CMB International Securities | Equity Research | Company Update

Antengene Corporation Limited (6996 HK)

License in global rights of an oral CD73 inhibitor

- **In-licensing a small molecule CD73 inhibitor.** On 17 May 2021, Antengene announced to enter into a worldwide license agreement with Calithera (CALA US, NR) for the development of CB-708 (ATG-037), an oral bioavailable small molecule inhibitor of CD73. According to the agreement, Calithera will receive an upfront payment and potential development, regulatory and sales milestones of up to US$255mn. Additionally, Calithera is eligible to receive tiered royalties within the range of single to low double-digits. Antengene will lead the development and commercialization of CD73 inhibitor CB-708 (ATG-037) worldwide. Although ATG-037 is still in preclinical phase, Calithera has completed the GLP toxicology studies of ATG-037. We expect ATG-037 to start clinical trials by end-2021E, with the potential to become a first-in-class oral CD73 inhibitor worldwide.
- **Smooth progress of clinical-stage assets.** Antengene has established a robust and highly differentiated pipeline of 13 innovative assets, including two late-stage assets ATG-010 and ATG-008 in-licensed from Karyopharm and Celgene, respectively. For ATG-010 (selinexor, XPO1 inhibitor): As of 31 Dec 2020, Antengene had submitted NDAs for ATG-010 in 4 APAC markets (Australia, Singapore, Hong Kong and South Korea). In Jan 2021, the Company submitted an NDA to the NMPA of selinexor for r/r-MM, which was subsequently granted priority review by the NMPA. Meanwhile, Antengene received the NMPA approval to initiate a Phase II/III clinical trial of selinexor in combination with rituximab, gemcitabine dexamethasone cisplatin (R-GDP) in r/r-DLBCL in Jan 2021. We expect ATG-010 to obtain NDA approvals from the NMPA for MM and DLBCL by 1Q22E. For ATG-017 (ERK 1/2 inhibitor): Phase 1 study in Australia has entered into efficacious dose stage and preliminary data readout is expected available by end-2021E. For ATG-101 (PDL1 / 4-1BB BsAb): We expect IND submission in Australia in 3Q21E, followed by the submissions in China and the US. For ATG-016 (Eltanexor, XPO1 inhibitor): It has obtained IND approval of a Phase I/II study in high-risk MDS and advanced solid tumor from the NMPA.
- **Maintain BUY.** Considering the early R&D stage of ATG-037, we refrain from assigning value to this asset. That said, we remain positive on Antengene's long-term growth outlook, given its rich innovative pipelines. Maintain BUY with unchanged DCF-based TP of HK$27.97 (WACC: 11.1%, terminal growth rate: 2.0%).
- **Risks:** Delays in clinical development activities; Failure in clinical trials.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	0	0	0	160	486
Attributable net profit (RMB mn)	(324)	(2,929)	(810)	(733)	(478)
EPS (RMB)	N/A	(11.66)	(1.21)	(1.09)	(0.71)
Consensus EPS (RMB)	N/A	N/A	(1.0)	(0.84)	(0.31)
R&D expenses (RMB mn)	(116)	(348)	(700)	(700)	(600)
ROE (%)	N/A	(96)	(36)	N/A	N/A
ROA (%)	(43)	(92)	(35)	(46)	(45)
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	16.8	20.8	28.6	17.6	14.7

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	**HK$27.97**
(Previous TP	HK$27.97)
Up/Downside	**+70.11%**
Current Price	**HK$16.44**

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Mkt. Cap. (HK$ mn)	11,034
Avg. 3mths t/o (HK$ mn)	7.37
52W High/Low (HK$)	22.50/14.48
Total Issued Shares (mn)	671

Source: Bloomberg

Shareholding Structure

Meiland Pharma Tech	26.33%
Active Ambience	9.39%
FMR LLC	6.27%
Begonia Investment	8.53%
Qiming Venture	5.99%
Free float	43.49%

