

# Shanghai Henlius Biotech, Inc. (2696 HK)

## Capacity expansion to drive sales growth

Henlius reported 1H20 revenue of RMB110.4mn mainly driven by RMB95.8mn attributable revenue from Hanlikang (HLX01) sales in 1H20, given the profit sharing arrangements with Fosun Pharma. Meanwhile, Henlius recorded RMB448.0mn net loss in 1H20, compared to RMB316.9mn 1H19, mainly due to the increase in R&D spending.

- **HLX01 sales to pick up thanks to the release of capacity bottleneck.** In Apr 2020, Henlius received NMPA's approvals for the addition of 2,000L drug substance production scale, 2,000L production equipment, and the addition of the specification of 500mg/50ml/vial on the basis of the original specification of 100mg/10ml/vial. The Company's total commercial production capacity has increased to 20,000L. Thanks to the release of capacity bottleneck, attributable sales of HLX01 rose to RMB95.8mn in 1H20. We expect HLX01 to deliver RMB343mn attributable revenue in 2020E.
- **HLX02 to fast penetrate into hospital channels.** In Jul 2020, HLX02 (EU trade name: Zercepac) was officially approved in EU, and in Aug 2020, HLX02 was approved by the NMPA in China, becoming the first domestic Herceptin biosimilar approved in both EU and China. With 20,000L commercialization-ready capacity (shared with HLX01), we expect HLX02 to deliver RMB155mn revenue in 2020E and RMB710mn in 2021E.
- **Expanding innovative drug pipelines.** Henlius has developed rich bio-innovative pipelines with 30 clinical trials in progress, including nine Phase 3 trials. Core innovative pipelines include HLX10 (PD-1, Ph 3), HLX07 (EGFR biobetter, Ph 1b/2), HLX22 (HER2 innovative, Ph 1), HLX55 (c-MET innovative, Ph 1), HLX56 (DR4 innovative, Ph 1). Henlius also established state-of-the-art bi-specific antibody development platform with three bi-specific antibody candidates in pre-clinical phase. The Company actively involves in development of anti-COVID-19 drugs with two candidates in pre-clinical phase, including HLX71 (S1 protein), and HLX70 (S1 protein).
- **Raise TP from HK\$57.21 to HK\$60.61 to reflect sales ramp up of HLX01 and HLX02, as well as new product launch in coming years.** We expect risk-adjusted revenue to be RMB571m in FY20E and RMB1,595m in FY21E. TP of HK\$60.61 was based on 11-year risk-adjusted DCF valuation (WACC: 10.03%, terminal growth rate: 3.0%).

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	7	91	571	1,595	3,015
YoY growth (%)	-78%	1125%	527%	180%	89%
Net profit (RMB mn)	(494)	(875)	(824)	(413)	650
EPS (RMB)	(1.16)	(1.76)	(1.52)	(0.76)	1.20
Consensus EPS (RMB)	N/A	N/A	(1.47)	(0.65)	0.55
ROE (%)	(27.4)	(21.9)	(26.0)	(14.9)	19.0
ROA (%)	(16.0)	(14.8)	(15.8)	(7.0)	9.4
Net gearing (%)	Net cash	Net cash	12	60	46
Current ratio (x)	2.0	2.8	1.1	0.8	1.3

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$60.61**  
 (Previous TP **HK\$57.21**)  
 Up/Downside **+24.2%**  
 Current Price **HK\$48.80**

### China Healthcare Sector

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Mkt. Cap. (HK\$ mn) 26,523  
 Avg. 3mths t/o (HK\$ mn) 13.05  
 52W High/Low (HK\$) 67.1/29.8  
 Total Issued Shares (mn) 163  
 Source: Bloomberg

### Shareholding Structure

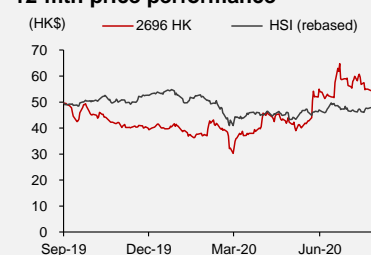
Fosun Pharma 53.76%  
 Management 11.35%  
 Institution investors 23.02%  
 Free float 11.71%  
 Source: Bloomberg

### Share performance

	Absolute	Relative
1-mth	-8.3%	-11.1%
3-mth	24.7%	12.3%
6-mth	30.6%	37.8%

Source: Bloomberg

### 12-mth price performance



Source: Bloomberg

**Auditor: Ernst & Young**  
**Web-site: www.henlius.com**

### Related Reports

1. Expecting five NDA approvals within two years – 16 Jun 2020
2. More product approvals in coming months – 27 Apr 2020
3. Rich R&D progress – 25 Mar 2020
4. Affordable innovation for global market – 8 Nov 2019

