



Rating  
**Hold**

Asia  
China

Health Care  
Health Care

Company  
**Sinopharm Group  
Alert**

Reuters 1099.HK    Bloomberg 1099 HK    Exchange HSI    Ticker 1099  
ADR Ticker SHTDY    ISIN US82937K1016

Date  
29 October 2013

**Results**

Price at 29 Oct 2013 (HKD)	21.05
Price target - 12mth (HKD)	21.00
52-week range (HKD)	27.45 - 18.36
HANG SENG INDEX	22,807

Jack Hu, Ph.D

Research Analyst  
(+852) 2203 6208  
jack.hu@db.com

Stock data	
Market cap (HKDm)	50,575
Market cap (USDm)	6,523
Shares outstanding (m)	2,568.3
Major shareholders	CNPGC (65.5%)
Free float (%)	92
Avg daily value traded (USDm)	13.3

Source: Deutsche Bank

Key data				
FYE 12/31	2012A	2013E	2014E	
Sales (CNYm)	135,787	163,215	195,235	
Net Profit (CNYm)	1,973.8	2,313.1	2,642.0	
DB EPS (CNY)	0.82	0.90	1.03	
PER (x)	21.7	18.3	16.1	
Yield (net) (%)	1.4	1.6	1.9	

Source: Deutsche Bank

## 3Q13 First read: robust top-line growth

### Revenue growth exceeded expectations while profit missed slightly

Sinopharm reported RMB 42.5bn/566m for revenue and profit, respectively, for 3Q13, representing 23% and 11% YoY growth vs. DB estimates of 20% and 17%. The profit miss was largely due to higher-than-expected financial costs and minority interests. Additionally, it seems Sinopharm has not been impacted by the anti-bribery campaign, a sharp contrast to most other companies having reported already.

### 3Q13 margin improved significantly

GM and OPN were 8.3% and 4.06% in 3Q13, respectively, much higher than 7.9% and 3.74% for 1H13. We attribute GM improvement to product mix changes as domestic products generally have better margins while it is likely domestic drugs outgrew MNCs in 3Q13 continuously. While OPM improved, expense ratio slightly increased to 4.25% in 3Q13 from 4.16% in 1H13. Operating cash flow was 26m, vs. 763m and 111m for 2Q13 and 1Q13 respectively.

### We ponder how Sinopharm achieved 23% revenue growth in 3Q13

Organic growth would be 19% if one assumes 1.5bn revenue from acquisition, which is still higher than the industry average, as hospital data only showed 17.5% and 8.6% growth for July/August respectively. Additionally, all MNCs that had already reported 3Q13 delivered less growth vs. Sinopharm, including 1) Merck reported a YoY decline in China in 3Q13, vs. 10% in 2Q13 and 21% in 1Q13; 2) GSK recorded a 61% decline in 3Q13 vs. 14% and 19% YoY in 2Q13 and 1Q13, respectively; 3) Roche booked 16% growth in 3Q13, vs. 34% and 20% in 2Q13 and 1Q13, respectively; 4) Lilly reported 11% growth in China in 3Q13 vs. 18% and 11% YoY growth in 2Q13 and 1Q13, respectively; 5) Novartis reported 18% growth in China in 3Q13 vs. 25% and over 20% YoY growth in 2Q13 and 1Q13, respectively. Awaiting management's explanation on the call, we believe the following are likely 1) domestic companies might have outgrown MNCs; 2) outgrowth of indirect sales over direct sales, but again the question is who took the inventory.

### Focus of the call

Key questions include 1) drivers and sustainability for GM improvement; 2) outlook for 4Q13 and 2014; 3) requirement for working capital in 2014; and 4) quantification of market share gains. CC: 4pm HKT, Oct 30, +852 3051 2739, password: Sinopharm.

Deutsche Bank AG/Hong Kong

Deutsche Bank does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. THE VIEWS EXPRESSED ABOVE ACCURATELY REFLECT PERSONAL VIEWS OF THE AUTHORS ABOUT THE SUBJECT COMPANY(IES) AND ITS(THEIR) SECURITIES. THEY HAVE NOT AND WILL NOT RECEIVE ANY COMPENSATION FOR PROVIDING A SPECIFIC RECOMMENDATION OR VIEW IN THIS REPORT. FOR OTHER DISCLOSURES PLEASE VISIT <http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=1099.HK> MICA(P) 054/04/2013.