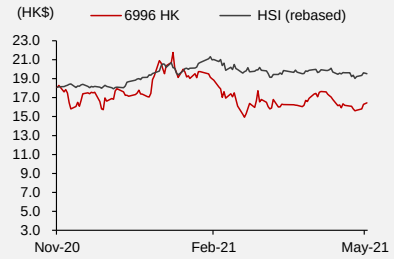
Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	-6.3%	-4.7%
3-mth	-13.6%	-7.4%
6-mth	-10.0%	-17.0%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

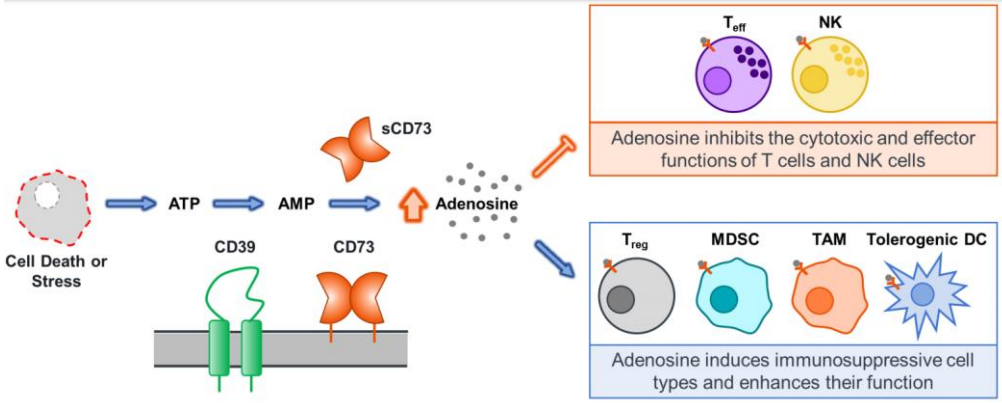
Auditor: Ernst & Young
Web-site: www.antengene.cn

Related Report
Innovative and highly-differentiated pipelines focusing on oncology – 29 Mar 2021

CB-708 (ATG-037): an orally bioavailable small molecule inhibitor of CD73

Adenosine (ADO) is a potent immunosuppressive signaling molecule which plays a critical role in regulating tumor growth. ADO in the tumor microenvironment suppresses the immune response against cancer cells by inhibiting immune effector functions and promoting the development of immunosuppressive cells. Extracellular ATP can be generated from cells undergoing death or stress. Extracellular ATP is converted to AMP by CD39. Membrane-bound CD73 or soluble CD73 (sCD73) metabolize AMP into ADO which can bind to adenosine receptors on immune cells leading to immunosuppression. Inhibition of ADO production via CD73 is a promising therapeutic approach for the treatment of cancer.

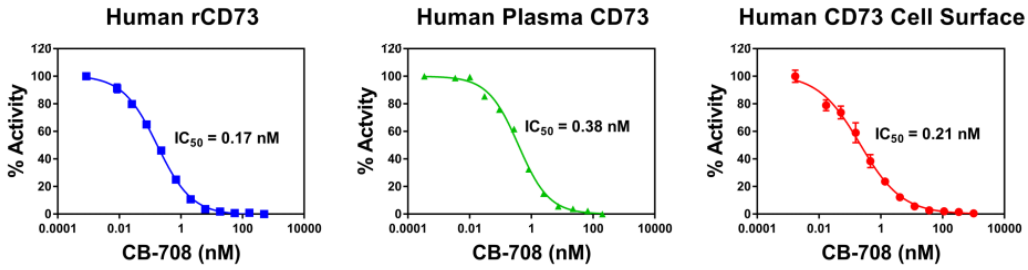
Figure 1: The illustration of CD73 generating immunosuppressive ADO



Source: SITC 2019, Calithera, CMBIS

In the preclinical studies conducted by Calithera, CB-708 exhibited potent inhibitory effect against CD73 in vitro assays, including recombinant CD73 (IC50=0.17 nM), CD73 in plasma (IC50=0.38nM) and CD73-expressing cells (IC50=0.21nM).