**Figure 1: CMBIS earnings revisions**

(RMB mn)	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	571	1,595	3,015	615	1,444	2,818	-7.2%	10.4%	7.0%
Gross profit	320	1,083	2,368	372	986	2,227	-14.0%	9.8%	6.3%
Operating profit	(790)	(318)	834	(737)	(167)	798	N/A	N/A	4.6%
Net profit	(824)	(413)	650	(772)	(262)	616	N/A	N/A	5.4%
EPS (RMB)	(1.52)	(0.76)	1.20	(1.42)	(0.48)	1.13	N/A	N/A	5.4%
Gross margin	56.05%	67.89%	78.53%	60.49%	68.25%	79.03%	-4.44ppt	-0.36ppt	-0.50ppt
Operating margin	-138.44%	-19.96%	27.67%	-119.77%	-11.58%	28.31%	-18.66ppt	-8.37ppt	-0.64ppt
Net Margin	-144.50%	-25.88%	21.55%	-125.50%	-18.17%	21.87%	-19.00ppt	-7.71ppt	-0.32ppt

Source: Company data, CMBIS estimates

**Figure 2: CMBIS estimates vs consensus**

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	571	1,595	3,015	682	1,616	2,887	-16.4%	-1.3%	4.4%
Gross profit	320	1,083	2,368	388	1,076	2,139	-17.6%	0.6%	10.7%
Operating profit	(790)	(318)	834	(779)	(342)	347	N/A	N/A	140.2%
Net profit	(824)	(413)	650	(841)	(361)	308	N/A	N/A	110.9%
EPS (RMB)	(1.52)	(0.76)	1.20	(1.47)	(0.65)	0.55	N/A	N/A	117.3%
Gross margin	56.05%	67.89%	78.53%	56.89%	66.60%	74.08%	-0.84ppt	1.29ppt	4.46ppt
Operating margin	-138.44%	-19.96%	27.67%	-114.14%	-21.19%	12.03%	-24.3ppt	1.23ppt	15.64ppt
Net Margin	-144.50%	-25.88%	21.55%	-123.25%	-22.31%	10.67%	-21.24ppt	-3.57ppt	10.88ppt

Source: Company data, Bloomberg, CMBIS estimates

**Figure 3: Peers comparison**

Ticker	Company	TP (LC)	Rating	Current Px (LC)	Mkt Cap (USD mn)	Px Change (%)			AVG Trading Turnover (mn LC)			IPO Date	IPO Px (LC)
						30 d	60 d	90 d	30 d	60 d	90 d		
2696.HK	Henlius	60.6	BUY	48.8	3,422	-13%	-9%	21%	12	16	13	2019-09-25	49.60
9969.HK	InnoCare	16.2	BUY	13.4	2,229	-6%	-18%	-2%	21	30	33	2020-03-23	8.95
IMAB.US	I-Mab	41.3	BUY	30.3	1,751	2%	1%	24%	3	2	2	2020-01-17	14.00
6855.HK	Ascentage	70.7	BUY	33.0	953	5%	-28%	16%	21	44	45	2019-10-28	34.20
9939.HK	Kintor	27.6	BUY	14.3	682	-4%	-7%	-8%	8	27	40	2020-05-22	20.15
6160.HK	Beigene	N/A	NR	152.0	22,953	14%	25%	60%	51	60	47	2018-08-08	108.00
1877.HK	Junshi	N/A	NR	48.0	9,993	0%	-19%	21%	50	81	74	2018-12-24	19.38
1801.HK	Innovent	N/A	NR	53.5	9,653	10%	-11%	31%	423	467	371	2018-10-31	13.98
6185.HK	CanSino	N/A	NR	179.7	7,722	-15%	-18%	10%	468	470	440	2019-03-28	22.00
9926.HK	AkesoBio	N/A	NR	29.5	2,996	2%	-21%	15%	60	82	96	2020-04-24	16.18
9966.HK	AlphaMab	N/A	NR	15.9	1,913	-1%	-16%	-13%	20	32	49	2019-12-12	10.20
2616.HK	CStone	N/A	NR	9.4	1,283	-5%	-18%	31%	21	22	22	2019-02-26	12.00

