

11 February 2014

# Trad Chi Med (570.HK)

**BUY | Target price: HK\$4.06**

## Backed by Sinopharm

## Healthcare

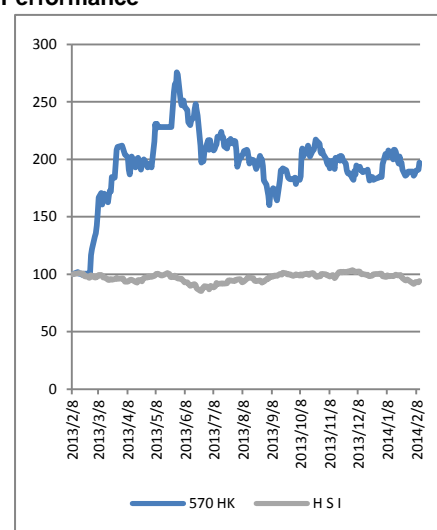
The acquisition of Tongjitang Chinese Medicine late last year had well placed the company in the traditional Chinese Medicine sector. Following the acquisition by Sinopharm, a leading pharmaceutical company, Trad Chi Med will likely be Sinopharm's TCM platform for growth. Given Sinopharm's ambitious TCM sales target, Trad Chi Med is likely to see exponential growth in the near future. We revised our target price to HK\$4.06 from HK\$4.28 based on 23x FY14 P/E, in line with Bloomberg consensus average P/E of leading TCM players.

- Trad Chi Med + Tongjitang CM = A strong TCM platform.** Trad Chi Med's acquisition of Tongjitang Chinese Medicine was completed in October 2013. The combined group now has more than 4,000 salespersons. It owns 7 exclusive EDL drugs and several time-honored TCM brands. The product lines mainly include respiratory system drugs, orthopedics drugs, rheumatic diseases drugs, cardiovascular drugs and etc. Combined annual revenue is estimated to close to HK\$3bn in 2013.
- To become Sinopharm's TCM platform for growth.** China Traditional Chinese Medicine (Trad Chi Med) was successfully acquired by Sinopharm. Sinopharm is a leading state-owned pharmaceutical company with major product lines in distribution of healthcare product, provider of chemical drugs, and provider of biopharmaceutical products. Given that Sinopharm has limited exposure to the TCM sector, Trad Chi Med is likely to be Sinopharm's TCM platform for growth. Sinopharm has set a target to raise its TCM sales to HK\$10b by 2017 from the current around HK\$3bn through organic growth and acquisitions.
- Earnings forecast revised.** In contrast to our previous expectation, Tongjitang Chinese Medicine will only make two months contribution to Trad Chi Med. As a result, we revised our 2013 forecast to HK\$1,621m (from HK\$2,934m) in revenue and to HK\$230m (from HK\$430m) in earnings. In 2014, we slightly revised our revenue forecast to HK\$3,385m (from HK\$3,438m) and earnings forecast to HK\$448m (from HK\$507m) to factor in possible increase in SG&A expenses

### Analyst

Helena Qiu  
 SFC CE No.: AOX910  
 00852-2899 8328  
 helena.qiu@guosen.com.hk

### Performance



Source: Bloomberg

### Key Data

Price(HK\$)	3.21
Total Shares (m)	2534
Market Cap. (HK\$ m)	8,134
Free float (%)	28.61
Average Daily Turnover	HK\$13m
52 Week Range	5.04/1.66
Controlling Shareholder	Sinopharm (45.03%)
BVPS (HK\$)	0.585
Debt ratio (%)	18.0%

### Financial Summary

Year to Dec	2011A	2012A	2013E	2014E	2015E
Revenue (HK\$ m)	1,016	1,268	1,622	3,385	3,869
Operating Profit (HK\$ m)	102	290	306	628	751
Underlying Profit (HK\$ m)	72	207	230	448	547
Underlying EPS (HK\$)	0.040	0.116	0.107	0.177	0.216
DPS(HK\$)	0.050	0.025	0	0	0
BVPS (HK\$)	0.541	0.585	1.622	1.559	1.775
P/E (x)	77.7	27.0	29.5	17.8	14.5
Yield (%)	1.6	0.8	0	0	0
P/B (x)	5.8	5.4	1.9	2.0	1.8

Source: Guosen Securities (HK)

