

# Kintor Pharmaceutical (9939 HK)

## Continue to pursue the development of proxalutamide for treatment of COVID-19

- Interim analysis of the outpatient MRCT trial did not meet the primary endpoint, while positive efficacy trend was observed.** Kintor released interim results of one of its three MRCT phase 3 trials which evaluates proxalutamide for COVID-19 outpatients (NCT04870606). As assessed by IDMC, statistical criteria were not met at the interim analysis due to limited number of hospitalization events, while positive efficacy trend was observed in the treatment group. More importantly, there were no safety concerns and no drug-related serious adverse events reported.
- IDMC suggested amendment of trial protocol to include more high-risk outpatients.** For this outpatient trial, Kintor will seek US FDA's consent to amend the protocol and enroll more high risk COVID-19 outpatients with multiple comorbidities and/or patients with no COVID-19 vaccination history. In parallel, Kintor is conducting another phase 3 MRCT of proxalutamide for COVID-19 outpatients (NCT04869228) with a different primary endpoint (percentage of subjects requiring oxygen by day 28, the study design expected to be amended as well). Additionally, another phase 3 MRCT for COVID-19 inpatients (NCT05009732) is also ongoing.
- Proxalutamide's aggressive study design and US-only patient enrollment have set a very high bar for success.** Unlike the outpatient trials of PAXLOVID and Molnupiravir which only enrolled unvaccinated patients with at least one risk factor, Kintor's study design includes vaccinated patients and patients with low risk of hospitalization, making it difficult to show statistical differences between the two treatment groups. We recall the MOONSONG trial of AT-527 from Atea/Roche failed to meet its primary endpoint, while 2/3 of the enrolled patients were low-risk, and the trial did not exclude vaccinated patients. Moreover, interim analysis of PAXLOVID's EPIC-SR study failed to meet its primary endpoint, and the trial included unvaccinated adults with low risk of hospitalization/death as well as vaccinated adults with one or more risk factors. Thus, we think the amendment of the protocol of Kintor's outpatient trial as proposed by IDMC will bring a better success chance. Moreover, all of the 348 patients included in the interim analysis were from the US, where the hospitalization rate was very low. In contrast, the outpatient trials of PAXLOVID and Molnupiravir enrolled only high-risk patients and a significant proportion of patients were from ex-US regions where the hospitalization rate was higher (only 41% of enrolled patients in PAXLOVID's EPIC-HR trial and 6% in Molnupiravir's MOVE-OUT trial were from the US). The placebo groups of EPIC-HR study and MOVE-OUT study had a high hospitalization of 6.4% and 9.7%, respectively. PAXLOVID's EPIC-SR study for standard-risk outpatients showed only 2.35% hospitalization rate in the placebo group.
- Maintain BUY.** We adjusted the probability of success of proxalutamide for COVID-19 treatment and revised down our DCF-based TP from HK\$98.07 to HK\$35.22 (WACC: 10.7%, terminal growth rate: 2.0%). We expect Pylrutamide to file NDA for treatment of androgenetic alopecia by end-2022E.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	0	0	0	23	1,019
Attributable net profit (loss) (RMB mn)	(233)	(508)	(682)	(718)	254
R&D expenses	(214)	(329)	(600)	(630)	(400)
EPS (RMB)	N/A	(1.64)	(1.76)	(1.85)	0.65
Consensus EPS (RMB)	N/A	N/A	(1.43)	11.33	6.16
ROE (%)	(63)	(34)	(38)	(68)	19
ROA (%)	(42)	(27)	(32)	(54)	15
Net gearing (%)	Net cash				
Current ratio (x)	1.5	8.4	9.5	8.0	6.3

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price	HK\$35.22
(Previous TP)	HK\$98.07)
Up/Downside	+162.84%
Current Price	HK\$13.40

### China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	5,194
Avg. 3mths t/o (HK\$ mn)	192.04
52W High/Low (HK\$)	89.00/6.91
Total Issued Shares (mn)	388

Source: Bloomberg

### Shareholding Structure

Management	24.30%
CloudAlpha	8.64%
Gree	6.77%
Others	60.29%

Source: HKEx, Bloomberg

### Share performance

	Absolute	Relative
1-mth	-21.1%	-18.2%
3-mth	-13.2%	-9.5%
6-mth	-23.5%	-3.5%

Source: Bloomberg

### 12-mth price performance



Source: Bloomberg

### Auditor: PWC

Web-site: [www.kintor.com.cn](http://www.kintor.com.cn)

### Related report:

- Proxalutamide expects to deliver differentiated clinical results compared with molnupiravir – 6 Oct 2021
- Multiple out-license collaborations for Proxalutamide – 30 Aug 2021
- Encouraging real-world data of proxalutamide in COVID-19 treatment in Paraguay – 26 Jul 2021
- Proxalutamide may become an effective treatment for COVID-19 – 4 May 2021

