

# BeiGene (BGNE US)

## Product sales soared in 2Q with improved cost efficiency

- **Strong sales in 2Q23 driven by zanubrutinib's US sales ramp-up.** In 2Q23, BeiGene recorded US\$554mn product sales (+35% QoQ or +82% YoY). Zanubrutinib (zanu) maintained a strong sales momentum, with sales revenue increasing 46% QoQ or 139% YoY to US\$308mn in 2Q23 (accelerated from the +20% QoQ rate in 1Q23), mainly driven by the growth in the US. Zanu sales in the US increased by 61% QoQ to US\$234mn in 2Q23 (accelerated from +11% QoQ in 1Q23), mainly due to the accelerated adoption among CLL/SLL patients, in our view. The sales in overseas markets other than the US grew by 47% QoQ to US\$36mn, while sales in China remained stable on a quarterly basis. We expect zanu to receive US FDA's approval for FL in 1Q24, being the only BTKi for FL. The market size of global BTKi continued to grow, with sales of zanu +46% QoQ, acalabrutinib +23% QoQ and ibrutinib +4% QoQ in 2Q23, while zanu continued to increase its market share to around 14% in 2Q23 (11% in 1Q23). We expect zanu to maintain strong growth momentum and achieve US\$1.2bn sales (+109% YoY) in FY23E.
- **Eyes on tislelizumab's US approval for 2L ESCC.** Tislelizumab (tisle) sales reached US\$150mn in 2Q23, +30% QoQ or +43% YoY (vs +12% QoQ in 1Q23). The strong growth was mainly driven by four new indications added to the NRDL from Mar 2023 (with 5% price cut) and the expansion of hospital listings. We expect tisle to maintain its leading position in market share in China's PD-(L)1 mAb market. Approved in China for 11 indications, we expect tisle to file sNDA for 1L ES-SCLC. Additionally, we expect tisle to have data readout of the China Ph3 trial in perioperative treatment of NSCLC. Approved in EU and China for 2L ESCC, we expect tisle to obtain US FDA's approval in 2H23 with on-site GMP inspection already completed, which could be a major catalyst for BeiGene. We expect BeiGene/Novartis to fill NDAs of tisle for 1L ESCC and 1L GC in 2023 in the US and EU based on positive MRCT trials.
- **Positive operating leverage drives margin improvement.** The gross margin (vs product sales) continued to expand to 82.7% in 2Q23 (vs 80.1% in 1Q23), mainly driven by the growing proportion of sales from high-margin zanu. The SG&A ratio (vs product sales) significantly decreased from 80% in 1Q23 to 71% in 2Q23 thanks to the economies of scale. Similarly, the R&D ratio (vs product sales) shrank from 100% in 1Q23 to 76% in 2Q23. We expect the operating efficiency continues to improve in coming years. BeiGene recorded net loss of US\$381mn in 2Q23 (vs US\$348mn in 1Q23 and US\$571mn in 2Q22). As of 2Q23, the Company had a strong cash balance of US\$3.5bn.
- **Strong innovation capabilities.** Sonrotoclax (Bcl-2), which shares strong synergies with zanu, will enter a global Ph3 study to assess the PFS superiority of sonrotoclax + zanu fixed duration (12 months) vs venetoclax + obinutuzumab in TN CLL, with FPI expected by end-2023. BTK-CDAC aims to enter pivotal trials in 2024. On top of its rich clinical stage pipelines, BeiGene targets to bring 15+ molecules to clinic over the next 18 months to further expand its global FIC/BIC pipelines.
- **Maintain BUY.** We revised our DCF-based TP from US\$291.01 to US\$291.47 (WACC: 9.79%, terminal growth rate: 3.0%).