2014年2月11日

# 中国中药 (570.HK)

买入 | 目标价: HK\$4.06

## 国药集团是支撑公司发展的坚强后盾

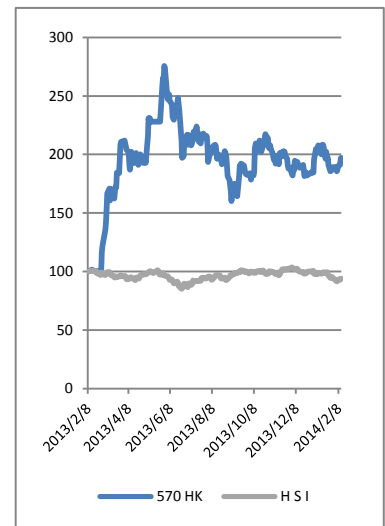
医药保健

完成收购同济堂中药公司后,公司在中药领域的地位又跨入了一个新台阶。公司的控股股东中国医药保健产业的龙头企业国药集团可能将该上市公司作为其在中药领域扩张的平台。基于国药集团在中药产业的百亿目标,我们认为中国中药会积极推动内生性增长和外延式扩张。我们将我们的目标价由 4.28 港币调整到 4.06 港币,该目标价是以中国龙头中药上市公司的平均估值 2014 年的 23 倍市盈率为基础。

### 分析师

邱海燕  
证监会中央编号: AOX910  
00852-2899 8328  
helena.qiu@guosen.com.hk

### 股价表现



资料来源: 彭博

### 股票数据

收盘价(港币\$)	3.21
港股总股本(百万)	2534
港股总市值(港币\$百万)	8,134
港股流通量 (%)	28.61
日均成交额	HK\$13m
52 周最高/最低	5.04/1.66
主要控股股东	Sinopharm (45.03%)
每股净资产(港币)	0.585
负债率 (%)	18.0%

- **盈天医药+同济堂中药公司=有规模的中药产业平台:** 中国中药于 2013 年 10 月完成同济堂中药公司的收购。完成后中国中药有超过 4000 名销售人员, 7 个基本药物目录独家产品, 几个中药老字号。其产品线主要包括呼吸系统用药、骨科用药、风湿病用药、心血管病用药等。若包括同济堂中药公司的全年收入, 中国中药 2013 年的收入规模接近 30 亿港元。
- **国药集团的中药产业平台:** 国药集团于 2013 年年初成功收购盈天医药, 并将公司更名为中国中药。国药集团是中国医药保健产业的龙头企业, 其业务主要为医药产品分销、化学制药和生物制品。国药集团在中药产业的资产有限, 我们认为中国中药可能是国药集团发展中药产业的主要平台。国药集团规划到 2017 年通过内生性增长和外延式扩张推到其中药产业的销售到 100 亿港元。
- **盈利预测调整:** 我们之前的盈利估算在 2013 年包括了同济堂的全年贡献, 而同济堂在 2013 年可能只是对上市公司有 2 个月的贡献。基于此, 我们 2013 年的销售收入估算调整为 16 亿港元(之前为 29 亿港元), 利润估算调整为 2.3 亿港元(之前为 4.3 亿港元)。我们也轻微的调整了 2014 年的估算, 销售收入为 33.9 亿港元(之前为 34.4 亿港元), 利润为 4.48 亿港元(之前为 5.07 亿港元), 利润调整主要是考虑到三项费用的提升。

### 盈利预测

截至 31/12	2011A	2012A	2013E	2014E	2015E
营业额(港币百万)	1,016	1,268	1,622	3,385	3,869
经营盈利(港币百万)	102	290	306	628	751
实际盈利(港币百万)	72	207	230	448	547
每股实际盈利(港币)	0.040	0.116	0.107	0.177	0.216
每股股息(港币)	0.050	0.025	0	0	0
每股账面价值(港币)	0.541	0.585	1.622	1.559	1.775
市盈率(x)	77.7	27.0	29.5	17.8	14.5
收益率 (%)	1.6	0.8	0	0	0
市净率(x)	5.8	5.4	1.9	2.0	1.8

资料来源: 国信证券(香港)