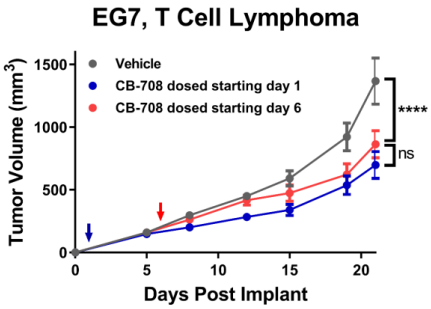
Figure 2: CD73 inhibitory effect of CB-708



Source: SITC 2019, Calithera, CMBIS

CB-708's efficacy study was also carried out in a C57BL/6 mice xenograft model with implantation of EG7 cells subcutaneously. Single agent of CB-708 (100 mg/kg) was orally dosed BID starting one or six days post-implant. As control, vehicle was orally dosed BID starting one day post-implant. Single drug of CB-708 demonstrated inhibitory effect in an *in vivo* xenegraft model.

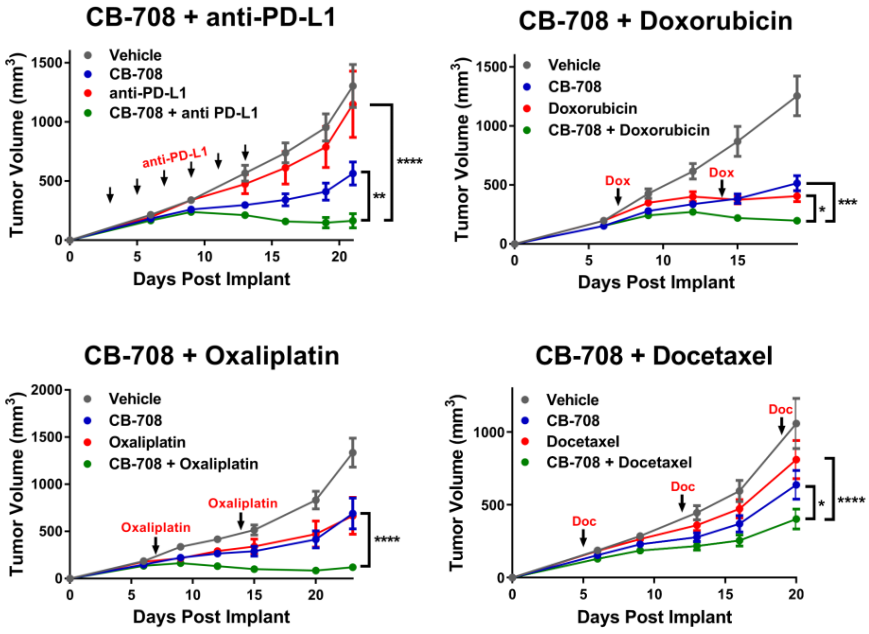
Figure 3: *In vivo* efficacy of CB-708's single agent in B57BL/6 mice



Source: SITC 2019, Calithera, CMBIS

Furthermore, CB-708 was also tested in combination with different checkpoint blockade and chemotherapy treatments in C57BL/6 mice xenograft model. CB-708 (100 mg/kg) or vehicle was orally dosed BID starting on day 1, while PD-L1, Oxaliplatin, Doxorubicin and Docetaxel were dosed in corresponding dose and frequency. Without dose optimizations, the combination treatments exhibited potent inhibitory effect on tumor growth in C57BL/6 mice xenograft model.

Figure 4: *In vivo* efficacy of CB-708 combination in B57BL/6 mice



Source: SITC 2019, Calithera, CMBIS

Global CD73 development is at early stage

Globally, several CD73 inhibitors are at early development stage, including antibodies and small molecules.

For antibodies, there are six CD73 antibodies at clinical stage, including two candidates from domestic biotech companies, I-Mab's Uliledlimab and Akeso Bio's AK119. To date, uliledlimab and Akeso Bio's AK119 are the only two CD73 antibodies that have entered into clinical phase in China.

