

Innovent Biologics (1801 HK)

Revenue growth to recover in 2023

In FY22, Innovent recorded total revenue of RMB4.56bn, including RMB4.14bn in product sales (+3% YoY). According to Eli Lilly, sintilimab sales in FY22 was US\$293mn, -30% YoY, mainly impacted by NRDL related price cut, COVID-19 interruptions, and commercial team restructuring early 2022. Under IFRS, the gross margin of product sales decreased by 9.9 ppt to 77.5% in FY22, due to the price cut of sintilimab, increased proportion of sales from lower-margin biosimilars, and lower margin booked by collaborated products. However, the product GP margin improved in 2H22 (78.1%) vs 1H22 (76.9%). In FY22, the Company was able to improve its cost efficiency, with the ratio of selling and marketing expense to product revenue decreased from 65.5% in FY21 to 62.6% in FY22, and notably, the ratio decreased in 2H22 (56.9%) compared to 1H22 (68.5%). The R&D expenses increased 23.6% YoY to RMB2.87bn in FY22. The Company recorded net loss of RMB2.18bn in FY22, compared to the restated loss of RMB2.73bn in FY21. As of end-2022, Innovent had a strong cash balance of RMB9.17bn.

- **To resume strong product sales growth from 2023E.** Sintilimab has two additional large indications (1L GC and 1L ESCC) added to the NRDL since Mar 2023. With stable pricing and better NRDL coverage, we expect sales of sintilimab to resume healthy growth in 2023E (+20% YoY). Innovent's three biosimilars contributed a significant proportion of total product revenue in FY22 (approximately 50%). We do not expect nationwide volume-based procurement (VBP) for biosimilars in 2023, while provincial VBP could lead to moderate price cuts. With COVID-19 impact diminishing and contribution from new products such as cyramza, pemigatinib and olverembatinib, we expect Innovent to regain solid sales growth in 2023 and beyond.
- **Eyes on data readout of IBI362 (GLP-1R/GCGR).** IBI362 is targeting an enormous underserved market of obesity and diabetes. IBI362 has four ongoing clinical trials. The Ph3 trial (GLORY-1) of IBI362 (6mg) for obesity has completed enrolment in 1Q23, and is expected to release topline data by end-2023. The Ph1b trial for obesity (9mg) is expected to release updated data by end-2023, and Innovent plans to start a Ph3 trial of IBI362 (9mg) this year. One of the two Ph3 trials (DREAMS-1/2) for T2DM has been fully enrolled and the other is expected to complete enrolment in 2Q23. We expect IBI362 to be launched in China in 2025E. Additionally, Innovent is planning the trial of IBI362 for the treatment of NASH.
- **Expanding early-stage pipelines to be an engine for innovation.** With positive PoC data observed, the Company will release updated data for IBI939 (TIGIT) and IBI110 (LAG-3) at the ASCO meeting. IBI363 (PD-1/IL-2 fusion protein) is expected to have preliminary internal data for PD-(L)1 resistant solid tumors in 2H23. In 2022, Innovent delivered 6 molecules into IND enabling stage. Innovent has established an integrated and differentiated ADC platform with 10+ ADC projects under development. The in-house developed IBI343 (CLDN18.2 ADC) is at Ph1 trial in Australia and China with tolerable safety and initial efficacy signals observed. In 2023, a series of ADC molecules will enter clinical stage development, including HER2, B7H3, and Trop2 ADCs.
- **Maintain BUY.** We revised our DCF-based TP from HK\$52.59 to HK\$50.34 (WACC: 10.0%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	4,270	4,556	5,311	7,498	10,418
YoY growth (%)	11.1	6.7	16.6	41.2	38.9
Net profit (RMB mn)	(3,138)	(2,179)	(2,787)	(1,921)	(476)
EPS (Reported) (RMB)	(2.16)	(1.43)	(1.82)	(1.25)	(0.31)
R&D expenses (RMB mn)	(2,478)	(2,871)	(3,000)	(2,999)	(2,917)
CAPEX (RMB mn)	(1,066)	(300)	(300)	(300)	(300)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$50.34
(Previous TP)	HK\$52.59
Up/Downside	44.7%
Current Price	HK\$34.80

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Stock Data

Mkt Cap (HK\$ mn)	53,402
Avg 3 mths t/o (HK\$ mn)	322.73
52w High/Low (HK\$)	47.95/18.06
Total Issued Shares (mn)	1,535
Source: FactSet	

