

# Kintor Pharmaceutical (9939 HK)

## Proxalutamide's 2L+ mCRPC Phase III trial needs to wait for OS data

- Kintor announced Phase III clinical trial of Proxalutamide monotherapy on 2L+ mCRPC didn't meet interim rPFS endpoint, and need to wait for the OS endpoint.** The double-blind, placebo-controlled phase III trial started patient enrollment in Sep 2018 and completed the enrollment in Aug 2020. A total of 330 eligible patients were randomly assigned to the test group and the control group in the proportion of 2:1. Radiographic progression free survival (rPFS) and overall survival time (OS) are the co-primary endpoints and either of them reaches statistical significance can be used for filing new drug application (NDA) to the NMPA. In Sep 2020, the independent data monitoring committee (IDMC) confirmed that interim rPFS data didn't reach statistical significance. Kintor will continue the study and target to submit the NDA to the NMPA for Proxalutamide in 1H21E based on the final analysis of OS endpoint.
- Proxalutamide's multiple trials in China and the US are progressing smoothly.** The Phase III trial assessing Proxalutamide in combination with abiraterone in treating 1L mCRPC in China has enrolled around half of the total 606 patients. We expect Kintor to file NDA for 1L mCRPC indication to the NMPA by end-2021E. In Jul 2020, Kintor finished the patient enrollment for Proxalutamide Phase II trial in the US targeting mCRPC patients failed either Abiraterone or Enzalutamide. Kintor targets to complete this phase II trial in the US by end-2020E. In addition, the phase Ic trial of Proxalutamide in combination with Exemestane, Letrozole and Fulvestrant in AR+ metastatic breast cancer has completed patient enrollment in Jun 2020. Moreover, Proxalutamide is under clinical trial in Brazil for COVID-19 with first patient enrolled on 20 Aug. 381 male study subjects aged 50 years or above and present with androgenetic alopecia are estimated to be enrolled in the study with 127 patients in each of the Dutasteride Arm, the Proxalutamide Arm and the Controlled Arm, respectively. This trial may complete by Jan 2021E.
- Rich pipeline progress.** On 3 Aug, Kintor completed the phase Ib clinical trials of Ppyrilutamide in the US with data to be released in 4Q20E. Ppyrilutamide's phase II trial on androgenetic alopecia may start in 3Q20E in China. On 17 Sep, Kintor obtained the IND approval of Ppyrilutamide gel formula for acne vulgaris from the NMPA while the study may start in 1Q21E. On 20 Aug, Kintor obtained from Gensun an exclusive license of a pre-clinical stage PD-L1/ TGF- $\beta$  bispecific antibody (GS19 PLB-1C).
- Maintain BUY.** To reflect the delay in Proxalutamide's 2L+ mCRPC indication approval in China, we revised our 10-year DCF model (WACC: 11.8%, terminal growth rate: 2.0%) and derived TP of HK\$19.38. We remain positive given Kintor's robust pipelines including Proxalutamide, Ppyrilutamide, ALK1 antibody, PD-L1/ TGF- $\beta$  bispecific antibody, AR degrader (PROTAC), etc.
- Risks:** Delay in pipeline progress; Competition from peers.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1	0	0	0	72
Attributable net profit (loss) (RMB mn)	(108)	(233)	(404)	(269)	5
R&D expenses	(93)	(214)	(320)	(300)	(40)
EPS	N/A	N/A	(1.09)	(0.73)	0.01
ROE (%)	(43)	(63)	(25)	(20)	0
ROA (%)	(26)	(42)	(23)	(19)	0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	2.0	1.5	15.3	13.5	12.1

Source: Company data, CMBIS estimates

**BUY (Maintain)**

Target Price	HK\$19.38
(Previous TP)	HK\$27.6)
Up/Downside	+103.2%
Current Price	HK\$9.54

### China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	3,524
Avg. 3mths t/o (HK\$ mn)	19.56
52W High/Low (HK\$)	22.95/9.33
Total Issued Shares (mn)	369

Source: Bloomberg

### Shareholding Structure

Management	34.03%
Pre-IPO & corner stone investors	34.07%
Free float	31.90%

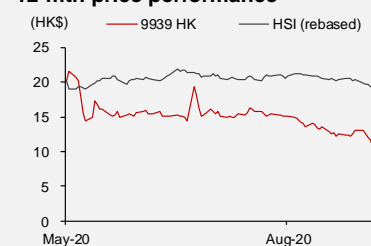
Source: HKEx, Bloomberg

### Share performance

	Absolute	Relative
1-mth	-24.8%	-18.2%
3-mth	-31.2%	-27.3%
6-mth	N/A	N/A

Source: Bloomberg

### 12-mth price performance



Source: Bloomberg

### Auditor: Ernst & Young

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

### Related report:

Specializing in AR-related innovative therapies – 24 Jul 2020

## Valuation

We use DCF method to value the Company and we derive TP of HK\$19.38 based on 10-year risk-adjusted DCF model (WACC: 11.8%, terminal growth rate: 2.0%).

