

Investment Thesis



Selecting SALUBRIS is to
Select China's Investment
in the Next 50 Years

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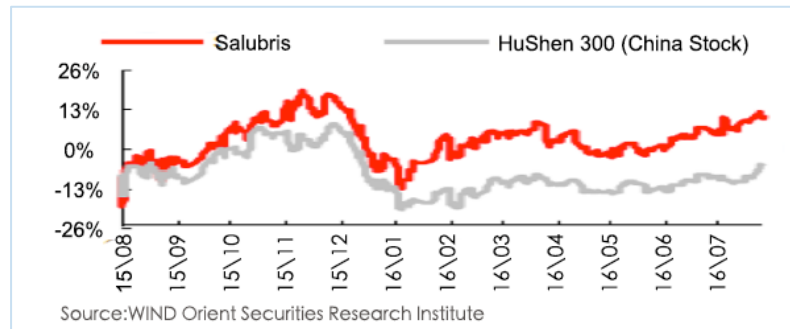
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Executive Summary

Shenzhen Salubris Pharmaceuticals Co., Ltd. (hereinafter referred to as “Salubris” or “the Company”) is a company engaged in R&D and production of cardiovascular drugs, of which the core drug Talcom (note: used for postoperative prevention of thrombus coagulation), in manner of oligopoly, has a market share of more than 50% in this segment.



Over the past 10 years, pharmaceuticals industry have undergone a rapid development in China, with its total market size having increased by six folds and an average growth rate of 21.95%. As a leading company in the cardiovascular segment of the pharmaceuticals industry, Salubris has also gained considerable growth and reports an average net profit growth rate of more than 25%. However, its share price remained on the same level as Hushen 300 (an important index of China stock market) without any excellence, and it has performed slightly better than Hushen 300 since this January and tends to rise in an accelerated manner.

Noticing this, we have made an analysis of the Company. We found that Salubris not only possesses several patent rights, but also has a bright future, as there is a high certainty of future profits. We have further estimated the intrinsic value of the Company and found that the current share price is far below the actual value of the Company. Such undervalued stock provides a great opportunity for long-term value investors.

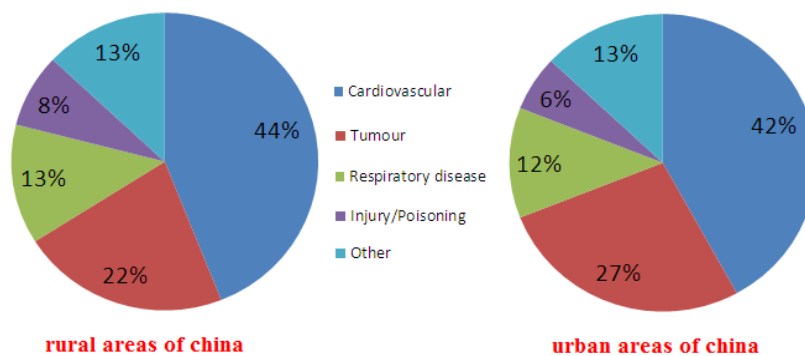
The company has experienced rapid development since it was listed public in 2009 and, with its current scale being 30 billion yuan, is now China's third largest pharmaceutical company in terms of market value. The rapid expansion of the Company is due to two factors: big market and barriers to entry.

Marketing Analysis

In China, rapid economic growth makes people gradually rich, followed by a change of their living habits. People prefer high-sugar, high-salt and fried food, and the

ever-growing calorie consumption leads to obesity and subsequently to a continuous increase in the number of patients with cardiovascular diseases. Statistics of national health authority show that as of 2016, China has 290 million patients with cardiovascular diseases (1/5 of its total population), including 270 million patients with high blood pressure, 7 million patients with stroke, 2.5 million patients with myocardial infarction, 4.5 million patients with heart failure and 9.5 million patients with other cardiovascular diseases. Meanwhile, mortality of cardiovascular diseases (44.6% in rural areas and 42.51% in urban areas) exceeds that of tumors and other diseases, ranking the first among all diseases. Cardiovascular diseases have become a major public health problem and the Chinese Government has been spending a lot of money every year to solve the problem by encouraging enterprises' research, development and innovation.

