

Innovent Biologics (1801 HK)

Expanding portfolio of commercial products

Innovent recorded RMB4.3bn revenue in 2021 (+74% YoY), including RMB4.0bn product sales (+69% YoY) and RMB268.6mn license fee income. Sintilimab recorded around RMB2.8bn in 2021 (~70% of total product revenue; +27% YoY). All of sintilimab's four approved indications are covered by NRD, including three large indications (1L nsq-NSCLC, 1L sq-NSCLC, and 1L HCC). Thus, we expect sintilimab to deliver strong volume growth in 2022 which could offset the impact from price decline. Thanks to the use of stainless steel bioreactor production lines, the gross profit margin of product sales increased by 3.7ppts to 88.6% in 2021. R&D expenses were RMB2.1bn (+23% YoY) in 2021. Selling and marketing expenses were RMB2.5bn or 68% of revenue in 2021 as compared to RMB1.3bn or 57% in 2020, with the increase mainly due to sales team expansion and sales provision of sintilimab recognized in 2021. Net loss was RMB3.1bn in 2021 (vs RMB1.0bn in 2020), primarily due to RMB501.8mn increase in share-based compensation expenses and the RMB1.5bn license fee income in 2020. At the end of 2021, the Company had sufficient RMB9.0bn cash on hand.

- Expanding portfolio of commercial products.** Besides the six marketed products, namely sintilimab, three biosimilars, pemigatinib (FGFR) and olverembatinib (BCR-ABL), Innovent further expanded the strategic partnership with Eli Lilly in Mar 2022, and added one newly approved oncology drug ramucirumab (VEGFR2) and one NDA stage asset selpercatinib (RET) to its portfolio. Selpercatinib may receive approval in China for RET+ NSCLC, MTC and TC in 2022. Pemigatinib (FGFR) was already approved in Taiwan and HK, and may receive approval from China NMPA in 1H22. Moreover, Innovent aims to submit at least three NDAs in 2022, including IBI-306 (PCSK9) for non-FH and HeFH in 1H22, IBI-326 (BCMA CAR-T) for r/r MM in 1H22, and IBI-310 (CTLA-4) in combo with sintilimab for 2L CC in 2H22. Given the comprehensive and fast growing commercial product portfolio, the management targets to realize over RMB20bn sales within the next 5 years.
- Early stage global-right assets as next wave of innovation.** Innovent anticipates to have more data readout in 2022 for multiple global assets currently at the PoC stage, including IBI-188(CD47), IBI-110 (LAG-3), and IBI-322 (CD47/PD-L1). The Innovent Academy has established over 80 research programs, with seven molecules progressed into IND-enabling stage in 2021, such as first-in-class IL-2 based bispecific antibodies and novel ophthalmology bispecific antibodies. We believe Innovent Academy will efficiently deliver more novel drug candidates with global potential in coming years.
- Maintain BUY.** We revised our DCF-based TP from HK\$75.45 to HK\$75.01 (WACC: 9.5%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	3,844	4,270	5,902	6,993	9,682
YoY growth (%)	267%	11%	38%	18%	38%
Net loss (RMB mn)	(998)	(3,138)	(1,934)	(1,230)	235
EPS (RMB)	(0.74)	(2.16)	(1.32)	(0.84)	0.16
Consensus EPS (RMB)	N/A	N/A	(0.93)	(0.43)	0.36
R&D expenses (RMB mn)	(1,851)	(2,478)	(2,500)	(2,500)	(2,130)
Capex (RMB mn)	(489)	(500)	(300)	(300)	(300)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$75.01
(Previous TP)	HK\$75.45)
Up/Downside	+145.14%
Current Price	HK\$30.60

China Healthcare Sector

Jill Wu, CFA

(852) 3900 0842

jillwu@cmbi.com.hk

Andy Wang

(852) 3657 6288

andywang@cmbi.com.hk

Mkt. Cap. (HK\$ mn)	44,868
Avg. 3mths t/o (HK\$ mn)	421.83
52W High/Low (HK\$)	95.75/21.35
Total Issued Shares (mn)	1,466

Source: Bloomberg

Shareholding Structure

Temasek Holdings	8.43%
Yu De-Chao Michael	7.22%
BlackRock	4.71%
FMR	4.65%
FIL	4.35%
Others	70.64%