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (US\$ mn)	1,176	1,416	2,331	3,149	4,696
Net profit (US\$ mn)	(1,413)	(2,004)	(1,293)	(730)	365
EPS (Reported) (US\$)	(15.23)	(19.43)	(12.34)	(6.96)	3.48
R&D expenses (US\$ mn)	(1,459)	(1,641)	(1,837)	(1,929)	(1,929)
SG&A expenses (US\$ mn)	(990)	(1,278)	(1,431)	(1,503)	(1,578)
CAPEX (US\$ mn)	(263)	(325)	(400)	(200)	(100)

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

<b>Target Price</b>	<b>US\$291.47</b>
(Previous TP)	US\$291.01)
<b>Up/Downside</b>	<b>39.3%</b>
<b>Current Price</b>	<b>US\$209.24</b>

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### Stock Data

Mkt Cap (US\$ mn)	23,840
Avg 3 mths t/o (US\$ mn)	45.9
52w High/Low (US\$)	280.62/118.18
Total Issued Shares (mn)	104

Source: FactSet

### Shareholding Structure

Amgen	17.7%
Baker Bros	11.0%

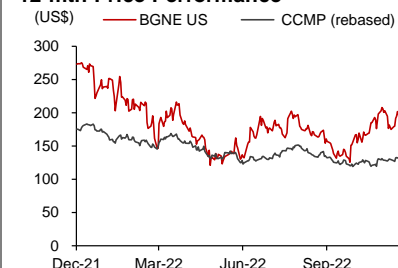
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	3.1%	3.3%
3-mth	35.6%	42.3%
6-mth	58.5%	53.6%