<b>Financial Summary</b>											
<b>Profit &amp; Loss (HK\$ m)</b>						<b>Financial Ratios</b>					
	2011A	2012A	2013F	2014F	2015F		2011A	2012A	2013F	2014F	2015F
						Revenue growth (%)	8.2	24.8	27.9	108.7	14.3
						Operating profit growth (%)	-14.2	183.7	5.6	105.3	19.6
						Reported profit growth (%)	18.3	187.4	11.1	94.6	22.1
Winteam Pharm	1,016	1,268	1,368	1,590	1,805	Underlying profit growth (%)	18.3	187.4	11.1	94.6	22.1
Tongjitang			253	1,795	2,064	Underlying EPS growth (%)	14.5	187.4	-8.2	65.8	22.1
<b>Revenue</b>	<b>1,016</b>	<b>1,268</b>	<b>1,622</b>	<b>3,385</b>	<b>3,869</b>	Dividend growth (%)	-	-50.0	-	-	-
Cost of sales	-468	-575	-673	-1,358	-1,536	Dividend payout (%)	123.7	21.5	-	-	-
<b>Gross profit</b>	<b>548</b>	<b>693</b>	<b>949</b>	<b>2,027</b>	<b>2,333</b>	Gross profit margin (%)	54.0	54.7	58.5	59.9	60.3
Other net income	13	31	-21	0	0	Operating profit margin (%)	10.1	22.9	18.9	18.6	19.4
SG&A expenses	-459	-435	-622	-1,399	-1,582	Underlying profit margin (%)	7.1	16.3	14.2	13.2	14.1
<b>Operating profit</b>	<b>102</b>	<b>290</b>	<b>306</b>	<b>628</b>	<b>751</b>	ROE (%)	7.5	19.9	6.6	11.3	12.2
Finance costs	-8	-24	-11	-54	-54	ROA (%)	4.4	10.8	4.0	6.9	7.7
Associates & JCE	0	0	0	0	0	Net debt/equity (%)	30.4	33.2	43.7	35.7	33.1
<b>Profit before taxation</b>	<b>94</b>	<b>266</b>	<b>295</b>	<b>574</b>	<b>697</b>	Net debt/total assets (%)	18.1	18.0	26.8	21.8	21.0
Taxation	-21	-53	-64	-125	-149	Current ratio (%)	1.2	1.3	0.7	1.0	1.2
Non-controlling interests	-2	-6	-1	-1	-1	Interest cover (x)	20.5	13.1	31.6	14.0	16.3
<b>Net profit</b>	<b>72</b>	<b>207</b>	<b>230</b>	<b>448</b>	<b>547</b>	Dividend cover (x)	0.8	4.6	-	-	-
<b>Balance Sheet (HK\$ m)</b>						<b>Cash Flows (HK\$ m)</b>					
	2011A	2012A	2013F	2014F	2015F		2011A	2012A	2013F	2014F	2015F
Fixed assets	456	517	1,576	1,550	1,525	Operating profit	94	266	316	574	697
Associates & JCE						Depreciation & amortization	57	47	21	132	131
Others	457	395	2,637	2,581	2,525	Interest income	-1	-25	0	0	0
<b>Non-current assets</b>	<b>913</b>	<b>912</b>	<b>4,213</b>	<b>4,131</b>	<b>4,050</b>	Others	-21	-19	-53	-71	-95
Inventories	234	199	240	446	505	Change in working capital	-184	-40	-342	-409	-710
Debtors & prepayments	347	546	889	1,391	2,120	<b>Operating activities</b>	<b>-55</b>	<b>228</b>	<b>-59</b>	<b>226</b>	<b>24</b>
Bank deposits & cash	42	57	166	288	208	Purchase of non-current assets	-27	-35	0	-50	-50
Others	86	203	203	203	203	Disposal of non-current assets	0	0	0	0	0
<b>Current assets</b>	<b>710</b>	<b>1,005</b>	<b>1,497</b>	<b>2,329</b>	<b>3,036</b>	acquisition	-7	0	-3,321	0	0
Bank & other borrowings	341	511	1,806	1,806	1,806	Interest received	1	2	0	0	0
Trade & payables	253	286	327	627	705	others	-212	-191	0	0	0
Taxation	3	4	4	4	4	<b>Investing activities</b>	<b>-245</b>	<b>-224</b>	<b>-3,321</b>	<b>-50</b>	<b>-50</b>
<b>Current liabilities</b>	<b>597</b>	<b>801</b>	<b>2,137</b>	<b>2,437</b>	<b>2,515</b>	Increase in borrowing	520	692	1,295	0	0
Bank & other borrowings	0	0	0	0	0	payment of borrowing	-289	-517	0	0	0
Others	62	73	73	73	73	Dividends paid	0	-30	0	0	0
<b>Non-current liabilities</b>	<b>62</b>	<b>73</b>	<b>73</b>	<b>73</b>	<b>73</b>	issue of new shares			2,226		
<b>Net assets</b>	<b>964</b>	<b>1,043</b>	<b>3,501</b>	<b>3,949</b>	<b>4,498</b>	Others	-14	-134	-32	-54	-54
Share capital	178	178	253	253	253	<b>Financing activities</b>	<b>218</b>	<b>11</b>	<b>3,489</b>	<b>-54</b>	<b>-54</b>
Premium & reserves	770	844	3,225	3,673	4,220	Inc/(dec) in cash	-82	15	109	122	-81
<b>Shareholders' funds</b>	<b>949</b>	<b>1,022</b>	<b>3,478</b>	<b>3,926</b>	<b>4,473</b>	<b>Cash at beginning of year</b>	<b>120</b>	<b>42</b>	<b>57</b>	<b>166</b>	<b>288</b>
Non-controlling interests	16	21	22	23	25	Foreign exchange effect	4	0	0	0	0
<b>Total equity</b>	<b>964</b>	<b>1,043</b>	<b>3,501</b>	<b>3,949</b>	<b>4,498</b>	<b>Cash at end of year</b>	<b>42</b>	<b>57</b>	<b>166</b>	<b>288</b>	<b>208</b>

Source: Guosen Securities (HK)

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**Neutral:** A return potential ranging from -10% to 10% relative to overall market within 6 – 12 months.

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