

Antengene Corporation Limited (6996 HK)

Innovative and highly-differentiated pipelines focusing on oncology

- **Non-IFRS loss was less than expected.** Antengene reported net loss of RMB2,929mn in 2020 vs RMB324mn in 2019, which was mainly due to the RMB2,142mn fair value loss on convertible redeemable preferred shares. Non-IFRS loss (adjusted loss) excluding the fair value loss on convertible redeemable preferred shares, share issue expenses and equity settled share option expense was RMB455mn in 2020 (vs loss of RMB109mn in 2019), less than our estimate of RMB680mn in 2020E. R&D expenses rose to RMB348mn in 2020, +200% YoY, including RMB163mn in licensing fees and RMB85mn in clinical-related fees.
- **Smooth progress of clinical-stage assets.** Antengene has established a robust and highly differentiated pipeline of 12 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. For ATG-008 (onatasertib, mTORC1/2 inhibitor): First patient was dosed in the third cohort of the Phase II study in patients with 2L+ HCC. Antengene also initiated a phase I/II study of ATG-008 in combination with PD-1 in solid tumors and a phase II study in NFE2L2-mutant NSCLC, respectively. ATG-008 also received NMPA approval of a phase II biomarker-driven solid tumor basket trial. For other clinical stage pipelines, ATG-019 (dual PAK4/NAMPT inhibitor) and ATG-017 (ERK1/2 inhibitor) completed first patient dosing in 2020. ATG-016 (Eltanexor, XPO1 inhibitor) obtained IND approval of a Phase I/II study in high-risk MDS from the NMPA.
- **Rich early-stage pipelines.** Antengene has disclosed 6 preclinical assets. The Company targets to file IND/CTA for ATG-101 (PD-L1/4-1BB bispecific antibody) in 2021. Another 3 pre-clinical assets, including ATG-018 (ATR inhibitor), ATG-022 (Claudin 18.2 antibody-drug conjugate) and ATG-012 (KRAS inhibitor) may complete IND/CTA application by 2022.

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	(1.10)	(1.33)	N/A
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\$25.70)
Up/Downside	+66.46%
Current Price	HK\$16.80

China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	11,276
Avg. 3mths t/o (HK\$ mn)	23.33
52W High/Low (HK\$)	22.50/14.48
Total Issued Shares (mn)	671
Source: Bloomberg	

Shareholding Structure

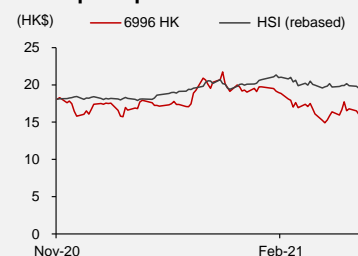
Meiland Pharma Tech	26.21%
Active Ambience	9.34%
FMR LLC	9.13%
Begonia Investment	8.49%
Qiming Venture	5.80%
Celgene China	4.11%
ATG Incentives Plus	3.83%
Free float	33.09%
Source: HKEx, Bloomberg	

Share performance

	Absolute	Relative
1-mth	-9.8%	-2.7%
3-mth	-11.4%	-16.2%
6-mth	N/A	N/A

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Ernst & Young

Web-site: www.antengene.cn

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- **Maintain BUY.** We expect ATG-010 to receive approvals in the 5 APAC markets during 4Q21 and 1Q22, including Australia, South Korea, Hong Kong, Singapore and mainland China. We maintain positive on the Company's long-term growth and rolled over our DCF-based TP to FY21E of HK\$27.97 (WACC: 11.1%, terminal growth rate: 2.0%).
- **Risks:** Competition; Delays in clinical development activities; Risks relating to extensive government regulation; Failure in protecting IP rights.

Figure 1: FY20A results change

	2019A	2020A	YoY Change	CMBIS 2020E	Diff (%)
YE 31 Dec (RMB mn)					
Revenue	0	0	N/A	0	N/A
Gross profit	0	0	N/A	0	N/A
Other income	53	27	-49.3%	20	34.2%
Administrative expenses	(39)	(154)	291.9%	(200)	-22.9%
R&D expenses	(116)	(348)	200.2%	(500)	-30.5%
Selling & distribution expenses	(0)	(0)	1795.8%	0	N/A
Other (losses)/gains	(221)	(2,452)	N/A	0	N/A
Operating profit (loss)	(323)	(2,928)	N/A	(680)	N/A
Finance costs	(1)	(1)	23.4%	(0)	N/A
Pre-tax profit (loss)	(324)	(2,929)	N/A	(680)	N/A
Income tax	0	0	N/A	0	N/A
Minority interests	0	0	N/A	0	N/A
Attributable net profit (loss)	(324)	(2,929)	N/A	(680)	N/A

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

(RMB mn)	New			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	0	160	486	10	144	486	-100.00%	10.79%	-0.02%
Gross profit	0	128	394	7	115	394	-100.00%	10.79%	-0.02%
Operating profit	-810	-732	-478	(716)	(643)	(478)	13.13%	13.86%	-0.01%
Net profit	-810	-733	-478	(692)	(698)	(478)	17.12%	4.90%	0.08%
EPS (RMB)	-1.21	-1.09	-0.71	(1.10)	(1.33)	N/A	9.77%	-17.93%	N/A

Source: Company data, CMBIS estimates

Valuation

Figure 3: 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 4: 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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