**Figure 1: Risk-adjusted DCF valuation**

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(282)	(4)	110	420	783	989	1,106	1,201	1,278	1,335
Tax rate	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(282)	(4)	94	357	666	841	940	1,021	1,086	1,135
+ D&A	17	26	29	32	35	38	41	43	46	48
- Change in working capital	(10)	(14)	(56)	(143)	(181)	(97)	(40)	(40)	(29)	(19)
- Capex	(150)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)
<b>FCFF</b>	<b>(425)</b>	<b>(72)</b>	<b>(13)</b>	<b>166</b>	<b>440</b>	<b>701</b>	<b>861</b>	<b>944</b>	<b>1,023</b>	<b>1,084</b>
<b>Terminal value</b>										<b>11,315</b>
FCF + Terminal value	(425)	(72)	(13)	166	440	701	861	944	1,023	12,400
Present value of enterprise	5,502									
Net Debt	(779)									
Minorities	0									
Equity value (RMB mn)	6,281									
<b>Equity value (HK\$ mn)</b>	<b>7,159</b>									
<b>Equity value (US\$ mn)</b>	<b>924</b>									
<b>Target price (HK\$)</b>	<b>19.38</b>									
<b>Terminal growth rate</b>	<b>2.0%</b>									
<b>WACC</b>	<b>11.8%</b>									
Cost of Equity	15.0%									
Cost of Debt	5.0%									
Equity Beta	1.2									
Risk Free Rate	3.0%									
Market Risk Premium	10.0%									
Target Debt to Asset ratio	30.0%									
Effective Corporate Tax Rate	15.0%									

Source: CMBIS estimates

**Figure 2: Sensitivity analysis (HK\$)**

		WACC				
		10.8%	11.3%	11.8%	12.3%	12.8%
<b>Terminal growth rate</b>	<b>3.0%</b>	24.3	22.4	20.8	19.4	18.1
	<b>2.5%</b>	23.3	21.6	20.1	18.7	17.5
	<b>2.0%</b>	22.4	20.8	<b>19.4</b>	18.1	17.0
	<b>1.5%</b>	21.5	20.1	18.8	17.6	16.5
	<b>1.0%</b>	20.8	19.4	18.2	17.1	16.1

Source: Company data, CMBIS estimates

Figure 3: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	0	0	72	0	104	382	N/A	-100%	-81%
Gross Profit	0	0	58	0	72	306	N/A	-100%	-81%
Operating Profit	(402)	(267)	8	(402)	(310)	(88)	N/A	N/A	N/A
Net profit	(404)	(269)	5	(405)	(312)	(91)	N/A	N/A	N/A
EPS (RMB)	(1.09)	(0.73)	0.01	(1.10)	(0.85)	(0.25)	N/A	N/A	N/A
Gross Margin	N/A	N/A	80.00%	N/A	69.23%	80.10%	N/A	N/A	-0.10ppt
Operating Margin	N/A	N/A	11.09%	N/A	-297.85%	-23.05%	N/A	N/A	+34.14ppt
Net Margin	N/A	N/A	7.55%	N/A	-300.32%	-23.72%	N/A	N/A	+31.27ppt

Source: Company, CMBIS estimates

Figure 4: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	0	0	72	1	161	664	-100%	-100%	-89%
Gross Profit	0	0	58	1	134	573	-100%	-100%	-90%
Operating Profit	(402)	(267)	8	(295)	(392)	9	N/A	N/A	N/A
Net profit	(404)	(269)	5	(345)	(390)	11	N/A	N/A	N/A
EPS (RMB)	(1.09)	(0.73)	0.01	(7.97)	(8.10)	1.12	N/A	N/A	N/A
Gross Margin	N/A	N/A	80.00%	83.50%	83.00%	86.33%	N/A	N/A	-6.33 ppt
Operating Margin	N/A	N/A	11.09%	-29475.00%	-243.32%	1.36%	N/A	N/A	+9.73 ppt
Net Margin	N/A	N/A	7.55%	-34480.00%	-242.21%	1.71%	N/A	N/A	+5.84. ppt

