

# Henlius Biotech (2696 HK)

## Profit turnaround in 1H23

- **Strong revenue growth and improved operating efficiency drive positive earnings.** Henlius' 1H23 revenue increased 94% YoY to RMB2.50bn, mainly driven by the strong sales growth of HANQUYOU (trastuzumab biosimilar) and HANSIZHUANG (PD-1 mAb). The GP margin (vs product sales) was 66.5% in 1H23 (vs 68.4% in FY22). Selling expense ratio (vs product sales) decreased to 36.4% in 1H23, compared to 39.2% in FY22, and the admin expense ratio decreased from 13.2% in FY22 to 7.6% in 1H23, showing the Company's improving operating efficiency. The R&D expense was RMB584mn in 1H23 (vs RMB534mn in 1H22). In 1H23, Henlius recorded around RMB333mn cash inflows from operation activities, and achieved net profit of RMB240mn, recording the first profitable half year in the Company's history. As of Jun 2023, Henlius had RMB759mn cash on hand.
- **Global potential of serplulimab (PD-1).** Serplulimab has been approved in China for MSI-H solid tumours, 1L sqNSCLC, and 1L ES-SCLC, and the fourth indication (1L PDL1+ ESCC) is currently under CDE review with the approval expected in 2H23. The sales of serplulimab was RMB556mn in 1H23 (vs RMB339mn in FY22) and has reached monthly sales of RMB100mn+ since Mar 2023. Additionally, the Company expects to file sNDA of serplulimab for nsq-NSCLC in 2H23 in China. In the global market, serplulimab mainly targets the differentiated SCLC indication. The NDA of serplulimab for 1L ES-SCLC was accepted by EMA in Mar 2023, with the approval expected in 1H24. Henlius is conducting a bridging study of serplulimab for 1L ES-SCLC in the US, with the BLA filling expected in 2024. Henlius is also conducting a Ph3 MRCT of serplulimab + chemo-radio therapy in PDL1+ LS-SCLC, with data available in 1Q25. In addition, serplulimab + chemo is in Ph3 study for GC perioperative treatment, with data readout expected in 2Q25, potentially being the first PD-1 for perioperative GC, upon Keytruda's failure in EPS ([link](#)).
- **Successful commercialization of biosimilars.** HANQUYOU (trastuzumab biosimilar), marketed by the Company's in-house team in China, recorded RMB1.28bn revenue in 1H23 (+57% YoY), and has achieved monthly sales of RMB200mn+ in China since Mar 2023. In the overseas markets, Accord has submitted the BLA of HANQUYOU in the US in 1Q23, and the FDA has recently conducted a manufacturing site inspection of Henlius' Songjiang Facility (24,000L) in Aug 2023. We expect HANQUYOU to be approved in the US by end-2023. Launched in Jan 2023, HANBEITAI (bevacizumab biosimilar) recorded RMB45mn sales in 1H23. HANLIKANG (rituximab) and HANDAYUAN (adamumab), commercialized by Fosun Pharma, contributed RMB254mn (-7% YoY) and RMB21mn (+5% YoY) to Henlius' revenue in 1H23.
- **Maintain BUY.** We like the Company's strong outlook of improving profitability. We revised our DCF-based TP to HK\$14.46 based on DCF valuation (WACC: 11.46%, terminal growth rate: 2%).

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	1,682	3,215	5,160	4,727	5,776
YoY growth (%)	186.3	91.1	60.5	(8.4)	22.2
Net profit (RMB mn)	(984)	(695)	594	754	1,064
YoY growth (%)	na	na	na	27.0	41.1
EPS (Reported) (RMB)	(1.83)	(1.28)	1.09	1.39	1.96
P/E (x)	na	na	9.1	7.2	5.1
R&D expenses (RMB mn)	(1,024)	(1,395)	(1,000)	(800)	(800)
Admin expenses (RMB mn)	(281)	(354)	(335)	(297)	(369)
CAPEX (RMB mn)	(460)	(585)	(500)	(500)	(450)

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

Target Price	HK\$14.46
(Previous TP)	HK\$29.85)
Up/Downside	34.7%
Current Price	HK\$10.74

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### Stock Data

Mkt Cap (HK\$ mn)	5,832.9
Avg 3 mths t/o (HK\$ mn)	1.5
52w High/Low (HK\$)	17.48/10.02
Total Issued Shares (mn)	543.1

Source: FactSet

### Shareholding Structure

Management	26.8%
Fosun	21.7%

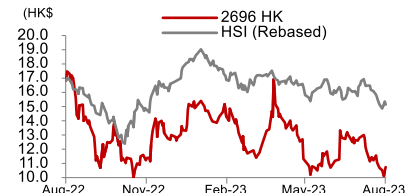
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-15.4%	-8.5%
3-mth	-4.1%	0.1%
6-mth	-24.9%	-16.3%

