China Shineway Pharmaceutical (2877 HK)

1H26: Results Miss; Higher Dividend Cushions 2026 Forecast Cut

Highlights

- Shineway's 1H26 revenue and net profit declined 28.5% and 23.7% yoy respectively, missing our 2026 estimates. It remains conservative on 2026-27 growth amid persistent policy and economic headwinds, with pipeline approvals underpinning recovery from 2028.
- It raised the second interim dividend to Rmb0.80/share, resulting in a 123% payout ratio in 2026, though without a formal policy commitment.
- We cut our 2026 revenue and net profit growth estimates to -25.2% and -20.5% yoy. Maintain HOLD and cut target price to HK$8.50.

1H26 Results

Year to 31 Dec (Rmbm)	1H25	1H26	% chg yoy
Revenue	1,653	1,181	(28.5)
Injection	566	320	(43.4)
Soft capsule	217	203	(6.8)
Granules	273	247	(9.6)
TCM formula granules	488	336	(31.1)
Others	109	76	(30.6)
Gross Profit	1,194	826	(30.8)
Selling expense	(648)	(312)	(51.8)
G&A expense	(126)	(107)	(15.5)
R&D expense	(50)	(67)	32.9
Operating Profit	531	468	(11.8)
Investment income	218	113	(48.2)
Net income	615	469	(23.7)
Ratios	1H25	1H26	ppt chg yoy
GP margin	72.2	69.9	(2.3)
Selling expense %	39.2	26.4	(12.8)
Admin expense %	7.7	9.0	1.4
R&D %	3.0	5.7	2.6
OP margin	32.1	39.7	7.5
Investment income %	13.2	9.6	(3.6)
Net profit margin	37.2	39.7	2.5

Source: Shineway, UOB Kay Hian

Analysis

- **1H26 results missed.** China Shineway Pharmaceutical's (Shineway) 1H26 revenue dropped 28.5% yoy to Rmb1.18b, while net profit declined 23.7% yoy to Rmb469.2m. The 1H26 results missed our estimated revenue and net profit growth of -3.2% and 0.6% yoy for 2026, respectively. The company declared a second interim dividend for 2026 at Rmb0.80/share. Its 2026 dividend totalled Rmb1.23/share, representing a payout ratio of 123%.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	3,778	3,135	2,344	2,347	2,427
EBITDA	1,025	896	813	865	911
Operating profit	1,025	896	813	865	911
Net profit (rep./act.)	840	950	755	811	864
Net profit (adj.)	840	950	755	811	864
EPS (Fen)	111.2	125.8	100.0	107.4	114.3
PE (x)	6.5	5.7	7.2	6.7	6.3
P/B (x)	0.7	0.7	0.7	0.6	0.6
EV/EBITDA (x)	(0.9)	(1.0)	(1.1)	(1.0)	(1.0)
Dividend yield (%)	7.5	6.5	17.1	5.6	5.9
Net margin (%)	22.2	30.3	32.2	34.6	35.6
Net debt/(cash) to equity (%)	(77.6)	(85.0)	(86.7)	(84.6)	(88.5)
Interest cover (x)	167.2	157.6	143.0	152.2	160.2
ROE (%)	11.6	12.2	9.5	10.0	10.0
Consensus net profit	-	-	956	1,072	1,184
UOBKH/Consensus (x)	-	-	0.79	0.76	0.73

Source: Shineway, Bloomberg, UOB Kay Hian

Analyst(s)

Carol Dou
carol.dou@uobkh.com
+ 852 22366749

Sunny Chen
sunny.chen@uobkh.com
+ 852 2826 4857

HOLD (Maintained)

Share Price	HK$8.41
Target Price	HK$8.50
Upside	1.1%
Previous TP	HK$9.00

Stock Data

Sector	Health Care
Bloomberg ticker	2877 HK
Shares issued (m)	827
Market cap (HK$m)	6,955
Market cap (US$m)	887
3-mth avg daily t'over (US$m)	0.8

Price Performance (%)

52-week high/low HK$10.47/HK$7.21

1mth	3mth	6mth	1yr	YTD
2.2	2.6	(10.5)	(4.2)	(2.2)

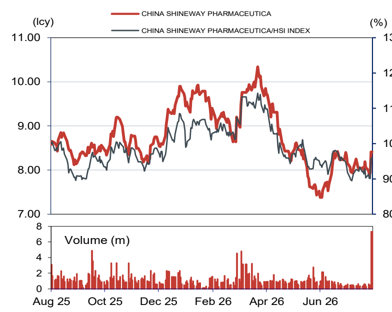
Major Shareholders (%)

Li Zhenjiang	66.12

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	10.44
FY26 Net Cash/Share (Rmb)	9.06

Price Chart



Source: Bloomberg

Company Description

China Shineway Pharmaceutical develops, manufactures, and sells modern Chinese medicines in Mainland China. The company also produces and sells a series of western pharmaceuticals.

