

# United Laboratories

*Finished drugs are still the key*

**HOLD (Unchanged)**

## Financial summary

Year to Dec	07A	08A	09F	10F	11F
Turnover (HK\$m)	2,594.93	755.94	129.34	026.04	340.3
Net Profit (HK\$m)	510.5	430.2	310.5	417.3	524.8
EPS (HK\$)	0.425	0.358	0.259	0.348	0.437
EPS Δ%	193.6	(15.7)	(27.8)	34.4	25.7
P/E (x)	7.7	9.1	12.6	9.4	7.5
P/B (x)	1.42	1.39	1.52	1.44	1.38
EV/EBITDA (x)	5.0	4.7	4.6	4.0	3.5
Yield (%)	5.2	4.6	2.8	3.7	4.7
ROE (%)	27.1	16.3	11.5	15.7	18.9
ROCE (%)	26.9	20.7	17.4	21.8	25.4
N. Gear. (%)	33.0	50.3	47.3	45.0	36.1

Source: SBI E2-Capital

Ticker: 3933.HK  
Price: HK\$3.27  
Target: HK\$3.19 (-2%)

12 mth range: HK\$1.68-3.70  
Market cap: US\$503.4m  
Daily t/o, 3 mth: US\$1.4m  
Free float %: 27.8%

## Key points:

- Revenue increased 5.3% YoY with net profit drop of 55.2% affecting by drop in 6-APA price, increasing expenses and tax.
- 6-APA market is still competitive although some players are starting cutting their capacity.
- Finished product development is in line with the growth driver mainly from new drugs.
- 13 finished products are in the catalogue of essential drugs and management is positive on the development of finished products.
- Maintain HOLD call with target price of HK\$3.19.

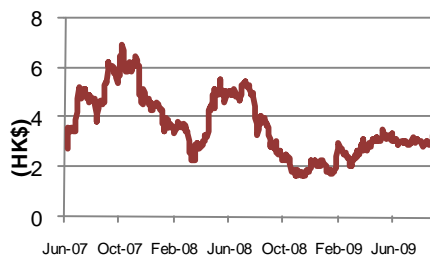
## Price performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	4.1	-8.1	1.7
Actual price changes (%)	6.5	6.2	3.5

	09F	10F	11F
Consensus EPS (HK\$)	0.342	0.435	0.472
Previous forecasts (HK\$m)	361.8	479.2	593.7
Previous EPS (HK\$)	0.301	0.399	0.495

## Price chart



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4.0% to around 73.0% benefiting from lower raw material cost. However, the high growth in selling and distribution expenses erode some profit. The growth and margin was mainly driven up by the new products. The sales volume of Cefuroxime Axetil Tablet increased 42.1% YoY to 2.5m packs; the sales volume of Tazobactam sodium and piperacillin increased 26.7% YoY to 2.9m packs; and the sales volume of Adefovir capsules increased 115.1% YoY to 368k packs. The sales volume of amoxicillin finished product was slow down to about 8.6%. ULI has currently 12 finished products in the catalogue of essential drugs, accounting for 38.5% of total sales. The management expects the issue of the catalogue of essential drugs would be very positive for the development of the company.

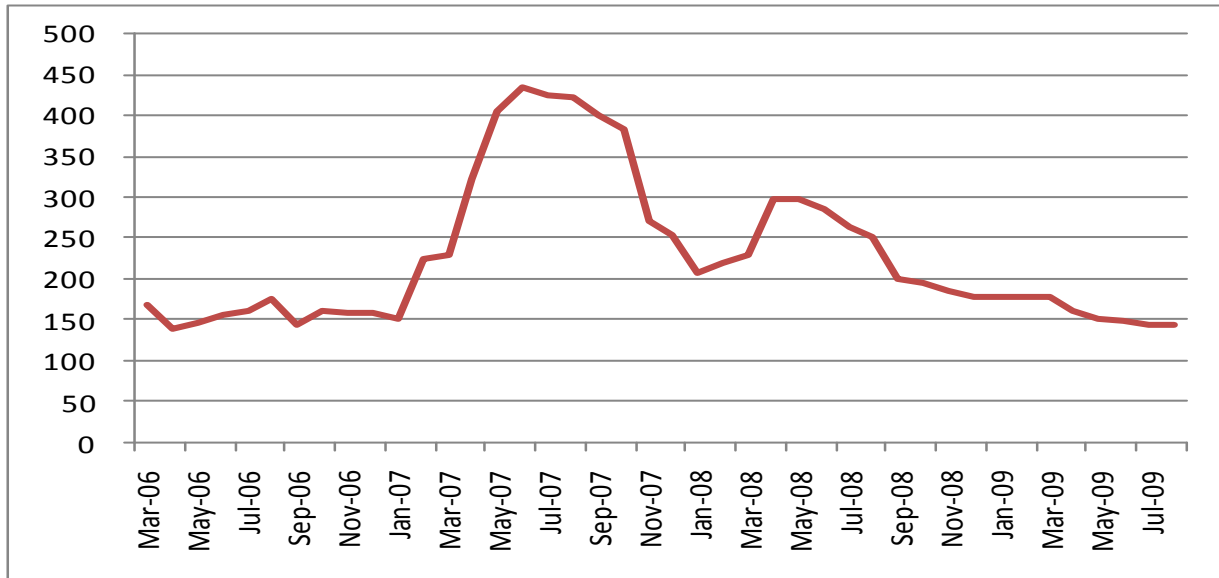
**IH FY12/09A results.** The revenue increased 5.3% YoY to HK\$2,076.2m with net profit down 55.2% YoY to HK\$134.4m. The gross margin narrowed 2.4% pcp YoY to 35.7% with the gross margin improvement in finished products offsetting some effect of margin drop in 6-APA and amoxicillin bulk. The net margin squeezed 8.7% pcp YoY to 6.5% due to the increasing selling and distribution expenses (3.3% pcp YoY growth to 16.9% of total revenue) and increasing effective tax rate (18.5% in IH FY12/08 and 33.0% in IH FY12/09). The results is slightly below our estimated of HK\$168.0m