Source: Bloomberg

Share performance

	Absolute	Relative
1-mth	-12.4%	-10.6%
3-mth	-35.0%	-32.5%
6-mth	-59.5%	-55.2%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte
Website: www.innoventbio.com

Related report:

- Temporary setback paves the way for future success – 14 Feb 2022
- Building world-leading innovation platform – 27 Aug 2021
- Growing into a global biopharma company – 22 Jul 2021

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	(1,928)	(1,211)	294	2,403	4,813	7,135	8,867	10,434	11,584	12,704	12,721	13,066	13,461	13,784
Tax rate	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(1,928)	(1,211)	250	2,043	4,091	6,065	7,537	8,869	9,846	10,799	10,813	11,106	11,442	11,717
+ D&A	141	148	155	162	168	174	180	186	191	196	201	206	211	215
- Change in working capital	445	(42)	(289)	(866)	(676)	(705)	(539)	(495)	(234)	(194)	120	(28)	(48)	(16)
- Capex	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)
FCFF	(1,642)	(1,405)	-184	1,038	3,283	5,234	6,879	8,261	9,503	10,501	10,834	10,984	11,305	11,616
Terminal value														184,204
FCF + Terminal value	(1,642)	(1,405)	-184	1,038	3,283	5,234	6,879	8,261	9,503	10,501	10,834	10,984	11,305	195,819
PV of enterprise (RMB mn)	85,283													
Net debt (RMB mn)	(4,908)													
Equity value (RMB mn)	90,191													
Equity value (HK\$ mn)	109,989													
No. of outstanding shares (mn)	1,466													
DCF per share (HK\$)	75.01													
Terminal growth rate	3.0%													
WACC	9.5%													
Cost of Equity	11.9%													
Cost of Debt	4.5%													
Equity Beta	0.9													
Risk Free Rate	3.0%													
Market Risk Premium	10.5%													
Target Debt to Asset ratio	30.0%													
Effective Corporate Tax Rate	15.0%													

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

		WACC				
		8.5%	9.0%	9.5%	10.0%	10.5%
Terminal growth rate	4.0%	106.12	93.56	83.34	74.87	67.76
	3.5%	98.67	87.81	78.83	71.28	64.85
	3.0%	92.57	83.03	75.01	68.19	62.33
	2.5%	87.49	78.98	71.74	65.52	60.13
	2.0%	83.19	75.51	68.91	63.19	58.19

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMBmn	New			Old			Diff(%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	5,902	6,993	9,682	5,427	6,309	8,120	9%	11%	19%
GrossProfit	5,075	6,014	8,327	4,613	5,331	6,821	10%	13%	22%
OperatingProfit	(1,337)	(755)	789	(707)	(332)	1,525	89%	127%	-48%
Netprofit	(1,934)	(1,230)	235	(1,334)	(867)	787	45%	42%	-70%
EPS(RMB)	(1.32)	(0.84)	0.16	(0.91)	(0.59)	0.54	45%	42%	-70%
GrossMargin	86.00%	86.00%	86.00%	85.00%	84.50%	84.00%	+1.00ppt	+1.50ppt	+2.00ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMBmn	CMBIGM			Consensus			Diff(%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	5,902	6,993	9,682	5,700	7,550	7,550	4%	-7%	28%
GrossProfit	5,075	6,014	8,327	4,932	6,445	6,299	3%	-7%	32%
OperatingProfit	(1,337)	(755)	789	(1,349)	(647)	827	-0.86%	16.63%	-4.63%
Netprofit	(1,934)	(1,230)	235	(1,381)	(731)	718	40.07%	68.12%	-67.26%
EPS(RMB)	(1.32)	(0.84)	0.16	(0.93)	(0.43)	0.36	42.62%	97.32%	-55.86%
GrossMargin	86.00%	86.00%	86.00%	86.54%	85.37%	83.43%	-0.54ppt	+0.63ppt	+2.57ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	3,844	4,270	5,902	6,993	9,682
Cost of sales	(388)	(573)	(826)	(979)	(1,356)
Gross profit	3,456	3,697	5,075	6,014	8,327
Administrative expenses	(437)	(884)	(1,003)	(1,119)	(1,452)
R&D expenses	(1,851)	(2,478)	(2,500)	(2,500)	(2,130)
Selling and marketing expenses	(1,341)	(2,728)	(3,128)	(3,357)	(4,163)
Other income	247	197	218	207	208
Other gains and losses	(480)	(73)	0	0	0
Operating profit	(406)	(2,269)	(1,337)	(755)	789
Listing expenses	0	0	0	0	0
Finance costs	(68)	(62)	(125)	(125)	(125)
Royalties and other related	(384)	(719)	(472)	(350)	(387)
Pre-tax profit	(859)	(3,051)	(1,934)	(1,230)	276
Income tax	(140)	(87)	0	0	(41)
Minority interests	0	0	0	0	0
Net profit (Net loss)	(998)	(3,138)	(1,934)	(1,230)	235