- **1H26 and 2Q26 revenue fell 28.5% and 37.5% yoy,** mainly due to: a) continued impact from the anti-corruption campaign and group purchasing organisation (GPO) tenders on multiple traditional Chinese medicine (TCM) products, and b) weak economic conditions. TCM injections, TCM formula granules, granules and soft capsules saw 1H26 revenue declines of 43.4%, 31.1%, 9.6% and 6.8% yoy respectively. By medicine category, revenue from prescription and over-the-counter medications fell 29.1% and 23.4% yoy respectively in 1H26.
- **Cost control supported margins in 1H26.** Gross margin narrowed 2.3ppt yoy to 69.9% in 1H26, primarily impacted by GPO price cuts on TCM injections and TCM formula granules, and high production costs. The selling expenses/revenue ratio improved 12.8ppt yoy to 26.4% in 1H26 on lower advertising and market development spending, while the G&A/revenue ratio and R&D/revenue ratio expanded 1.4ppt and 2.6ppt yoy to 9.0% and 5.7% respectively. Operating margin rose 7.5ppt yoy to 39.7% in 1H26, while net margin improved 2.5ppt to 39.7%, even as investment income fell 48.2% yoy.
- **Significant dividend uplift for 2026.** Shineway declared a second interim dividend for 2026 of Rmb0.80/share, up from Rmb0.11/share in 2025. Its 2026 dividend totalled Rmb1.23/share, representing a payout ratio of 123%. Management positioned the increase as a response to long-standing concerns over payout levels but did not commit a formal policy. Future distributions may vary, as cash reserves are also needed to support lengthening hospital receivables.
- **Management expects no recovery in 2H26.** Shineway expects GPO tenders to continue and notes prices already cut will not recover, while removal of the hospital dispensing mark-up lands in 2H26. Channel inventory is already low, so destocking is no longer the constraint. Hospital payment periods continue to lengthen, distributors struggle to collect, and Shineway ships only against payment. Management remains conservative on the 2026-27 revenue outlook.
- **TCM formula granules under pressure while exclusive oral products showed relative resilience.** TCM formula granules revenue fell 31.1% yoy to Rmb336m after Hebei province implemented GPO tenders cutting winning bid prices by over 30% on average. Management indicated the decline was price- rather than volume-driven and that Yunnan was largely spared because its prices had already been cut earlier. Hebei's hospital sales fell 36.4% yoy while Yunnan's grew 20.7% yoy. As a private enterprise, Shineway expects to take share as additional provincial markets open. Exclusive oral prescription medications were the most resilient segment, with 1H26 revenue down 12.2% yoy to Rmb234m. Sales of Huamoyan Granule fell 14.3% yoy while Dan Deng Tong Nao Soft Capsule grew 1.0% yoy.
- **Pipeline approvals underpin 2028 growth outlook.** Sailuotong and JC Capsule have completed Phase III trials, with market launch targeted for 2027. Management indicated JC Capsule could possibly be approved by end-26. A further approval in late-Aug 26 lifts the number of classic prescriptions to eight, ranking first nationwide. Management sees a reasonable prospect of growth in 2028 even if 2027 does not recover.

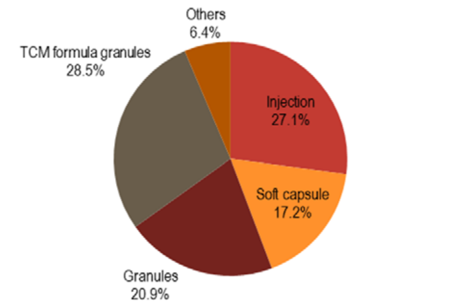
Valuation/Recommendation

- **Maintain HOLD with a lower target price of HK$8.50,** based on 6.8x 2027F PE. The stock is currently trading at HK$8.41, below its 2026 net cash/share of Rmb9.06.

