

Innovent Biologics (1801 HK)

More than obesity

- **Strong product sales in FY23.** In FY23, Innovent recorded total revenue of RMB6.21bn, including RMB5.73bn product sales revenue (+38.4% YoY), in line with our expectation. Innovent had a strong 2H23, with product sales +33.1% HoH vs the first half. As per Eli Lilly, total sales of sintilimab in FY23 reached US\$393.3mn (RMB2.75bn), +34.0% YoY, thanks to the extension of NRDL coverage with stable pricing. We forecast sales of sintilimab to reach RMB3.29bn in 2024E (+19% YoY) and expect the drug to maintain its leading position in China's PD-(L)1 market.
- **Sharp decrease in EBITDA loss thanks to improving cost efficiency.** The non-IFRS EBITDA loss narrowed significantly by 73% YoY to RMB600mn in FY23. With fast-growing product sales and consistently improving operating efficiency, Mgt. is confident to achieve EBITDA breakeven in 2025E. Innovent's gross margin on product sales reached 80.7% in 2H23 (vs 79.5% in 1H23 and 77.5% in 2022). SG&A ratio dropped to 60.9% in 2H23 from 63.5% in 1H23. FY23 R&D expenses decreased 22.4% YoY to RMB2.23bn, while Mgt. expects steady R&D expenses in FY24. As of end-2023, Innovent had a strong cash balance of RMB11.0bn.
- **Expect positive PoC data release for CLDN18.2 ADC.** Innovent has a rich portfolio of clinical-stage ADC assets, including ADCs targeting CLDN18.2, HER2, HER3, B7H3, and TROP2. Several bi-specific ADCs will enter clinical trials this year, including the EGFR/B7H3 ADC. IBI343 (CLDN18.2 ADC) is leading global development of CLDN18.2 ADC with BIC potential. Innovent plans to start a Ph3 MRCT trial (NCT06238843) of IBI343 in 3L GC shortly, following in the footsteps of AstraZeneca/Keymed's CMG901, which recently launched a Ph3 MRCT in 2L+ GC (CTR20240730). Positive Ph1b PoC data for IBI343 in gastric cancer are anticipated to be released in 2024, along with initial PoC data in pancreatic cancer. Innovent is also exploring the potential of IBI343 in combo with its own PD-1 sintilimab and VEGFR-2 ramucirumab for 1L and 2L GC. We think IBI343 has global BIC potential due to its superior safety and satisfying efficacy. IBI343's RP2D dose is as high as 6mg/kg, suggesting a broad therapeutic window.
- **Moving from global BIC to FIC.** IBI363 is a prospective FIC PD-1/IL-2 bsAb with a differentiated α -biased IL-2 arm, distinct from other IL-2 mAbs that eliminate the receptor α ([link](#)). IBI363 showed promising efficacy signals in IO-resistant and cold tumours. We expect Innovent to release positive PoC data of IBI363 in IO-resistant melanoma, NSCLC, and 3L+ CRC in 2024. Innovent plans to start a Ph2 study of IBI363 in the US in 2024. In addition, many innovative bi/tri-specific antibodies have entered clinic, including CLDN18.2/CD3, EGFR/B7H3, GPRC5D/BCMA/CD3, etc.
- **Multiple blockbuster non-oncology assets.** Besides the blockbuster product mazdutide (GLP-1R/GCGR), which is under NDA review in China for obesity since Feb 2024, Innovent has multiple blockbuster non-oncology assets. IBI112, an IL-23p19 antibody, is expected to release the Ph3 data in psoriasis and submit NDA in 2024. In the Phase 2 study, at week 52, up to 86% of patients in the IBI112 arm achieved PASI90, a result comparable to the 84% for guselkumab (another IL-23p19 mAb) and superior to the 70% for secukinumab (an IL-17 mAb) at week 48 ([link](#)). With a dosing interval of 12 weeks compared to guselkumab's 8 weeks, IBI112 shows BIC potential for psoriasis treatment. We believe IBI328 (XOI) and IBI311 (IGF-1R) also have blockbuster potential.
- **Maintain BUY.** We revise our DCF-based TP from HK\$57.35 to HK\$55.00 (WACC: 10.3%, terminal growth rate: 4.0%)

