

China / Hong Kong Flash Note

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DBS Group Research . Equity

17 Jan 2019

Consun Pharmaceutical Group (1681 HK) : BUY

Mkt. Cap: US\$568m | **3m Avg. Daily Val:** US\$0.98m

Last Traded Price (16 Jan 2019): HK\$5.09

Price Target 12-mth: HK\$10.30 (102.4% upside) (Prev HK\$10.00)

Analyst

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Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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Value emerges from a defensive play

- **Raised FY18F-20F earnings by 2-3%, thanks to strong sales performance of products targeting the drugstore market**
- **Raised TP by 3% to HK\$10.3 to reflect earnings upgrade**
- **Reiterate BUY for 1) very attractive valuation of 0.5x PEG based on 7x FY19F PE and 15% EPS CAGR in FY19F-22F; 2) higher defensiveness against price-cutting risk**

Forecasts and Valuation

FY Dec (RMB m)	2017A	2018F	2019F	2020F
Turnover	1,660	1,960	2,261	2,609
EBITDA	623	676	771	870
Pre-tax Profit	545	618	710	812
Net Profit	396	453	523	603
Net Pft (Pre Ex) (core profit)	396	453	524	605
Net Profit Gth (Pre-ex) (%)	28.8	14.4	15.4	15.2
EPS (RMB)	0.46	0.52	0.60	0.69
EPS (HK\$)	0.53	0.60	0.69	0.80
Core EPS (HK\$)	0.53	0.60	0.70	0.80
Core EPS (RMB)	0.46	0.52	0.60	0.69
EPS Gth (%)	43.6	12.8	15.4	15.2
Core EPS Gth (%)	43.6	12.8	15.7	15.4
Diluted EPS (HK\$)	0.53	0.60	0.69	0.80
DPS (HK\$)	0.09	0.10	0.11	0.13
BV Per Share (HK\$)	2.32	2.75	3.25	3.83
PE (X)	9.5	8.5	7.3	6.4
Core PE (X)	9.5	8.5	7.3	6.3
P/Cash Flow (X)	15.0	5.9	7.3	6.6
P/Free CF (X)	15.9	6.1	7.5	6.8
EV/EBITDA (X)	5.9	4.8	3.8	3.0
Net Div Yield (%)	1.8	2.0	2.3	2.6
P/Book Value (X)	2.2	1.9	1.6	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	22.6	23.8	23.2	22.6
Earnings Rev (%):		3	2	2
Consensus EPS (RMB)		0.54	0.62	0.73
Other Broker Recs:		B:7	S:0	H:0

Source: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

What's New

Raised FY18F-20F earnings by 2-3% to reflect strong sales performance of products targeting the drugstore market. We raised 18F/19F/20F earnings by 3%/2%/2% to reflect strong sales growth of Yunlin Pharm, the subsidiary targeting the drugstore market which contributed 32% of total sales in 1H18. After a 50% capacity increase for Yunlin Pharm in 2Q18, its utilisation has been increasing strongly. Thus, we revised up our sales forecasts for Yulin Pharm in 18F/19F/20F by 4% each, resulting in the upward earnings revision. Our previous TP was based on 1x PEG. Based on the same benchmark, against a 15% EPS CAGR in FY19F-22F, we set the TP at 15x FY19F PE, resulting in a higher HK\$10.3.

Reiterate BUY for very attractive valuation and defensive position. We reiterate our BUY call for two reasons:

- 1) Attractive valuation. Trading at 7x FY19F PE, it is very close to the trough since IPO in 2013 which was 6x. Current FY19F PE of 7x also implies PEG of 0.5x based on an EPS CAGR of 15% in FY19F-22F.
- 2) In terms of product portfolio, Consun is relatively more defensive than peers to price-cutting risk arising from centralised drug procurement arranged by the government as:
 - a) 40% of its revenue in FY19F are made up of products that are sold to drugstores. This type of drugs do not need to go through a centralised procurement which means they are free from price cuts imposed by the government;



Live more, Bank less

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- b) Uremic clearance granule, the exclusive drug used to delay the onset of kidney failure and estimated to make up 46% of FY19F sales, faces much lower price-cutting risk than many other pharmaceutical products, in our view.

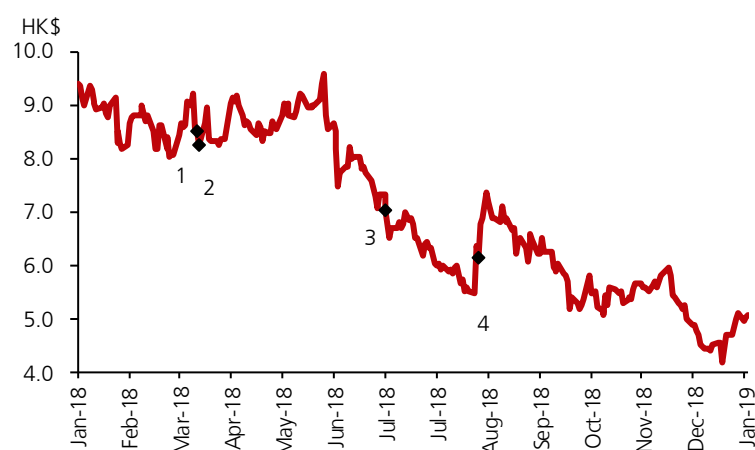
Firstly, based on centralised drug procurement for 11 cities in December 2018, we believe the government intends to cut the prices of chemical generic drugs. Uremic clearance granule, as an exclusive modern Chinese medicine, is not in the government's radar, at least for the near term.

Secondly, with an annual expense of c.Rmb6,000 or daily expense of Rmb16 (much lower than

Rmb100, the benchmark of affordability), it is definitely not something expensive. Hence, it should not be among the government's targets, at least for this round.

Finally, promoting uremic clearance granule is actually helping patients and the government to save money because it can delay the onset of kidney failure. With this, patients would not need to undergo dialysis that soon which costs Rmb40,000-80,000 a year.

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	22-Mar-18	HK\$8.51	HK\$10.00	Buy
2:	23-Mar-18	HK\$8.52	HK\$10.00	Buy
3:	3-Jul-18	HK\$7.04	HK\$10.00	Buy
4:	22-Aug-18	HK\$6.36	HK\$10.00	Buy

Source: DBS HK

Analyst: Mark KONG CFA,

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DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

* *Share price appreciation + dividends*

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Sources for all charts and tables are DBS HK unless otherwise specified.

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