I-Mab's Uliledlimab is at phase 1/2 and phase 1 studies in China and the US, respectively. Recently, according to ASCO 2021 (abstract 2511), Uliledlimab's US phase 1 dose escalation study in combination with atezolizumab showed good tolerability without dose-limiting toxicity (DLT). Among the 13 efficacy-evaluable patients dosed at ≥ 10 mg/kg, Uliledlimab obtained an ORR of 23% and DCR of 46%.

MEDI-9447 from MedImmune (a subsidiary of AstraZeneca) is the most advanced CD73 antibody globally which is under Phase 2 trials. Besides, BMS-986179 from Bristol-Myers Squibb, NZV-930 (from Novartis) and CPI-006 (from Corvus) have entered into Phase 1 clinical trials. These CD73 antibodies are assessed as a single agent or in combination with PD-(L)1 antibodies and other targeted therapies.

Figure 5: CD73 antibody candidates under development

Product	Company	US status	China status
BMS-986179	BMS	Phase 1/2a in solid tumors (mono or combo Nivolumab)	N/A
MEDI9447 (Oleclumab)	AstraZeneca	Phase 2 in NSCLC or RCC (+ Durvalumab); Phase 2 in NSCLC after PD-(L)1 therapies (+Durvalumab); Phase 1b/2 in EGFRm NSCLC (+osimertinib / AZD4635); Phase 2 in prostate cancer (+ AZD4635); Phase 1/2 in TNBC (+ Paclitaxel + Carboplatin + Durvalumab); Phase 1b/2 in pancreatic cancer (+ chemo +/- Durvalumab); Phase 1 in bladder cancer (+/- Durvalumab); Phase 1 in sloid tumors (mono or combo Durvalumab);	N/A
NZV-930 (SRF-373)	Novartis / Surface Oncology	Phase 1/1b in advanced cancers (+ PDR001 and/or NIR178); Phase 1/1b in solid tumors (+ KAZ954)	N/A
CPI-006	Corvus	Phase 1/1b in advanced cancers (mono or + Ciforadenant / Pembrolizumab)	N/A
Uliledlimab (TJD5, TJ004309)	I-Mab	Phase 1 in advanced cancers (+ Atezolizumab)	Phase 1/2 in solid tumors (mono or +PD-1)
AK119	Akeso Bio	N/A	Phase 1a in COVID-19 (healthy volunteers); Phase 1 in solid tumors (combo PD-1)

Source: Clinicaltrials.gov, Insight, CMBIS

For small molecules, Arcus Biosciences (RCUS US, NR)'s AB680 is the only clinical phase small molecules CD73 inhibitor worldwide.

In ASCO GI 2021 (Jan 2021), the initial data from phase 1 trial of AB680 provided as the first proof-of-concept clinical data for CD73 target. Arcus released the preliminary data of the dose-escalation portion of the phase 1/1b study of AB680 in combination with nab-paclitaxel plus gemcitabine (NP/Gem) and zimberelimab (anti-PD-1 mAb) as a first-line treatment in patients with metastatic pancreatic ductal adenocarcinoma (PDAC). According to the preliminary efficacy results, 88% (15/17) of patients experienced at least some shrinkage of their lesions, and 41% ORR (7/17) was observed for the AB680 combination across all dose-escalation cohorts, including one patient who converted to a complete response for both target and non-target lesions since the efficacy DCO. For

comparison, Abraxane (nab-paclitaxel) in combination with gemcitabine as a first-line treatment for metastatic pancreatic cancer shows 23% ORR and 48% DCR in the registrational Ph3 trial.

We think the PoC data from AB680 has proven the potential of small molecule for CD73 target. Considering the inconvenience of IV administration of AB680, we think CB-708 (ATG-037) might be a better choice as an oral bioavailable small molecule.

