

Akeso (9926 HK)

Continued optimism on the global potential of Ivonescimab

- **Ivonescimab (AK112) has demonstrated an OS benefit trend over pembrolizumab in monotherapy.** In the head-to-head Ph3 HARMONi-2 study comparing Ivonescimab to pembrolizumab (Keytruda), Ivonescimab showed a notable efficacy advantage and was recently approved in China for first-line treatment of PD-L1 positive (TPS $\geq 1\%$) NSCLC. In the interim OS analysis conducted at 39% maturity, Ivonescimab achieved a hazard ratio (HR) of 0.777 versus pembrolizumab, reducing the risk of death by 22.3%. Although the interim analysis may not have reached statistical significance partly due to the very small alpha spending (0.0001), it suggests a favorable OS trend. Notably, the final OS analysis reserves a larger alpha (approximately 0.0207) with an HR threshold of 0.774, indicating a reasonable likelihood of achieving statistical significance in the final OS analysis.
- **Remain optimistic about Ivonescimab's global commercialization potential.** We believe Ivonescimab possesses strong potential for success in global markets. Summit is conducting the Ph3 HARMONi-7 study overseas, comparing Ivonescimab monotherapy with pembrolizumab in first-line NSCLC patients with PD-L1 TPS $\geq 50\%$. With a larger sample size (780 patients vs 398 in HARMONi-2), we believe HARMONi-7 has an even higher probability of demonstrating a statistically significant OS benefit. Domestically, Akeso's Ph3 HARMONi-6 trial evaluating Ivonescimab plus chemotherapy versus tislelizumab plus chemotherapy in first-line sq-NSCLC has shown strongly positive PFS results at the interim analysis, achieving statistical significance. Summit is also conducting the Ph3 HARMONi-3 trial overseas, evaluating Ivonescimab plus chemotherapy against pembrolizumab plus chemotherapy in a large patient population (1,080 patients) across both non-squamous and squamous NSCLC settings. Given the robust design and scale, we are optimistic about the trial's primary OS endpoint. Furthermore, Summit's Ph3 HARMONi trial targeting EGFR-TKI resistant NSCLC is expected to complete the interim data readout by mid-2025, which may provide data support for the drug's first global BLA.
- **Maintain BUY.** We are increasingly positive about the potential of Ivonescimab as a next-generation IO therapy. Following the inclusion of Ivonescimab and Cadonilimab in the NRDL earlier this year, we anticipate Akeso's product sales to grow by 60% YoY to RMB3.3bn in FY25. Additionally, we expect Akeso to pursue NDRL inclusion for AK101, AK102, and new indications of AK104 (1L GC), and AK112 (1L PD-L1+ NSCLC) late this year. We raise our target price from HK\$102.61 to HK\$108.03 given Ivonescimab's potential as the next-generation IO therapy (WACC: 9.17%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	4,526	2,124	3,385	5,072	8,110
YoY growth (%)	440.3	(53.1)	59.4	49.8	59.9
Net profit (RMB mn)	2,028.3	(501.0)	(191.9)	414.2	1,683.9
EPS (Reported) (RMB)	2.42	(0.59)	(0.21)	0.46	1.88
R&D expenses (RMB mn)	(1,254)	(1,188)	(1,306)	(1,394)	(1,937)
Admin expenses (RMB mn)	(200)	(204)	(317)	(466)	(650)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$108.03
(Previous TP)	HK\$102.61)
Up/Downside	23.9%
Current Price	HK\$87.20

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)	78,268.6
Avg 3 mths t/o (HK\$ mn)	1,002.8
52w High/Low (HK\$)	100.00/31.80
Total Issued Shares (mn)	897.6

