WuXi Biologics (Cayman) Inc.(2269.HK)

Five Reasons to SELL this stock

Batman Research

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Five Reasons to SELL WXB

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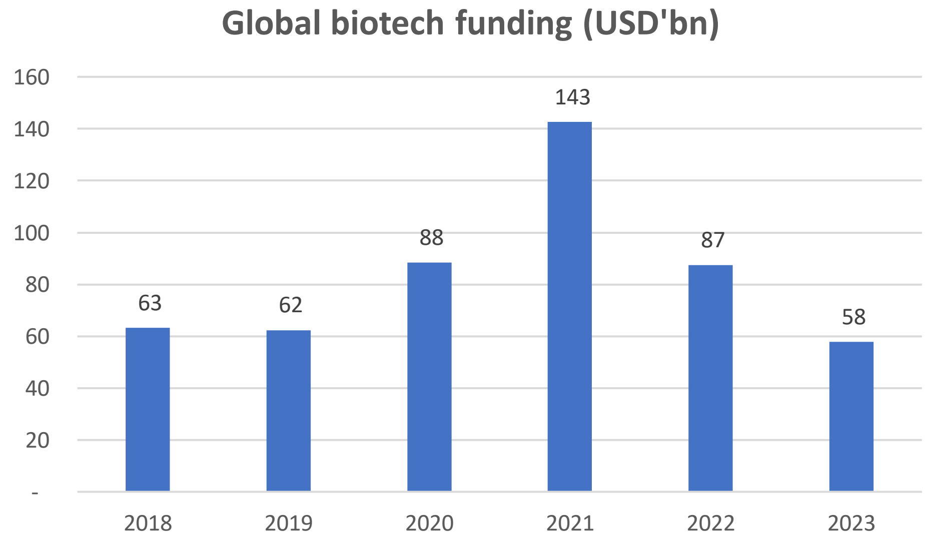
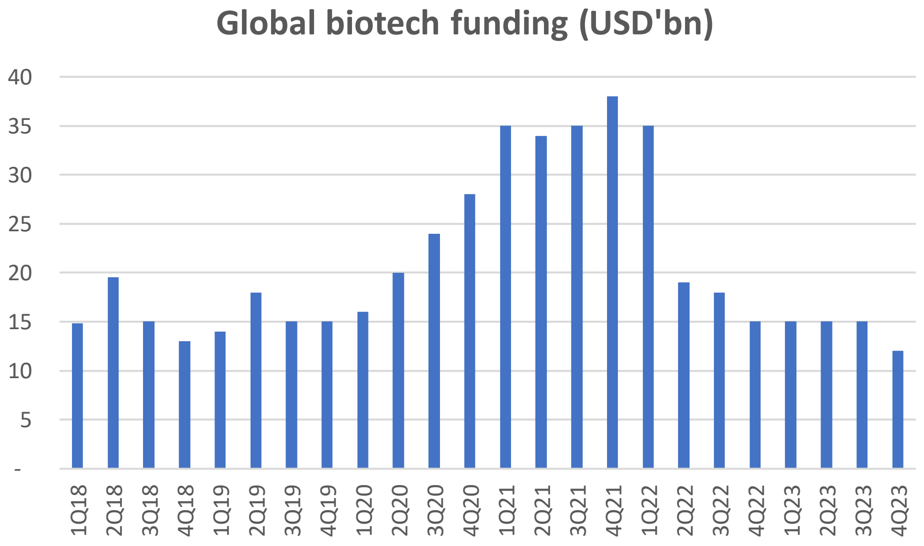
Fundamental headwinds to sustain in 2024-25

- Global biotech funding unlikely to back to favorable environment on a potential sustained high funding cost environment
- Despite high market expectation, clear timing of interest rate cut is still uncertain
- Lack of next-generation bio-technology breakthrough – ADC, GLP-1 are not big enough for next round biotech booming

