

Kintor Pharmaceutical (9939 HK)

To focus on dermatologic diseases

Kintor has seven clinical stage assets. In FY22, the Company spent RMB828mn R&D expenses, +7.8% YoY, mainly used for Ph3 trials of pruxelutamide for COVID-19 and mCRPC, and Ph3 studies of pyrilutamide (KX-826) for AGA. The Company expects a significant decrease (roughly -50% YoY) in R&D costs in 2023 while the resources will mainly focus on dermatologic diseases. The SG&A expenses were RMB153mn in FY22, increased 29% YoY, mainly due to the rise in employee benefit expenses. In FY22, Kintor recorded a net loss of RMB954mn, compared to RMB842mn in FY21. The Company completed share placements in Sep and Dec 2022, respectively, and raised approximately HK\$780mn to support its R&D. As of end-2022, Kintor had a cash balance of RMB875mn, including utilised bank facilities of RMB277mn.

■ **Dermatologic diseases to be the main focus.** Pylutamide (KX-826) and AR-PROTAC compound (GT20029) will be the Company's major focus going forward, both targeting the treatment of dermatologic diseases such as AGA and acne vulgaris. KX-826 has released positive China Ph2 results for both male and female AGA patients, while the China Ph3 trial of KX-826 in male AGA has completed the enrolment of 740 patients with topline data expected by end-2023. The Company plans to initiate a Ph3 study for female AGA patients in 2Q/3Q23 as well. In the US, the Ph2 trial for male AGA is expected to release data in 2Q23. For the treatment of mild/moderate acne vulgaris, Kintor may initiate a Ph3 study if the data readout of its China Ph2 trial in 2Q23 is positive. The Company has developed an advanced PROTAC platform, and has observed positive safety profile of GT20029 (topical AR PROTAC) in the China and US Ph1 trials. The Company is going to initiate a Ph2 trial in China in 2Q23, and a Ph2 trial in the US is in planning. Kintor is actively seeking potential collaboration opportunities for KX-826 and GT20029 in China and globally to accelerate the products' R&D and commercialization.

■ **To invest cautiously in the development of pruxelutamide.** Kintor is still seeking the EUA approvals of pruxelutamide for COVID-19. However, given the current pandemic situation and the fierce competition environment, Kintor may not initiate additional clinical studies in this area, in our view. For the treatment of 2L mCRPC, pruxelutamide as a monotherapy did not meet the OS co-primary endpoint of the China Ph3 trial. Kintor is conducting a Ph3 trial of pruxelutamide + abiraterone for 1L mCRPC in China, with the trial to be completed in 2H23/1H24. In addition, a Ph2 trial of pruxelutamide for 2L mCRPC in the US is nearly finished.

■ **Maintain BUY.** Factoring in the setbacks in R&D of pruxelutamide, we revised our DCF-based TP from HK\$40.10 to HK\$10.56 (WACC: 10.7%, terminal growth rate: 2.0%).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	34	0	0	0	112
Net profit (RMB mn)	(842)	(954)	(514)	(451)	(443)
EPS (Reported) (RMB)	(2.36)	(2.53)	(1.15)	(1.01)	(0.99)
R&D expenses (RMB mn)	(768)	(828)	(400)	(300)	(300)
Admin expenses (RMB mn)	(103)	(132)	(132)	(159)	(190)
CAPEX (RMB mn)	(76)	(30)	(4)	(20)	(60)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$10.56

(Previous TP) HK\$40.10)

Up/Downside 63.7%

Current Price HK\$6.45

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Stock Data

Mkt Cap (HK\$ mn)	2,886
Avg 3 mths t/o (HK\$ mn)	68.75
52w High/Low (HK\$)	46.00/6.45
Total Issued Shares (mn)	447

Source: FactSet

Shareholding Structure

Youzhi Tong	9.1%
Chuangxing Guo	8.5%

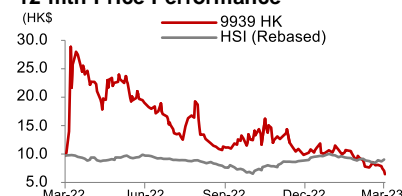
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-33.4%	-35.4%
3-mth	-34.5%	-36.5%
6-mth	-42.1%	-51.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (RMB mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	(514)	(440)	(425)	(50)	188	493	766	980	1,317	1,572	1,546	1,429	1,311
Tax rate	0%	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(514)	(440)	(425)	(50)	160	419	651	833	1,119	1,336	1,314	1,215	1,114
+ D&A	13	13	14	16	17	19	21	23	24	26	28	29	30
- Change in working capital	9	100	85	(4)	(206)	(134)	(94)	(35)	(112)	(87)	17	69	70
- Capex	(4)	(20)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)
FCFF	(495)	(347)	(386)	(98)	(89)	244	518	761	972	1,216	1,298	1,253	1,155
Terminal value													8,873
FCF + Terminal value	(495)	(347)	(386)	(98)	(89)	244	518	761	972	1,216	1,298	1,253	10,028
Present value of enterprise	3,868												
Net Debt	(149)												
Minorities	0												
Equity value (RMB mn)	4,017												
Equity value (HK\$ mn)	4,726												
Target price (HK\$)	10.56												
Terminal growth rate	2.0%												
WACC	10.7%												
Cost of Equity	13.5%												
Cost of Debt	5.0%												
Equity Beta	1.1												
Risk Free Rate	2.5%												
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				
		9.7%	10.2%	10.7%	11.2%	11.7%
Terminal growth rate	3.0%	14.09	12.66	11.43	10.35	9.40
	2.5%	13.42	12.11	10.97	9.96	9.07
	2.0%	12.83	11.62	10.56	9.62	8.78
	1.5%	12.32	11.19	10.20	9.31	8.51
	1.0%	11.86	10.81	9.87	9.03	8.27

