Sinopharm Group (1099 HK)

1H26: Results In Line; Striving For Growth Amid Policy Headwinds

Highlights

- Sinopharm's 1H26 results were largely in line, with revenue down 1.1% yoy and net profit attributable to shareholders down 1.8% yoy to Rmb3.4b. Gross margin narrowed 0.37ppt yoy to 6.74% on the expanded scale of VBP, but effective expense control and savings in finance costs cushioned the bottom line.
- Amid policy headwinds, Sinopharm strives for growth by focusing on product and service optimisation.
- Maintain HOLD with an unchanged target price of HK$17.00.

1H26 Results

Year to 31 Dec (Rmbm)	2Q25	2Q26	YoY%	1H25	1H26	YoY%
Revenue	144,381	142,034	-1.6	286,043	282,800	-1.1
Pharma distribution	-	-	n.a.	209,253	204,454	-2.3
Medical devices	-	-	n.a.	56,869	56,683	-0.3
Retail Pharmacy	-	-	n.a.	16,904	18,441	9.1
Others	-	-	n.a.	3,017	3,220	6.7
Gross profit	10,464	9,707	-7.2	20,347	19,071	-6.3
Selling expense	(4,004)	(3,719)	-7.1	(7,845)	(7,321)	-6.7
G&A expense	(2,075)	(1,978)	-4.6	(3,668)	(3,471)	-5.4
Operating profit	4,064	3,902	-4.0	7,446	7,146	-4.0
Finance expense-net	(548)	(425)	-22.5	(995)	(809)	-18.8
Net profit attributable to shareholders	2,009	1,990	-0.9	3,466	3,404	-1.8
EPS - diluted	0.641	0.641	0.0	1.111	1.091	-1.8
Ratios (%)	2Q25	2Q26	Ppt chg	1H25	1H26	Ppt chg
GP margin	7.25	6.83	(0.41)	7.11	6.74	(0.37)
Selling expense	2.77	2.62	(0.15)	2.74	2.59	(0.15)
G&A expense	1.44	1.39	(0.04)	1.28	1.23	(0.05)
OP margin	2.81	2.75	(0.07)	2.60	2.53	(0.08)
Financing expense	0.38	0.30	(0.08)	0.35	0.29	(0.06)
Net profit margin	1.39	1.40	0.01	1.21	1.20	(0.01)

Source: Sinopharm, UOB Kay Hian

Analysis

- **1H26 results in line.** Sinopharm Group's (Sinopharm) 1H26 revenue decreased 1.1% yoy to Rmb282.8b. Net profit attributable to shareholders dropped 1.8% yoy to Rmb3.40b in 1H26. The results are lower than market expectations, but generally in line with our full-year growth estimates for 2026.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	584,508	575,167	580,450	609,789	640,616
EBITDA	23,886	22,371	21,802	22,281	23,045
Operating profit	19,152	18,082	18,086	19,131	20,300
Net profit (rep./act.)	7,050	7,155	7,230	7,661	8,149
Net profit (adj.)	7,050	7,155	7,230	7,661	8,149
EPS (Fen)	225.9	229.3	231.7	245.5	261.1
PE (x)	6.2	6.1	6.0	5.7	5.4
P/B (x)	0.6	0.5	0.5	0.5	0.4
EV/EBITDA (x)	2.3	2.5	2.6	2.5	2.4
Dividend yield (%)	4.9	4.9	5.0	5.3	5.6
Net margin (%)	1.2	1.2	1.2	1.3	1.3
Net debt/(cash) to equity (%)	21.6	21.6	5.8	n.a.	n.a.
Interest cover (x)	10.3	11.2	12.2	11.9	11.7
ROE (%)	9.2	8.8	8.4	8.3	8.4
Consensus net profit	-	-	7,629	8,325	9,007
UOBKH/Consensus (x)	-	-	0.95	0.92	0.90

Source: Sinopharm, Bloomberg, UOB Kay Hian

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HOLD (Maintained)

