The United Laboratories International (3933 HK)

1H26: Miss on Licence Lapse; Growth To Resume In 2H26

Highlights

- TUL's 1H26 results missed as a lapse in licence income resulted in a significant decrease in revenue and margins. Excluding licence income, overall operations remained stable in 1H26.
- We expect revenue and earnings to resume steady growth in 2H26, supported by a low bulk-medicine price base and continued finished-product expansion, while new product launches should further enrich the portfolio and generate significant revenue streams from 2027.
- Maintain BUY with a lower target price of HK$11.00.

1H26 Results

Year to 31 Dec (Rmbm)	1H25	1H26	yoy % chg
Revenue	7,518.7	6,165.9	(18.0)
Intermediate products	1,010.7	703.9	(30.4)
Bulk medicines	2,529.5	2,595.5	2.6
Finished products (ex-licence)	2,544.6	2,764.7	8.7
Licence income	1,433.9	101.9	(92.9)
Gross profit	3,923.9	2,119.5	(46.0)
Selling expenses	(682.2)	(678.0)	(0.6)
G&A expenses	(435.2)	(458.1)	5.3
R&D expenses	(498.9)	(438.9)	(12.0)
Operating profit (EBIT)	2,330.1	588.2	(74.8)
Finance income, net	44.7	40.4	(9.5)
Net profit attributable to shareholders	1,894.3	347.6	(81.6)
Adjusted net earnings	1,894.3	333.5	(82.4)
Ratios (%)	1H25	1H26	yoy ppt chg
GP margin	52.2	34.4	(17.8)
EBIT margin	31.0	9.5	(21.5)
Net margin	25.2	5.6	(19.6)
Adj. net margin	25.2	5.4	(19.8)

Source: TUL, UOB Kay Hian

Analysis

- **1H26 results missed.** The United Laboratories International's (TUL) 1H26 revenue fell 18.0% yoy to Rmb6,165.9m and net profit dropped 81.6% yoy to Rmb347.6m, or Rmb333.5m adjusted. EBITDA fell 66.5% yoy to Rmb920.8m. No interim dividend was declared.

Key Financials

Year to 31 Dec (Rmbm)	2024	2025	2026F	2027F	2028F
Net turnover	13,759	13,211	11,984	12,842	13,583
EBITDA	3,459	2,877	1,573	1,915	2,201
Operating profit	2,858	2,240	800	1,012	1,165
Net profit (rep./act.)	2,656	2,076	715	1,032	1,171
Net profit (adj.)	2,656	2,076	715	1,032	1,171
EPS (Fen)	146.2	110.1	36.2	52.3	59.4
PE (x)	5.6	7.4	22.6	15.7	13.8
P/B (x)	1.0	0.9	0.9	0.9	0.8
EV/EBITDA (x)	3.6	4.3	7.8	6.4	5.6
Dividend yield (%)	6.8	5.1	1.7	2.4	2.7
Net margin (%)	19.3	15.7	6.0	8.0	8.6
Net debt/(cash) to equity (%)	(22.2)	(32.4)	(21.7)	(10.2)	(0.7)
Interest cover (x)	n.m.	n.m.	n.m.	n.m.	n.m.
ROE (%)	19.6	13.1	4.1	5.7	6.2
Consensus net profit	-	-	1,143	1,465	1,653
UOBKH/Consensus (x)	-	-	0.63	0.70	0.71

Source: TUL, Bloomberg, UOB Kay Hian

Analyst(s)

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

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

BUY (Maintained)

Share Price	HK$8.20
Target Price	HK$11.00
Upside	34.2%
Previous TP	HK$13.00

Stock Data

Sector	Health Care
Bloomberg ticker	3933 HK
Shares issued (m)	1,970
Market cap (HK$m)	16,146
Market cap (US$m)	2,059
3-mth avg daily t'over (US$m)	9.2

Price Performance (%)

52-week high/low: HK$17.97/HK$7.98

1mth	3mth	6mth	1yr	YTD
(8.1)	(9.1)	(37.0)	(50.8)	(29.3)

Major Shareholders (%)

Heren Far East Ltd.	42.34

Balance Sheet Metrics

FY26 NAV/Share (Rmb)	9.04
FY26 Net Cash/ Share (Rmb)	1.96

Price Chart

Source: Bloomberg

Company Description

Produces antibiotics finished products, bulk medicine and intermediate products, and sells them both domestically and overseas. It is one of the major manufacturers of antibiotics and diabetes medicine producers in China.

