

Kintor Pharmaceutical (9939 HK)

Encouraging data of pyrilutamide for treatment of AGA

Kintor recorded a net loss of RMB518.4mn in 1H22. The adjusted loss after adding back share-based compensation expenses was RMB468.6mn (+56.3% YoY) in 1H22. R&D costs and admin expenses were RMB461.1mn (+63% YoY) and RMB65.5mn (+32% YoY) in 1H22, respectively. The increase in R&D costs was primarily due to fees paid to hospitals and CROs for clinical trials (RMB306.1mn in 1H22 vs RMB158.2mn in 1H21) which was mainly related to the trials of prixelutamide in COVID-19. As of Jun 2022, Kintor has RMB337.3mn cash on hand. Its total cash position could reach RMB509.9mn, if adding back the RMB172.6mn related-party borrowings (repayment expected in 2H22), retrieved financial assets, etc. The Company also has unutilised bank facilities of RMB120mn as of Jun 2022.

■ **Near-term commercialization of prixelutamide for COVID-19 and NDA filing for mCRPC.** Kintor is in late-stage discussions with CDE and the US FDA regarding the BLA of prixelutamide for COVID-19 based on the results of its Ph3 outpatient MRCT. The Company is also seeking approval to amend the endpoints of its other two MRCTs for COVID-19 given the wide spread of Omicron variant. An IIT study in Shanghai has shown that no virus was detected after 7 to 12 days treatment of prixelutamide in severe or critical elderly COVID-19 patients who experienced rebound of infection after paxlovid. The IIT study will continue with the detailed data to be published. For mCRPC, Kintor expects to release the OS data of the Ph3 trial for 2L treatment in 4Q22E, upon which the NDA will be filed. The data readout of the Ph3 trial of prixelutamide for 1L mCRPC treatment is expected in 2023E.

■ **Promising Ph2 data of pyrilutamide for treatment of AGA.** Ph2 trial of pyrilutamide in China for male AGA patients has shown positive results. After 24 weeks of treatment, the 5mg BID arm of pyrilutamide demonstrated significant improvement in target area hair counts (TAHC), which increased by 15.34 per cm² compared with placebo group (p=0.024). A Ph3 study of pyrilutamide for male AGA patients is ongoing in China with data readout and NDA expected in 2H23E. Meanwhile, Kintor may initiate a head-to-head study of pyrilutamide vs minoxidil in AGA patients. Kintor has also completed patient enrolment of a Ph2 study for female AGA patients in China and a Ph2 study for male AGA patients in the US.

■ **Maintain BUY.** We think prixelutamide is highly likely to be approved in China and overseas for COVID-19 treatment based on its positive clinical data. We believe pyrilutamide is another potential blockbuster addressing the large unmet medical needs in AGA treatment. Factoring in the change of COVID-19 oral drug landscape in China, we revised our DCF-based TP from HK\$48.78 to HK\$40.10 (WACC: 10.0%, terminal growth rate: 2.0%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	0	34	160	1,916	1,647
YoY growth (%)	na	na	367.4	1,097.3	(14.0)
Net profit (RMB mn)	(508.3)	(842.1)	(744.9)	380.0	244.0
EPS (Reported) (RMB)	(1.64)	(2.36)	(1.92)	0.98	0.63
ROE (%)	(54.1)	(53.2)	(56.1)	30.8	14.9
R&D expenses (RMB)	(329)	(768)	(750)	(500)	(500)
Admin expenses (RMB mn)	(77)	(103)	(124)	(149)	(178)
CAPEX (RMB mn)	(69)	(76)	(80)	(80)	(80)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$40.10**

(Previous TP) **HK\$48.78**

Up/Downside **148.4%**

Current Price **HK\$16.14**

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Stock Data

Mkt Cap (HK\$ mn)	6,255.7
Avg 3 mths t/o (HK\$ mn)	17.8
52w High/Low (HK\$)	85.00/7.78
Total Issued Shares (mn)	387.6