Share Price	HK$16.33
Target Price	HK$17.00
Upside	4.1%

Stock Data

Sector	Health Care
Bloomberg ticker	1099 HK
Shares issued (m)	3,121
Market cap (HK$m)	50,960
Market cap (US$m)	6,503
3-mth avg daily t'over (US$m)	12.4

Price Performance (%)

52-week high/low				HK$22.34/HK$15.28
1mth	3mth	6mth	1yr	YTD
(3.0)	(7.0)	(25.1)	(16.4)	(16.0)

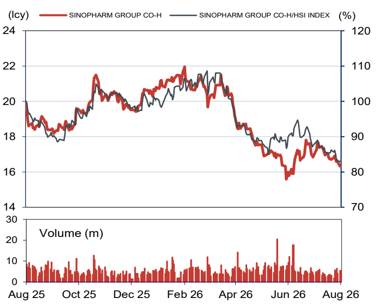
Major Shareholders (%)

China National Pharmaceutical Group (CNPGC)	57.00

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	28.53
FY26 Net Debt/Share (Rmb)	3.83

Price Chart



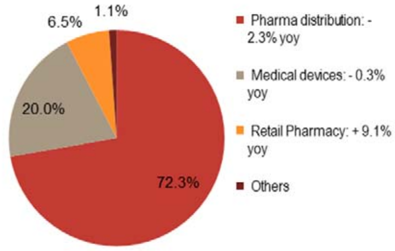
Source: Bloomberg

Company Description

Sinopharm Group is the largest pharmaceutical distributor in China.

- **Revenue down 1.1% yoy in 1H26.** Sinopharm's total revenue came in at Rmb282.8b in 1H26. Pharmaceutical distribution revenue fell 2.3% yoy as volume-based procurement (VBP) continued to weigh, though sales of national negotiated varieties and innovative drugs grew a rapid 27% and 30% yoy respectively, forming a structural offset. Medical device distribution revenue was largely flat, down 0.3% yoy, while retail pharmacy continued to lead growth with revenue up 9.1% yoy, lifted by the specialty pharmacy system amid prescription outflow.
- **Expanded VBP scale continued to depress gross margin in 1H26.** Sinopharm's gross margin narrowed 0.37ppt yoy to 6.74% in 1H26, on the expanded scale of VBP for both drugs and medical devices. Through continued cost control, selling expense/revenue and administrative expense/revenue ratios fell 0.15ppt and 0.05ppt yoy respectively, while net finance costs dropped 18.8% yoy on lower borrowing rates and financial structure adjustments. These led to milder declines in operating margin and net margin of 0.08ppt to 2.53% and 0.01ppt to 1.20% respectively. Net earnings attributable to shareholders dropped 1.8% yoy to Rmb3.40b in 1H26.
- **Striving for growth via optimisation of business and service structure.** Given the tightened budgets of social medical insurance funds, VBP programmes may continue to bring price and margin pressure to Sinopharm's pharmaceutical distribution and medical device businesses. The company will keep optimising its product and service structure – seeking distribution rights for innovative drugs and high-value devices – and extend value-added services such as marketing, third-party logistics and supply-processing-distribution (a hospital-centric supply chain management model) to enhance profitability. In retail pharmacy, it adheres to the dual-brand strategy, with the specialty pharmacy system capturing prescription outflow and the out-of-hospital commercialisation of innovative drugs. These efforts are expected to strengthen gross margin and further improve operating efficiency, thereby mitigating policy risks. We expect the company to deliver relatively flat revenue and earnings in 2026.

Segmental Revenue (1H26)



Source: Sinopharm, UOB Kay Hian

Valuation/Recommendation

- **Maintain HOLD with an unchanged target price of HK$17.00,** based on 6.0x 2027F PE, or 1x PEG. Our target price factors in lower growth visibility given the persistent policy risks.

Earnings Revision/Risk

- **Risks** include: a) rising geopolitical tensions, including the ongoing US-Israel conflict with Iran, which could introduce significant uncertainties for global economic growth and further dampen market sentiment; b) a further slowdown in revenue growth and depressed margins due to policy changes; and c) a possible further weakening of operating cash flow amid weaker economic conditions.