Source: FactSet

Shareholding Structure

Yu Xia	12.1%
Baiyong Li	6.4%

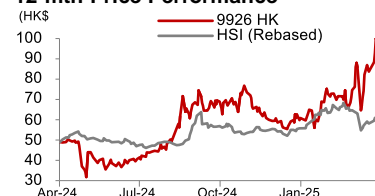
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	16.9%	24.6%
3-mth	43.3%	31.9%
6-mth	26.5%	18.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (RMB mn)	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	-296	411	1,937	3,258	4,987	6,787	8,289	9,701	10,308	10,736	10,669
Tax rate	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	-296	350	1,646	2,769	4,239	5,769	7,046	8,246	8,762	9,126	9,068
+ D&A	161	159	157	155	154	152	150	149	148	146	145
- Change in working capital	-93	-519	-85	-262	-348	-281	-166	-3	194	238	274
- Capex	-200	-100	-100	-100	-100	-100	-100	-100	-100	-100	-100
FCFF	-429	-110	1,619	2,563	3,945	5,540	6,930	8,292	9,004	9,410	9,387
Terminal value											156,796
FCF + Terminal value	-429	-110	1,619	2,563	3,945	5,540	6,930	8,292	9,004	9,410	166,183
Present value of enterprise (RMB mn)	87,578										
Net debt (RMB mn)	-2,542										
Non-controlling interests (RMB mn)	-60										
Equity value (RMB mn)	90,180										
No. of shares (mn)	898										
DCF per shares (RMB)	100.47										
DCF per shares (HK\$)	108.03										
Terminal growth rate	3.0%										
WACC	9.17%										
Cost of Equity	12.5%										
Cost of Debt	3.5%										
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\$)

Terminal growth rate	WACC				
	8.17%	8.67%	9.17%	9.67%	10.17%
4.0%	157.31	138.13	122.72	110.08	99.55
3.5%	144.12	127.97	114.73	103.69	94.35
3.0%	133.48	119.60	108.03	98.25	89.88
2.5%	124.72	112.59	102.34	93.57	86.00
2.0%	117.38	106.64	97.45	89.51	82.58

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	New			Old			Diff(%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	3,385	5,072	8,110	3,385	5,072	8,110	0%	0%	0%
Gross profit	2,762	4,175	6,891	2,762	4,175	6,891	0%	0%	0%
Operating profit	-296	411	1,937	-296	411	1,937	0%	0%	0%
Net profit	-192	414	1,684	-192	414	1,684	0%	0%	0%
EPS (RMB)	(0.21)	0.46	1.88	(0.21)	0.46	1.88	2%	0%	0%
Gross margin	81.59%	82.33%	84.96%	81.59%	82.33%	84.96%	+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(%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	3,385	5,072	8,110	3,555	5,539	7,997	-5%	-8%	1%
Gross profit	2,762	4,175	6,891	3,135	4,905	7,089	-12%	-15%	-3%
Operating profit	-296	411	1,937	115	1,089	2,523	NA	-62%	-23%
Net profit	-192	414	1,684	59	928	2,060	NA	-55%	-18%
EPS (RMB)	(0.21)	0.46	1.88	0.04	1.03	2.35	NA	-55%	-20%
Gross margin	81.59%	82.33%	84.96%	88.18%	88.55%	88.65%	-7.02 ppt	-6.94 ppt	-3.73 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	838	4,526	2,124	3,385	5,072	8,110
Cost of goods sold	(94)	(133)	(289)	(623)	(896)	(1,220)
Gross profit	744	4,393	1,835	2,762	4,175	6,891
Operating expenses	(2,122)	(2,363)	(2,268)	(2,876)	(3,587)	(4,766)
Selling expense	(553)	(890)	(1,002)	(1,335)	(1,804)	(2,266)
Admin expense	(199)	(200)	(204)	(317)	(466)	(650)
R&D expense	(1,323)	(1,254)	(1,188)	(1,306)	(1,394)	(1,937)
Others	(48)	(19)	125	82	77	88
Operating profit	(1,406)	1,862	(618)	(296)	411	1,937
Net Interest income/(expense)	(43)	(87)	(68)	(78)	(78)	(78)
Pre-tax profit	(1,422)	1,943	(501)	(192)	510	2,047
Income tax	0	(0)	0	0	(77)	(307)
After tax profit	(1,422)	1,942	(501)	(192)	434	1,740
Minority interest	(254)	(86)	0	0	20	56
Net profit	(1,168)	2,028	(501)	(192)	414	1,684

