

# Sihuan Pharma (460 HK)

## Digging for Gold

Sihuan Pharma (Sihuan) has entered into an agreement with China Academy for Military Medical Sciences (AMMS), to co-develop an anti-Ebola drug, jk-05. We reckon jk-05's chemical structure may resemble Fujifilm Holdings' (4901.JP, Non-rated) Avigan®, whose trial activity has cured a French with Ebola. We expect it would be available for sale in 2018. Sihuan is at 29.2x FY14 Bloomberg consensus earnings, already a premium over 23.9x for the sector.

### Co-develop Ebola cure, likely available for sale in 2018.

On 8 Oct, Sihuan announced that it had entered into an agreement with AMMS, to co-develop a new anti-Ebola chemical drug - jk-05. We expect jk-05 would likely gain China's CFDA approval swiftly ahead of the relevant authorities in other countries and available for sale in 2018. Note that US's FDA often gives stricter approval process. To strengthen its antiviral drug types, Sihuan stated, on 12 Oct, that it would also work with AMMS on another chemical drug for anti-adenovirus. Past experiences told us that chemical drugs offer i) higher drug stability; and ii) the ease to study, versus other biological medicines, such as i-RNA and antibodies.

### jk-05's structure has been proved to have decent anti-Ebola activity.

It appears that there are three experimental Ebola's cures available in the market – i) Tekmira's (TKM.TO, Non-rated) TKM-Ebola®, an i-RNA; ii) Mapp Biopharm's ZMapp®, an antibodies and iii) Fujifilm Holdings' (4901.JP, Non-rated) Avigan®, a small chemical. Avigan® is proved to have decent anti-Ebola activity and has cured a French nurse contracted Ebola earlier this month. As jk-05 is a chemical cure, its core structure may resemble that of Avigan®. In addition, AMMS' five-year work suggests that jk-05 shows anti-Ebola activity in cells and animal studies.

### Deadly Ebola may infect 1.4m people next year.

Ebola, once with fatality rate as high as 90%, has killed over 50% of victims in different countries. US's Center of Disease Control warned that infection numbers could rise to as many as 1.4m by next year without a big viral control. Given the global urgency for an Ebola cure, China will likely grant any promising drugs for fast track approval, similar to other medicines for deadly illness in other countries.

### Good at chemical drugs but already at premium valuation.

jk-05 has already shown its potential to be a broad-spectrum anti-viral cure. We believe that AMMS chooses Sihuan to co-develop jk-05, because of its: i) exclusive chemical drug development expertise like Kelinao; ii) GMP-certified production plants; iii) on-going drug development with Sweden's NeuroVive; and iv) numerous R&D drugs in diverse medical areas. However, Sihuan's 29.2x FY14F PE (Bloomberg consensus) has already commanded a premium over the 23.9x PE mean for the HK-listed drug sector.

Figure 1: Financial Summary

Year to Dec 31 (RMBmn)	2009A	2010A	2011A	2012A	2013A
Revenue	709	1,037	2,242	3,043	4,733
Operating Profit	389	559	882	771	1,043
Reported Profit	326	522	824	904	1,303
Underlying Profit	326	522	824	904	1,303
Underlying EPS (CNY)	0.03	0.05	0.08	0.09	0.13
DPS (CNY)	0.01	0.02	0.10	0.04	0.03
BVPS (CNY)	0.09	0.64	0.67	0.68	0.76
P/E (x)	157.68	98.56	62.37	56.76	39.39
Dividend Yield (%)	0.2	0.3	2.0	0.9	0.7
P/B (x)	56.70	7.73	7.40	7.25	6.51

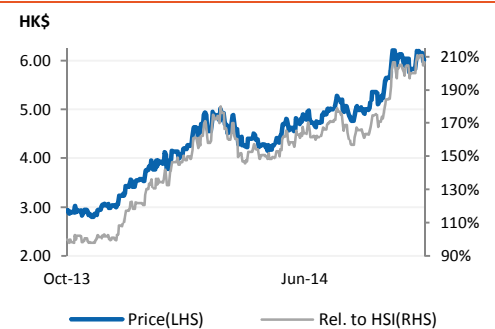
Source: Guosen Securities(HK)

China / Health Care

15 October 2014		Non rated
Target price		N/A
Last price (15 Oct 14)		HK\$6.22
Upside/downside (%)		N/A
HSI		23140.1
Mkt cap (HK\$bn/US\$bn)		62.4/8.0
52 week range (HK\$)		2.80 - 6.70
Avg trading volume daily (US\$mn)		16.41
Free float (%)		38%

Source: Bloomberg

### Performance



Performance	1M	3M	12M
Absolute (%)	(3.1)	19.4	105.8
Absolute (US\$, %)	(3.2)	19.3	105.7
Relative to HSI (%)	3.2	20.7	106.6

Source: Bloomberg

### Company background

Sihuan Pharma is China's largest cardiocerebral vascular (CCV) (or known as heart & brain) drug-maker with a market share of 9%-10% in 2013. Some 95% of its annual revenue is from CCV drug sales, while antibiotics sales account for about 1%-2% of its revenue. Currently, only 2%-3% of its annual revenue is from medicine in the essential drug list (EDL). The Group had completed the GMP certification for all its main production and R&D facilities by end-2013.