Cardiovascular disease is the major cause of death

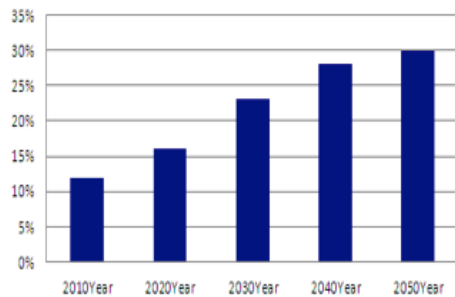


Moreover, China has an aging population. As of the end of 2014, China's elderly population aged 60 years and above has reached 212 million, accounting for 15.5% of its total population. The figure is estimated to increase and reach 400 million around 2033. Old people are prone to cardiovascular diseases, so the increase in the elderly population undoubtedly increases potential consumers of cardiovascular drugs.

Secondly, though there are more than 1,000 hospitals that can perform percutaneous coronary intervention operations (PCI) in China, most patients in villages and towns fail to receive such operations in time in municipal hospitals as acute PCI operations in China are subjected to certain constraints. As a matter of fact, acute PCI operations account for about 23% in China, while the proportion is 88% in the USA. Therefore, as the Chinese Government encourages those kinds of operations in primary hospitals¹, the total number in China is expected to rapidly increase in the future.

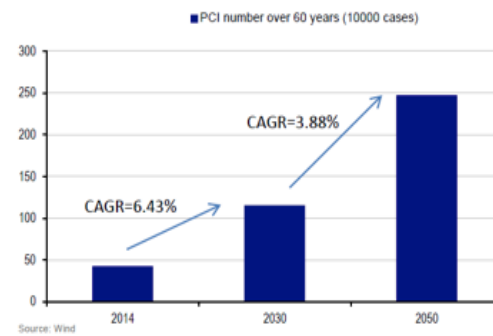
¹ Primary hospitals: hospitals at district and county levels

Percentage of Population aged 60 and above in China



Source: Global AgeWatch Index 2015

China PCI cases will continue to Increase



Source: Wind

China is not the only country witnessing the trend of an increase in the number of patients with cardiovascular diseases. According to the World Health Organization 2015 Report, about 17.5 million people die of cardiovascular diseases and strokes every year (accounting for 1/3 of all deaths). By 2030, this figure will increase by 28.29% to 24.2 million people worldwide. Seeing the potential in foreign market, the Company is preparing to enter the European market. Talcom, the main drug of the Company, has passed EU Conformity (CE)² in January 2013. In addition, Splendris, a subsidiary of the Company, has obtained a marketing license for clopidogrel bisulfate in ten EU countries including Germany, Portugal and Ireland, with sales work starting in EU countries in the same year. In 2015, gross sales of clopidogrel bisulfate tablets in Chinese market reached about 9.2 billion yuan, while sales in the global market were six times the figure, reaching 60 billion yuan. The huge global market provides more room for future development of the Company.