Source: FactSet

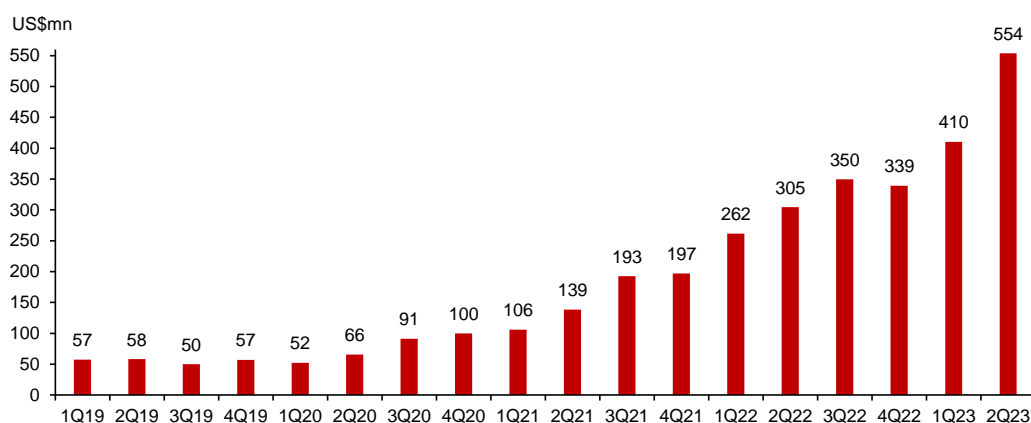
### 12-mth Price Performance



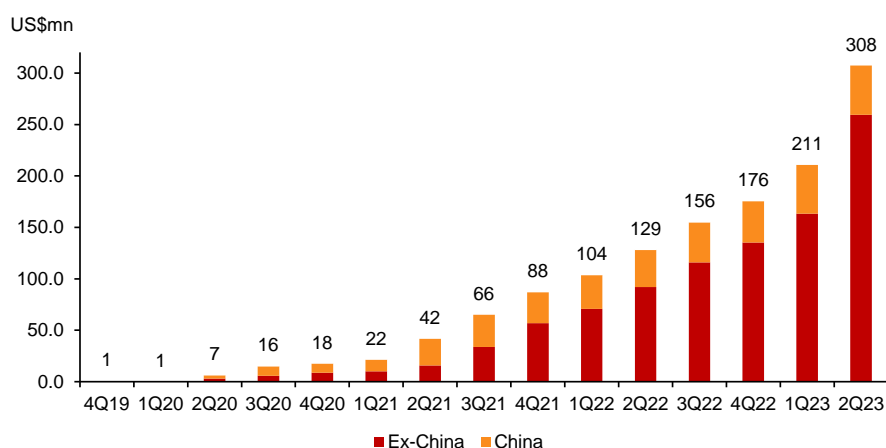
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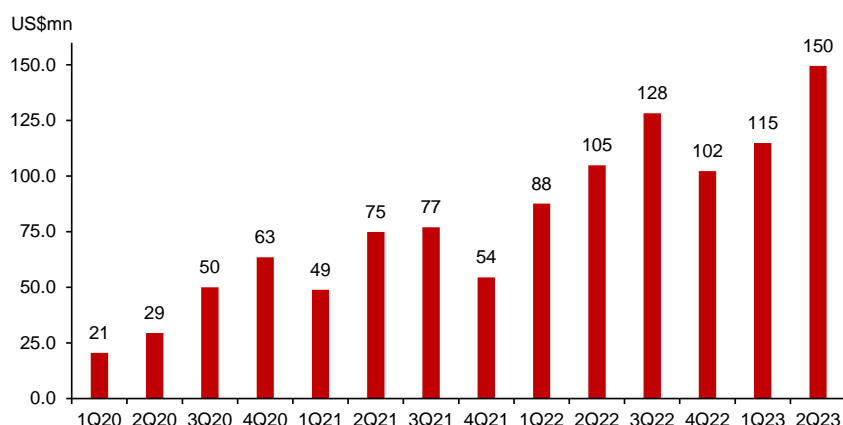
1. R&D Day takeaways: solidifying leadership in haematology with three synergistic BIC molecules ([link](#)) – 20 Jul 2023
2. Improving cost efficiency with rapid sales growth ([link](#)) – 8 May 2023
3. Expect strong sales in 2023 driven by the US approval of zanubrutinib in CLL ([link](#)) – 1 Mar 2023
4. Strong sales momentum maintained in 3Q22 ([link](#)) – 11 Nov 2022
5. Superior PFS vs ibrutinib in r/r CLL further supports the best-in-class potential of zanubrutinib ([link](#)) – 14 Oct 2022

**Figure 1: Quarterly product sales of BeiGene (1Q19 – 2Q23)**

Source: Company data, CMBIGM.

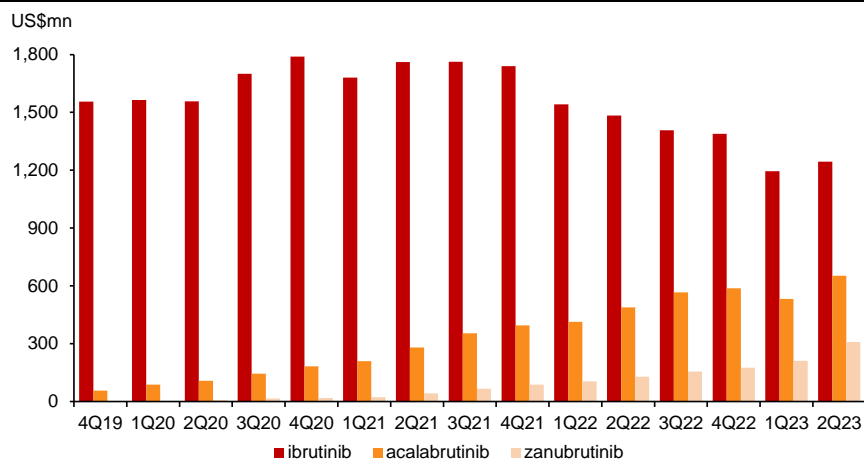
**Figure 2: Zanubrutinib quarterly sales (4Q19 – 2Q23)**

Source: Company data, CMBIGM. Note: Zanubrutinib was originally approved in Nov 2019 in the US.

