

United Laboratories

Warm 6-APA market

BUY (From HOLD)

Financial summary

Year to Dec	07A	08A	09F	10F	11F
Turnover (HK\$m)	2,594.93	755.94	370.84	381.84	674.2
Net Profit (HK\$m)	510.5	430.2	404.9	562.9	665.9
EPS (HK\$)	0.425	0.358	0.337	0.469	0.555
EPS Δ %	193.6	(15.7)	(5.9)	39.0	18.3
P/E (x)	9.3	11.0	11.7	8.4	7.1
P/B (x)	1.72	1.69	1.81	1.70	1.40
EV/EBITDA (x)	5.0	4.7	4.1	3.5	2.8
Yield (%)	4.3	3.8	3.0	4.1	4.9
ROE (%)	27.1	16.3	14.9	20.8	21.5
ROCE (%)	26.2	20.0	20.7	27.2	28.8
N. Gear. (%)	33.0	50.3	43.8	36.8	12.4

Source: SBI E2-Capital

Price performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	9.6	23.4	26.8
Actual price changes (%)	23.8	34.2	131.6

	09F	10F	11F
Consensus EPS (HK\$)	0.358	0.327	0.387
Previous forecasts (HK\$m)	310.5	417.3	524.8
Previous EPS (HK\$)	0.259	0.348	0.437

Price chart



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FY12/10. ULI's insulin injection product was expected to get the SFDA approval in December 2009 and launch to the market by July 2010. Although these new product would not bring significant contribution to ULI's finished product line in FY12/10F, it would be the helpful supplement of its current portfolio and possible to be key growth driver in the future.

Earnings estimated revised up. We have revised up our FY12/09F net profit estimate to HK\$404.9m from HK\$310.5m in our previous report because of: 1) 6-APA price jump; 2) better finished product line growth. We estimate the net profit would be HK\$562.9m for FY12/10F based on assumption that the 6-APA price would be in average of RMB180.0/kg (excluding VAT) in FY12/10F, which

Sensitivity analysis. In addition, we have also undertaken a sensitivity analysis with bull and bear case scenarios,

Ticker:	3933.HK	12 mth range:	HK\$01.68-4.05
Price:	HK\$3.96	Market cap:	US\$609.6m
Target:	HK\$5.04 (+27%)	Daily t/o, 3 mth:	US\$1.2m
		Free float %:	27.8%

Key points:

- * 6-APA market is warm now with price moved to RMB205/kg (excluding VAT).
- * Finished product line growth would be strong. We estimate for 25% YoY growth.
- * New products would be helpful supplement for FY12/10F and have potential to be key driver for ULI's finished product line in the future.
- * We revised up our net profit estimate for FY12/09F to HK\$404.9m from HK\$310.5m.
- * Our scenario analysis suggest a fair price of HK\$5.28 on base case, HK\$6.64 on bull case, and HK\$3.20 on bear case.
- * We upgrade the counter to BUY from HOLD, with target price of HK\$5.04, which was derived by applying an equal weight on each scenario.

6-APA market is warm now. According to the news from healthoo (www.healthoo.com), the 6-APA price is now RMB205/kg (excluding VAT) from RMB158/kg in the beginning of September. In our view that the price jump has been affected by the following factors: 1) peak season for the demand of Amoxicillin finished drugs because of the cold weather in majority regions in China; 2) the control of supply by the main manufacturers; 3) the market sentiment drive up the demand that user of 6-APA would want to have some inventory in case the further growth of 6-APA price. We would expect that the 6-APA market would still fluctuate.

Strong finished product growth in 2H FY12/09. Based our talk with management, the growth of finished product line would be strong because of: 1) clarified essential drug list and government support policy encouraged medical spending; 3) strong seasonality demand in 4Q. Correspondingly, we have adjusted our estimate for finished product line growth to 25.0% from 20.0%.

New product pipeline would be helpful supplement of current portfolio. ULI just announced that it has obtained production approval for the two eye drops product, which would be the OTC medicines. It's Rimantadine Hydrochloride Granules for prevention and treatment of influenza virus type A will be launched in the market in 1H

using our new estimates as a base case. The bull case assumes the 6-APA price to be in average of RMB200.0/kg (excluding VAT) in FY12/10F and bear case assumes the price to be in average of RMB160.0/kg (excluding VAT). The net profit estimate for FY12/10F based on bull case would be HK\$748.8m while it would be HK\$305.3m based on bear case.