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	789	978	1,333	1,573	1,680	1,834	2,086	2,094	2,067	1,986	1,904	1,822	1,741
Less: Tax	(105)	(133)	(188)	(224)	(240)	(263)	(301)	(302)	(298)	(286)	(273)	(261)	(249)
Depreciation and amortisation	346	377	406	427	440	448	375	367	361	354	349	344	339
CAPEX (incl. intangible assets)	(1,100)	(1,000)	(850)	(700)	(550)	(350)	(350)	(350)	(350)	(350)	(350)	(350)	(350)
Change in working capital	(153)	138	(38)	44	91	88	4	10	16	19	19	19	18
FCF	(223)	360	663	1,120	1,422	1,757	1,814	1,820	1,795	1,724	1,648	1,574	1,499
Terminal value													13,345
Present value of enterprise (RMB mn)	10,459												
Debt & Preferred Stock (RMB mn)	3,977												
Bank deposit and pledged cash (RMB mn)	667												
Equity value (RMB mn)	7,149												
Value per share (RMB)	13.16												
Value per share (HK\$)	14.46												
Terminal growth rate	2.0%												
WACC	11.46%												
Cost of Equity	14.6%												
Cost of Debt	5.0%												
Equity Beta	1.10												
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				
		10.5%	11.0%	11.5%	12.0%	12.5%
Terminal growth rate	3.0%	17.09	15.75	14.53	13.41	12.39
	2.5%	17.05	15.71	14.50	13.38	12.36
	2.0%	17.01	15.68	14.46	13.36	12.34
	1.5%	16.97	15.64	14.43	13.33	12.31
	1.0%	16.93	15.61	14.40	13.30	12.28

Source: CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	5,160	4,727	5,776	4,141	4,943	5,942	25%	-4%	-3%
Operating profit	789	978	1,333	(359)	162	(614)	N/A	N/A	N/A
Net profit	594	754	1,064	(125)	117	356	N/A	546%	199%
EPS (RMB)	1.09	1.39	1.96	(0.21)	0.24	0.66	N/A	486%	199%
Operating margin	15.29%	20.69%	23.08%	-14.25%	4.35%	-12.43%	+15.29 ppt	+20.69 ppt	+23.08 ppt
Net Margin	11.51%	15.96%	18.42%	-3.01%	2.36%	5.98%	+14.52 ppt	+13.59 ppt	+12.43 ppt

Source: Bloomberg, CMBIGM estimates. Notes: As only two other brokers cover Henlius, the above consensus data might not be appropriate for direct comparison.

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>588</b>	<b>1,682</b>	<b>3,215</b>	<b>5,160</b>	<b>4,727</b>	<b>5,776</b>
Cost of goods sold	(182)	(523)	(845)	(1,473)	(1,326)	(1,657)
<b>Gross profit</b>	<b>406</b>	<b>1,160</b>	<b>2,370</b>	<b>3,686</b>	<b>3,401</b>	<b>4,119</b>
Selling expense	(244)	(520)	(1,049)	(1,563)	(1,326)	(1,617)
Admin expense	(193)	(281)	(354)	(335)	(297)	(369)
R&D expense	(894)	(1,024)	(1,395)	(1,000)	(800)	(800)
<b>Operating profit</b>	<b>(925)</b>	<b>(665)</b>	<b>(428)</b>	<b>789</b>	<b>978</b>	<b>1,333</b>
Other gains/(losses)	(69)	(292)	(266)	(90)	(90)	(81)
<b>EBITDA</b>	<b>(800)</b>	<b>(500)</b>	<b>(163)</b>	<b>1,134</b>	<b>1,355</b>	<b>1,739</b>
<b>EBIT</b>	<b>(925)</b>	<b>(665)</b>	<b>(428)</b>	<b>789</b>	<b>978</b>	<b>1,333</b>
<b>Pre-tax profit</b>	<b>(993)</b>	<b>(957)</b>	<b>(694)</b>	<b>698</b>	<b>887</b>	<b>1,251</b>
Income tax	0	(27)	(1)	(105)	(133)	(188)
<b>After tax profit</b>	<b>(993)</b>	<b>(984)</b>	<b>(695)</b>	<b>594</b>	<b>754</b>	<b>1,064</b>
Minority interest	0	0	0	0	0	0
<b>Net profit</b>	<b>(993)</b>	<b>(984)</b>	<b>(695)</b>	<b>594</b>	<b>754</b>	<b>1,064</b>