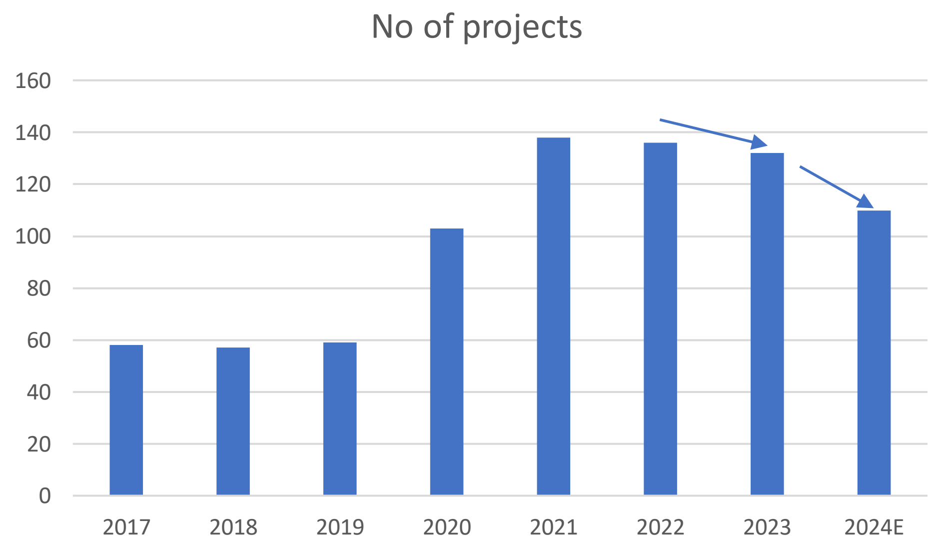


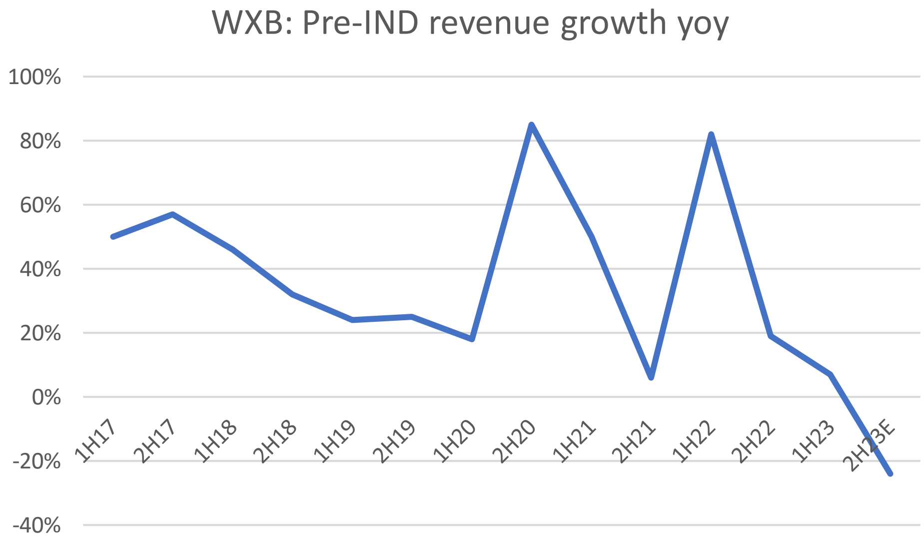


Source: VBDATA, Batman Research

Fundamental headwinds to sustain in 2024-25

- WXB's early-stage growth to normalize to industry growth (i.e. c10%) due to high market share (WXB already has c40-50% market share in new projects per year globally, already a high base market share)