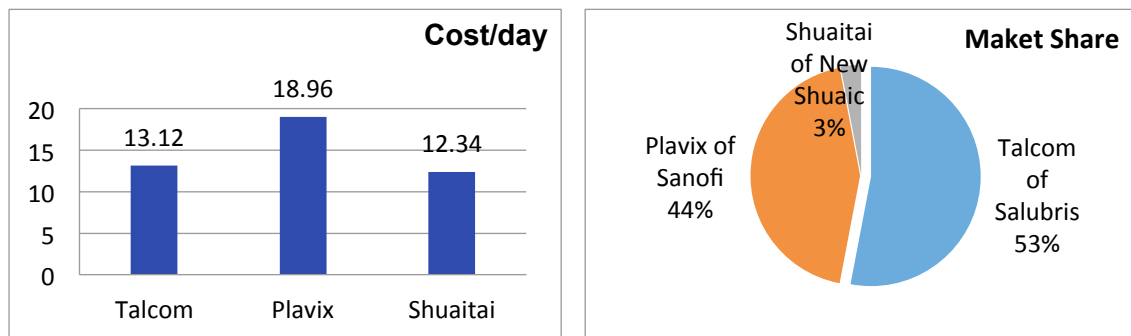
Competitors Analysis

Currently, there are mainly three competitors in the Chinese market of clopidogrel bisulfate tablets: Talcom of Salubris, Plavix of Sanofi and Shuaitai of New Shuaic, with a market share of 53%, 44% and 3% respectively.

The daily dose of Talcom is 13.12 while that of Plavix is 18.96 based on conversion. In this case, yearly spending on Talcom after PCI operation is 4788.8 yuan and that on Plavix is 6920.92, so administration of Talcom can save 2132.12 yuan, accounting for 44.52%. The administration of Talcom can decrease its expenses on a large scale because clopidogrel bisulfate tablets should be administered for life after PCI

² EU conformity (CE): to prove that clopidogrel bisulfate produced by Salubris meets the standards of European Union (EU), World Health Organization (WHO) and Pharmaceutical Inspection Convention/Pharmaceutical Inspection Cooperation Scheme (PIC/S).

operation. Once the quality of Talcom has been acknowledged by the hospitals, the market share of Plavix is most likely to be challenged by Talcom.



Entry Barriers

Strong entry barriers guarantee profits for the Company and make it difficult for potential competitors to enter the market.

Patent: Talcom, as a national Category II new drug, was listed in 2000 and enjoys 8-year patent protection. It has rapidly occupied a large market share during this period of time and brought surplus profit to Salubris. Though the patent protection has expired, the market share of the drug is still expanding for multiple reasons such as high drug quality and prescribing habits of doctors. Besides, Allisartan Isoproxil³, a new drug of the Company, enjoys patent protection till 2026. Consequently, the Company will maintain its market share and profit in the long-term.

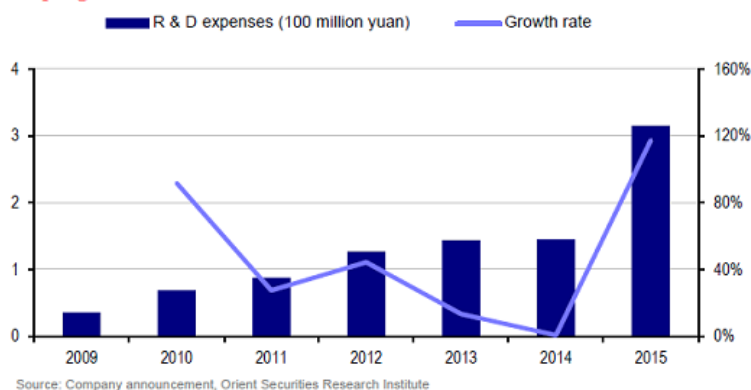
Marketing: As of now, Salubris has a sales team of about 1,000 people, with its products used in 1,100 domestic hospitals in China. Sales representatives have established and maintained good cooperative relations with physicians, which can feed back clinical data and market demand to the Company in time and guide the Company to improve product quality and produce new products. Since 2015, the Company has begun to actively explore Internet healthcare, build a new marketing platform that is more suitable for its own strengths and is expecting to increase the efficiency of sales promotion via the Internet. This further raises the entry threshold for latecomers.