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	3,058	5,677	8,692	8,535	8,755	10,281
Cash & equivalents	2,092	1,542	4,418	3,994	3,868	5,144
Account receivables	271	296	525	656	1,002	1,449
Inventories	342	392	707	842	843	647
Prepayment	157	95	116	116	116	116
Financial assets at FVTPL	196	852	426	426	426	426
Other current assets	0	2,500	2,500	2,500	2,500	2,500
Non-current assets	2,437	3,504	4,063	4,102	4,043	3,986
PP&E	2,000	2,824	3,231	3,285	3,241	3,199
Right-of-use assets	163	338	320	304	289	274
Intangibles	8	6	12	12	12	12
Financial assets at FVTPL	10	12	16	16	16	16
Other non-current assets	256	30	87	87	87	87
Total assets	5,496	9,181	12,755	12,637	12,799	14,267
Current liabilities	1,361	1,205	1,687	1,761	1,489	1,554
Short-term borrowings	446	391	535	535	535	535
Account payables	309	355	425	499	227	292
Other current liabilities	600	445	716	716	716	716
Lease liabilities	6	15	10	10	10	10
Non-current liabilities	1,587	3,458	4,315	4,315	4,315	4,315
Long-term borrowings	1,421	2,577	3,406	3,406	3,406	3,406
Deferred income	160	240	290	290	290	290
Other non-current liabilities	6	9	1	1	1	1
Total liabilities	2,948	4,662	6,001	6,076	5,803	5,869
Share capital	0	0	0	0	0	0
Other reserves	2,636	4,692	6,814	6,622	7,036	8,383
Total shareholders equity	2,636	4,692	6,814	6,622	7,036	8,383
Minority interest	(88)	(174)	(60)	(60)	(41)	15
Total equity and liabilities	5,496	9,181	12,755	12,637	12,799	14,267

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(1,422)	1,943	(501)	(192)	510	2,047
Depreciation & amortization	106	143	159	161	159	157
Tax paid	0	0	0	0	(77)	(307)
Change in working capital	60	418	(123)	(93)	(519)	(85)
Others	16	(36)	(32)	(22)	(22)	(22)
Net cash from operations	(1,240)	2,468	(498)	(146)	52	1,790
Investing						
Capital expenditure	(776)	(719)	(300)	(200)	(100)	(100)
Net proceeds from disposal of short-term investments	(200)	(3,055)	0	0	0	0
Others	86	(223)	0	0	0	0
Net cash from investing	(890)	(3,997)	(300)	(200)	(100)	(100)
Financing						
Dividend paid	0	0	0	0	0	(337)
Net borrowings	1,005	1,099	400	0	0	0
Proceeds from share issues	495	(3)	2,878	0	0	0
Share repurchases	0	0	0	0	0	0
Others	(15)	(135)	(68)	(78)	(78)	(78)
Net cash from financing	1,486	961	3,210	(78)	(78)	(414)
Net change in cash						
Cash at the beginning of the year	2,642	2,092	1,542	4,418	3,994	3,868
Exchange difference	95	19	0	0	0	0
Cash at the end of the year	2,092	1,542	3,954	3,994	3,868	5,144
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	271.3%	440.3%	(53.1%)	59.4%	49.8%	59.9%
Gross profit	282.5%	490.8%	(58.2%)	50.5%	51.2%	65.0%
Operating profit	na	na	na	na	na	370.8%
Net profit	na	na	na	na	na	306.6%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	88.8%	97.1%	86.4%	81.6%	82.3%	85.0%
Operating margin	(167.9%)	41.1%	(29.1%)	(8.8%)	8.1%	23.9%
Return on equity (ROE)	(40.3%)	55.4%	(8.7%)	(2.9%)	6.1%	21.8%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	2.2	4.7	5.2	4.8	5.9	6.6
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	ns	33.8	ns	ns	177.5	43.6
P/B	26.5	15.2	10.3	11.2	10.5	8.8

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.