Source: Company, CMBIS estimates

## Financial Statements

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>72</b>
Proxalutamide China sales – risk adjusted	0	0	0	0	0
Proxalutamide US sales - risk adjusted	0	0	0	0	0
Pyrilutamide China sales - risk adjusted	0	0	0	0	0
Pyrilutamide US sales - risk adjusted	0	0	0	0	0
ALK-1 China sales - risk adjusted	0	0	0	0	0
Others	0	0	0	0	0
Cost of sales	(1)	0	0	0	(14)
<b>Gross profit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>58</b>
Other income	12	19	28	33	30
Selling & distribution expenses	(24)	(33)	(100)	0	(14)
R&D expenses	(93)	(214)	(320)	(300)	(40)
Administrative expenses	0	0	(10)	0	(25)
Other expenses	1	(1)	0	0	0
<b>Operating profit (loss)</b>	<b>(104)</b>	<b>(229)</b>	<b>(402)</b>	<b>(267)</b>	<b>8</b>
Finance costs	(4)	(4)	(3)	(3)	(3)
<b>Pre-tax profit (loss)</b>	<b>(108)</b>	<b>(233)</b>	<b>(404)</b>	<b>(269)</b>	<b>5</b>
Income tax	0	0	0	0	0
Minority interests	0	0	0	0	0
<b>Attributable net profit (loss)</b>	<b>(108)</b>	<b>(233)</b>	<b>(404)</b>	<b>(269)</b>	<b>5</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Profit before tax</b>	<b>(108)</b>	<b>(233)</b>	<b>(404)</b>	<b>(269)</b>	<b>5</b>
Depreciation and amortization, etc.	2	5	9	17	26
Change in working capital	(4)	0	(45)	(10)	(14)
Others	(5)	(0)	0	0	0
Net income tax paid	0	0	0	0	0
<b>Operating cash flow</b>	<b>(115)</b>	<b>(228)</b>	<b>(440)</b>	<b>(262)</b>	<b>17</b>
Purchase of PP&E	(5)	(67)	(150)	(150)	(80)
Purchase of land use right	0	0	0	0	0
Purchases of financial assets at FV through profit or loss	(51)	0	0	0	0
Purchases of financial assets measured at amortized cost	(170)	(55)	0	0	0
Others	162	115	0	0	0
<b>Investing cash flow</b>	<b>(65)</b>	<b>(7)</b>	<b>(150)</b>	<b>(150)</b>	<b>(80)</b>
Proceeds from borrowings	75	59	0	0	0
Repayments of borrowings	(55)	(65)	0	0	0
Capital contribution from equity holders	287	348	1,650	0	0
Others	(3)	(46)	0	0	0
<b>Financing cash flow</b>	<b>304</b>	<b>296</b>	<b>1,650</b>	<b>0</b>	<b>0</b>
FX changes	0	(3)	0	0	0
Net change in cash	124	61	1,060	(412)	(63)
Cash at the beginning year	13	138	196	1,255	843
<b>Cash at the end</b>	<b>138</b>	<b>196</b>	<b>1,255</b>	<b>843</b>	<b>781</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>205</b>	<b>333</b>	<b>474</b>	<b>607</b>	<b>661</b>
PP&E	9	98	242	378	435
Intangible assets	172	179	179	179	179
Right-of-use assets	14	14	12	9	6
Other non-current assets	10	41	41	41	41
<b>Current assets</b>	<b>218</b>	<b>221</b>	<b>1,265</b>	<b>843</b>	<b>798</b>
Inventories	0	0	0	0	2
Trade receivables	0	0	0	0	12
Other receivables and prepayments	14	25	10	0	3
Financial assets at FV through P&L	0	0	0	0	0
Cash and cash equivalents	138	196	1,255	843	781
Restricted cash	67	0	0	0	0
<b>Non-current liabilities</b>	<b>64</b>	<b>41</b>	<b>41</b>	<b>41</b>	<b>41</b>
Borrowings	22	0	0	0	0
Lease liabilities	3	2	2	2	2
Deferred income tax liabilities	39	39	39	39	39
<b>Current liabilities</b>	<b>108</b>	<b>143</b>	<b>83</b>	<b>63</b>	<b>66</b>
Trade and other payables	18	80	20	0	4
Borrowings	43	59	59	59	59
Lease liabilities	2	3	3	3	3
Deferred income	1	1	1	1	1
Amounts due to related parties	44	0	0	0	0
<b>Total net assets</b>	<b>252</b>	<b>370</b>	<b>1,615</b>	<b>1,346</b>	<b>1,352</b>
Minority interest	0	0	0	0	0
<b>Shareholders' equity</b>	<b>252</b>	<b>370</b>	<b>1,615</b>	<b>1,346</b>	<b>1,352</b>

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Proxalutamide China sales adjusted	0	0	0	0	47
Proxalutamide US sales	0	0	0	0	0
Pyrilutamide China sales - adjusted	0	0	0	0	53
Pyrilutamide US sales	0	0	0	0	0
ALK-1 China sales -	0	0	0	0	0
Others	0	0	0	0	0
Total	100	100	100	100	100
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	N/A	N/A	N/A	70	80
EBITDA margin	N/A	N/A	N/A	N/A	30
Pre-tax margin	N/A	N/A	N/A	N/A	8
Net margin	N/A	N/A	N/A	N/A	8
Effective tax rate	0	0	0	0	0
<b>Balance sheet ratios</b>					
Current ratio (x)	2	2	15	13	12
Net debt to equity (%)	Net	Net	Net	Net	Net
<b>Returns (%)</b>					
ROE	-43	-63	-25	-20	0
ROA	-26	-42	-23	-19	0
<b>Per share value</b>					
EPS (RMB)	N/A	N/A	(1.09)	(0.73)	0.01
DPS (RMB)	N/A	N/A	0.00	0.00	0.00
BVP (RMB)	N/A	N/A	4.37	3.64	3.66

Source: Company data, CMBIS estimates

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