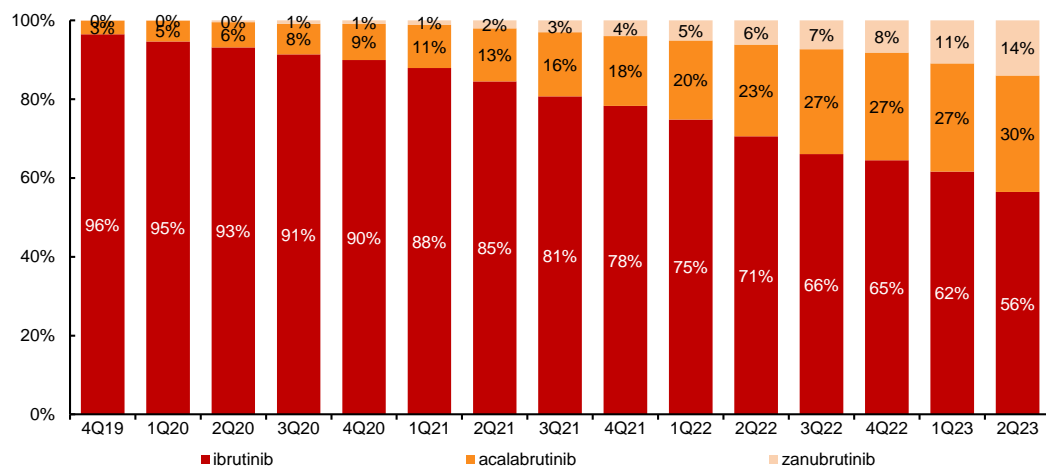
**Figure 3: Tislelizumab quarterly sales (1Q20 – 2Q23)**

Source: Company data, CMBIGM

Note: In 1Q21 and 4Q21, sales of tislelizumab was impacted by the negative adjustments totalling US\$45.6mn for distributor channel inventory compensation due to price cuts of tislelizumab for additional indications included in NRDL. The slowdown of sales growth in 4Q22 and 1Q23 was mainly due to COVID-19 interruptions in China.

**Figure 4: Global sales of major BTK inhibitors (4Q19 – 2Q23)**

Source: Company data, CMBIGM. Notes: sales of pirtobrutinib, orelabrutinib, tirabrutinib and olmutibib not included due to the current limited market shares.

**Figure 5: Market share of major BTK inhibitors (4Q19 – 2Q23)**

Source: Company data, CMBIGM. Notes: sales of pirtobrutinib, orelabrutinib, tirabrutinib and olmutibib not included in calculation due to the current limited market shares.

**Figure 6: Risk-adjusted DCF valuation**

DCF Valuation (US\$ mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	(1,321)	(735)	428	1,210	2,285	2,346	3,242	3,887	4,380	4,537	4,630	4,667	4,768
Tax rate	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(1,321)	(735)	364	1,028	1,942	1,994	2,756	3,304	3,723	3,856	3,936	3,967	4,053
+ D&A	91	98	99	99	99	99	99	99	99	99	99	99	99
- Change in working capital	(305)	(217)	(338)	(220)	(294)	(6)	(220)	(152)	(110)	(21)	(5)	9	(8)
- Capex	(400)	(200)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
FCFF	(1,935)	(1,054)	24	807	1,647	1,987	2,535	3,151	3,612	3,834	3,929	3,975	4,044
Terminal value													61,358
PV of enterprise (US\$ mn)	28,107												
Net debt (US\$ mn)	(2,444)												
Equity value (US\$ mn)	30,552												
No. of ADS (mn)	105												
DCF per ADS (US\$)	291.47												
Terminal growth rate	3.0%												
WACC	9.79%												
Cost of Equity	13.0%												
Cost of Debt	4.5%												
Equity Beta	1.00												
Risk Free Rate	3.0%												
Market Risk Premium	10.0%												
Target Debt to Asset ratio	35.0%												
Effective Corporate Tax Rate	15.0%												