Source: Bloomberg, Guosen Securities (HK)

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## 四环医药控股集团 (460 HK)

### 掘金

四环医药(四环)与中国军事医学科学院(军科院)达成协议,签订共同研发抗埃博拉病毒(抗埃病)药物, jk-05。我们估计其化学结构疑似日本富士胶片控股(富士胶片)(4901.JP, 未评级)的 Avigan®, 其测试中药力已治好一名曾感染埃博拉病毒(埃病)的法国护士。我们预期 jk-05 将可在 2018 年开售。四环的 2014 市盈率(彭博综合预测)为 29.2 倍, 已比药业市盈率均值 23.9x 为高。

#### 共同研发埃病治疗用药, 并预期将可在 2018 年开售。

在 10 月 8 日, 四环宣布与军科院签订共同研发抗埃病新化学药, jk-05, 协议。我们预计 jk-05 可得到中国 CFDA 加快审批, 比受埃病影响最大的非洲更快。关注到美国 FDA 往往有更严格审批程序, 我们预期 jk-05 将可在 2018 年开售。为加强抗病毒药物种类, 四环宣布, 于 10 月 12 日, 再与军科院合作研发另一化药用于抗腺病毒。过去的经验告诉我们, 相对其他生物药品来说(如 i-RNA 和抗体), 化药提供更(一)稳定药力, 和(二)容易研究其特性。

#### jk-05 的化学结构被证实有像样的抗埃病的能力。

在市场上, 似乎有三个实验性抗埃病的治疗用药: 一) Tekmira (TKM.T0, 未评级)的 TKM-Ebola®, 是 i-RNA; 二) Mapp Biopharm 的 ZMapp®, 是抗体; 及 iii) 富士胶片(4901.JP, 未评级)的 Avigan®, 是小分子化药。Avigan®被证实有像样的抗埃病能力, 在本月初已治好一名曾感染埃病的法国护士。由于 jk-05 被表述为化学药, 其核心化学结构疑似 Avigan®, 此外, 军科院从五年研究中证实, jk-05 显示对细胞和动物有抗埃病的能力。

#### 致命埃病在明年可能有 140 万人感染。

曾是死亡率高达 90% 的埃病, 已经杀害了在不同国家中的 50% 受害者。美国疾控中心警告, 若然控制不善, 明年感染人数可上升达 140 万。鉴于全球对抗埃病治疗的紧迫性, 中国可能加快审批任何有前途的药物, 类似在其他国家对致命疾病用药的审批步伐。

#### 擅长化学药物研发, 但目前估值合理。

jk-05 已显示它有潜力成为一种广谱的抗病毒治疗。我们认为, 军科院选择了四环共同研发 jk-05, 因为它有一) 独家化药研发能力, 如克林澳; 二) 符合 GMP 的生产车间; 三) 正与瑞典 NeuroVive 进行药研; 及四) 在不同医药领域, 有许多研发药品。但是, 四环目前的 FY14 市盈率为 29.2x (彭博综合预测), 比香港上市的药业市盈率均值 23.9x 为高。

Figure 2: 盈利预测

截至 Dec 31 (人民币百万)	2009A	2010A	2011A	2012A	2013A
营业额	709	1,037	2,242	3,043	4,733
经营盈利	389	559	882	771	1,043
净利润	326	522	824	904	1,303
实际盈利	326	522	824	904	1,303
每股实际盈利 (CNY)	0.03	0.05	0.08	0.09	0.13
每股股息 (CNY)	0.01	0.02	0.10	0.04	0.03
每股账面价值 (CNY)	0.09	0.64	0.67	0.68	0.76
市盈率 (x)	157.68	98.56	62.37	56.76	39.39
股息率 (%)	0.2	0.3	2.0	0.9	0.7
市净率 (x)	56.70	7.73	7.40	7.25	6.51

资料来源: 国信证券(香港)

中国 / 医疗保健

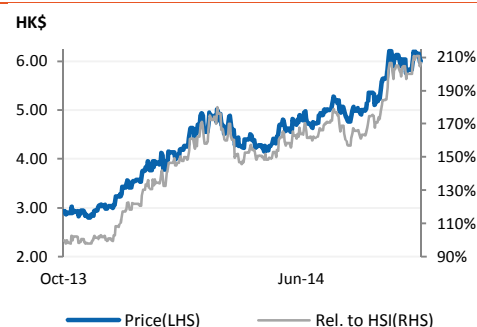
2014 年 10 月 15 日

未评级

目标价	N/A
收盘价 (15 Oct 14)	HK\$6.22
Upside/downside (%)	N/A
恒生指数	23140.1
总市值 (HK\$/US\$bn)	62.4/8.0
52 周最高/最低 (HK\$)	2.80 - 6.70
日均成交额 (US\$mn)	16.41
流通量 (%)	38%

资料来源: 彭博

#### 股价表现



股票数据	1M	3M	12M
绝对回报 (%)	(3.1)	19.4	105.8
绝对回报 (US\$, %)	(3.2)	19.3	105.7
相对 HSI 回报 (%)	3.2	20.7	106.6

资料来源: 彭博

#### 公司简介

四环医药是全国最大的心脑血管(心脑)药品生产企业, 在中国有 9%-10% 同业市场份额。在 2013 年, 集团大约 95% 收入是来自心脑血管产品销售, 而抗生素销售约占 1%-2% 的总收入。目前, 只有 2%-3% 的每年收入来自基本医药物目录(基药)的药品。在 2013 年底, 集团已为公司所有主要生产设施和研发设施, 完成了 GMP 认证。

资料来源: 彭博, 国信证券(香港)

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## jk-05's structure likely similar to a Japanese's cure.

### Three experimental Ebola cures available so far

#### Three experimental Ebola cures available so far

It appears to have three experimental Ebola's cures available in the market – i) **Tekmira's (TKM.TO, Non-rated)** TKM-Ebola®, an i-RNA; ii) Mapp Biopharm's (unlisted) ZMapp®, an antibodies and iii) Fujifilm Holdings' (Fujifilm) Avigan®, a small chemical.