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21E	FY22E	FY23E	FY24E
Profit before tax	(859)	(3,051)	(1,934)	(1,230)	276
Depreciation and amortization	86	133	141	148	155
Changes in working capital	(334)	204	445	(42)	(289)
Tax paid	(140)	(87)	0	0	(41)
Others	939	471	684	831	992
Net cash from operating activities	(308)	(2,330)	(665)	(292)	1,093
Capex	(489)	(500)	(300)	(300)	(300)
Placement of term deposits with maturity dates over 3 mo	(7,126)	0	0	0	0
Other investing activities	2,431	156	118	107	108
Net cash from investing activities	(5,185)	(344)	(182)	(193)	(192)
Net proceeds from shares	4,657	3,885	0	0	0
New borrowings raised	372	0	0	0	0
Repayment of borrowings	(17)	(550)	0	0	0
Other financing activities	(100)	(62)	(125)	(125)	(125)
Net cash from financing activities	4,912	3,273	(125)	(125)	(125)
Net change in cash	(580)	599	(971)	(611)	776
Fx Changes	(569)	0	0	0	0
Cash at the beginning of the year	2,426	7,764	8,377	7,406	6,795
Cash at the end of the year	1,276	8,363	7,406	6,795	7,571

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	2,368	4,693	4,852	5,004	5,149
PP&E	1,584	2,693	2,870	3,039	3,202
Right-of-use assets	327	397	379	362	344
Intangible assets	33	772	772	772	772
Deposits for acquisition of PP&E	272	286	286	286	286
Other non-current assets	152	545	545	545	545
Current assets	9,467	11,551	10,167	9,640	10,808
Inventories	706	1,347	905	805	743
Trade receivables	475	968	998	1,182	1,637
Deposits, prepayments and other	165	213	213	213	213
Other financial assets	357	645	645	645	645
Cash and bank balances	7,764	8,377	7,406	6,795	7,571
Current liabilities	1,486	3,050	3,083	3,125	3,228
Borrowings	255	365	365	365	365
Lease liabilities	16	22	22	22	22
Trade payables	121	195	228	270	373
Other payables and accrued	974	2,052	2,052	2,052	2,052
Contract liabilities	120	356	356	356	356
Non-current liabilities	1,569	2,863	2,864	2,865	2,866
Contract liabilities	588	459	459	459	459
Borrowings	925	2,023	2,023	2,023	2,023
Lease liabilities	10	86	87	88	89
Government grants	46	295	295	295	295
Total net assets	8,780	10,330	9,072	8,654	9,863
Minority interest	0	0	0	0	0
Shareholders' equity	8,780	10,330	9,072	8,654	9,863

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Profit & loss ratios (%)					
Gross margin	90	87	86	86	86
EBITDA margin	N/A	N/A	N/A	N/A	4.6
Net margin	N/A	N/A	N/A	N/A	2.4
Effective tax rate (%)	N/A	N/A	N/A	N/A	15
Balance sheet ratios					
Current ratio (x)	6	4	3	3	3
Trade receivables turnover	34	62	62	62	62
Trade payables turnover days	96	101	101	101	101
Total debt to asset ratio (%)	26	36	40	41	38
Returns (%)					
ROE	(11)	(30)	(21)	(14)	2
ROA	(8)	(19)	(13)	(8)	1
Per share data					
EPS (RMB)	(0.74)	(2.16)	(1.32)	(0.84)	0.16
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	6.5	7.1	6.2	5.9	6.7

Source: Company data, CMBIGM estimates

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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