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	0	0	112	1,916	1,647	2,320	-100%	-100%	-95%
Gross Profit	0	0	92	1,552	1,351	1,925	-100%	-100%	-95%
Operating Profit	(502)	(430)	(416)	453	291	755	N/A	N/A	N/A
Net profit	(514)	(451)	(443)	380	244	640	N/A	N/A	N/A
EPS (RMB)	(1.15)	(1.01)	(0.99)	0.98	0.63	1.65	N/A	N/A	N/A
Gross Margin	N/A	N/A	82.00%	81.00%	82.00%	83.00%	N/A	N/A	-1.00 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	0	0	112	N/A	N/A	N/A	N/A	N/A	N/A
Gross Profit	0	0	92	N/A	N/A	N/A	N/A	N/A	N/A
Operating Profit	(502)	(430)	(416)	N/A	N/A	N/A	N/A	N/A	N/A
Net profit	(514)	(451)	(443)	N/A	N/A	N/A	N/A	N/A	N/A
EPS (RMB)	(1.15)	(1.01)	(0.99)	N/A	N/A	N/A	N/A	N/A	N/A
Gross Margin	N/A	N/A	82.00%	N/A	N/A	N/A	N/A	N/A	N/A

Source: Company data, CMBIGM estimates.

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	0	34	0	0	0	112
Cost of goods sold	0	0	0	0	0	(20)
Gross profit	0	34	0	0	0	92
Operating expenses	(414)	(886)	(981)	(532)	(459)	(535)
Selling expense	(9)	(15)	(20)	0	0	(45)
Admin expense	(77)	(103)	(132)	(132)	(159)	(190)
R&D expense	(329)	(768)	(828)	(400)	(300)	(300)
Operating profit	(90)	12	36	30	29	27
Other income	25	29	19	30	29	27
Other gains/(losses)	(116)	(17)	17	0	0	0
Net interest income/(expense)	(3)	(2)	(9)	(12)	(21)	(27)
Pre-tax profit	(508)	(842)	(953)	(514)	(451)	(443)
Income tax	(0)	0	(1)	0	0	0
Minority interest	0	0	0	0	0	0
Net profit	(508)	(842)	(954)	(514)	(451)	(443)

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	1,421	1,526	1,508	1,039	1,032	599
Cash & equivalents	1,066	930	865	620	713	358
Restricted cash	0	2	6	6	6	6
Account receivables	0	0	0	0	0	18
Inventories	0	351	604	404	304	204
ST bank deposits	323	125	10	10	10	10
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	32	118	23	0	0	3
Non-current assets	431	542	529	519	526	573
PP&E	175	224	240	234	245	295
Right-of-use assets	12	39	42	39	35	31
Intangibles	210	236	236	236	235	235
Investment in JVs & assos	0	0	18	18	18	18
Other non-current assets	34	44	11	11	11	11
Total assets	1,851	2,068	2,055	1,577	1,576	1,190
Current liabilities	169	220	318	104	104	110
Short-term borrowings	84	7	99	99	99	99
Account payables	81	210	215	0	0	7
Other current liabilities	2	0	0	0	0	0
Lease liabilities	3	2	4	4	4	4
Non-current liabilities	174	193	242	442	842	842
Long-term borrowings	135	148	178	378	778	778
Deferred income	0	4	20	20	20	20
Other non-current liabilities	39	42	44	44	44	44
Total liabilities	344	413	560	545	945	952
Share capital	0	0	0	0	0	0
Other reserves	1,508	1,655	1,495	1,031	630	237
Total shareholders equity	1,508	1,655	1,495	1,031	631	238
Minority interest	0	0	0	0	0	0
Total equity and liabilities	1,851	2,068	2,055	1,577	1,576	1,190

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(508)	(842)	(953)	(514)	(451)	(443)
Depreciation & amortization	3	7	9	10	9	10
Tax paid	(0)	(1)	(1)	0	0	0
Change in working capital	(13)	(285)	(120)	9	100	85
Others	137	69	54	54	54	54
Net cash from operations	(381)	(1,051)	(1,012)	(442)	(287)	(294)
Investing						
Capital expenditure	(69)	(76)	(30)	(4)	(20)	(60)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	137	521	0	0	0	0
Others	(508)	(353)	100	0	0	0
Net cash from investing	(440)	92	70	(4)	(20)	(60)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	160	(64)	20	200	400	0
Proceeds from share issues	1,653	952	780	0	0	0
Others	(32)	(31)	0	0	0	0
Net cash from financing	1,780	857	800	200	400	0
Net change in cash						
Cash at the beginning of the year	196	1,066	930	865	620	713
Exchange difference	(91)	(36)	0	0	0	0
Cash at the end of the year	1,065	927	788	620	713	358
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Operating profit	na	na	198.7%	(17.0%)	(3.8%)	(6.8%)
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	na	100.0%	na	na	na	82.0%
Operating margin	na	35.2%	na	na	na	23.9%
Return on equity (ROE)	(54.1%)	(53.2%)	(60.6%)	(40.7%)	(54.2%)	(102.0%)
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	8.4	6.9	4.7	10.0	10.0	5.4
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						

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

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