

Shanghai Henlius Biotech, Inc. (2696 HK)

Rich R&D progress

- FY19 earnings miss.** Henlius reported FY19 revenue of RMB91m, below our estimate of RMB167m. Attributable revenue from Hanlikang (Rituxan biosimilar) was RMB79m in FY19, below our estimate of RMB141m. Retail sales of Hanlikang was around RMB190m in FY19. Meanwhile, Henlius recorded RMB 875m net loss in FY19, which missed our forecast of RMB319mn net loss in FY19. The difference was mainly due to larger-than-expected R&D costs and administrative expenses.
- Sales of Hanlikang to ramp up thanks to the release of capacity bottleneck.** Currently Henlius has 2,000L manufacturing capacity and will soon add 12,000L new capacity which will expand the total capacity to 14,000L. Thanks to the expansion of capacity, we expect sales of Hanlikang to pick up significantly from 2Q20E and forecast RMB264mn attributable revenue from Hanlikang in 2020E.
- Rich R&D progress.** In 2019, Henlius has filed NDA for HLX02 to NMPA and EMA and filed NDA for HLX03 to NMPA. The Company also accelerated clinical development for HLX10 and has initiated 5 phase III trials and 4 phase II trials for HLX10 mono and combo therapies. Trials of HLX10 cover large indications such as NSCLC, SCLC, GC, HNSCC, HCC, ESCC, cervical cancer and HBV. Henlius also further expanded its novel biological drug pipelines by initiating phase I trials of HLX22 (innovative anti-HER2 mAb) and HLX12 (ramucirumab biosimilar) and obtaining IND approvals for HLX55 (innovative anti-c-MET mAb) in mainland China and Taiwan.
- Expect multiple significant milestones in 2020E.** We expect HLX02 (Herceptin biosimilar) to receive approvals from NMPA and EMA in 2020E, and HLX03 (Humira biosimilar) to obtain NMPA's approval in 2020E. We believe Henlius may also file the NDA for HLX10 (PD-1 antibody) to NMPA for treatment of MSI-H solid tumors, and the NDA for HLX04 (Avastin biosimilar) to the NMPA by end-20E.
- We trimmed TP from HK\$61.12 to HK\$57.21 to reflect weak sales from Hanlikang and large R&D spending.** We expect risk-adjusted revenue to be RMB615m in FY20E and RMB1,461m in FY21E, driven by sales ramp-up of HLX01~04. TP of H\$57.21 was based on 11-year risk-adjusted DCF valuation (WACC: 10.03%, terminal growth rate: 3.0%). We like Henlius given its rich biological pipeline and strong inhouse R&D capability.
- Catalysts:** 1) Earlier-than-expected launch of products in pipeline, 2) stronger-than-expected sales from newly launched product, 3) positive outcome of clinical trial data.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	7	91	615	1,461	2,835
YoY growth (%)	-78%	1125%	577%	137%	94%
Net profit (RMB mn)	(494)	(875)	(802)	(298)	656
YoY growth (%)	N/A	N/A	N/A	N/A	N/A
EPS (RMB)	-1.16	-1.76	-1.47	-0.55	1.21
Change (%)	N/A	N/A	N/A	N/A	N/A
Consensus EPS (RMB)	N/A	(1.1)	(0.8)	(0.1)	0.6
ROE (%)	(27.4)	(21.9)	(25.1)	(10.3)	18.4
ROA (%)	(16.0)	(14.8)	(15.4)	(4.9)	9.3
Net gearing (%)	Net cash	Net cash	14	59	43
Current ratio (x)	2.0	2.8	1.0	0.7	1.3

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$57.21
(Previous TP)	HK\$61.12
Up/Downside	+76.0%
Current Price	HK\$32.50

China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	17,664
Avg. 3mths t/o (HK\$ mn)	2.47
52W High/Low (HK\$)	49.5/0
Total Issued Shares (mn)	543

Source: Bloomberg

Shareholding Structure

Fosun Pharma	53.76%
Management	11.35%
Institution investors	23.02%
Free float	11.71%

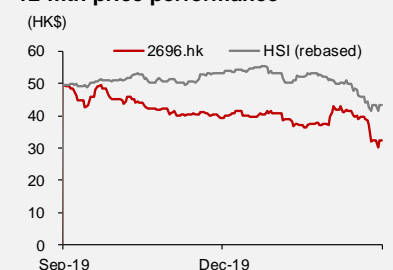
Source: Bloomberg

Share performance

	Absolute	Relative
1-mth	-17.9%	-15.7%
3-mth	-17.4%	-18.7%
6-mth	-34.3%	-12.6%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Ernst & Young
Web-site: www.henlius.com

Related Reports

- Affordable innovation for global market – 08 Nov 2019

Figure 1: CMBIS earnings revisions

(RMB mn)	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	615	1,461	666	1,448	-7.7%	0.9%
Gross profit	372	1,003	395	1,001	-5.8%	0.2%
Operating profit	(766)	(218)	(161)	213	375.8%	-202.3%
Net profit	(802)	(298)	(171)	198	N/A	N/A
EPS (RMB)	(1.5)	(0.6)	(0.3)	0.4	N/A	N/A
Gross margin	60.49%	68.65%	59.31%	69.13%	+1.18ppt	-0.48ppt
Operating margin	-124.55%	-14.92%	-24.17%	14.71%	-100.38ppt	-29.63ppt
Net Margin	-130.41%	-20.40%	-25.68%	13.67%	-104.73ppt	-34.07ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