- **Licence revenue lapse drove a 18% yoy revenue decline** to Rmb6,165.9m in 1H26. Excluding licensing, revenue was nearly flat at Rmb6,064.1m (-0.3% yoy). Intermediate product sales dropped 30.4% yoy to Rmb703.9m, while bulk medicine sales edged up 2.6% to Rmb2,595.5m; management noted upstream product prices stabilised but remained below 1H25 levels. Finished product sales rose 8.7% yoy to Rmb2,764.7m, led by animal healthcare (up 45.8% yoy to Rmb823.1m) and big health (up 58.0% yoy to Rmb17.7m), partially offset by declines in endocrine/metabolism (down 2.9% yoy to Rmb938.5m) and anti-infection (down 2.0% yoy to Rmb875.7m). Animal products are expected to continue driving growth in 2H26.
- **Revenue and earnings to return to a steady growth trajectory in 2H26.** TUL received milestone income of Rmb101.9m (US$15m) from Novo Nordisk for advancing UBT251 into global Phase II in overweight and obesity in 1H26 (1H25: Rmb1,433.9m upfront) and expects to receive another UBT251 milestone income of US$10m from Novo Nordisk in 2H26. Although this milestone income does not fully offset the high base, we expect revenue and earnings to resume steady growth in 2H26, supported by a low bulk-medicine price base and continued finished-product expansion.
- **Operating expenses remained relatively stable in 1H26.** 1H26 selling expenses fell 0.6% yoy to Rmb678.0m, G&A expenses rose 5.3% yoy to Rmb458.1m, and R&D expenses fell 12.08% yoy to Rmb438.9m. Finance costs rose 116.1% yoy to Rmb44.9m on higher project financing. A sharp decline in licence income also significantly depressed margins.
- **Looking ahead to 2027-28**, TUL expects to launch Semaglutide for Injection for both obesity and type 2 diabetes (T2D) in 2Q27. In addition, it plans to launch an Insulin Degludec and Liraglutide combination injection in 2027, followed by an Insulin Degludec and Insulin Aspart injection in 2028; they represent a market opportunity exceeding Rmb5b with limited competition, as no generics are currently available in China. These new product launches are expected to further enrich the company's product portfolio and generate significant new revenue streams.
- **UBT251 and the Novo Nordisk partnership remain the long-term driver.** TUL is advancing its transition to an innovator, with 40 new drugs in development, of which 23 are Class 1. Its UBT 251, a GLP-1/GIP/GCG triple agonist, is leading the pipeline. Phase III obesity trials began in China in Jun 26, with T2D Phase III expected in 3Q26; three additional Chinese trials are underway for NASH, CKD, and OSA. Globally, Novo Nordisk has initiated obesity Phase II and plans T2D Phase II in 2H26. Given its broad indication potential and progress vs peers, we see UBT 251 as well positioned to capture a meaningful share of China's obesity and T2D market, targeting a 2029 launch for both indications.

Valuation/Recommendation

- **Maintain BUY with a lower target price of HK$11.00,** based on SOTP valuation, comprising: a) HK$5.11/share at 8.4x 2027F PE for existing drugs; and b) NAV-derived pipeline value of HK$5.88/share (10.5% WACC, 4% terminal growth rate).

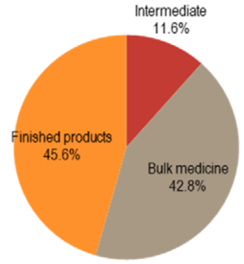
Earnings Revision/Risk

- **Revision to 2026-28 forecasts.** We fine-tune our 2026-28 revenue growth forecasts from -10.9%/3.8%/6.1% yoy to -9.3%/7.2%/5.8% yoy respectively, based on a low bulk-medicine price base and continued finished-product expansion.
- **Risks:** a) Policy risks (ie GPO risks on insulin and certain other generic products), b) intensifying market competition, c) changes in market demand and price fluctuations of bulk medicines and intermediate products, and d) risks in R&D and new product launches.