Figure 6: CMBIS estimates vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	0	160	486	10	195	566	-100.00%	-17.97%	-14.15%
Gross profit	0	128	394	7	156	458	-100.00%	-17.97%	-14.15%
Operating profit	(810)	(732)	(478)	(726)	(648)	(406)	N/A	N/A	N/A
Net profit	(810)	(733)	(478)	(686)	(616)	(380)	N/A	N/A	N/A
EPS (RMB)	(1.21)	(1.09)	(0.71)	(1.00)	(0.84)	(0.31)	N/A	N/A	N/A

Source: Company data, CMBIS estimates

Valuation

Figure 7: Risk-adjusted DCF valuation (terminal growth rate: 2.0%)

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	(810)	(732)	(478)	20	696	1,386	2,321	2,972	3,453	3,962	4,342	3,680	3,755	3,700	3,734
Tax rate	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(810)	(732)	(478)	17	592	1,178	1,973	2,526	2,935	3,368	3,691	3,128	3,192	3,145	3,174
+ D&A	8	22	34	44	52	59	65	71	75	79	82	85	87	89	91
- Change in working capital	(107)	0	(149)	(261)	(379)	(429)	(451)	(388)	(248)	(308)	(217)	458	(21)	61	5
- Capex	(110)	(110)	(110)	(110)	(110)	(110)	(110)	(110)	(110)	(110)	(110)	(110)	(110)	(110)	(110)
FCFF	**(1,019)**	**(820)**	**(704)**	**(310)**	**156**	**699**	**1,477**	**2,099**	**2,653**	**3,029**	**3,446**	**3,560**	**3,148**	**3,185**	**3,159**
Terminal value															**35,510**
FCF + Terminal value	**(1,019)**	(820)	(704)	(310)	156	699	1,477	2,099	2,653	3,029	3,446	3,560	3,148	3,185	38,669

PV of enterprise (RMB mn)	13,500
Net Debt (RMB mn)	(2,079)
Minorities (RMB mn)	0
Equity value (RMB mn)	15,579
Equity value (HK$ mn)	**18,770**
No. of shares outstanding (mn)	671
DCF per share (HK$)	**27.97**

Terminal growth rate	
WACC	
Cost of Equity	**2.0%**
Cost of Debt	**11.1%**
Equity Beta	14.0%
Risk Free Rate	5.0%
Market Risk Premium	1.1
Target Debt to Asset ratio	3.0%
Effective Corporate Tax Rate	10.0%

Source: CMBIS estimates

Figure 8: Sensitivity analysis

		WACC				
		10.1%	**10.6%**	**11.1%**	**11.6%**	**12.1%**
Terminal growth rate	**3.0%**	35.79	32.55	29.74	27.29	25.13
	2.5%	34.41	31.42	28.80	26.50	24.46
	2.0%	33.20	30.42	**27.97**	25.80	23.87
	1.5%	32.13	29.52	27.22	25.16	23.33
	1.0%	31.18	28.73	26.54	24.59	22.84

Source: CMBIS estimates

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	**0**	**0**	**0**	**160**	**486**
ATG-010 China - risk adjusted	*0*	*0*	*0*	*123*	*374*
ATG-010 APAC - risk adjusted	*0*	*0*	*0*	*37*	*112*
ATG-008 China - risk adjusted	*0*	*0*	*0*	*0*	*0*
ATG-008 APAC - risk adjusted	*0*	*0*	*0*	*0*	*0*
ATG-016 China - risk adjusted	*0*	*0*	*0*	*0*	*0*
ATG-016 APAC - risk adjusted	*0*	*0*	*0*	*0*	*0*
Others	*0*	*0*	*0*	*0*	*0*
Cost of sales	0	0	0	(32)	(92)
Gross profit	**0**	**0**	**0**	**128**	**394**
Other income	53	27	20	20	20
Administrative expenses	(39)	(154)	(80)	(100)	(121)
R&D expenses	(116)	(348)	(700)	(700)	(600)
Selling & distribution expenses	(0)	(0)	(50)	(80)	(170)
Other (losses)/gains	(221)	(2,452)	0	0	0
Operating profit (loss)	**(323)**	**(2,928)**	**(810)**	**(732)**	**(478)**
Finance costs	(1)	(1)	(0)	(0)	(0)
Pre-tax profit (loss)	**(324)**	**(2,929)**	**(810)**	**(733)**	**(478)**
Income tax	0	0	0	0	0
Minority interests	0	0	0	0	0
Attributable net profit (loss)	**(324)**	**(2,929)**	**(810)**	**(733)**	**(478)**