R&D: Salubris Technology Center possesses two R&D centers, three research institutes and more than 30 research labs. Also it is one of the Top-5 enterprises in China's pharmaceuticals industry in terms of R&D investment. In order to further improve its R&D capability, the Company spent more than 300 million yuan on R&D in

³ Allisartan Isoproxil: an antihypertensive

2015. With such a huge investment, the Company has developed and stockpiled a large batch of new drugs such as the new antihypertensive Allisartan Isoproxil4 and Bivalirudin, an anti-thrombin drug, so as to maintain its sustaining competitive advantage.

rapid growth of R&D investment since 2015

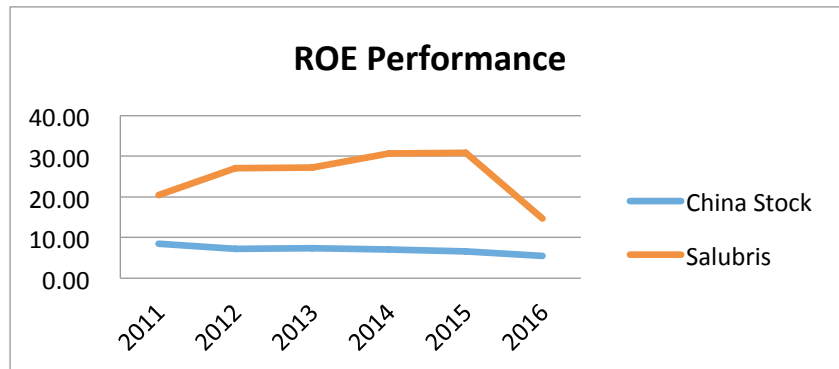


Financial Analysis

Over the past five years, operation revenues of Salubris rose constantly at a rate of no less than 20%, during which the average gross profit and net profit margins reached 73% and 36% respectively. Based on conservative growth rate, main business revenues of the Company are estimated to reach 4,083m, 4,661m and 5,359m in 2016, 2017 and 2018, respectively. By 2018, earnings per share will increase by 36.98% to 1.96 compared with 1.42 in 2016.

Main financial Data	2014A	2015A	2016E	2017E	2018E
Operating Income	2883	3478	4083	4661	5359
YoY Growth	23.9%	20.6%	17.4%	14.2%	15.0%
Operating Profit	1207	1478	1730	2021	2390
YoY Growth	24.7%	22.5%	17.0%	16.8%	18.3%
Net profit	1042	1266	1489	1738	2049
YoY Growth	25.5%	21.5%	17.6%	16.7%	17.9%
EPS(yuan)	1.00	1.21	1.42	1.66	1.96
Gross Profit rate	73.5%	73.8%	74.2%	75.2%	76.4%
Net Profit rate	36.2%	36.4%	36.5%	37.3%	38.2%
Net Assets	30.2%	30.3%	29.7%	29.1%	28.8%
PE	29.2	24.0	20.4	17.5	14.8
PB	8.0	6.6	5.6	4.7	3.9
unit:one million yuan			Source: Company announcement		

In addition, we should not ignore the Rate of Return of Common Stockholders' Equity (ROE) of the Company. Over the past five years, the Company has maintained its return on equity between 20~30%, but data provided by Wind Info shows that the average ROE of a stock in China has decreased from 8.43% in 2011 to 5.49% in 2016.



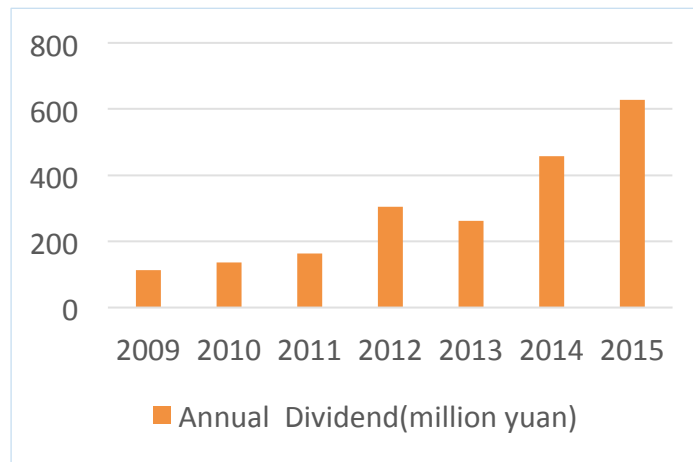
While obtaining high profits, Salubris actively provides returns to its investors. The Company can be considered as the most generous among all listed companies in China in terms of dividend payments. When it went public in 2009, the Company proposed the distribution scheme of giving another 10 shares as a present and a dividend of 10 yuan per 10 shares. History has proven that Salubris puts aside no less than 30% of its net profit for dividend payments every year. Over the six years from 2009 to 2014, the Company paid dividends of 2,065 million yuan in total. In other words, if one invested in Salubris when it went public, then he or she would have received all of the investments through dividends purely not taking into account any rise(s) in share price. That equals to a 72.66% of interest. (The return on dividends over the six years is 172.66%)