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>1,910</b>	<b>1,647</b>	<b>2,192</b>	<b>2,266</b>	<b>2,314</b>	<b>2,753</b>
Cash & equivalents	1,114	707	680	667	936	1,218
Restricted cash	0	0	0	0	0	0
Account receivables	196	296	456	649	566	684
Inventories	305	420	757	652	514	552
Other current assets	294	224	298	298	298	298
<b>Non-current assets</b>	<b>4,529</b>	<b>5,526</b>	<b>6,733</b>	<b>7,487</b>	<b>8,110</b>	<b>8,554</b>
PP&E	985	1,229	1,817	2,136	2,422	2,630
Right-of-use assets	452	438	412	348	283	219
Intangibles	2,942	3,635	4,332	4,833	5,234	5,535
Other non-current assets	150	224	171	171	171	171
<b>Current liabilities</b>	<b>1,980</b>	<b>2,960</b>	<b>5,002</b>	<b>4,937</b>	<b>4,854</b>	<b>4,972</b>
Short-term borrowings	1,188	1,571	2,522	2,522	2,522	2,522
Account payables	299	383	714	649	566	684
Other current liabilities	440	867	1,443	1,443	1,443	1,443
Contract liabilities	52	138	322	322	322	322
<b>Non-current liabilities</b>	<b>1,261</b>	<b>1,916</b>	<b>2,286</b>	<b>2,586</b>	<b>2,586</b>	<b>2,286</b>
Long-term borrowings	645	1,052	1,155	1,455	1,455	1,155
Deferred income	95	156	193	193	193	193
Other non-current liabilities	521	708	938	938	938	938
<b>Total liabilities</b>	<b>3,240</b>	<b>4,876</b>	<b>7,288</b>	<b>7,523</b>	<b>7,440</b>	<b>7,259</b>
Share capital	543	543	543	543	543	543
Retained earnings	2,655	1,753	1,093	1,687	2,441	3,504
<b>Total shareholders equity</b>	<b>3,199</b>	<b>2,297</b>	<b>1,636</b>	<b>2,230</b>	<b>2,984</b>	<b>4,048</b>
Minority interest	0	0	0	0	0	0
<b>Total equity and liabilities</b>	<b>3,199</b>	<b>2,297</b>	<b>1,636</b>	<b>2,230</b>	<b>2,984</b>	<b>4,048</b>

<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 (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	(994)	(957)	(694)	698	887	1,251
Depreciation & amortization	125	166	265	346	377	406
Tax paid	0	0	(1)	(105)	(133)	(188)
Change in working capital	116	511	1,101	(153)	138	(38)
Others	143	370	311	119	119	110
<b>Net cash from operations</b>	<b>(610)</b>	<b>90</b>	<b>982</b>	<b>906</b>	<b>1,389</b>	<b>1,542</b>
<b>Investing</b>						
Capital expenditure	(557)	(460)	(585)	(500)	(500)	(450)
Others	(955)	(1,221)	(774)	(600)	(500)	(400)
<b>Net cash from investing</b>	<b>(1,512)</b>	<b>(1,681)</b>	<b>(1,359)</b>	<b>(1,100)</b>	<b>(1,000)</b>	<b>(850)</b>
<b>Financing</b>						
Dividend paid	0	0	0	0	0	0
Net borrowings	1,108	800	1,074	300	0	(300)
Proceeds from share issues	0	0	0	0	0	0
Others	(112)	(152)	(216)	(119)	(119)	(110)
<b>Net cash from financing</b>	<b>996</b>	<b>648</b>	<b>858</b>	<b>181</b>	<b>(119)</b>	<b>(410)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	2,301	1,114	155	680	667	936
Exchange difference	(61)	(17)	38	0	0	0
<b>Cash at the end of the year</b>	<b>1,114</b>	<b>707</b>	<b>680</b>	<b>667</b>	<b>936</b>	<b>1,218</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	546.3%	186.3%	91.1%	60.5%	(8.4%)	22.2%
Gross profit	2,022.2%	186.0%	104.4%	55.5%	(7.7%)	21.1%
Operating profit	na	na	na	na	23.9%	36.3%
EBITDA	na	na	na	na	19.4%	28.3%
EBIT	na	na	na	na	23.9%	36.3%
Net profit	na	na	na	na	27.0%	41.1%
<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	69.0%	68.9%	73.7%	71.4%	72.0%	71.3%
Operating margin	(157.4%)	(39.5%)	(13.3%)	15.3%	20.7%	23.1%
EBITDA margin	(136.1%)	(29.7%)	(5.1%)	22.0%	28.7%	30.1%
Return on equity (ROE)	(27.6%)	(35.8%)	(35.4%)	30.7%	28.9%	30.3%
<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>						
Current ratio (x)	1.0	0.6	0.4	0.5	0.5	0.6
<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	9.1	7.2	5.1
P/B	6.5	6.7	4.8	2.4	1.8	1.3

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

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