Share Price Catalyst

- Further Novo Nordisk milestone payments and UBT251 Phase III readouts, b) stabilisation and recovery in intermediate product and bulk medicine prices, and c) approval and launch of additional endocrine and metabolism products.

Segmental Revenue (1H26)



Source: TUL, UOB Kay Hian

Profit & Loss

Year to 31 Dec (HK$m)	2025	2026F	2027F	2028F
Net turnover	13,211	11,984	12,842	13,583
EBITDA	2,877	1,573	1,915	2,201
Deprec. & amort.	637	773	903	1,036
EBIT	2,240	800	1,012	1,165
Associate contributions	-	-	-	-
Net interest income/(expense)	83	84	84	84
Pre-tax profit	2,525	1,049	1,272	1,443
Tax	(447)	(167)	(239)	(271)
Minorities	(5)	(3)	-	-
Net profit	2,076	715	1,032	1,171
Net profit (adj.)	2,076	715	1,032	1,171

Balance Sheet

Year to 31 Dec (HK$m)	2025	2026F	2027F	2028F
Fixed assets	11,558	14,262	16,837	19,283
Other LT assets	873	930	982	1,030
Cash/ST investment	10,606	8,844	6,860	5,120
Other current assets	7,863	7,470	7,911	8,304
Total assets	30,900	31,505	32,590	33,738
ST debt	2,106	2,106	2,106	2,106
Other current liabilities	7,973	8,130	8,574	8,995
LT debt	2,873	2,873	2,873	2,873
Other LT liabilities	473	473	473	473
Shareholders' equity	17,393	17,841	18,481	19,208
Minority interest	82	82	82	82
Total liabilities & equity	30,900	31,505	32,590	33,738

Cash Flow

Year to 31 Dec (HK$m)	2025	2026F	2027F	2028F
Operating	6,265	1,957	1,854	2,151
Pre-tax profit	2,528	885	1,272	1,443
Tax	(447)	(167)	(239)	(271)
Deprec. & amort.	637	773	903	1,036
Working capital changes	6,496	1,100	6	56
Non-cash items	-	-	-	-
Other operating cashflows	(2,949)	(634)	(88)	(113)
Investing	(2,963)	(3,366)	(3,366)	(3,366)
Capex (growth)	(3,522)	(3,531)	(3,531)	(3,531)
Proceeds from sale of assets	-	-	-	-
Others	558	165	165	165
Financing	974	(355)	(472)	(525)
Dividend payments	(829)	(274)	(392)	(445)
Issue of shares	1	-	-	-
Proceeds from borrowings	1,841	-	-	-
Loan repayment	-	-	-	-
Others/interest paid	(40)	(81)	(81)	(81)
Net cash inflow (outflow)	4,277	(1,763)	(1,984)	(1,739)
Beginning cash & cash equivalent	6,330	10,606	8,844	6,860
Changes due to forex impact	-	-	-	-
Ending cash & cash equivalent	10,606	8,844	6,860	5,120

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
Gross margin	41.7	34.5	35.5	36.0
Pre-tax margin	19.1	8.8	9.9	10.6
Net margin	15.7	6.0	8.0	8.6
ROA	7.3	2.3	3.2	3.5
ROE	13.1	4.1	5.7	6.2
Growth				
Turnover	(4.0)	(9.3)	7.2	5.8
Gross profit	(9.3)	(25.0)	10.3	7.3
Pre-tax profit	(20.6)	(58.5)	21.3	13.5
Net profit	(21.8)	(65.6)	44.4	13.5
Net profit (adj.)	(21.8)	(65.6)	44.4	13.5
EPS	(24.7)	(67.1)	44.4	13.5
Leverage				
Debt to total capital	22.3	21.8	21.2	20.6
Debt to equity	28.6	27.9	26.9	25.9
Net debt/(cash) to equity	(32.4)	(21.7)	(10.2)	(0.7)
Interest cover	n.m.	n.m.	n.m.	n.m.