(RMB mn)	CMBI		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	615	1,461	632	1,534	-2.7%	-4.8%
Gross profit	372	1,003	381	1,075	-2.4%	-6.7%
Operating profit	(766)	(218)	(294)	186	161.0%	-217.5%
Net profit	(802)	(298)	(424)	(37)	N/A	N/A
EPS (RMB)	(1.5)	(0.6)	(0.8)	(0.1)	N/A	N/A
Gross margin	60.49%	68.65%	60.3%	70.1%	+0.18ppt	-1.40ppt
Operating margin	-124.55%	-14.92%	-46.4%	12.1%	-78.11ppt	-27.01ppt
Net Margin	-130.41%	-20.40%	-67.0%	-2.4%	-63.36ppt	-17.96ppt

Source: Company data, CMBIS estimates

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	7	91	615	1,461	2,835
Drug sales	-	79	588	1,356	2,664
BD sales	-	3	19	97	162
Other income	7	9	9	9	9
Cost of sales	(5)	(72)	(243)	(459)	(591)
Gross profit	2	19	372	1,003	2,244
Distribution expenses	-	(46)	(112)	(292)	(668)
Administrative expenses	(109)	(175)	(147)	(163)	(213)
R&D expenses	(365)	(608)	(880)	(766)	(522)
Operating profit	(472)	(809)	(766)	(218)	842
Finance income/ (cost)	(58)	(48)	(55)	(115)	(133)
Exceptional	30	(17)	19	19	19
Pre-tax profit	(500)	(875)	(802)	(314)	728
Profit tax	(5)	(1)	-	16	(73)
Minority interest	11	-	-	-	-
Net profit	(494)	(875)	(802)	(298)	656

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
PBT	(500)	(875)	(802)	(314)	728
Depreciation & amortization	29	61	178	277	359
Change in working capital	302	294	(146)	20	15
Income tax paid	(5)	(1)	-	16	(73)
Others	121	145	55	115	133
Net cash from operating activities	(52)	(375)	(715)	113	1,162
Capex	(137)	(222)	(500)	(500)	(300)
Acquisition of intangible asset	(598)	(862)	(880)	(766)	(522)
Other	-	(76)	-	-	-
Net cash from investing activities	(735)	(1,160)	(1,380)	(1,266)	(822)
Loan to related party	(575)	-	-	-	-
Net proceeds from shares issued	2,639	2,777	-	-	-
Bank borrowing	296	-	300	1,000	300
Acquisition of non-controlling	(635)	-	-	-	-
Interest paid	(45)	(48)	(55)	(115)	(133)
Net cash from financing activities	1,679	2,729	245	885	167
Net change in cash	892	1,194	(1,850)	(268)	508
Cash at the beginning	59	959	2,301	452	184
Exchange difference	9	32	-	-	-
Cash at the end	959	2,186	452	184	692

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	2,008	3,239	4,441	5,430	5,892
Fixed asset	324	501	931	1,302	1,420
Intangible assets	1,383	2,175	2,947	3,565	3,909
Other non-current assets	301	563	563	563	563
Current assets	1,087	2,661	765	597	1,183
Cash	959	2,301	452	184	692
Inventories	25	130	33	63	97
Trade and bills receivables	7	30	80	151	194
Prepayments, deposits & other receivables	90	196	196	196	196
Pledged cash	6	4	4	4	4
Current liabilities	533	960	799	870	914
Borrowings	143	278	278	278	278
Trade and other payables	85	240	80	151	194
Other current liabilities	305	441	441	441	441
Non-current liabilities	759	940	1,207	2,256	2,605
Borrowings	385	331	631	1,631	1,931
Other non-current liabilities	373	609	576	625	674
Total net assets	1,803	4,000	3,199	2,901	3,557
Minority interest	-	-	-	-	-
Shareholders' equity	1,803	4,000	3,199	2,901	3,557

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Drug sales	-	86.8	95.6	92.8	94.0
BD sales	-	3.7	3.1	6.6	5.7
Other income	100.0	9.4	1.4	0.6	0.3
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	27	21	61	69	79
EBITDA margin	(5,904)	(823)	(96)	4	42
Pre-tax margin	(6,741)	(962)	(130)	(22)	26
Net margin	(6,653)	(963)	(130)	(20)	23
Effective tax rate	(1)	(0)	-	5	10
Balance sheet ratios					
Current ratio (x)	2.0	2.8	1.0	0.7	1.3
Trade receivables turnover days	50	50	50	50	50
Trade payables turnover days	120	120	120	120	120
Inventory turnover days	50	50	60	60	60
Net debt to total equity ratio (%)	Net cash	Net cash	14.2	59.4	42.6
Returns (%)					
ROE	(27.4)	(21.9)	(25.1)	(10.3)	18.4
ROA	(16.0)	(14.8)	(15.4)	(4.9)	9.3
Per share data					
EPS (RMB)	(1.16)	(1.76)	(1.47)	(0.55)	1.21
DPS (RMB)	-	-	-	-	-
BVPS (RMB)	4.2	8.0	5.9	5.3	6.5

Source: Company data, CMBIS estimates

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