On 4 Oct 2014, a French nurse who contracted Ebola, while volunteering for Médecins Sans Frontières (MSF), a Swiss non-for-profit organization, in Liberia was cured post treatment Favipiravir. This drug, under a brand name of Avigan®, owned and developed by Toyama Chemical Co – Fujifilm's subsidiary, has received new drug application approval in Japan for anti-influenza treatment since 24 March 2014.

Further, two returning Americans were cured by another experimental biological drug, ZMapp, a serum designed from the Ebola survivors' antibodies. ZMapp drug is being developed by US-based Leaf Biopharm, the commercial partner of Mapp Biopharm. Note that Tekmira's TKM-Ebola®, Mapp's ZMapp® and Fujifilm's Avigan® are experimental cures for already infected patients, while vaccines developed by **GlaxoSmithKline (GSK.LN, Non-rated)** are used to prevent disease.

(French nurse cured: <http://www.msn.com/en-gb/news/world/french-nurse-cured-of-ebola-contracted-in-liberia/ar-BB7r1UJ>);

(French nurse cured: <http://www.fujifilm.com/news/n141006.html>);

(Toyama's Avigan®: <http://www.toyama-chemical.co.jp/eng/news/news140324e.html>);

(Cure of two infected American: <http://www.forbes.com/sites/dandiamond/2014/10/01/ebola-in-america-one-hospital-has-already-treated-three-ebola-patients-and-cured-two-of-them/>);

(ZMapp and references therein: <http://en.wikipedia.org/wiki/ZMapp>)

### Likely jk-05's core structure resemble that of Avigan®

#### Deduce jk-05's core structure resemble to Avigan®

Among the three experimental cures available in the market, Fujifilm's Avigan® is the only chemical molecule. As Sihuan stated that jk-05 is a chemical cure, we reckon that its core structure would likely resemble that of Avigan®, so as to achieve a decent anti-Ebola's activity. jk-05, under AMMS' drug development already for five years, is a new small chemical molecule for anti-Ebola virus. In simplest term, we believe that Avigan® inhibits the replication of viral genes within an infected cell, and mitigates their ability to spread from one cell to another. The Japanese appraise this dual drug action approach as a novel way to fight influenza virus.

Sihuan also stated that jk-05 has an inhibitory effect on a variety of RNA viruses such as influenza, yellow fever, arena virus and bunyaviridae virus etc. Both Sihuan and AMMS target to develop jk-05 eventually as a broad-spectrum anti-viral drug. Early studies of horizontal infection experiment suggested that jk-05 demonstrated its anti-Ebola activity both in cells and animals. We expect jk-05 would be available for sale in 2018, if all approvals go smoothly.

Since its Active Pharmaceutical Ingredient's (ie starting material) production plant has passed an on-site inspection by US FDA since July 2013, we reckon that the Group would likely self-produce jk-05 from its starting materials on large scale. Sihuan will pay RMB10m to AMMS for development cost and owner's right. Note that the experimental grade of Avigan®(Favipiravir) is currently available in US-based KareBay Biochem Inc. at a selling price of USD194 (RMB1,191) per 250mg.

(Article talking on Avigan®: <http://www.newyorker.com/business/currency/fujifi-drug-treat-ebola>);

(KareBay's Favipiravir: <http://www.karebaybio.com/products/favipiravir-14466.html>)

### Strengthen anti-viral drug types

Sihuan targets its new nucleoside drug, BR-01, to treat adeno-virus, we expect it to start sales in China by 2019.

A US based company took an established medicine for new pro-drug discovery

## Strengthening anti-viral drug types

To strengthen its anti-viral drug portfolio, Sihuan announced, on 12 Oct, that it will work with AMMS to co-develop another new drug for anti-adenovirus (a form of DNA virus), BR-01, until production's approval is received. Despite no payment amount has been disclosed, Sihuan will own BR-01 exclusively including its franchise right. So far, this has been the second anti-viral drugs to be co-developed by Sihuan and AMMS together.

BR-01, a chemical analogue of nucleoside, is expected to receive a wide clinical usages, such as i) organ or stem cell transplantation; ii) AIDs patients; iii) cervical cancer prevention; and iv) sexual transmitted disease (STD). According to the Group's announcement, current clinical data showed BR-01's unique activity against adenovirus, both as a cure and preventive drug. We believe that the Group targets to make BR-01 as a cure for adenovirus infection, and expect it to start sales in China first by 2019.

Though adenoviruses have been identified for years, no other US FDA approved drug specifically targeting to human adenovirus infection (including BR-01) have started sales in the market. According to an academic journal, only two well-established anti-viral drugs which are also nucleoside analogue, namely cidofovir (Pfizer's Vistide®), and ribavirin (Roche's Copegus® and Schering's Rebetol®) are currently being used to alleviate adenovirus infections.

Taking US-listed **Chimerix, Inc. (CMRX.US, Non-rated)** as an example, it has an oral nucleotide analogue, known as Brincidofovir, which received Fast Track designation from FDA for cytomegalovirus (CMV) (a type of herpes), adenovirus and smallpox. On 6 Oct, Chimerix announced that Brincidofovir, as a pro-drug of cidofovir, has been provided for potential use in Ebola's patients, where such requests were made by the treatment doctors. A pro-drug is a medication that is administered in an inactive or less than fully active form, and is then converted to its active form through a normal metabolic process. As a result, an Emergency Investigational New Drug Application was also granted to Brincidofovir by US FDA as a Ebola cure.

We see Chimerix's Brincidofovir is a good example of converting a well-established anti-viral nucleoside drug (such as cidofovir) into a pro-drug for treating adenovirus, a disease still awaiting for a specific cure. Like Chimerix, we reckon that other drug-makers should consider nucleoside analogue again as a potential adenovirus cure. As Sihuan's BR-01 is also a nucleoside as stated, we suspect that its current BR-01's drug discovery method could be on a similar track as Chimerix's strategy, to achieve a decent activity specifically against adenovirus. We believe that certain BR-01's application could open a profitable new door for Sihuan, such as STD or Ebola, similar to what Brincidofovir as a broad-spectrum anti-viral drug can offer.