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	**(324)**	**(573)**	**(810)**	**(733)**	**(478)**
Depreciation & amortization, etc.	0	0	8	22	34
Change in working capital	22	93	(107)	0	(149)
Others	180	(11)	0	0	0
Net income tax paid	0	0	0	0	0
Net cash from operating	**(121)**	**(491)**	**(909)**	**(710)**	**(594)**
Purchase of PP&E	(0)	(50)	(100)	(100)	(100)
Purchase of land use right	(0)	(5)	(10)	(10)	(10)
Net cash used in business combination	10	0	0	0	0
Others	(440)	0	0	0	0
Net cash from investing	**(430)**	**(55)**	**(110)**	**(110)**	**(110)**
Proceeds from issuance of shares	0	2,413	0	0	0
Proceeds from issue of convertible redeemable preferred shares	806	0	0	0	0
Proceeds from interest-bearing bank and other borrowings	0	0	0	0	0
Others	(34)	(1)	(0)	(0)	(0)
Net cash from financing	**772**	**2,412**	**(0)**	**(0)**	**(0)**
FX changes	21	0	0	0	0
Net change in cash	220	1,866	(1,019)	(820)	(704)
Cash at the beginning of the year	49	747	3,110	2,090	1,270
Cash at the end	**291**	**3,110**	**2,090**	**1,270**	**566**

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	**4**	**66**	**168**	**256**	**332**
PP&E	0	56	148	226	292
Right-of-use assets	4	10	10	10	10
Intangible assets	0	0	10	20	30
Other non-current assets	0	0	0	0	0
Current assets	**756**	**3,128**	**2,140**	**1,320**	**741**
Inventories	0	0	20	20	15
Trade receivables	0	0	10	10	120
Other receivables, deposits & prepayments	9	18	20	20	40
Cash and cash equivalents	747	3,110	2,090	1,270	566
Non-current liabilities	**1,272**	**6**	**6**	**6**	**6**
Convertible redeemable preferred shares	1,269	0	0	0	0
Lease liabilities	3	6	6	6	6
Other non-current liabilities	0	0	0	0	0
Current liabilities	**45**	**151**	**75**	**75**	**50**
Trade payables	0	0	10	10	30
Other payables and accruals	44	146	60	60	15
Interest-bearing bank & other borrowings	0	0	0	0	0
Lease liabilities	1	5	5	5	5
Total net assets	**(558)**	**3,038**	**2,227**	**1,495**	**1,016**
Minority interest	0	0	0	0	0
Shareholders' equity	**(558)**	**3,038**	**2,227**	**1,495**	**1,016**

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
ATG-010 China - risk adjusted	N/A	N/A	N/A	77	77
ATG-010 APAC - risk adjusted	N/A	N/A	N/A	23	23
ATG-008 China - risk adjusted	N/A	N/A	N/A	0	0
ATG-008 APAC - risk adjusted	N/A	N/A	N/A	0	0
ATG-016 China - risk adjusted	N/A	N/A	N/A	0	0
ATG-016 APAC - risk adjusted	N/A	N/A	N/A	0	0
Others	N/A	N/A	N/A	0	0
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	N/A	N/A	70	80	81
EBITDA margin	N/A	N/A	N/A	N/A	N/A
Pre-tax margin	N/A	N/A	N/A	N/A	N/A
Net margin	N/A	N/A	N/A	N/A	N/A
Effective tax rate	0	0	0	0	15
Balance sheet ratios					
Current ratio (x)	17	21	29	18	15
Trade receivables turnover days	N/A	N/A	N/A	90	90
Trade payables turnover days	N/A	N/A	N/A	120	120
Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	N/A	(96)	(36)	N/A	N/A
ROA	(43)	(92)	(35)	(46)	(45)

Source: Company data, CMBIS estimates

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