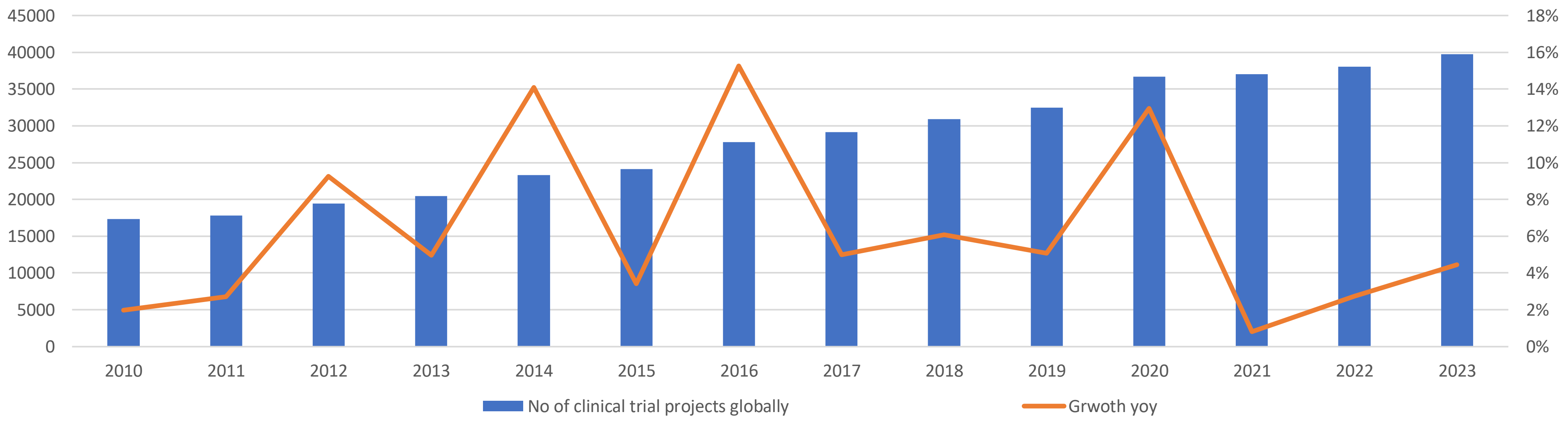




Source: Company, Batman Research

Fundamental headwinds to sustain in 2024-25

- Globally number of clinical trial projects growth has been slowing down since 2022
- A headwind to CDMO sector including WXB

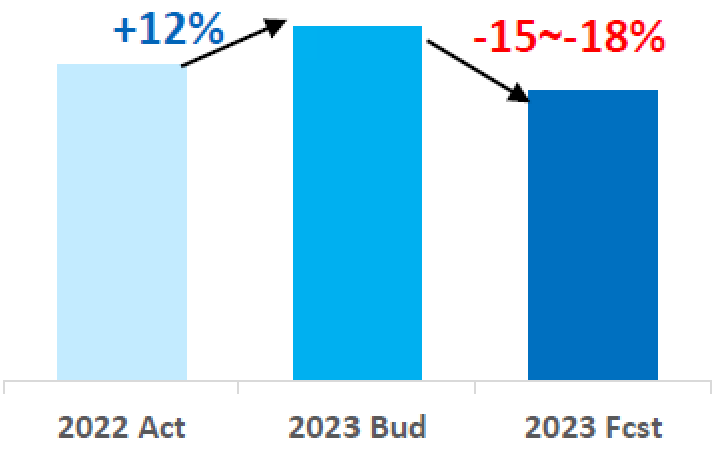


Source: Clinicaltrials.gov, Batman Research

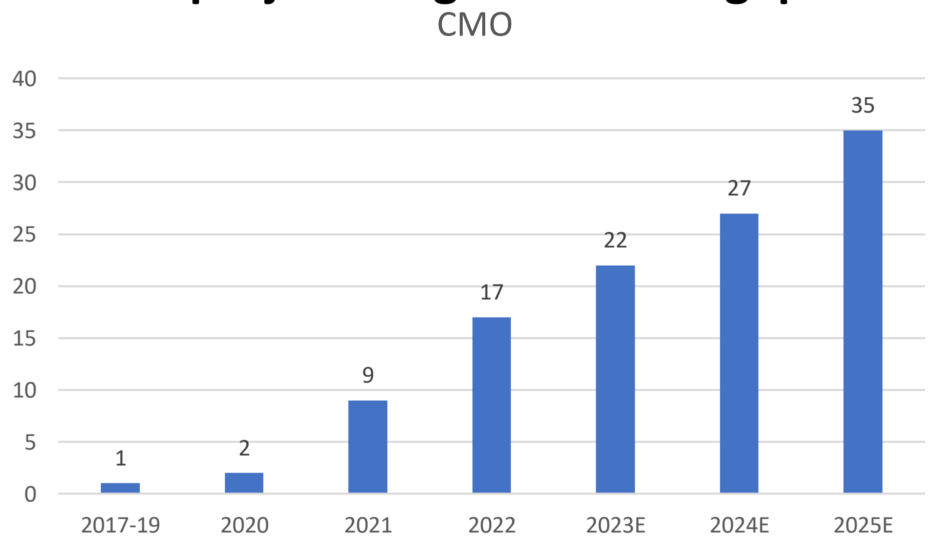
CMO Expansion Highly Uncertain amid US-Sino geopolitical concern

- WXB not yet proved CMO track record globally – the company not yet gained any blockbuster biological drug CMO order globally;
  - WXB failed to get DS-8201 from AZ and GLP-1 from Novo Nordisk, and
  - AD commercialization prospects not exciting
  - Sustained geopolitical concern leads to US/EU pharma's supply chain shift from China to other countries – WXB seeing higher uncertainty to gain CMO order
  - Less blockbuster biological drugs to be approved globally in the coming years