(Pfizer's Vistide: [http://www.pfizer.com/files/products/material\\_safety\\_data/PZ00163.pdf](http://www.pfizer.com/files/products/material_safety_data/PZ00163.pdf));

(cidofovir usage: <http://www.nature.com/bmt/journal/v31/n6/full/1703798a.html>);

(Roche's Copegus®:

[http://www.accessdata.fda.gov/drugsatfda\\_docs/label/2004/21511slr002\\_copegus\\_lbl.pdf](http://www.accessdata.fda.gov/drugsatfda_docs/label/2004/21511slr002_copegus_lbl.pdf));

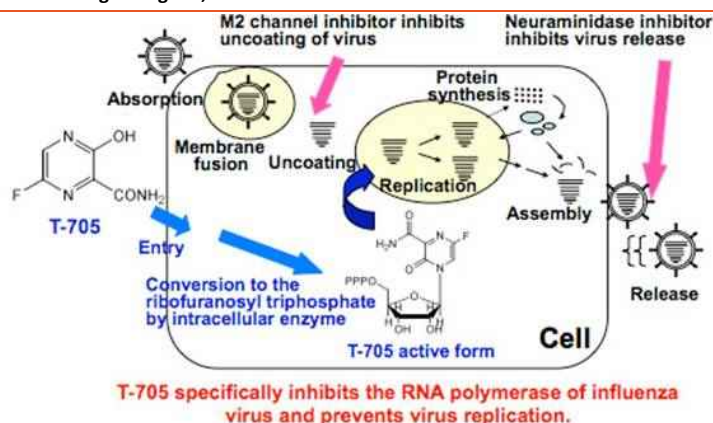
(ribavirin usage: <http://www.nature.com/bmt/journal/v32/n11/full/1704276a.html>);

(Journal for ant-adenovirus drugs: <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC4034094/>);

(Chimerix's Brincidofovir's FDA fast track designation and Ebola usage:

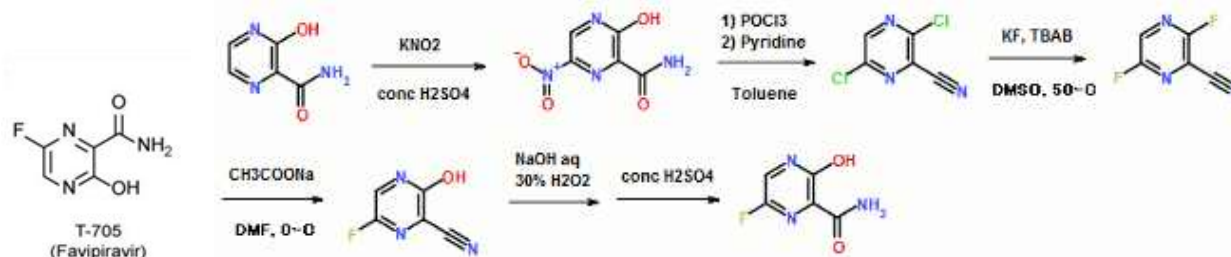
<http://ir.chimerix.com/releasedetail.cfm?ReleaseID=874647>)

Figure 3 Anti-viral mechanism of Fujifilm Holdings' Avigan®, also known as T-705.



Source: Toyama Chemical, Guosen Securities(HK) Research

Figure 4 Chemical structure of Avigan® (Favipiravir) and a proposed Favipiravir's synthetic route from a commercially available chemical.



Source: Guosen Securities(HK) Research

(<http://medcheminternational.blogspot.hk/2014/01/favipiravir-phase-3-clinical-trials-for.html>) (<http://organicooking.blog68.fc2.com/blog-date-201002.html>)

Figure 5 Sihuan's current R&D drug cupboard.

**Innovative original drug molecules**

Therapeutic areas	Compound name	Status	Expected time to market
Cardiovascular Cerebral	Phencynonate HCl	Completed Phase 2; will start Phase 3	2015-2016
Antibiotics	Benapenem	Approved for Phase 1 clinical trials	2017-2018
Anti-diabetic drugs	Pinoxacin HCl	Approved for Phase 1 clinical trials	
Anti-diabetic drugs	Imigliptin HCl	Completed pre-clinical study	2017-2018
Anti-diabetic drugs	Janagliflozin	Obtained approval for clinical trials	2020
Immunomodulators and anti-infectives	Pidotimod	Completed Phase I; starting Phase 2	at least 2018
Digestive system	Anaprazole	Completed pre-clinical study	2018-2019
Anti-cancer	Pirotinib	Obtained approval for clinical trials	2019-2020
Cardiovascular Cerebral	Tylerdipine HCl	Obtained approval for clinical trials	2018-2019
Cardiovascular Cerebral	Cinepazide Mesilate		2016-2017
Cardiovascular Cerebral	CicloMulsion		2016-2017
Cardiovascular Cerebral	NeuroSTAT		2017-2018