Source: FactSet

Shareholding Structure

Youzhi Tong	13.2%
Chuangxing Guo	11.1%

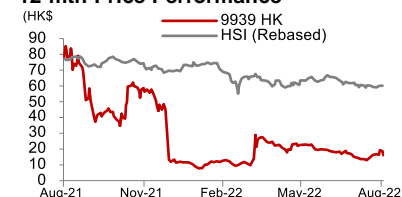
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	6.9%	8.0%
3-mth	-28.9%	-24.7%
6-mth	27.3%	46.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: PWC

Web-site: www.kintor.com.cn

Related reports:

1. Proxalutamide showed very promising efficacy signals in a Ph3 MRCT trial in COVID-19 outpatients – 7 Apr 2022
2. Continued development of proxalutamide for COVID-19 treatment – 28 Mar 2022
3. Continue to pursue development of proxalutamide for treatment of COVID-19 – 29 Dec 2021
4. Proxalutamide expects to deliver differentiated clinical results compared with molnupiravir – 6 Oct 2021

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)		2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT		(750)	444	282	744	1,046	1,329	1,634	1,967	2,338
Tax rate		0%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)		(750)	378	240	632	889	1,130	1,389	1,672	1,987
+ D&A		13	16	18	21	23	26	28	30	32
- Change in working capital		226	(359)	(5)	(123)	(114)	(95)	(110)	(112)	(117)
- Capex		(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)
FCFF		(592)	(45)	173	450	718	981	1,227	1,510	1,823
Terminal value										23,220
FCF + Terminal value		(592)	(45)	173	450	718	981	1,227	1,510	25,043
Present value of enterprise		12,809								
Net Debt		(401)								
Minorities		0								
Equity value (RMB mn)		13,209								
Equity value (HK\$ mn)		15,541								
Equity value (US\$ mn)		2,005								
Target price (HK\$)		40.10								
Terminal growth rate		2.0%								
WACC		10.0%								
Cost of Equity		12.5%								
Cost of Debt		5.0%								
Equity Beta		1.0								
Risk Free Rate		2.5%								
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				
		9.0%	9.5%	10.0%	10.5%	11.0%
Terminal growth rate	3.0%	54.55	49.23	44.69	40.79	37.40
	2.5%	51.00	46.29	42.24	38.72	35.64
	2.0%	47.96	43.75	40.10	36.90	34.08
	1.5%	45.32	41.52	38.20	35.27	32.68
	1.0%	43.01	39.56	36.52	33.82	31.41

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	160	1,916	1,647	2,174	4,175	3,230	-93%	-54%	-49%
Gross Profit	128	1,552	1,351	1,739	3,382	2,649	-93%	-54%	-49%
Operating Profit	(741)	453	291	509	1,736	1,268	N/A	-74%	-77%
Net profit	(745)	380	244	420	1,448	1,042	N/A	-74%	-77%
EPS (RMB)	(1.92)	0.98	0.63	1.08	3.73	2.69	N/A	-74%	-77%
Gross Margin	80.00%	81.00%	82.00%	80.00%	81.00%	82.00%	0.00 ppt	0.00 ppt	0.00 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	160	1,916	1,647	1,100	2,663	3,230	-85%	-28%	-49%
Gross Profit	128	1,552	1,351	924	2,277	2,649	-86%	-32%	-49%
Operating Profit	(741)	453	291	(16)	699	1,268	N/A	-35%	-77%
Net profit	(745)	380	244	(60)	550	1,042	N/A	-31%	-77%
EPS (RMB)	(1.92)	0.98	0.63	(0.16)	1.42	2.69	N/A	-31%	-77%
Gross Margin	80.00%	81.00%	82.00%	84.00%	85.50%	82.00%	-4.00 ppt	-4.50 ppt	0.00 ppt

