

Shanghai Henlius Biotech, Inc. (2696 HK)

More product approvals in coming months

- Sales of HLX01 to ramp up thanks to the release of capacity bottleneck.** In Apr 2020, Henlius received NMPA's approval for HLX01 (Hanlikang, Rituximab) for the additional 2,000L drug substance production scale and 2,000L production equipment. Thus, the total production capacity of HLX01 will be lifted from the previous 2,000L to 14,000L. In addition, HLX01 recently received NMPA's approval for a new 500mg package while previously HLX01 only obtained approval for 100mg package. HLX01 will enjoy more significant pricing advantages by offering both 500mg and 100mg packages. We expect attributable sales from HLX01 to pick up from RMB79mn in 2019 to RMB264mn in 2020E.
- HLX02 to receive approvals from EMA and NMPA in 2020E and HLX03 to receive NMPA's approval in 2020E.** In Apr 2020, Henlius' biopharmaceutical manufacturing facility of HLX02 (trastuzumab) in Xuhui, Shanghai, has passed the GMP inspection by the EU, making Henlius the second domestic company receiving EU's GMP approval. We expect HLX02 to receive EU MAA approval for commercialization in 2020E. In addition, we forecast HLX02 and HLX03 (adalimumab) to receive approvals from NMPA in 2020E. The Company also accelerated clinical development for HLX10 (PD-1 antibody) 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. By end-2020E, Henlius may file the NDA for HLX10 to NMPA for treatment of MSI-H solid tumors and the NDA for HLX04 (bevacizumab) to the NMPA, in our view.
- Maintain BUY.** Henlius kicked off STAR board (A share) listing in March 2020. Upon completion of A share listing, Henlius will have rich capital to fund future R&D activities. Our TP of H\$57.21 is 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 in-house 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	1,444	2,818
YoY growth (%)	-78%	1125%	576%	135%	95%
Net profit (RMB mn)	(494)	(875)	(772)	(262)	616
YoY growth (%)	N/A	N/A	N/A	N/A	N/A
EPS (RMB)	(1.16)	(1.76)	(1.42)	(0.48)	1.13
Change (%)	N/A	N/A	N/A	N/A	N/A
Consensus EPS (RMB)	N/A	N/A	(1.23)	(0.45)	0.79
ROE (%)	(27.4)	(21.9)	(23.9)	(8.8)	17.2
ROA (%)	(16.0)	(14.8)	(14.6)	(4.3)	8.8
Net gearing (%)	Net cash	Net cash	11	48	39
Current ratio (x)	2.0	2.8	1.1	1.1	1.5

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$57.21**
 (Previous TP **HK\$57.21**)
 Up/Downside **+25.1%**
 Current Price **HK\$45.75**

China Healthcare Sector

Jill Wu, CFA
 (852) 3900 0842
 jillwu@cmbi.com.hk

Sam HU, PhD
 Tel: (852) 3900 0882
 samhu@cmbi.com.hk

Amy Ge
 (852) 3761 8778
 amyge@cmbi.com.hk

Mkt. Cap. (HK\$ mn)	24,865
Avg. 3mths t/o (HK\$ mn)	1.74
52W High/Low (HK\$)	50.9/29.8
Total Issued Shares (mn)	163

Source: Bloomberg

Shareholding Structure

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

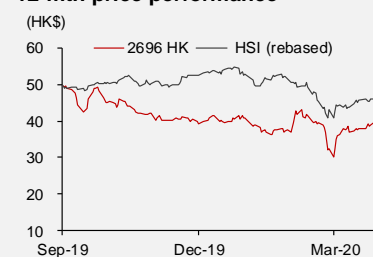
Source: Bloomberg

Share performance

	Absolute	Relative
1-mth	30.9%	29.2%
3-mth	12.1%	31.5%
6-mth	1.0%	13.0%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

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

Related Reports

- Rich R&D progress – 25 Mar 2020
- Affordable innovation for global market – 8 Nov 2019

Figure 1: CMBIS earnings revisions

(RMB mn)	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	615	1,444	615	1,461	0.0%	-1.2%
Gross profit	372	986	372	1,003	0.0%	-1.7%
Operating profit	(737)	(167)	(766)	(218)	N/A	N/A
Net profit	(772)	(262)	(802)	(298)	N/A	N/A
EPS (RMB)	(1.42)	(0.48)	(1.47)	(0.55)	N/A	N/A
Gross margin	60.49%	68.28%	60.49%	68.65%	+0.00ppt	-0.37ppt
Operating margin	-119.84%	-11.57%	-124.55%	-14.92%	+4.72ppt	+3.36ppt
Net Margin	-125.53%	-18.14%	-130.41%	-20.40%	+4.88ppt	+2.25ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