## Valuation

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(695)	(726)	296	355	850	1,108	1,400	1,759	2,079	2,435
Tax rate	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(695)	(726)	252	302	722	941	1,190	1,495	1,767	2,070
+ D&A	12	17	22	27	31	36	40	43	47	50
- Change in working capital	0	(51)	(96)	(94)	(113)	(98)	(86)	(97)	(102)	(110)
- Capex	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
<b>FCFF</b>	<b>(783)</b>	<b>(861)</b>	<b>78</b>	<b>134</b>	<b>541</b>	<b>779</b>	<b>1,043</b>	<b>1,341</b>	<b>1,612</b>	<b>1,909</b>
<b>Terminal value</b>										<b>22,322</b>
FCF + Terminal value	(783)	(861)	78	134	541	779	1,043	1,341	1,612	24,231
Present value of enterprise	9,983									
Net Debt	(1,346)									
Minorities	0									
Equity value (RMB mn)	11,329									
<b>Equity value (HK\$ mn)</b>	<b>13,650</b>									
<b>Equity value (US\$ mn)</b>	<b>1,761</b>									
<b>Target price (HK\$)</b>	<b>35.22</b>									
<b>Terminal growth rate</b>	<b>2.0%</b>									
<b>WACC</b>	<b>10.7%</b>									
Cost of Equity	13.5%									
Cost of Debt	5.0%									
Equity Beta	1.0									
Risk Free Rate	3.0%									
Market Risk Premium	10.5%									
Target Debt to Asset ratio	30.0%									
Effective Corporate Tax Rate	15.0%									

Source: CMBIS estimates

Figure 2: Sensitivity analysis (HK\$)

		WACC				
		9.7%	10.2%	10.7%	11.2%	11.7%
Terminal growth rate	3.0%	46.79	42.47	38.74	35.49	32.65
	2.5%	44.15	40.25	36.87	33.91	31.29
	2.0%	41.84	38.31	35.22	32.49	30.07
	1.5%	39.81	36.59	33.74	31.22	28.97
	1.0%	38.02	35.05	32.42	30.08	27.98

Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	0	23	1,019	0	10,132	8,351	N/A	-99.8%	-87.8%
Gross Profit	0	18	826	0	8,106	6,764	N/A	-99.8%	-87.8%
Operating Profit	(673)	(709)	307	(449)	6,934	5,912	50%	-110.2%	-94.8%
Net profit	(682)	(718)	254	(457)	5,887	5,018	49%	-112.2%	-94.9%
EPS (RMB)	(1.76)	(1.85)	0.65	(1.18)	15.19	12.95	49%	-112.2%	-94.9%
Gross Margin	N/A	80.00%	81.00%	N/A	80.00%	81.00%	N/A	0 ppt	0 ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	0	23	1,019	60	11,169	5,775	N/A	-100%	-82%
Gross Profit	0	18	826	54	9,216	4,772	N/A	-100%	-83%
Operating Profit	(673)	(709)	307	(545)	3,766	3,576	N/A	N/A	-97%
Net profit	(682)	(718)	254	(550)	4,527	2,403	N/A	N/A	-94%
EPS (RMB)	(1.76)	(1.85)	0.65	(1.43)	11.33	6.16	N/A	N/A	-94%
Gross Margin	N/A	80.00%	81.00%	90.00%	82.52%	82.63%	N/A	-2.52 ppt	-1.63 ppt
Operating Margin	N/A	-3102.87%	30.16%	-909.05%	33.72%	61.92%	N/A	N/A	-59.27 ppt
Net Margin	N/A	-3141.68%	24.90%	-916.46%	40.53%	41.61%	N/A	N/A	-14.03 ppt