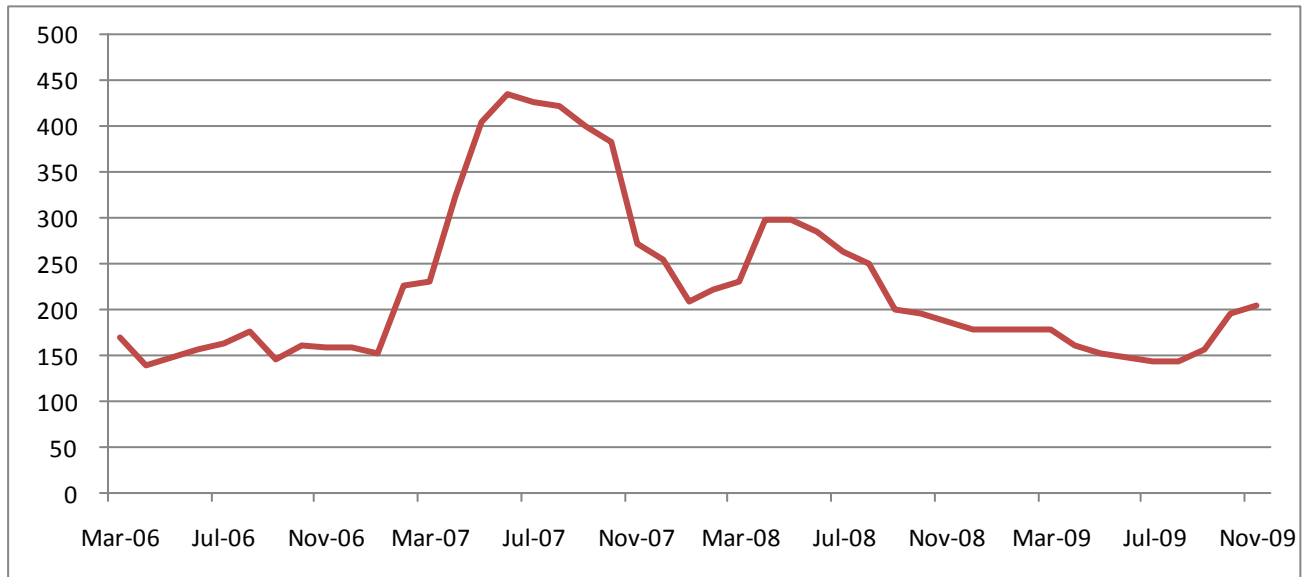
Valuation. According to our DCF evaluation, based on the discount rate of 16.0% and terminal growth of 0.5%, the fair price for ULI on based case would be HK\$5.28, on bull case would be HK\$6.64, and on bear case would be HK\$3.20. We take equal weight on the possibility of each scenario to derive a fair value of HK\$5.04. We upgrade our call for ULI from HOLD to BUY.

Table 1: ULI evaluation

Scenarios		Our Estimate
Base Case		
6-APA avg. price (ex. VAT)	RMB/kg	180
Net profit	HK\$m	562.9
DCF Derived fair price	HK\$	5.28
P/E FY12/10F(based on fair price)	x	11.3
Bull Case		
6-APA avg. price (ex. VAT)	RMB/kg	200
Net profit	HK\$m	748.8
DCF Derived fair price	HK\$	6.64
P/E FY12/10F(based on fair price)	x	10.6
Bear Case		
6-APA avg. price (ex. VAT)	RMB/kg	160
Net profit	HK\$m	305.3
DCF Derived fair price	HK\$	3.20
P/E FY12/10F(based on fair price)	x	12.6
Price based on equal weight in each case	HK\$	5.04

Source: SBI E2-Capital

Chart 1: 6-APA price trend



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

Table 2: P & L

Year to Dec (HK\$m)	06A	07A	08A	09F	10F
Turnover*					
Intermediates	265.7	742.4	677.7	432.7	477.0
Bulk Medicines	1,362.3	1,712.2	2,126.5	2,188.8	2,260.8
Finished Product	967.0	1,301.3	1,566.6	1,760.4	1,936.4
	2,595.0	3,755.9	4,370.8	4,381.8	4,674.2
Cost of sales	(1,389.2)	(2,326.3)	(2,770.5)	(2,530.6)	(2,631.4)
Gross profit	1,205.8	1,429.6	1,600.3	1,851.2	2,042.8
Other income and gains	25.8	63.0	23.2	16.8	17.6
Selling and distribution costs	(381.5)	(554.5)	(649.6)	(689.4)	(717.8)
Administrative expenses	(173.3)	(247.6)	(255.3)	(275.8)	(307.6)
Other operating expenses	(38.4)	(40.9)	(37.7)	(20.0)	(20.0)
Operating profit	638.3	649.7	680.9	882.9	1,015.0
Finance costs, net	(80.0)	(117.2)	(93.8)	(78.8)	(63.8)
Profit before taxation	558.3	532.5	587.1	804.1	951.2
Taxation	(47.9)	(102.4)	(182.2)	(241.2)	(285.4)
Net profit	510.5	430.2	404.9	562.9	665.9

Note: the current P&L are based on base case scenario

Source: Company data and SBI E2-Capital

*External sales only

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