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	4,556	6,206	6,867	9,787	13,617
YoY growth (%)	6.7	36.2	10.7	42.5	39.1
Net profit (RMB mn)	(2,179)	(1,028)	(1,126)	(112)	1,330
EPS (Reported) (RMB)	(1.43)	(0.66)	(0.69)	(0.07)	0.82
R&D expenses (RMB mn)	(2,871)	(2,228)	(2,266)	(2,545)	(2,860)
CAPEX (RMB mn)	(897)	(250)	(400)	(300)	(300)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$55.00
(Previous TP)	HK\$57.35)
Up/Downside	44.4%
Current Price	HK\$38.10

China Healthcare

Jill WU, CFA

(852) 3900 0842

jillwu@cmbi.com.hk

Andy WANG

(852) 3657 6288

andywang@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	61,820.4
Avg 3 mths t/o (HK\$ mn)	381.9
52w High/Low (HK\$)	48.45/28.70
Total Issued Shares (mn)	1622.6

Source: FactSet

Shareholding Structure

Temasek Holdings	8.5%
Yu De-Chao Michael	6.6%

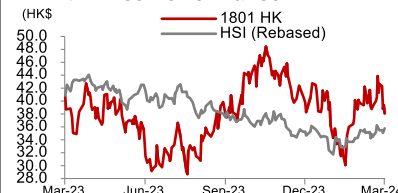
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-4.2%	-6.2%
3-mth	-4.2%	-5.5%
6-mth	0.5%	5.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Deloitte

Website: www.innoventbio.com

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	(1,205)	(194)	1,462	3,776	6,163	8,042	9,028	9,746	10,031	10,327	10,450	10,512
Tax rate	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(1,205)	(194)	1,242	3,210	5,238	6,836	7,674	8,284	8,526	8,778	8,883	8,935
+ D&A	346	345	344	343	343	342	341	341	340	339	339	338
- Change in working capital	167	128	(499)	(572)	(493)	(420)	(296)	(230)	(55)	(58)	9	13
- Capex	(400)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)
FCFF	(1,092)	(20)	788	2,681	4,788	6,458	7,419	8,094	8,511	8,759	8,931	8,987
Terminal value												147,773
FCF + Terminal value	(1,092)	(20)	788	2,681	4,788	6,458	7,419	8,094	8,511	8,759	8,931	156,760

PV of enterprise (RMB mn)	73,353
Net debt (RMB mn)	(6,968)
Equity value (RMB mn)	80,321
Equity value (HK\$ mn)	89,245
No. of outstanding shares (mn)	1,623
DCF per share (HK\$)	55.00

Terminal growth rate	4.0%
WACC	10.3%
Cost of equity	13.8%
Cost of debt	4.5%
Equity beta	1.1
Risk-free rate	2.8%
Market risk premium	10.5%
Target debt to asset ratio	35.0%
Effective corporate tax rate	15.0%

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

		WACC				
		9.3%	9.8%	10.3%	10.8%	11.3%
Terminal growth rate	5.0%	76.63	68.11	61.20	55.50	50.71
	4.5%	71.10	63.84	57.84	52.80	48.52
	4.0%	66.61	60.30	55.00	50.50	46.63
	3.5%	62.89	57.32	52.58	48.51	44.98
	3.0%	59.76	54.78	50.50	46.78	43.52