Source: Company data, CMBIS estimates

## Financial Statements

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>23</b>	<b>1,019</b>	<b>Profit before tax</b>	<b>(233)</b>	<b>(508)</b>	<b>(682)</b>	<b>(718)</b>	<b>299</b>
Proxalutamide China sales - risk adjusted	0	0	0	23	142	Depreciation and amortization, etc.	5	7	12	17	22
Proxalutamide US sales - risk adjusted	0	0	0	0	806	Change in working capital	0	(13)	0	(51)	(96)
Pyirilutamide China sales - risk adjusted	0	0	0	0	71	Others	(0)	134	(1)	(1)	(45)
Pyirilutamide US sales - risk adjusted	0	0	0	0	0	Net income tax paid	0	(0)	0	0	(45)
ALK-1 China sales - risk adjusted	0	0	0	0	0	<b>Operating cash flow</b>	<b>(228)</b>	<b>(381)</b>	<b>(671)</b>	<b>(753)</b>	<b>179</b>
Others	0	0	0	0	0	Purchase of PP&E	(67)	(69)	(100)	(100)	(100)
Cost of sales	0	0	0	(5)	(194)	Purchase of land use right	0	0	0	0	0
<b>Gross profit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>18</b>	<b>826</b>	Purchases of financial assets at FV through profit or loss	0	(253)	0	0	0
Other income	19	25	37	32	26	Purchases of financial assets measured at amortized cost	(55)	0	0	0	0
Selling & distribution expenses	(33)	(77)	(110)	(120)	(80)	Others	115	(118)	0	0	0
R&D expenses	(214)	(329)	(600)	(630)	(400)	<b>Investing cash flow</b>	<b>(7)</b>	<b>(440)</b>	<b>(100)</b>	<b>(100)</b>	<b>(100)</b>
Administrative expenses	(0)	(9)	0	(9)	(64)	Proceeds from borrowings	59	239	0	0	0
Other expenses	(1)	(116)	0	0	0	Repayments of borrowings	(65)	(79)	0	0	0
<b>Operating profit (loss)</b>	<b>(229)</b>	<b>(505)</b>	<b>(673)</b>	<b>(709)</b>	<b>307</b>	Capital contribution from equity holders	348	1,653	950	0	0
Finance costs	(4)	(3)	(9)	(9)	(9)	Others	(46)	(32)	0	0	0
<b>Pre-tax profit (loss)</b>	<b>(233)</b>	<b>(508)</b>	<b>(682)</b>	<b>(718)</b>	<b>299</b>	<b>Financing cash flow</b>	<b>296</b>	<b>1,780</b>	<b>950</b>	<b>0</b>	<b>0</b>
Income tax	0	(0)	0	0	(45)	FX changes	(3)	(91)	0	0	0
Minority interests	0	0	0	0	0	Net change in cash	61	960	179	(853)	79
<b>Attributable net profit (loss)</b>	<b>(233)</b>	<b>(508)</b>	<b>(682)</b>	<b>(718)</b>	<b>254</b>	Cash at the beginning year	138	196	1,066	1,245	392
						<b>Cash at the end</b>	<b>196</b>	<b>1,065</b>	<b>1,245</b>	<b>392</b>	<b>471</b>

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>333</b>	<b>431</b>	<b>520</b>	<b>603</b>	<b>682</b>	<b>Sales mix (%)</b>					
PP&E	98	175	265	350	429	Proxalutamide China sales adjusted	0	0	0	100	14
Intangible assets	179	210	210	209	209	Proxalutamide US sales	0	0	0	0	79
Right-of-use assets	14	12	11	10	9	Pyirilutamide China sales - adjusted	0	0	0	0	7
Other non-current assets	41	34	34	34	34	Pyirilutamide US sales	0	0	0	0	0
						ALK-1 China sales -	0	0	0	0	0
<b>Current assets</b>	<b>221</b>	<b>1,421</b>	<b>1,598</b>	<b>718</b>	<b>956</b>	Others	0	0	0	0	0
Inventories	0	0	0	0	21	Total	100	100	100	100	100
Trade receivables	0	0	0	2	112						
Other receivables and prepayments	25	32	30	1	28	<b>Profit &amp; loss ratios (%)</b>					
Financial assets at FV through P&L	0	0	0	0	0	Gross margin	N/A	N/A	80	80	81
Cash and cash equivalents	196	1,066	1,245	392	471	EBITDA margin	N/A	N/A	N/A	N/A	31
Restricted cash	0	0	0	0	0	Pre-tax margin	N/A	N/A	N/A	N/A	29
						Net margin	N/A	N/A	N/A	N/A	25
<b>Non-current liabilities</b>	<b>41</b>	<b>174</b>	<b>174</b>	<b>174</b>	<b>174</b>	Effective tax rate	0	0	0	0	15
Borrowings	0	135	135	135	135						
Lease liabilities	2	0	0	0	0	<b>Balance sheet ratios</b>					
Deferred income tax liabilities	39	39	39	39	39	Current ratio (x)	2	8	10	8	6
						Net debt to equity (%)	Net cash				
<b>Current liabilities</b>	<b>143</b>	<b>169</b>	<b>168</b>	<b>89</b>	<b>152</b>						
Trade and other payables	80	81	80	2	64	<b>Returns (%)</b>					
Borrowings	59	84	84	84	84	ROE	-63	-34	-38	-68	19
Lease liabilities	3	3	3	3	3	ROA	-42	-27	-32	-54	15
Deferred income	1	0	0	0	0						
Amounts due to related parties	0	1	1	1	1	<b>Per share value</b>					
						EPS (RMB)	N/A	(1.64)	(1.76)	(1.85)	0.65
<b>Total net assets</b>	<b>370</b>	<b>1,508</b>	<b>1,776</b>	<b>1,058</b>	<b>1,312</b>	DPS (RMB)	N/A	0.00	0.00	0.00	0.00
Minority interest	0	0	0	0	0	BVP (RMB)	N/A	4.87	4.58	2.73	3.38
<b>Shareholders' equity</b>	<b>370</b>	<b>1,508</b>	<b>1,776</b>	<b>1,058</b>	<b>1,312</b>						

Source: Company data, CMBIS estimates

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