**Generic drug molecules**

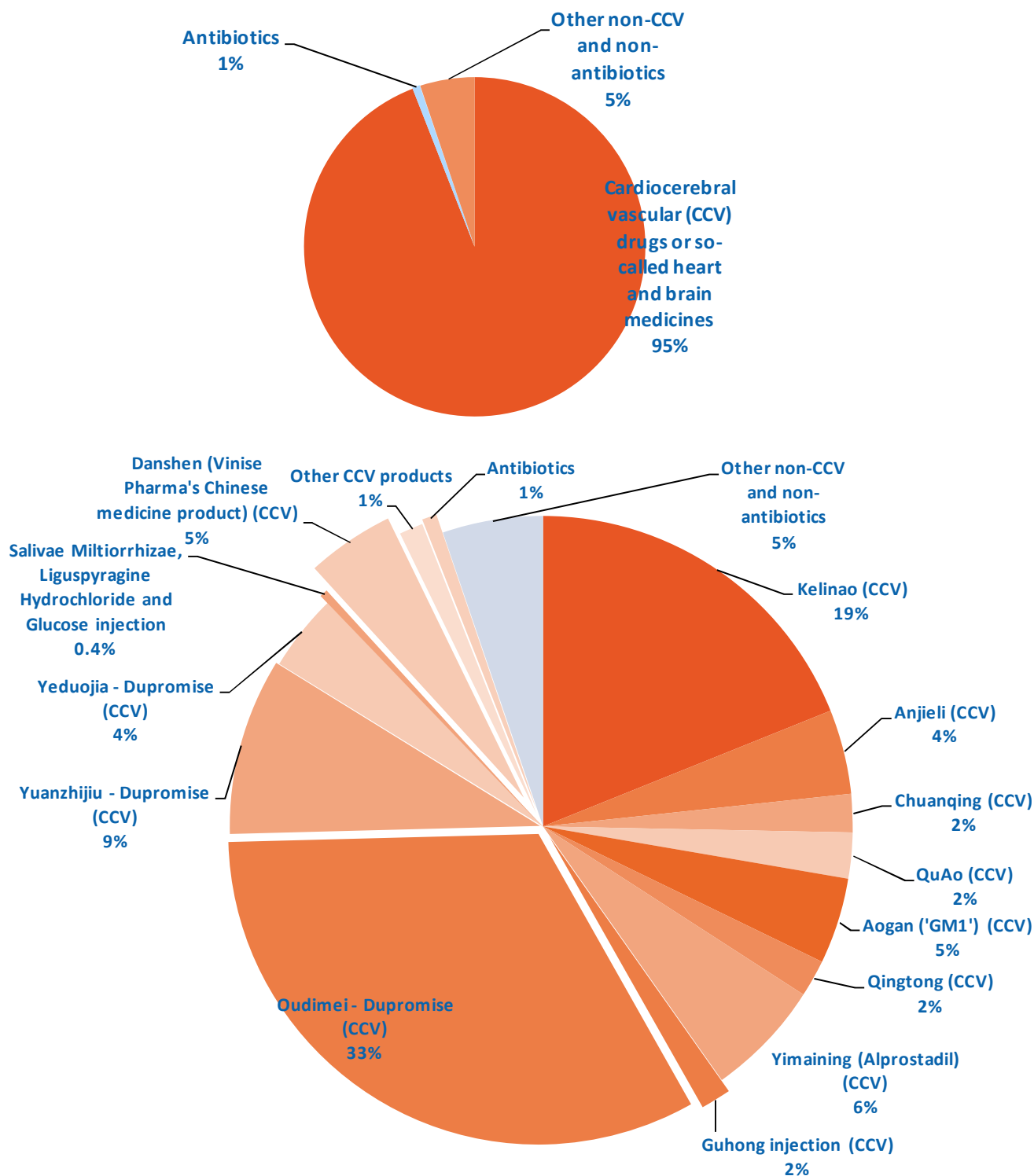
Therapeutic areas	Compound name	Status	Expected time to market
Digestive system drug	Roxatidine Acetate HCl	Started sales in 1Q13; SFDA approved for production	
Nervous system (Central Nervous System)	Nalmefene HCl	Started sales in 1Q13; SFDA approved for production	
Cardiovascular Cerebral	Cinepazide Mesilate	Phase 2 started	2016-2017
Anti-epilepsy	Levetiracetam Injection		2015
Anti-epilepsy	Lascosamide	Completed pre-clinical study	2015
Mental disease medicine	Aprepitant	Applying to conduct clinical trials	2015

Source: Company data, Guosen Securities(HK) Research

Note: This has excluded Sihuan's recently announced insulin work.

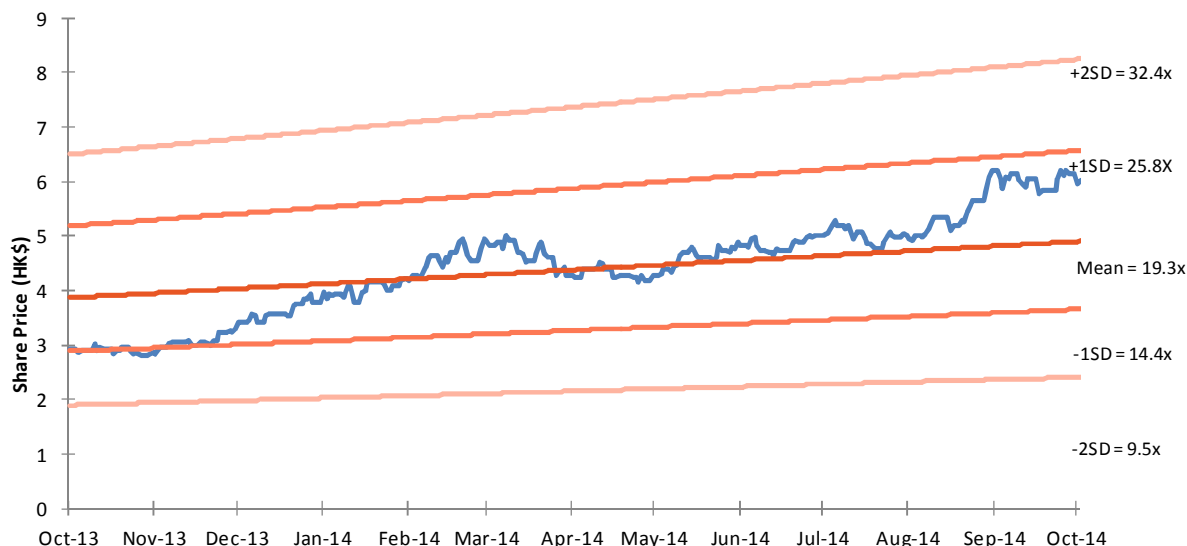


Figure 6 Sihuan's revenue breakdown as of 1H14



Source: Company data, Guosen Securities(HK) Research  
 Note: CCV = Cardiocerebral vascular drugs (heart and brain medicines)