Source: Wind, CMBIS

## Financial Statements

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>7</b>	<b>91</b>	<b>571</b>	<b>1,595</b>	<b>3,015</b>	<b>PBT</b>	<b>(500)</b>	<b>(875)</b>	<b>(824)</b>	<b>(413)</b>	<b>722</b>
Drug sales	-	79	543	1,489	2,844	Depreciation & amortization	10	51	150	195	226
BD sales	-	3	19	97	162	Change in working capital	302	153	(142)	(64)	(33)
Other income	7	9	9	9	9	Income tax paid	(5)	(1)	-	-	(72)
						Others	140	228	82	142	160
Cost of sales	(5)	(72)	(251)	(512)	(647)	<b>Net cash from operating activities</b>	<b>(52)</b>	<b>(443)</b>	<b>(734)</b>	<b>(140)</b>	<b>1,002</b>
<b>Gross profit</b>	<b>2</b>	<b>19</b>	<b>320</b>	<b>1,083</b>	<b>2,368</b>	Capex	(137)	(289)	(500)	(400)	(300)
Distribution expenses	-	(46)	(124)	(322)	(706)	Acquisition of intangible asset	(598)	(632)	(800)	(600)	(500)
Administrative expenses	(109)	(175)	(136)	(179)	(228)	Other	-	(212)	-	-	-
R&D expenses	(365)	(608)	(850)	(900)	(600)	<b>Net cash from investing activities</b>	<b>(735)</b>	<b>(1,133)</b>	<b>(1,300)</b>	<b>(1,000)</b>	<b>(800)</b>
Operating profit	<b>(472)</b>	<b>(809)</b>	<b>(790)</b>	<b>(318)</b>	<b>834</b>	Loan to related party	(575)	-	-	-	-
Finance income/ (cost)	(58)	(48)	(55)	(115)	(133)	Net proceeds from shares issued	2,639	2,950	-	-	-
Exceptional	30	(17)	20	20	20	Bank borrowing	296	51	300	1,000	300
<b>Pre-tax profit</b>	<b>(500)</b>	<b>(875)</b>	<b>(824)</b>	<b>(413)</b>	<b>722</b>	Acquisition of non-controlling	(635)	-	-	-	-
Profit tax	(5)	(1)	-	-	(72)	Interest paid	(45)	(35)	(55)	(115)	(133)
Minority interest	11	-	-	-	-	<b>Net cash from financing activities</b>	<b>1,679</b>	<b>2,966</b>	<b>245</b>	<b>885</b>	<b>167</b>
<b>Net profit</b>	<b>(494)</b>	<b>(875)</b>	<b>(824)</b>	<b>(413)</b>	<b>650</b>	Net change in cash	892	1,390	(1,789)	(254)	370
						Cash at the beginning	59	959	2,301	512	258
						Exchange difference	9	(30)	-	-	-
						<b>Cash at the end</b>	<b>959</b>	<b>2,319</b>	<b>512</b>	<b>258</b>	<b>627</b>

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>2,008</b>	<b>3,239</b>	<b>4,361</b>	<b>5,139</b>	<b>5,685</b>	<b>Sales mix (%)</b>					
Fixed asset	324	501	951	1,256	1,430	Drug sales	-	86.8	95.1	93.4	94.3
Intangible assets	1,383	2,175	2,875	3,375	3,775	BD sales	-	3.7	3.3	6.1	5.4
Other non-current assets	301	563	536	508	480	Other income	100.0	9.4	1.6	0.6	0.3
						Total	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Current assets</b>	<b>1,087</b>	<b>2,661</b>	<b>856</b>	<b>752</b>	<b>1,200</b>	<b>Profit &amp; loss ratios (%)</b>					
Cash	959	2,301	512	258	627	Gross margin	27	21	56	68	79
Inventories	25	130	62	126	160	EBITDA margin	(5,969)	(803)	(107)	(6)	36
Trade and bills receivables	7	30	82	168	213	Pre-tax margin	(6,741)	(962)	(145)	(26)	24
Prepayments, deposits & other receivables	90	196	196	196	196	Net margin	(6,653)	(963)	(145)	(26)	22
Pledged cash	6	4	4	4	4	Effective tax rate	(1)	(0)	-	-	10
<b>Current liabilities</b>	<b>533</b>	<b>960</b>	<b>802</b>	<b>888</b>	<b>932</b>	<b>Balance sheet ratios</b>					
Borrowings	143	278	278	278	278	Current ratio (x)	2.0	2.8	1.1	0.8	1.3
Trade and other payables	85	240	82	168	213	Trade receivables turnover days	115	50	50	50	50
Other current liabilities	305	441	441	441	441	Trade payables turnover days	799	120	120	120	120
<b>Non-current liabilities</b>	<b>759</b>	<b>940</b>	<b>1,240</b>	<b>2,240</b>	<b>2,540</b>	Inventory turnover days	90	90	90	90	90
Borrowings	385	331	631	1,631	1,931	Net debt to total equity ratio (%)	Net	Net	12.4	59.6	46.3
Other non-current liabilities	373	609	609	609	609						
<b>Total net assets</b>	<b>1,803</b>	<b>4,000</b>	<b>3,176</b>	<b>2,763</b>	<b>3,413</b>	<b>Returns (%)</b>					
Minority interest	-	-	-	-	-	ROE	(27.4)	(21.9)	(26.0)	(14.9)	19.0
Shareholders' equity	<b>1,803</b>	<b>4,000</b>	<b>3,176</b>	<b>2,763</b>	<b>3,413</b>	ROA	(16.0)	(14.8)	(15.8)	(7.0)	9.4
						<b>Per share data</b>					
						EPS (RMB)	(1.16)	(1.76)	(1.52)	(0.76)	1.20
						DPS (RMB)	-	-	-	-	-
						BVPS (RMB)	4.2	8.0	5.8	5.1	6.3

Source: Company data, CMBIS estimates

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