Financial Summary	2008	2009	2010	2011	2012	2013	2014	2015	Total
Amount of Financing		11.96	-	-	-	-	-	-	11.96
Net Profit	1.17	2.16	4.13	4.67	7.3	8.3	10.43	12.7	-
Annual Growth Rate	-	84.4%	91.4%	13.1%	56.3%	13.8%	25.6%	21.7%	33.1%
Annual Cash Dividends	-	1.14	1.36	1.63	3.05	2.62	4.58	6.28	20.65
Profit Sharing Rate	-	52.6%	33.0%	35.0%	41.8%	31.5%	43.9%	49.4%	41.0%
Market Value Center	-	87.7	157.7	116.8	121.5	209.9	211.7	347.2	293.6
PE	-	40.6	38.2	25	16.6	25.3	20.3	27.3	27.6

Unit: 100 million yuan

Source: Company announcement

The Board of Directors expects payment of dividends of no less than 30% of the net profit to investors in the future, while the Company has planned to pay dividends of 600 million yuan, over 50% of its net profit, in the first half of 2016.



Valuation

Salubris seems to be a valuable investment opportunity with stable profits and paying actively dividends to its stockholders. However, before investment, we have to consider whether the current purchase consideration of shares is appropriate and the potential to rise after purchase.

In order to figure out the share price of a target company, we employ Gordon Dividend Growth Model for calculation. According to the average Beta coefficient in the pharmaceuticals industry in China stock market and in view of consistent stable performance of Salubris, we let Beta be 1.13 and risk-free interest rate be 2.98% based on 10-year treasury bond rate. We let expected return rate be 8.03%. Firstly, the WACC we have worked out is 11.30% by Capital Asset Pricing Model (CAPM), then through the Gordon Model, we figure out that the share price of the Company is 62.01 yuan, which is much higher than the current price of 29.65 yuan.

As China is now witnessing volatile interest rate, Chinese enterprises report unstable profits and absolute evaluations often cannot reflect their actual values. In order to guarantee the comprehensiveness of evaluations, we have made estimations of the Company with EV/EBITDA model. First of all, on basis of financial statements for the third quarter of 2016, the EBITDA we worked out is 143.49 million yuan. Secondly, referring to the average of EV/EBITDA of the pharmaceuticals industry in 2016 which is 30, the EV we got is 4,747.59 million yuan. Thirdly, the EV misused total liabilities and then was divided by total shares. And finally we obtained the target price of 44.36

yuan. At present, share price of the Company is 29.65 yuan, with upside potential of 49.61%. So we adopt the purchase strategy.

Risk Analysis

Last but not least, we have carried out an intensive study on the operations of the Company using the DuPont analysis and found that the cause of a decrease in profits and ROE is neither increased debts nor reduction of capital turnover. The actual reason is the increase of R&D expenditure in the first half of 2016 to 136 million yuan, indicating a YoY increase of 64.80% and directly leading to a sharp rise in operational expenses of the Company. It is certainly true that an increase in R&D expenditures will result in a decrease in short-term returns, but, as Buffett put it in the Berkshire Hathaway Shareholder Meeting in 2000, "we hope that the moat for enterprises will constantly widen every year, which does not mean profits of enterprises must be increasing year after year. Instead, if the 'moat' for enterprises continues to broaden, they surely will operate well in the long run."