Figure 7 Past one-year forward (12-month) PE band



Source: Bloomberg data, Guosen Securities (HK) Research

Figure 8 Valuation Table for HK-listed drug-maker

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER Hist (x)	PER FY1 (x)	PER FY2 (x)	EPS FY1 YoY%	EPS FY2 YoY%	EPS Cagr (%)	PEG (x)	Div yld Hist (%)	Div yld FY1 (%)	P/B Hist (x)	P/B FY1 (x)
Sihuan Pharm	460 HK	6.22	8,312	16.4	39.0	29.2	23.6	33.4	N/A	26.7	1.1	0.5	N/A	5.91	N/A
HSI		23,140			10.1	10.6	9.8	N/A	8.5	3.9	2.70	3.9	3.7	1.33	1.28
CSI300		2,464			11.0	9.9	8.6	10.5	15.4	13.6	0.73	2.4	2.9	1.60	1.43
Adjusted sector avg*					28.6	23.9	19.3	16.8	N/A	19.1	1.06	1.1	1.0	3.91	3.54
The United Labor	3933 HK	5.93	1,244	2.8	N/A	13.4	12.6	N/A	6.3	N/A	0.08	N/A	N/A	1.39	N/A
Luye Pharma Grou	2186 HK	10.06	4,308	12.1	N/A	44.6	31.8	N/A	40.4	N/A	N/A	N/A	0.0	2.21	4.62
Livzon Pharm-H	1513 HK	58.20	2,557	0.9	27.9	23.5	19.2	18.8	22.4	23.7	0.99	1.1	1.3	4.07	3.61
Consun Pharmaceu	1681 HK	6.79	875	1.1	26.8	23.3	18.1	15.0	29.1	23.5	0.99	0.7	0.8	4.27	3.64
Fosun Pharma-H	2196 HK	25.10	7,410	6.9	22.0	20.8	17.7	N/A	N/A	11.6	1.80	1.4	N/A	2.97	N/A
Baiyunshan Ph-H	874 HK	27.90	5,820	7.0	28.7	23.3	18.6	23.2	25.2	23.2	1.01	1.3	N/A	3.95	N/A
Lansen Pharmaceu	503 HK	3.67	196	0.4	16.9	N/A	N/A	N/A	N/A	N/A	N/A	4.5	N/A	1.77	N/A
Cspc Pharmaceuti	1093 HK	6.34	4,829	25.2	36.2	28.1	21.8	29.2	28.8	28.3	0.99	1.3	N/A	5.05	N/A
Sino Biopharm	1177 HK	7.80	4,969	9.3	37.2	29.9	25.8	24.4	15.7	20.1	1.49	0.8	N/A	6.66	N/A
Hua Han Bio-Phar	587 HK	2.66	1,403	6.8	30.8	20.5	14.8	50.3	38.5	N/A	N/A	2.0	1.3	2.08	1.91
Sihuan Pharm	460 HK	6.22	8,312	16.4	39.0	29.2	23.6	33.4	23.8	26.7	1.10	0.5	N/A	5.91	N/A
Lee'S Pharm	950 HK	9.70	680	0.3	34.1	28.5	21.8	19.7	30.9	26.0	1.10	0.8	N/A	6.28	N/A
Dawnrays Pharmac	2348 HK	7.58	788	1.5	31.3	22.9	18.0	37.2	26.7	28.4	0.81	1.2	1.7	4.17	3.90

\* Outliners and "N/A" entries are in red and excl. from the calculation of averages