Share Price Catalyst

- Continued improvement in margins and possible stronger-than-expected earnings growth in 2026.

Profit & Loss

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Net turnover	575,167	580,450	609,789	640,616
EBITDA	22,371	21,802	22,281	23,045
Deprec. & amort.	4,289	3,716	3,150	2,744
EBIT	18,082	18,086	19,131	20,300
Associate contributions	1,230	1,230	1,230	1,230
Net interest income/(expense)	(1,995)	(1,781)	(1,871)	(1,966)
Pre-tax profit	15,802	15,986	16,909	17,951
Tax	(3,965)	(4,006)	(4,245)	(4,516)
Minorities	(3,679)	(3,718)	(3,939)	(4,190)
Net profit	7,155	7,230	7,661	8,149
Net profit (adj.)	7,155	7,230	7,661	8,149

Balance Sheet

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Fixed assets	12,084	10,117	8,710	7,704
Other LT assets	31,481	30,321	29,060	27,805
Cash/ST investment	48,796	72,515	81,848	91,235
Other current assets	298,000	297,153	311,556	326,687
Total assets	390,361	410,106	431,173	453,431
ST debt	63,321	73,439	77,111	80,967
Other current liabilities	183,404	184,874	193,690	202,957
LT debt	3,645	4,215	4,426	4,647
Other LT liabilities	5,830	5,731	5,784	5,839
Shareholders' equity	83,953	89,030	94,522	100,372
Minority interest	50,206	52,817	55,641	58,649
Total liabilities & equity	390,361	410,106	431,173	453,431

Cash Flow

Year to 31 Dec (Rmbm)	2025	2026F	2027F	2028F
Operating	14,138	18,100	12,812	13,260
Pre-tax profit	16,176	16,551	17,698	19,004
Tax	(4,480)	(4,216)	(4,211)	(4,477)
Deprec. & amort.	4,289	3,716	3,150	2,744
Working capital changes	(8,184)	492	(5,586)	(5,865)
Non-cash items	-	-	-	-
Other operating cashflows	6,336	1,557	1,761	1,854
Investing	(964)	(2,515)	(2,515)	(2,515)
Capex (growth)	(2,515)	(2,515)	(2,515)	(2,515)
Proceeds from sale of assets	67	-	-	-
Others	1,484	-	-	-
Financing	(18,687)	8,134	(965)	(1,358)
Dividend payments	(3,138)	(3,261)	(3,284)	(3,480)
Issue of shares	-	-	-	-
Proceeds from borrowings	(4,400)	10,688	3,883	4,077
Loan repayment	-	-	-	-
Others/interest paid	(11,149)	707	(1,563)	(1,954)
Net cash inflow (outflow)	(5,512)	23,719	9,332	9,387
Beginning cash & cash equivalent	54,313	48,796	72,515	81,848
Changes due to forex impact	(5)	-	-	-
Ending cash & cash equivalent	48,796	72,515	81,848	91,235

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
Gross margin	7.2	7.1	7.2	7.2
Pre-tax margin	2.7	2.8	2.8	2.8
Net margin	1.2	1.2	1.3	1.3
ROA	1.8	1.8	1.8	1.8
ROE	8.8	8.4	8.3	8.4
Growth				
Turnover	(1.6)	0.9	5.1	5.1
Gross profit	(5.8)	(0.4)	5.3	5.3
Pre-tax profit	2.7	1.2	5.8	6.2
Net profit	1.5	1.0	6.0	6.4
Net profit (adj.)	1.5	1.0	6.0	6.4
EPS	1.5	1.0	6.0	6.4
Leverage				
Debt to total capital	44.4	46.6	46.3	46.0
Debt to equity	79.8	87.2	86.3	85.3
Net debt/(cash) to equity	21.6	5.8	n.a.	n.a.
Interest cover	11.2	12.2	11.9	11.7