financial Summary	2016-9-30	2015-12-31	2014-12-31	2013-12-31
Net profit	103957.33	126592.00	104229.71	83041.66
Growth rate(%)	12.2760	21.4548	25.5150	30.7398
Total operating income	282929.14	347769.29	288264.46	232748.35
Growth rate(%)	10.1894	20.6424	23.8524	27.2627
ROE	21.8400	30.8200	30.7500	29.4900
Asset liability ratio(%)	17.3077	12.8321	17.9365	13.9536
unit:(million yuan)			Source: Company announcement	

Besides, we must notice that the clopidogrel product of New Shuaic, as a latecomer, also performs well and has occupied a 3% market share. However, we do not consider this, as a potential threat because of the quality of New Shuaic has to stand the test of time and will not influence the position of Talcom for doctors and patients. Actually, Salubris is still increasing its market share while Plavix of Sanofi is experiencing market share decline. It is believed that the dual market pattern of Talcom and Plavix will continue.

As a matter of fact, R&D, clinical and production cycles of a product are subject to some uncertainties. For instance, we do not know for sure if the new drug Allisartan Isoproxil will be launched in the beginning of 2017 as scheduled and how it will affect the future profits of the Company. As prudence dictates, we should still keep a watchful eye, however positive the overall market appears to be.

Jiuding investment (SH.600053)

Jiuding Capital Holdings Co., Ltd.

48.92 0.00(0.00%)28th OCT (Friday) 15:00 GMT+8

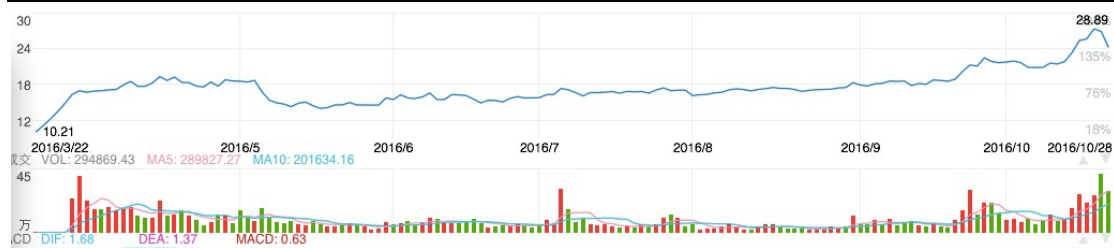


Jiuding Capital Holdings Co., Ltd. (short for JD Capital) is a Chinese private equity (PE) investment and management agency. Headquartered in Beijing, JD Capital has branches in not only 60 domestic regions, but also Europe and North America. Currently, the main businesses of JD Capital include PE investment, venture capital investment, and real estate. Thanks to its specialized investment teams, they have made lots of successful deals in more than 20 subdivided industries or sectors, such as consumption, services, energy, mining, pharmaceuticals, healthcare, information, online financing and real estate. Therefore, it was awarded the “Top 10 Best Chinese PE Firms” for seven consecutive years, and was even awarded the “The Best PE Group in China” in 2011, 2012 and 2015. Because of its efforts in future sustainable and stable development and the recognition of the company value, JD Capital has bought-back 2 million 327 thousand of their own shares and 800 shares from the secondary market in September 22nd. Such purchases give us the confidence and trust about its future performance.

Dongliang new material (SZ.002082)

Dongliang new material Holdings Co., Ltd.

24.22 0.00(0.00%)28th OCT (Friday) 15:00 GMT+8



Dongliang new material Holdings Co., Ltd. (short for DL new-material) is committed to Aluminum Alloy profiles, hardware products and molds, magnesium alloy products manufacturing and sales. In recent years, the Company's most recent profit and sales figures have both decreased. However, the general deceleration at which IPOs are issued by the Chinese government gave the company new chances. One of the fastest ways to enter the stock market for new companies would be through acquisition of a listed company's shares in a reverse merger way. Currently, Wanbangde Pharmaceutical Co., Ltd. has acquired 9.44% of the company's shares at a price of 32.49 yuan per share with the total transaction amount of 730 million yuan in March 23rd, 2016. We note that the company's stock price was 14.89 yuan during the transaction. So it would be safe to buy shares below such purchase price. We estimate that Wanbangde Pharmaceutical Co., Ltd. would inject new assets into DL new material in the near future. We believe it would be a good choice to buy this company's stock at the current stock price of 24.20 yuan.