(RMB mn)	CMBI		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	615	1,444	671	1,668	-8.4%	-13.4%
Gross profit	372	986	412	1,168	-9.6%	-15.6%
Operating profit	(737)	(167)	(612)	(161)	N/A	N/A
Net profit	(772)	(262)	(671)	(245)	N/A	N/A
EPS (RMB)	(1.42)	(0.48)	(1.23)	(0.45)	N/A	N/A
Gross margin	60.49%	68.28%	61.31%	70.05%	-0.82ppt	-1.77ppt
Operating margin	-119.84%	-11.57%	-91.10%	-9.65%	-28.74ppt	-1.91ppt
Net Margin	-125.53%	-18.14%	-100.01%	-14.66%	-25.52ppt	-3.49ppt

Source: Company data, CMBIS estimates

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	7	91	615	1,444	2,818
Drug sales	-	79	588	1,339	2,647
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	986	2,227
Distribution expenses	-	(46)	(112)	(292)	(668)
Administrative expenses	(109)	(175)	(147)	(161)	(212)
R&D expenses	(365)	(608)	(850)	(700)	(550)
Operating profit	(472)	(809)	(737)	(167)	798
Finance income/ (cost)	(58)	(48)	(55)	(115)	(133)
Exceptional	30	(17)	19	19	19
Pre-tax profit	(500)	(875)	(772)	(262)	685
Profit tax	(5)	(1)	-	-	(68)
Minority interest	11	-	-	-	-
Net profit	(494)	(875)	(772)	(262)	616

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
PBT	(500)	(875)	(772)	(262)	685
Depreciation & amortization	10	51	150	195	226
Change in working capital	302	153	(140)	(53)	(33)
Income tax paid	(5)	(1)	-	-	(68)
Others	140	228	82	142	160
Net cash from operating activities	(52)	(443)	(680)	22	969
Capex	(137)	(289)	(500)	(400)	(300)
Acquisition of intangible asset	(598)	(632)	(800)	(600)	(500)
Other	-	(212)	-	-	-
Net cash from investing activities	(735)	(1,133)	(1,300)	(1,000)	(800)
Loan to related party	(575)	-	-	-	-
Net proceeds from shares issued	2,639	2,950	-	-	-
Bank borrowing	296	51	300	1,000	300
Acquisition of non-controlling	(635)	-	-	-	-
Interest paid	(45)	(35)	(55)	(115)	(133)
Net cash from financing activities	1,679	2,966	245	885	167
Net change in cash	892	1,390	(1,734)	(93)	337
Cash at the beginning	59	959	2,301	567	474
Exchange difference	9	(30)	-	-	-
Cash at the end	959	2,319	567	474	811

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	2,008	3,239	4,361	5,139	5,685
Fixed asset	324	501	951	1,256	1,430
Intangible assets	1,383	2,175	2,875	3,375	3,775
Other non-current assets	301	563	536	508	480
Current assets	1,087	2,661	906	938	1,351
Cash	959	2,301	567	474	811
Inventories	25	130	60	113	146
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	1,240	2,240	2,540
Borrowings	385	331	631	1,631	1,931
Other non-current liabilities	373	609	609	609	609
Total net assets	1,803	4,000	3,229	2,966	3,582
Minority interest	-	-	-	-	-
Shareholders' equity	1,803	4,000	3,229	2,966	3,582

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Drug sales	-	86.8	95.6	92.7	93.9
BD sales	-	3.7	3.1	6.7	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	68	79
EBITDA margin	(5,969)	(803)	(91)	4	37
Pre-tax margin	(6,741)	(962)	(126)	(18)	24
Net margin	(6,653)	(963)	(126)	(18)	22
Effective tax rate	(1)	(0)	-	-	10
Balance sheet ratios					
Current ratio (x)	2.0	2.8	1.1	1.1	1.5
Trade receivables turnover days	115	50	50	50	50
Trade payables turnover days	799	120	120	120	120
Inventory turnover days	90	90	90	90	90
Net debt to total equity ratio (%)	Net	Net	10.5	48.3	38.9
Returns (%)					
ROE	(27.4)	(21.9)	(23.9)	(8.8)	17.2
ROA	(16.0)	(14.8)	(14.6)	(4.3)	8.8
Per share data					
EPS (RMB)	(1.16)	(1.76)	(1.42)	(0.48)	1.13
DPS (RMB)	-	-	-	-	-
BVPS (RMB)	4.2	8.0	5.9	5.5	6.6

Source: Company data, CMBIS estimates

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CMB International Securities Limited

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

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