WXB: CMO revenue



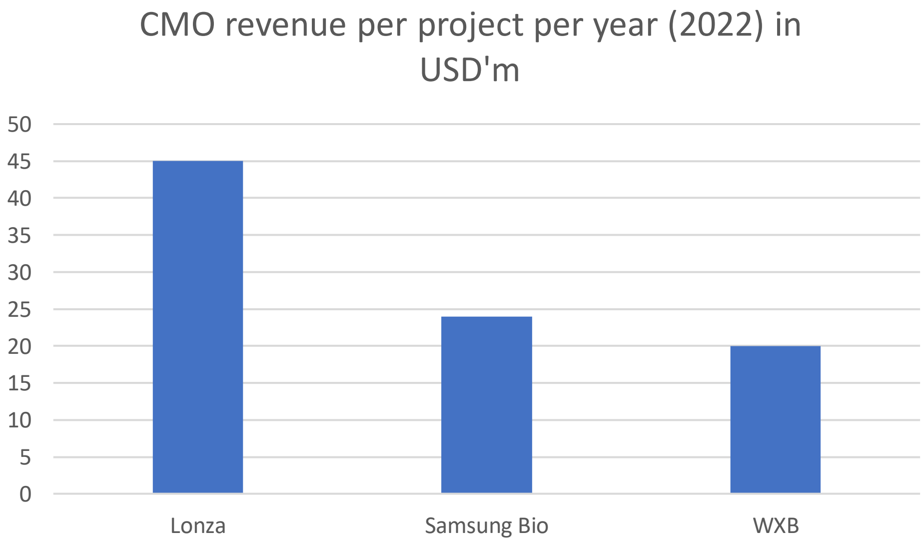
WXB's CMO project No guidance a big question mark!!!



Source: Company, Batman Research

CMO Expansion Highly Uncertain amid US-Sino geopolitical concern

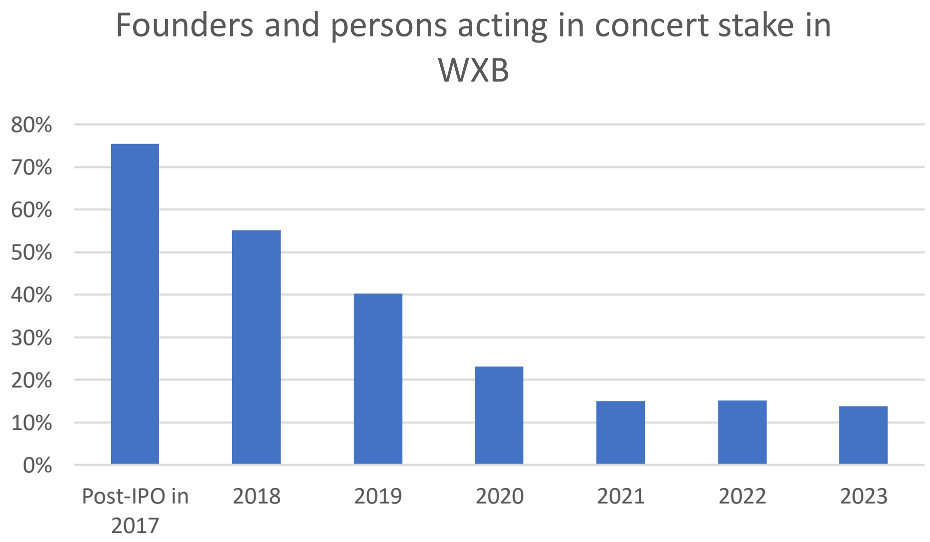
- CMO order size highly likely below investors market expectation – look at Lonza and Samsung Bio’s order value per project
- WXB CMO order size well below its key competitors (i.e. Lonza and Samsung Bio)