**The profit from 6-APA and amoxicillin bulk is slim now.** For IH FY12/09A, the operating profit from intermediate product was HK\$30.0m comparing to HK\$101.1m in IH FY12/08A. The operating profit from bulk medicine was HK\$66.4m comparing to HK\$164.9m in IH FY12/08A. However, ULI's profitability is better than other market players due to the scale effect, lower cost factors in Inner Mongolia factories and direct extraction method. According to our channel checks, most of players have been in loss making stage and some players is cutting their production line and reducing the production capacity. Currently, the price of 6-APA is maintain stable at about RMB170/kg (including VAT). We would expect the price to be slightly better towards the end of the year given the coming of the peak season. However, we think that the 6-APA market would still under consolidation and price competition.

**Finished product is still on track.** For IH FY12/09A, the sales in finished product increased 15.7% YoY to HK\$743.4m with operating profit increased 17.0% YoY to HK\$183.4m. The gross margin widened

**Maintain HOLD call with HK\$3.19.** We revised our earnings estimate for FY12/09F to HK\$310.5m (from HK\$361.8m) and FY12/10F to HK\$417.3m (from HK\$479.2m) with higher effective tax rate and selling and distribution expenses. We maintain our current target price of HK\$3.19, representing 12.3x FY12/09F and 9.2x FY12/10F P/E giving that the pharmaceutical sector has been attracted the market attention by the listing of Sinopharm (1099 HK) in Hong Kong soon in an IPO share price representing 18.0x to 24.0x FY12/10F P/E.

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



Source: [www.healthoo.com](http://www.healthoo.com), SBI E2-Capital

**Table 1: P & L**

Year to Dec (HK\$m)	07A	08A	09F	10F	11F
<b>Turnover*</b>					
Intermediates	265.7	742.4	559.2	328.1	351.8
Bulk Medicines	1,362.3	1,712.2	2,036.5	1,934.2	1,995.5
Finished Product	967.0	1,301.3	1,533.6	1,763.7	1,993.0
	<b>2,595.0</b>	<b>3,755.9</b>	<b>4,129.3</b>	<b>4,026.0</b>	<b>4,340.3</b>
Cost of sales	(1,389.2)	(2,326.3)	(2,657.4)	(2,364.4)	(2,483.5)
<b>Gross profit</b>	<b>1,205.8</b>	<b>1,429.6</b>	<b>1,471.9</b>	<b>1,661.6</b>	<b>1,856.8</b>
Other income and gains	25.8	63.0	23.2	20.0	20.0
Selling and distribution costs	(381.5)	(554.5)	(649.6)	(702.6)	(743.0)
Administrative expenses	(173.3)	(247.6)	(255.3)	(281.0)	(318.4)
Other operating expenses	(38.4)	(40.9)	(37.7)	(20.0)	(20.0)
<b>Operating profit</b>	<b>638.3</b>	<b>649.7</b>	<b>552.5</b>	<b>677.9</b>	<b>795.4</b>
Finance costs, net	(80.0)	(117.2)	(100.1)	(90.1)	(76.6)
Profit before taxation	558.3	532.5	452.4	587.8	718.8
Taxation	(47.9)	(102.4)	(141.8)	(170.5)	(194.1)
<b>Net profit</b>	<b>510.5</b>	<b>430.2</b>	<b>310.5</b>	<b>417.3</b>	<b>524.8</b>

Source: Company data and SBI E2-Capital

\*External sales only

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