Mongolian grass ecological (SZ.300355)

Inner Mongolia Mongolian grass ecological environment (Group) Limited

11.19 0.00(0.00%)28th OCT (Friday) 15:00 GMT+8

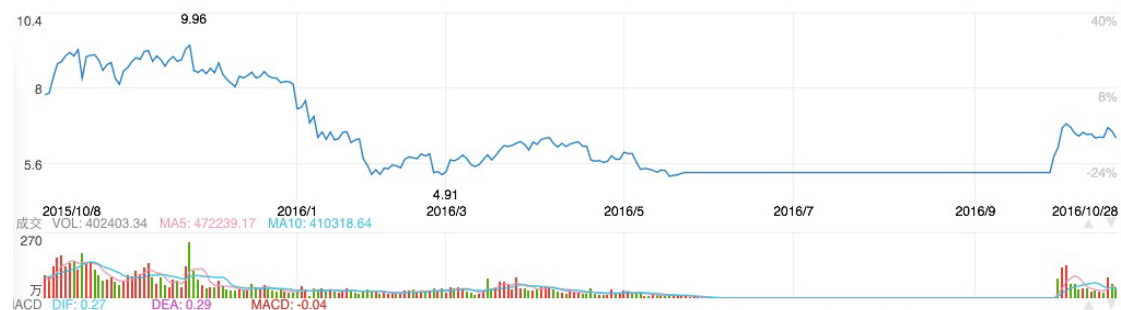


Inner Mongolia Mongolian grass ecological environment (Group) Limited by Share Ltd, (short for Mongolian grass) is a grass industry company known as the leader of the Chinese grassland ecological restoration. Its main business includes ecological restoration, seed technology, and modern grassland. Along with the guidance of adopting "The Belt and Road" strategy, Mongolian grass is accelerating the speed of internationalization. To the north, the company is building the Mongolia and Russia economic corridor construction, sharing natural grass and other resources, outputting the ecological restoration technology, while also and constructing the PPP port. To the south, the Mongolian grass is providing ecological restoration integration technology and operational platform to the Arabia national drought areas and desertification-prone regions. In recent years, the Chinese government has increased the investment in environmental protection; we believe that the size of the company and the profit will grow accordingly. The PPP model has become a new way of cooperation between enterprises and the government to replace the traditional BT and BOT model. As the leader in the concept of PPP, we are optimistic about the company's performance in the next 6 months.

Zhejiang rich Holding (SZ.002266)

Zhejiang rich Holding Group Limited

6.44 0.00(0.00%)28th OCT (Friday) 15:00 GMT+8



Zhejiang rich Holding Group Limited by Share Ltd. (hereinafter referred to as Zhefu Holding) is an international business company. The company's main business involves hydropower, nuclear power, oil and gas. At present, Zhefu holding has become a large group who mainly focuses on international operations, such as water and electricity equipment, nuclear power equipment, and special motors. The company plans to issue approximately 188.5 million shares at a price of 5.07 yuan per share to raise 800 million yuan for acquiring Zhejiang Ruige, which mainly provides energy saving services in the circulating water system. Zhengfu holding also promised to raise about 955.5 million yuan by private placement to support the development of Zhejiang Ruige in the future. After the acquisition, Zhejiang Ruige will contribute to the company by increasing its 2017 profit by at least 150 million yuan. Currently, the stock price is only 6.39 yuan, which compared to the private placement price premium is not very high. We are confident that this combination will bring excellent profits in 2017.