Source: CMBIGM estimates

**Figure 7: Sensitivity analysis (US\$)**

Terminal growth rate	WACC				
	8.79%	9.29%	9.79%	10.29%	10.79%
4.0%	407.74	361.52	323.48	291.68	264.73
3.5%	380.02	339.81	306.20	277.73	253.33
3.0%	357.09	321.56	291.47	265.69	243.39
2.5%	337.81	306.00	278.76	255.20	234.66
2.0%	321.37	292.57	267.68	245.98	226.91

Source: CMBIGM estimates

**Figure 8: CMBIGM estimates revision**

US\$ mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,331	3,149	4,696	2,370	3,024	4,390	-2%	4%	7%
Gross Profit	1,949	2,598	3,886	1,955	2,439	3,550	0%	7%	9%
Operating Profit	(1,321)	(835)	378	(1,314)	(994)	42	NA	NA	NA
Net profit	(1,293)	(730)	365	(1,284)	(885)	78	NA	NA	NA
EPS (US\$ per ADS)	(12.34)	(6.96)	3.48	(12.17)	(8.39)	0.73	NA	NA	NA
Gross Margin	83.58%	82.49%	82.76%	82.49%	80.65%	80.88%	+1.71 ppt	+1.76 ppt	+1.93 ppt

Source: Company data, CMBIGM estimates

**Figure 9: CMBIGM estimate vs consensus**

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,331	3,149	4,696	2,184	2,966	3,956	7%	6%	19%
Gross Profit	1,949	2,598	3,886	1,790	2,448	3,329	9%	6%	17%
Operating Profit	(1,321)	(835)	378	(1,351)	(951)	(286)	N/A	N/A	N/A
Net Profit	(1,293)	(730)	365	(1,264)	(855)	(188)	N/A	N/A	N/A
EPS (US\$ per ADS)	(12.34)	(6.96)	3.48	(12.06)	(7.66)	(1.29)	N/A	N/A	N/A
Gross Margin	83.58%	82.49%	82.76%	81.95%	82.54%	84.14%	+1.64 ppt	-0.05 ppt	-1.38 ppt

Source: Company data, Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Revenue	309	1,176	1,416	2,331	3,149	4,696
Cost of goods sold	(71)	(165)	(286)	(383)	(551)	(810)
Gross profit	238	1,011	1,129	1,949	2,598	3,886
Operating expenses	(1,896)	(2,450)	(2,919)	(3,269)	(3,433)	(3,508)
SG&A expense	(600)	(990)	(1,278)	(1,431)	(1,503)	(1,578)
R&D expense	(1,295)	(1,459)	(1,641)	(1,837)	(1,929)	(1,929)
Others	(1)	(1)	(1)	(1)	(1)	(1)
Other income	39	0	(171)	28	105	50
Pre-tax profit	(1,618)	(1,439)	(1,961)	(1,293)	(730)	429
Income tax	18	25	(43)	0	0	(64)
Minority interest	(4)	0	0	0	0	0
Net profit	(1,601)	(1,413)	(2,004)	(1,293)	(730)	365
Adjusted net profit	(1,597)	(1,413)	(2,004)	(1,293)	(730)	365