Earnings Revision/Risk

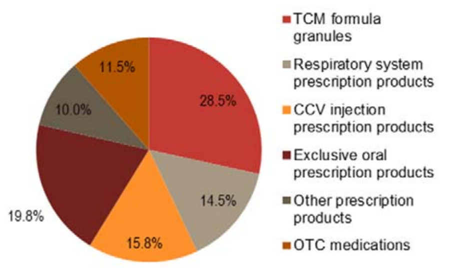
- We cut our 2026 revenue and net profit growth estimates from -3.2% and 0.6% yoy to -25.2% and -20.5% yoy respectively, on the weaker 2026 growth outlook.
- **Risks** include: a) worse-than-expected impact from the anti-corruption campaign; b) GPO risks on TCM formula granules; c) intensifying competition; and d) possibly weaker-than-expected economic conditions.

Revenue By Segment (1H26)



Sources: Shineway, UOB Kay Hian

Revenue By Medicine Category (1H26)



Sources: Shineway, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	3,135	2,344	2,347	2,427
EBITDA	896	813	865	911
Deprec. & amort.	-	-	-	-
EBIT	896	813	865	911
Total other non-operating income	379	200	222	246
Associate contributions	-	-	-	-
Net interest income/(expense)	(6)	(6)	(6)	(6)
Pre-tax profit	1,269	1,007	1,081	1,151
Tax	(319)	(252)	(270)	(288)
Minorities	-	-	-	-
Net profit	950	755	811	864
Net profit (adj.)	950	755	811	864

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	1,249	1,231	1,215	1,202
Other LT assets	224	219	216	213
Cash/ST investment	7,189	7,179	7,443	8,250
Other current assets	2,115	1,590	1,850	1,656
Total assets	10,777	10,219	10,724	11,321
ST debt	339	339	339	339
Other current liabilities	2,171	1,787	1,784	1,840
LT debt	-	-	-	-
Other LT liabilities	205	205	205	205
Shareholders' equity	8,062	7,888	8,396	8,937
Minority interest	-	-	-	-
Total liabilities & equity	10,777	10,219	10,724	11,321

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	1,172	951	599	1,161
Pre-tax profit	1,269	1,007	1,081	1,151
Tax	(319)	(252)	(270)	(288)
Deprec. & amort.	151	152	148	145
Associates	-	-	-	-
Working capital changes	461	141	(263)	250
Non-cash items	-	-	-	-
Other operating cashflows	(389)	(97)	(97)	(97)
Investing	222	(26)	(26)	(26)
Capex (growth)	(144)	(144)	(144)	(144)
Investments	95	95	95	95
Proceeds from sale of assets	23	23	23	23
Others	248	-	-	-
Financing	(375)	(935)	(309)	(328)
Dividend payments	(355)	(929)	(303)	(323)
Proceeds from borrowings	(5)	-	-	-
Loan repayment	-	-	-	-
Others/interest paid	(15)	(6)	(6)	(6)
Net cash inflow (outflow)	1,019	(10)	264	807
Beginning cash & cash equivalent	6,140	7,189	7,179	7,443
Changes due to forex impact	30	-	-	-
Ending cash & cash equivalent	7,189	7,179	7,443	8,250

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
Gross margin	72.3	69.9	70.0	70.0
Pre-tax margin	40.5	43.0	46.1	47.5
Net margin	30.3	32.2	34.6	35.6
ROA	9.1	7.2	7.7	7.8
ROE	12.2	9.5	10.0	10.0
Growth				
Turnover	(17.0)	(25.2)	0.1	3.4
Gross profit	(20.0)	(27.7)	0.3	3.4
Pre-tax profit	10.8	(20.6)	7.4	6.5
Net profit	13.1	(20.5)	7.4	6.5
Net profit (adj.)	13.1	(20.5)	7.4	6.5
EPS	13.1	(20.5)	7.4	6.5
Leverage				
Debt to total capital	4.0	4.1	3.9	3.7
Debt to equity	4.2	4.3	4.0	3.8
Net debt/(cash) to equity	(85.0)	(86.7)	(84.6)	(88.5)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.