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	New			Old			Diff(%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	6,867	9,787	13,617	6,558	9,435	13,702	5%	4%	-1%
Gross profit	5,597	8,025	11,234	5,345	7,737	11,305	5%	4%	-1%
Operating profit	(331)	878	2,764	(298)	649	1,939	N/A	N/A	43%
Net profit	(1,126)	(112)	1,330	(1,003)	(221)	735	N/A	N/A	81%
EPS (RMB)	(0.69)	(0.07)	0.82	(0.65)	(0.14)	0.00	N/A	N/A	N/A
Gross margin	81.50%	82.00%	82.50%	81.50%	82.00%	82.50%	0.00 ppt	0.00 ppt	0.00 ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff(%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	6,867	9,787	13,617	7,388	9,767	13,069	-7%	0%	4%
Gross profit	5,597	8,025	11,234	5,992	7,977	10,836	-7%	1%	4%
Operating profit	(331)	878	2,764	(952)	13	1,732	N/A	N/A	60%
Net profit	(1,126)	(112)	1,330	(711)	296	1,619	N/A	N/A	-18%
EPS (RMB)	(0.69)	(0.07)	0.82	(0.45)	0.16	0.96	N/A	N/A	N/A
Gross margin	81.50%	82.00%	82.50%	81.10%	81.67%	82.91%	+0.40 ppt	+0.33 ppt	-0.41 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	4,270	4,556	6,206	6,867	9,787	13,617
Cost of goods sold	(505)	(931)	(1,136)	(1,270)	(1,762)	(2,383)
Gross profit	3,764	3,625	5,070	5,597	8,025	11,234
Operating expenses	(6,406)	(5,796)	(6,214)	(6,723)	(8,137)	(9,669)
Selling expense	(2,620)	(2,591)	(3,101)	(3,159)	(3,817)	(4,494)
Admin expense	(806)	(835)	(750)	(790)	(1,077)	(1,430)
R&D expense	(2,323)	(2,871)	(2,228)	(2,266)	(2,545)	(2,860)
Others	(657)	502	(136)	(508)	(699)	(886)
Pre-tax profit	(2,642)	(2,170)	(1,144)	(1,126)	(112)	1,565
Income tax	(87)	(9)	116	0	0	(235)
Minority interest	0	0	0	0	0	0
Net profit	(2,729)	(2,179)	(1,028)	(1,126)	(112)	1,330
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	11,551	11,507	13,428	12,908	13,667	15,939
Cash & equivalents	8,377	9,163	10,052	9,681	10,417	12,001
Account receivables	968	575	1,006	781	979	1,362
Inventories	1,347	1,429	968	1,044	869	1,175
Financial assets at FVTPL	645	3	918	918	918	918
Other current assets	213	337	484	484	484	484
Non-current assets	4,693	6,082	7,199	7,253	7,208	7,164
PP&E	2,693	3,411	4,290	4,375	4,362	4,350
Intangibles	772	1,198	1,270	1,270	1,270	1,270
Other non-current assets	1,228	1,472	1,639	1,608	1,576	1,544
Total assets	16,244	17,589	20,627	20,162	20,875	23,103
Current liabilities	3,050	3,499	4,477	4,495	4,645	4,836
Short-term borrowings	365	888	1,195	1,195	1,195	1,195
Account payables	195	326	373	390	541	732
Tax payable	61	3	0	0	0	0
Other current liabilities	2,429	2,282	2,909	2,909	2,909	2,909
Non-current liabilities	2,863	3,360	3,623	3,634	3,645	3,656
Long-term borrowings	2,023	2,215	2,327	2,327	2,327	2,327
Obligations under finance leases	86	99	73	84	95	106
Other non-current liabilities	754	1,046	1,223	1,223	1,223	1,223
Total liabilities	5,913	6,859	8,100	8,128	8,290	8,492
Share capital	0	0	0	0	0	0
Other reserves	10,330	10,730	12,527	12,033	12,584	14,611
Total shareholders equity	10,330	10,730	12,528	12,033	12,585	14,611
Minority interest	0	0	0	0	0	0
Total equity and liabilities	16,244	17,589	20,627	20,162	20,875	23,103

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(2,555)	(2,162)	(1,261)	(1,126)	(112)	1,800
Depreciation & amortization	165	245	308	314	313	312
Tax paid	(87)	(9)	116	0	0	(235)
Change in working capital	(90)	295	557	167	128	(499)
Others	951	(327)	832	596	624	401
Net cash from operations	(1,616)	(1,958)	553	(49)	954	1,780
Investing						
Capital expenditure	(1,066)	(897)	(250)	(400)	(300)	(300)
Acquisition of subsidiaries/ investments	(38)	(79)	0	0	0	0
Net proceeds from disposal of short-term investments	(12,121)	(10,603)	0	0	0	0
Others	10,527	10,143	200	187	191	213
Net cash from investing	(2,698)	(1,435)	(50)	(213)	(109)	(87)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	1,208	715	500	0	0	0
Proceeds from share issues	3,951	2,131	0	0	0	0
Others	(155)	46	(99)	(109)	(109)	(109)
Net cash from financing	5,003	2,892	401	(109)	(109)	(109)
Net change in cash						
Cash at the beginning of the year	7,764	8,377	9,163	10,052	9,681	10,417
Exchange difference	(197)	119	0	0	0	0
Cash at the end of the year	8,377	9,163	10,052	9,681	10,417	12,001

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

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong. Tel: (852) 3900 0888 Fax: (852) 3900 0800

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