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Current assets	4,961	7,614	5,207	4,337	3,862	4,662
Cash & equivalents	1,382	4,376	3,870	3,017	2,369	2,593
Account receivables	60	483	173	493	722	1,078
Inventories	89	243	282	345	490	709
Financial assets at FVTPL	3,269	2,242	665	265	65	65
Other current assets	160	271	217	217	217	217
Non-current assets	640	1,032	1,172	1,476	1,578	1,579
PP&E	358	588	846	1,155	1,257	1,258
Deferred income tax	66	110	0	0	0	0
Intangibles	5	47	41	41	41	41
Other non-current assets	211	287	286	280	280	280
Total assets	5,601	8,646	6,379	5,814	5,440	6,241
Current liabilities	1,075	1,600	1,469	1,546	1,702	1,939
Short-term borrowings	335	428	329	329	329	329
Account payables	232	262	295	372	529	765
Tax payable	20	21	25	25	25	25
Other current liabilities	488	888	820	820	820	820
Non-current liabilities	656	803	527	827	827	827
Long-term borrowings	184	202	209	509	509	509
Deferred income	0	220	42	42	42	42
Other non-current liabilities	473	381	276	276	276	276
Total liabilities	1,732	2,403	1,996	2,373	2,530	2,766
Share capital	7,415	11,191	11,541	11,891	12,091	12,291
Retained earnings	(3,553)	(4,966)	(7,080)	(8,373)	(9,103)	(8,739)
Other reserves	7	18	(77)	(77)	(77)	(77)
Total shareholders equity	3,869	6,243	4,383	3,440	2,910	3,475
Minority interest	0	0	0	0	0	0
Total equity and liabilities	5,601	8,646	6,379	5,814	5,440	6,241

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (US\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	(1,618)	(1,439)	(1,961)	(1,293)	(730)	429
Depreciation & amortization	32	46	66	91	98	99
Tax paid	18	25	(43)	0	0	(64)
Others	285	68	441	45	(17)	(138)
<b>Net cash from operations</b>	<b>(1,283)</b>	<b>(1,299)</b>	<b>(1,497)</b>	<b>(1,158)</b>	<b>(649)</b>	<b>325</b>
<b>Investing</b>						
Capital expenditure	(118)	(263)	(325)	(400)	(200)	(100)
Acquisition of subsidiaries/ investments	(5,690)	(2,191)	(17)	(200)	0	0
Net proceeds from disposal of short-term investments	2,751	3,147	1,564	600	200	0
Others	(112)	(52)	(144)	0	0	0
<b>Net cash from investing</b>	<b>(3,168)</b>	<b>641</b>	<b>1,077</b>	<b>0</b>	<b>0</b>	<b>(100)</b>
<b>Financing</b>						
Net borrowings	434	423	351	400	0	0
Proceeds from share issues	4,232	3,443	0	0	0	0
Others	537	(229)	(370)	(100)	0	0
<b>Net cash from financing</b>	<b>5,203</b>	<b>3,637</b>	<b>(19)</b>	<b>300</b>	<b>0</b>	<b>0</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	621	1,390	4,383	3,875	3,017	2,369
Exchange difference	18	14	(69)	0	0	0
<b>Cash at the end of the year</b>	<b>1,390</b>	<b>4,383</b>	<b>3,875</b>	<b>3,017</b>	<b>2,369</b>	<b>2,593</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	(27.9%)	280.8%	20.4%	64.7%	35.1%	49.1%
Gross profit	na	324.6%	11.7%	72.5%	33.3%	49.6%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	77.1%	86.0%	79.8%	83.6%	82.5%	82.8%
Adj. net profit margin	(517.0%)	(120.2%)	(141.5%)	(55.5%)	(23.2%)	7.8%
Return on equity (ROE)	(66.3%)	(28.0%)	(37.7%)	(33.1%)	(23.0%)	11.4%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(1.1)	(1.0)	(0.9)	(0.7)	(0.5)	(0.5)
Current ratio (x)	4.6	4.8	3.5	2.8	2.3	2.4
Receivable turnover days	77.6	84.3	84.6	84.6	84.6	84.6
Inventory turnover days	304.4	367.3	334.4	329.4	324.4	319.4
Payable turnover days	915.5	547.1	355.0	355.0	350.0	345.0
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	na	na	na	na	na	54.6
P/E (diluted)	na	na	na	na	na	54.6
P/B	58.3	64.1	55.3	75.2	88.8	74.4

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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