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	0	0	34	160	1,916	1,647
Cost of goods sold	0	0	0	(32)	(364)	(297)
Gross profit	0	0	34	128	1,552	1,351
Operating expenses	(247)	(414)	(886)	(922)	(1,124)	(1,085)
Selling expense	(0)	(9)	(15)	(48)	(475)	(407)
Admin expense	(33)	(77)	(103)	(124)	(149)	(178)
R&D expense	(214)	(329)	(768)	(750)	(500)	(500)
Operating profit	18	(90)	12	53	25	25
Other income	19	25	29	26	25	25
Other gains/(losses)	(1)	(116)	(17)	27	0	0
Net interest income/(expense)	(4)	(3)	(2)	(4)	(6)	(4)
Pre-tax profit	(233)	(508)	(842)	(745)	447	287
Income tax	0	(0)	0	0	(67)	(43)
Minority interest	0	0	0	0	0	0
Net profit	(233)	(508)	(842)	(745)	380	244

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	221	1,421	1,526	904	1,419	1,369
Cash & equivalents	196	1,066	930	734	781	748
Restricted cash	0	0	2	2	2	2
Account receivables	0	0	0	18	210	271
Inventories	0	0	351	22	249	179
ST bank deposits	0	323	125	125	125	125
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	25	32	118	4	52	45
Non-current assets	333	431	542	609	674	735
PP&E	98	175	224	295	363	428
Right-of-use assets	14	12	39	35	31	28
Intangibles	179	210	236	235	235	235
Other non-current assets	41	34	44	44	44	44
Total assets	553	1,851	2,068	1,514	2,093	2,105
Current liabilities	143	169	220	20	130	107
Short-term borrowings	59	84	7	7	7	7
Account payables	80	81	210	11	120	97
Other current liabilities	1	2	0	0	0	0
Lease liabilities	3	3	2	2	2	2
Non-current liabilities	41	174	193	493	493	193
Long-term borrowings	0	135	148	448	448	148
Deferred income	0	0	4	4	4	4
Other non-current liabilities	41	39	42	42	42	42
Total liabilities	184	344	413	513	623	300
Share capital	0	0	0	0	0	0
Other reserves	370	1,508	1,655	1,000	1,470	1,804
Total shareholders equity	370	1,508	1,655	1,000	1,470	1,804
Minority interest	0	0	0	0	0	0
Total equity and liabilities	553	1,851	2,068	1,514	2,093	2,105

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(233)	(508)	(842)	(745)	447	287
Depreciation & amortization	2	3	7	9	12	15
Tax paid	0	(0)	(1)	0	(67)	(43)
Change in working capital	0	(13)	(285)	226	(359)	(5)
Others	3	137	69	94	94	94
Net cash from operations	(228)	(381)	(1,051)	(416)	127	347
Investing						
Capital expenditure	(67)	(69)	(76)	(80)	(80)	(80)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	1	137	521	0	0	0
Others	60	(508)	(353)	0	0	0
Net cash from investing	(7)	(440)	92	(80)	(80)	(80)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	(6)	160	(64)	300	0	(300)
Proceeds from share issues	307	1,653	952	0	0	0
Others	(5)	(32)	(31)	0	0	0
Net cash from financing	296	1,780	857	300	0	(300)
Net change in cash						
Cash at the beginning of the year	138	196	1,066	930	734	781
Exchange difference	(3)	(91)	(36)	0	0	0
Cash at the end of the year	196	1,065	927	734	781	748
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	na	na	na	367.4%	1,097.3%	(14.0%)
Gross profit	na	na	na	273.9%	1,112.2%	(12.9%)
Operating profit	43.8%	na	na	340.1%	(52.4%)	0.3%
Net profit	na	na	na	na	na	(35.8%)
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	na	na	100.0%	80.0%	81.0%	82.0%
Operating margin	na	na	35.2%	33.2%	1.3%	1.5%
Return on equity (ROE)	(74.9%)	(54.1%)	(53.2%)	(56.1%)	30.8%	14.9%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Current ratio (x)	1.5	8.4	6.9	44.3	11.0	12.8
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	na	na	na	na	14.5	22.5

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

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