Source: Company, Batman Research

Founders continued SELLOFF suggests bearish long-term outlook

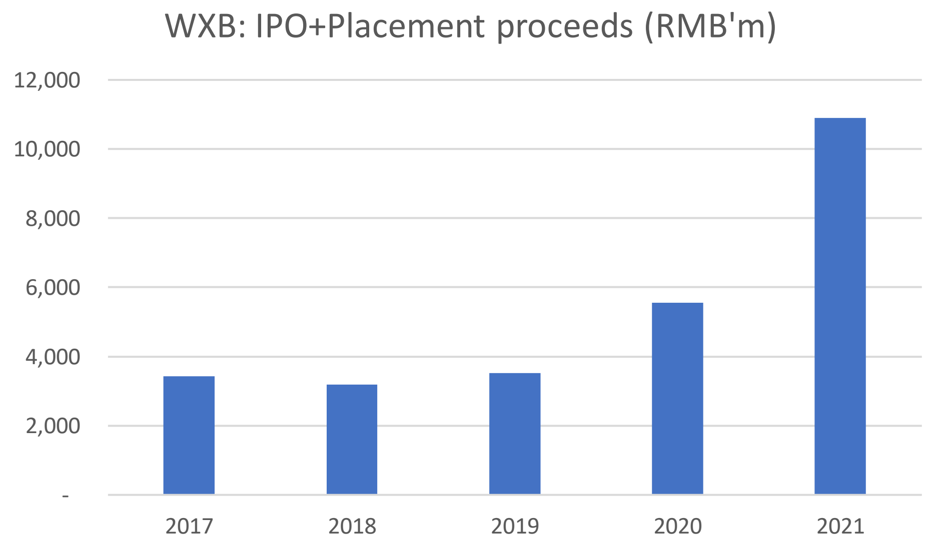
- Founders (e.g. Dr. Ge Li) and persons acting in concert have sold more than 60% stake since WXB's IPO in 2017
- Still selling despite weak share price



Source: Company, Batman Research

Founders continued SELLOFF suggests bearish long-term outlook

- Raised more than **RMB26bn** capital from IPO and placements but **ZERO** dividend payment to investors



Source: Company, Batman Research

Founders continued SELLOFF suggests bearish long-term outlook

- No shareholders and management buyback despite weak share price suggests bearish long-term outlook
- Company level buyback is not good enough

Corporate Governance issue underestimated

- WXB maintained original guidance until WuXi XDC HK IPO on 17 Nov 2023 and last minute guide down of 2023 earnings guidance in Dec-2023 – significant CG issue!!!
- Lack of proper communication with investors before 2023 earnings guide down; WXB misled investors by reiterate original guidance multiple times during investor communication in 3q/4q 2023 – significant CG issue
- Guide down and then guide up suggests lack of fundamental visibility for 2024

Potential key management change a negative catalyst

- Key management team has achieved financial freedom; management passion in a next decade a key question mark
- Therefore, key management change likely happen in 2025 – Will Dr. Chris Chen still CEO post 2025???
- Dr. Chris Chen guiding double digit and 30% adj. NP growth in 2024/2025; If earnings missed, what does this mean to Chris' reputation?
- Founder Ge Li has been living in the US instead of China? What does this mean?

Financials: Unlikely to deliver 2024-25E guidance

RMBm	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E
Revenue	**1,619**	**2,534**	**3,984**	**5,612**	**10,290**	**15,269**	**16,796**	**18,811**	**21,633**	**25,960**
Growth yoy		57%	57%	41%	83%	48%	10%	12%	15%	20%
Gross profit	**661**	**1,018**	**1,659**	**2,533**	**4,829**	**6,724**	**6,550**	**7,525**	**8,653**	**10,384**
GP margin	41%	40%	42%	45%	47%	44%	39%	40%	40%	40%
Operating profit	**443**	**773**	**1,135**	**1,844**	**3,523**	**4,914**	**4,760**	**5,455**	**6,274**	**7,528**
Growth yoy		74%	47%	62%	91%	39%	-3%	15%	15%	20%
OP margin	27%	31%	28%	33%	34%	32%	28%	29%	29%	29%
Attributable net profit	**253**	**630**	**1,014**	**1,689**	**3,388**	**4,420**	**4,200**	**4,704**	**5,410**	**6,492**
Growth yoy		149%	61%	67%	101%	30%	-5%	12%	15%	20%
NP margin	16%	25%	25%	30%	33%	29%	25%	25%	25%	25%

Source: Company, Batman Research

Our PE-based Valuation implies 24% downside potentials

WXB 1-year forward PEG	1.0
2024-26E EPS CAGR	17%
1-year forward PE	17
2024E net profit (RMBm)	4,704
Equity value (RMBm)	**82,195**
No of shares (million)	4,220
Target price (RMB) per share	19
Target price (HKD) per share	21.43
Current share price (HKD)	28.25
Downside (%)	**-24%**

Source: Company, Batman Research

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