Shareholding Structure

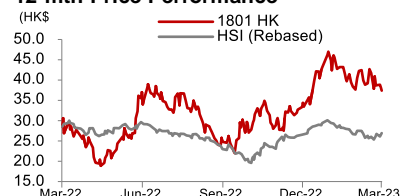
Temasek Holdings	7.9%
Yu De-Chao Michael	6.9%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-1.8%	-3.8%
3-mth	8.9%	6.4%
6-mth	49.6%	27.2%

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)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	-2,829	-1,937	-490	1,363	3,294	5,900	8,201	9,325	10,401	10,833	10,934	10,854	10,730
Tax rate	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	-2,829	-1,937	-490	1,159	2,800	5,015	6,970	7,926	8,841	9,208	9,294	9,226	9,120
+ D&A	232	237	242	246	250	254	258	261	265	268	271	273	276
- Change in working capital	9	-165	88	-635	-687	-822	-632	-304	-244	82	22	104	121
- Capex	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300
FCFF	-2,887	-2,165	-460	470	2,063	4,148	6,296	7,583	8,561	9,258	9,287	9,303	9,217
Terminal value													135,936
FCF + Terminal value	-2,887	-2,165	-460	470	2,063	4,148	6,296	7,583	8,561	9,258	9,287	9,303	145,153

PV of enterprise (RMB mn)	61,529
Net debt (RMB mn)	-4,134
Equity value (RMB mn)	65,663
Equity value (HK\$ mn)	77,251
No. of outstanding shares (mn)	1,535
DCF per share (HK\$)	50.34

Terminal growth rate	3.0%
WACC	10.0%
Cost of Equity	13.3%
Cost of Debt	4.5%
Equity Beta	1.0
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				
		9.0%	9.5%	10.0%	10.5%	11.0%
Terminal growth rate	4.0%	70.05	62.22	55.74	50.29	45.65
	3.5%	65.44	58.59	52.83	47.93	43.72
	3.0%	61.61	55.52	50.34	45.89	42.02
	2.5%	58.36	52.89	48.18	44.10	40.53
	2.0%	55.59	50.61	46.30	42.52	39.20

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	New			Old			Diff(%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY22E	FY23E	FY24E
Revenue	5,311	7,498	10,418	6,001	8,577	11,963	-11%	-13%	-13%
Gross profit	4,279	6,079	8,497	4,800	6,948	9,810	-11%	-13%	-13%
Operating profit	(2,306)	(1,364)	149	(1,428)	(233)	1,391	N/A	N/A	N/A
Net profit	(2,787)	(1,921)	(476)	(1,816)	(663)	803	N/A	N/A	N/A
EPS (RMB)	(1.82)	(1.25)	(0.31)	(1.19)	(0.43)	0.53	N/A	N/A	N/A
Gross margin	80.57%	81.07%	81.57%	80.00%	81.00%	82.00%	+0.57 ppt	+0.07 ppt	-0.43 ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff(%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY22E	FY23E	FY24E
Revenue	5,311	7,498	10,418	6,220	8,110	10,715	-15%	-8%	-3%
Gross profit	4,279	6,079	8,497	4,975	6,550	8,557	-14%	-7%	-1%
Operating profit	(2,306)	(1,364)	149	(1,956)	(1,053)	362	N/A	N/A	N/A
Net profit	(2,787)	(1,921)	(476)	(1,674)	(691)	246	N/A	N/A	N/A
EPS (RMB)	(1.82)	(1.25)	(0.31)	(1.10)	(0.41)	0.17	N/A	N/A	N/A
Gross margin	80.57%	81.07%	81.57%	79.99%	80.76%	79.86%	+0.58 ppt	+0.30 ppt	+1.71 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	3,844	4,270	4,556	5,311	7,498	10,418
Cost of goods sold	(388)	(573)	(931)	(1,032)	(1,420)	(1,920)
Gross profit	3,456	3,697	3,625	4,279	6,079	8,497
Operating expenses	(4,315)	(6,748)	(5,796)	(7,065)	(8,000)	(8,973)
Selling expense	(1,341)	(2,728)	(2,591)	(2,921)	(3,524)	(4,271)
Admin expense	(437)	(884)	(835)	(921)	(1,150)	(1,389)
R&D expense	(1,851)	(2,478)	(2,871)	(3,000)	(2,999)	(2,917)
Others	(686)	(657)	502	(224)	(326)	(396)
Pre-tax profit	(859)	(3,051)	(2,170)	(2,787)	(1,921)	(476)
Income tax	(140)	(87)	(9)	0	0	0
Minority interest	0	0	0	0	0	0
Net profit	(998)	(3,138)	(2,179)	(2,787)	(1,921)	(476)
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	9,467	11,551	11,507	9,661	8,936	9,806
Cash & equivalents	7,764	8,377	9,163	7,363	6,364	7,183
Account receivables	475	968	575	827	1,065	1,337
Inventories	706	1,347	1,429	1,131	1,167	947
Financial assets at FVTPL	357	645	3	3	3	3
Other current assets	165	213	337	337	337	337
Non-current assets	2,368	4,693	6,082	6,150	6,212	6,270
PP&E	1,584	2,693	3,411	3,497	3,577	3,653
Intangibles	33	772	1,198	1,198	1,198	1,198
Other non-current assets	752	1,228	1,472	1,455	1,437	1,420
Total assets	11,835	16,244	17,589	15,811	15,148	16,077
Current liabilities	1,486	3,050	3,499	3,462	3,571	3,711
Short-term borrowings	255	365	888	888	888	888
Account payables	121	195	326	289	397	537
Tax payable	0	61	3	3	3	3
Other current liabilities	1,110	2,429	2,282	2,282	2,282	2,282
Non-current liabilities	1,569	2,863	3,360	3,361	3,362	3,363
Long-term borrowings	925	2,023	2,215	2,215	2,215	2,215
Obligations under finance leases	10	86	99	100	101	102
Other non-current liabilities	634	754	1,046	1,046	1,046	1,046
Total liabilities	3,055	5,913	6,859	6,823	6,932	7,073
Share capital	0	0	0	0	0	0
Other reserves	8,780	10,330	10,730	8,988	8,216	9,004
Total shareholders equity	8,780	10,330	10,730	8,988	8,216	9,004
Minority interest	0	0	0	0	0	0
Total equity and liabilities	11,835	16,244	17,589	15,811	15,148	16,077