Source: Bloomberg data, Guosen Securities (HK) Research

Figure 9 Sihuan's P&L analysis

Dec-Year end (RMB m)	1H12	2H12	FY12	1H13	2H13	FY13	1H14
CCV	1277	1527	2804	2,215	2,290	4,505	1,881
YoY change	46.1%	33.3%	38.8%	73.4%	50.0%	60.7%	-15%
HoH change	11.5%	19.5%		45.1%	3.4%		-18%
Anti-infectives	32	27	60	18.50	22.30	41	15
YoY change	-38.0%	92.4%	-10.2%	-42.9%	-18.3%	-31.7%	-19%
HoH change	128.3%	-15.7%		-32.2%	20.5%		-33%
Others	79	99	179	91.5	95.4	187	104
YoY change	24.5%	8.1%	14.8%	15.2%	-4.1%	4.5%	14%
HoH change	-13.6%	25.1%		-7.9%	4.2%		
<b>Total revenue</b>	<b>1,389</b>	<b>1,653</b>	<b>3,043</b>	<b>2,325</b>	<b>2,408</b>	<b>4,733</b>	<b>2,000</b>
<b>YoY change</b>	<b>40.3%</b>	<b>32.1%</b>	<b>35.7%</b>	<b>67.3%</b>	<b>45.7%</b>	<b>55.6%</b>	<b>-14.0%</b>
HoH change	11.0%	19.0%		40.6%	3.6%		
Revenue split	45.7%	54.3%		49.1%	50.9%		
COGS	(318)	(435)	(753)	(478)	(555)	(1,033)	(404)
<b>Gross profit</b>	<b>1,071</b>	<b>1,218</b>	<b>2,289</b>	<b>1,847</b>	<b>1,853</b>	<b>3,700</b>	<b>1,596</b>
<b>GPM</b>	<b>77.1%</b>	<b>73.7%</b>	<b>75.2%</b>	<b>79.5%</b>	<b>76.9%</b>	<b>78.2%</b>	<b>79.8%</b>
Other gains	175	102	277	155	264	419	239
Selling & distribution expenses	-588	-725	-1312	-1229	-1101	-2330	-694
selling exp to total sales	0	0	43.1%	52.9%	45.7%	49.2%	34.7%
Admin expenses	-125	-81	-207	-128	-198	-327	-183
Admin exp to total sales	9.0%	4.9%	6.8%	5.5%	8.2%	6.9%	9.2%
Operating profit	358	412	771	490	554	1,043	719
OPM	25.8%	24.9%	25.3%	21.1%	23.0%	22.0%	35.9%
Finance costs	(2)	(1)	(3)	(5)	(3)	(9)	(9)
Finance income	64	63	127	64	57	121	59
Net finance cost/ income	62	62	124	58	54	112	51
Share of profit of an associated company	0	(6)	(6)	(4)	(3)	(7)	(1)
EBT	596	570	1166	700	868	1567	1008
Pre-tax profit margin	43%	34%	38%	30%	36%	33%	50%
Income tax	(121)	(123)	(244)	(79)	(178)	(257)	(175)
Effective tax rate	20.2%	21.7%	20.9%	11.3%	20.5%	16.4%	17.4%
Reported net profit	461	443	904	618	685	1,303	830
<b>Underlying net profit</b>	<b>461</b>	<b>443</b>	<b>904</b>	<b>618</b>	<b>685</b>	<b>1,303</b>	<b>830</b>
MI	14	3	17	3	4	7	2
<b>Underlying EPS (RMB)</b>	<b>0.045</b>	<b>0.043</b>	<b>0.087</b>	<b>0.060</b>	<b>0.066</b>	<b>0.126</b>	<b>0.080</b>
DPS (RMB)	0.016	0.029	0.044	0.021	0.011	0.032	0.013
<b>Dividend payout ratio (incl. special)</b>	<b>35%</b>	<b>68%</b>	<b>51%</b>	<b>36%</b>	<b>16%</b>	<b>25%</b>	<b>16%</b>
<b>YoY change</b>	<b>1H12</b>	<b>2H12</b>	<b>FY12</b>	<b>1H13</b>	<b>2H13F</b>	<b>FY13</b>	<b>1H14</b>
Total revenue	40%	32%	36%	67%	46%	56%	-14%
Gross profit	38%	30%	34%	72%	52%	62%	-14%
selling & distribution costs	100%	115%	108%	109%	52%	78%	-44%
Admin expenses	60%	-34%	3%	2%	144%	58%	43%
Operating profit	-11%	-14%	-13%	37%	34%	35%	47%
EBT	21%	3%	12%	17%	52%	34%	44%
Net profit (underlying)	21%	0%	10%	34%	55%	44%	34%
<b>Margin</b>	<b>1H12</b>	<b>2H12</b>	<b>FY12</b>	<b>1H13</b>	<b>2H13F</b>	<b>FY13</b>	<b>1H14</b>
Total revenue	100%	100%	100%	100%	100%	100%	100%
Gross profit	77%	74%	75%	79.5%	76.9%	78.2%	79.8%
selling & distribution costs	42%	44%	43.1%	53%	46%	49%	35%
Admin expenses	9%	5%	6.8%	6%	8%	7%	9%
Operating profit	26%	25%	25%	21%	23%	22%	36%
EBT	43%	34%	38%	30%	36%	33%	50%
Net profit (Underlying)	33.2%	26.8%	29.7%	26.6%	28.5%	27.5%	41.5%

Source: Company data, Guosen Securities(HK) Research



## Summary financial statements

<b>Profit &amp; Loss (RMBmn)</b>	2009A	2010A	2011A	2012A	2013A
<b>Revenue</b>	<b>709</b>	<b>1,037</b>	<b>2,242</b>	<b>3,043</b>	<b>4,733</b>
Cost of sales	(192)	(292)	(528)	(753)	(1,033)
Gross profit	517	745	1,714	2,289	3,700
<b>Other income/(expense)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Operating expenses	(128)	(185)	(833)	(1,519)	(2,656)
<b>Operating profit</b>	<b>389</b>	<b>559</b>	<b>882</b>	<b>771</b>	<b>1,043</b>
Other non operating inc/(exp)	(16)	54	109	277	419
Finance income	6	24	56	127	121
Finance expenses	(1)	(2)	(2)	(3)	(9)
Associates & JCE	2	0	0	(6)	(7)
<b>Profit before taxation</b>	<b>381</b>	<b>635</b>	<b>1,045</b>	<b>1,166</b>	<b>1,567</b>
Taxation	(67)	(128)	(245)	(244)	(257)
Non-controlling interests	13	15	24	(17)	(7)
<b>Net profit</b>	<b>326</b>	<b>522</b>	<b>824</b>	<b>904</b>	<b>1,303</b>
Other Adjustments on UP	0	0	0	0	0
<b>Underlying Profit</b>	<b>326</b>	<b>522</b>	<b>824</b>	<b>904</b>	<b>1,303</b>

