bulk medicine dropped to RMB162.0/kg (ex-VAT) in July from RMB201.0/kg (ex-VAT) in January. Based on our channel checks, some players are currently in loss making stage already. China Pharmaceutical (1093 HK, HK\$4.42) reported an operating loss of 10.5m for 1Q FY12/09A for its penicillin segment (which includes penicillin salt, 6-APA and amoxicillin bulk medicine). According to our talk with management of ULI, they are still in breakeven level for 6-APA and in the profit for amoxicillin bulk based on current level, thanks for its lower cost factors in Inner Mongolia and direct extraction method. We think the price going forward in 2009 would still remain weak given: 1) ULI's spare capacity in the market (ULI's utilization rate for 6-APA is about 70.0%) and 2) lack of indication of significant demand growth from overseas. Based on current market conditions, we keep more conservative estimate for the price of 6-APA and amoxicillin bulk medicine. We revised down our estimate of operating profit for intermediate products from HK\$41.8m to HK\$2.6m, for bulk medicine from HK\$257.7m to HK\$114.0m for FY12/09F.

Finished products would be main profit contributor. We slightly revise up our estimates for operating profit for FY12/09F from HK\$432.4 to HK\$440.5 given the lower cost in 2009 while we slightly revise down the sales from finished products from HK\$1562.6m to HK\$1516.5m factoring some impact from the delay in issuing the

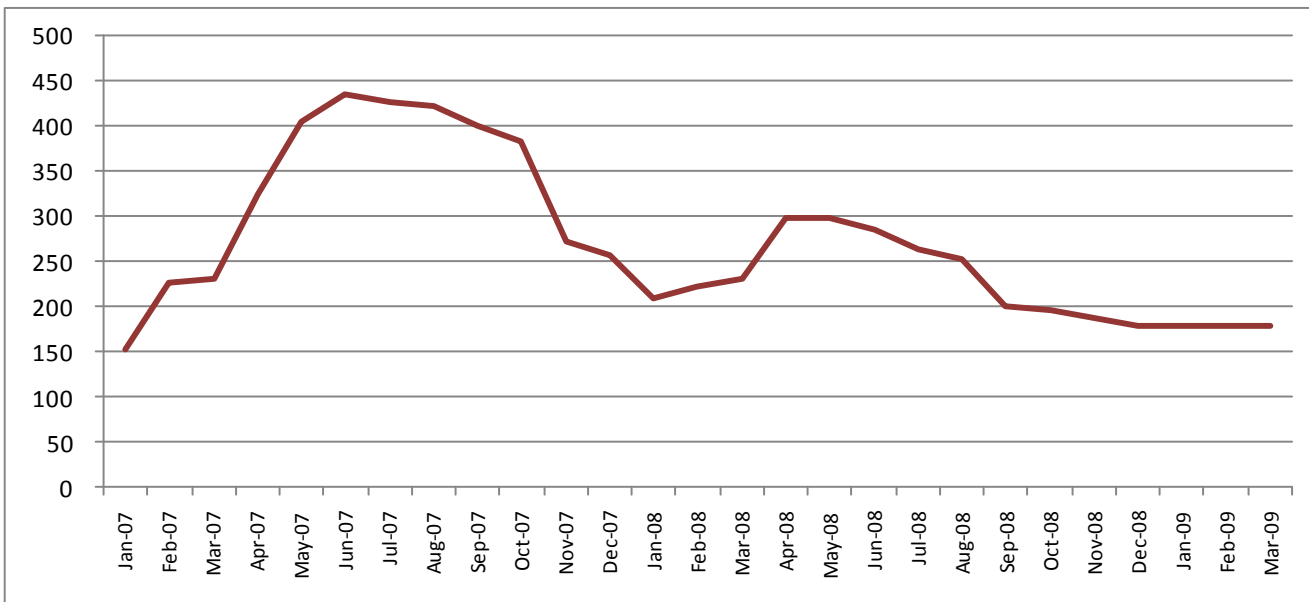
Maintain our target price of HK\$3.19, downgrade to HOLD call. We revised our earnings estimate for FY12/09F to HK\$361.8m (from HK\$501.8m) and FY12/10F to HK\$479.2m (from HK\$611.0m) corresponding to the revision for intermediate product and bulk medicine. We currently downgrade the counter to a HOLD call, revising down our target price to HK\$3.19, representing 11.0x FY12/09F P/E in finished products and 3.0x in medical raw materials (10.8x blended P/E). However, we think there are still trading opportunity on the counter, given: 1) favourable government policies towards the China healthcare sector; 2) ULI's leading position in China pharmaceutical sector; 3) comparatively favourable market capitalisation and liquidity relative to other Hong Kong-listed healthcare stocks.

Chart 1: 6-APA price trend(RMB/kg, ex-VAT)



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

Chart 2: Amoxicillin Bulk Medicine price trend (RMB/kg, ex-VAT)



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

Table 1: P & L

Year to Dec (HK\$m)	07A	08A	09F	10F	11F
Turnover*					
Intermediates	265.7	742.4	444.9	444.2	541.4
Bulk Medicines	1,362.3	1,712.2	1,637.5	1,663.4	1,713.0
Finished Product	967.0	1,301.3	1,516.5	1,744.0	1,970.7
	2,594.9	3,755.9	3,599.0	3,851.6	4,225.1
Cost of sales	(1,389.2)	(2,326.3)	(2,232.8)	(2,253.3)	(2,403.8)
Gross profit	1,205.8	1,429.6	1,366.2	1,598.3	1,821.3
Other income and gains	25.8	63.0	20.0	20.0	20.0
Selling and distribution costs	(381.5)	(554.5)	(566.4)	(633.5)	(699.3)
Administrative expenses	(173.3)	(247.6)	(242.7)	(271.5)	(299.7)
Other operating expenses	(38.4)	(40.9)	(20.0)	(20.0)	(20.0)
Operating profit	638.3	649.7	557.0	693.3	822.3
Finance costs, net	(80.0)	(117.2)	(104.8)	(94.3)	(80.2)
Profit before taxation	558.3	532.5	452.2	599.0	742.1
Taxation	(47.9)	(102.4)	(90.4)	(119.8)	(148.4)
Net profit	510.5	430.2	361.8	479.2	593.7

Source: Company data and SBI E2-Capital

*External sales only

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- BUY** : absolute upside of >10% over the next six months
- 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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