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(719)	(2,964)	(2,162)	(2,787)	(1,921)	(476)
Depreciation & amortization	68	165	210	215	220	224
Tax paid	(140)	(87)	(9)	0	0	0
Change in working capital	(334)	(90)	168	9	(165)	88
Others	817	951	1,061	1,021	1,152	1,269
Net cash from operations	(308)	(2,025)	(732)	(1,542)	(715)	1,105
Investing						
Capital expenditure	(489)	(1,066)	(300)	(300)	(300)	(300)
Acquisition of subsidiaries/ investments	(6)	(38)	0	0	0	0
Net proceeds from disposal of short-term investments	(12,001)	(12,121)	500	0	0	0
Others	7,311	10,527	0	157	130	129
Net cash from investing	(5,185)	(2,698)	200	(143)	(170)	(171)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	355	1,208	0	0	0	0
Proceeds from share issues	4,662	3,951	2,077	0	0	0
Others	(105)	(155)	(102)	(115)	(115)	(115)
Net cash from financing	4,912	5,003	1,975	(115)	(115)	(115)
Net change in cash						
Cash at the beginning of the year	4,233	7,764	8,377	9,163	7,363	6,364
Exchange difference	(569)	(197)	0	0	0	0
Cash at the end of the year	3,083	7,847	9,820	7,363	6,364	7,183
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	266.9%	11.1%	6.7%	16.6%	41.2%	38.9%
Gross profit	274.6%	7.0%	(1.9%)	18.0%	42.1%	39.8%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	89.9%	86.6%	79.6%	80.6%	81.1%	81.6%
Return on equity (ROE)	(14.8%)	(32.8%)	(20.7%)	(28.3%)	(22.3%)	(5.5%)
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.7)	(0.6)	(0.6)	(0.5)	(0.4)	(0.4)
Current ratio (x)	6.4	3.8	3.3	2.8	2.5	2.6
Receivable turnover days	34.3	61.7	61.8	56.8	51.8	46.8
Inventory turnover days	500.9	653.8	544.2	400.0	300.0	180.0
Payable turnover days	96.4	100.5	102.1	102.1	102.1	102.1
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/B	6.4	9.2	3.7	5.6	6.1	5.6

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

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