Source: Guosen Research estimates

<b>Financial Ratios</b>	2009A	2010A	2011A	2012A	2013A
Revenue growth (%)	39.0	46.3	116	35.7	55.6
Operating profit growth (%)	37.0	43.6	57.7	(12.6)	35.4
Underlying profit growth (%)	37.7	60.0	57.8	9.8	44.1
Underlying EPS growth (%)	37.7	60.0	58.0	9.9	44.1
Gross profit margin (%)	72.9	71.8	76.5	75.2	78.2
Operating profit margin (%)	54.9	53.9	39.3	25.3	22.0
Underlying profit margin (%)	46.0	50.3	36.8	29.7	27.5
Net debt/equity (%)	(67.5)	(87.9)	(56.8)	(33.7)	(29.6)
Net debt/total assets (%)	(52.2)	(84.8)	(44.6)	(25.2)	(23.3)
Current ratio (%)	363	2,641	291	217	286
Dividend payout (%)	36.8	33.3	122	50.9	25.4
Inventory Turnover days	78.3	60.2	38.4	36.1	34.1
Acct Receivable Turnover days	1.7	5.3	33.8	59.2	56.6
Acct Payable Turnover days	16.0	27.4	20.9	15.9	12.9

<b>Dupont Analysis</b>	2009A	2010A	2011A	2012A	2013A
Tax burden (%)	85.6	82.2	78.9	77.6	83.1
Interest burden (%)	97.9	114	118	151	150
Operating profit margin (%)	54.9	53.9	39.3	25.3	22.0
Asset turnover (x)	0.7	0.3	0.3	0.3	0.5
Leverage ratio (x)	1.2	1.1	1.2	1.3	1.3
<b>ROA (%)</b>	<b>32.1</b>	<b>12.9</b>	<b>10.5</b>	<b>9.9</b>	<b>13.4</b>
<b>ROE (%)</b>	<b>39.8</b>	<b>13.8</b>	<b>12.1</b>	<b>12.9</b>	<b>17.4</b>

Source: Guosen Research estimates

<b>Balance Sheet (RMBmn)</b>	2009A	2010A	2011A	2012A	2013A
Fixed assets	162	253	419	924	1,442
Associates & JCE	0	0	0	0	0
Others	214	485	3,361	4,514	3,407
<b>Non-current assets</b>	<b>376</b>	<b>738</b>	<b>3,780</b>	<b>5,438</b>	<b>4,849</b>
Inventories	43	53	58	91	101
Debtors & prepayments	141	260	719	769	1,398
Bank deposits & cash	613	5,851	3,933	3,160	2,518
Others	0	0	364	0	1,146
<b>Current assets</b>	<b>797</b>	<b>6,165</b>	<b>5,074</b>	<b>4,021</b>	<b>5,163</b>
Bank & other borrowings	0	0	0	767	181
Trade & payables	120	139	1,540	867	1,253
Taxation	99	94	109	216	130
Others	0	0	92	0	240
<b>Current liabilities</b>	<b>219</b>	<b>233</b>	<b>1,741</b>	<b>1,850</b>	<b>1,804</b>
Bank & other borrowings	0	0	6	6	6
Others	30	10	113	416	204
<b>Non-current liabilities</b>	<b>30</b>	<b>10</b>	<b>119</b>	<b>422</b>	<b>210</b>
<b>Net assets</b>	<b>924</b>	<b>6,660</b>	<b>6,994</b>	<b>7,187</b>	<b>7,998</b>
Share capital	69	45	44	44	44
Premium & reserves	838	6,612	6,901	7,040	7,838
<b>Shareholders' funds</b>	<b>908</b>	<b>6,657</b>	<b>6,946</b>	<b>7,084</b>	<b>7,882</b>
<b>Non-controlling interests</b>	<b>17</b>	<b>3</b>	<b>48</b>	<b>103</b>	<b>115</b>
<b>Total equity</b>	<b>924</b>	<b>6,660</b>	<b>6,994</b>	<b>7,187</b>	<b>7,998</b>

Source: Guosen Research estimates

<b>Cashflow (RMBmn)</b>	2009A	2010A	2011A	2012A	2013A
Operating profit	380	633	1,043	1,163	1,559
Depreciation & amortization	(27)	(35)	(93)	(128)	(188)
Interest income	(6)	(24)	(56)	(120)	(90)
Change in working capital	(4)	(148)	(164)	107	98
Tax paid	(53)	(136)	(215)	(238)	(290)
Other operating cashflow	97	90	198	262	422
<b>Operating activities</b>	<b>386</b>	<b>380</b>	<b>713</b>	<b>1,046</b>	<b>1,511</b>
Purchase of non-current assets (Capex)	(57)	(108)	(115)	(529)	(846)
<b>Free cash flow</b>	<b>329</b>	<b>272</b>	<b>598</b>	<b>517</b>	<b>665</b>
Disposal of non-current assets	0	0	0	27	3
Associates & JCE (net)	70	32	100	(47)	0
Interest received	6	20	54	124	87
Dividends received	0	0	0	0	0
Other investing cashflow	(3)	(308)	(2,122)	(2,400)	324
<b>Investing activities</b>	<b>16</b>	<b>(364)</b>	<b>(2,083)</b>	<b>(2,826)</b>	<b>(432)</b>
New loans raised	0	0	0	767	181
Repayment of loans	0	0	(17)	0	(704)
Dividends paid	(120)	(174)	(502)	(662)	(523)
Other financing cashflow	0	5,396	(29)	903	(675)
<b>Financing activities</b>	<b>(120)</b>	<b>5,222</b>	<b>(548)</b>		
<b>Inc/(dec) in cash</b>	<b>282</b>	<b>5,239</b>	<b>(1,918)</b>		
Cash at beginning of year	331	613	5,851		
Foreign exchange effect	0	0	0		
<b>Cash at end of year</b>	<b>613</b>	<b>5,851</b>	<b>3,933</b>		

Source: Guosen Research estimates

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