

RemeGen (9995 HK)

Awaiting the fruition of overseas BD collaborations

RemeGen recorded RMB1.08bn of revenue in FY23, including RMB1.05bn from product sales (+42% YoY), contributed equally by RC18 and RC48. In FY23, GP margin (vs product sales) increased to 76.9% (vs 63.4% in FY22). Selling expense ratio (vs product sales) increased from 60% in FY22 to 74% in FY23, mainly due to an increase in sales headcount. In FY23, R&D expenses rose by 33% YoY to RMB1,306mn, due to the spending in late-stage trials. RemeGen recorded a wider attributable net loss of RMB1,511mn in FY23 (vs RMB999mn in FY22). As of end-2023, RemeGen had a cash balance of RMB727mn, and mgmt. claimed about RMB4.4bn in bank credit. Mgmt. believes that the current funding levels will sustain business operations for a minimum of two years. Additionally, RemeGen recently announced plans to raise up to RMB2.55bn by issuing additional A-shares.

- Expect sales to ramp-up quickly in 2024.** RemeGen set a FY24 product sales target of at least a 50% YoY increase. We remain positive toward the guidance because: 1) sales of both RC18 and RC48 have performed strongly YTD as per mgmt; 2) the newly added salesforce in 2023 may start to contribute significantly to sales in 2024; and 3) the inclusion of RC18 in over 300 new top-grade hospitals and RC48 in over 200 new top-grade hospitals in 2023 should boost product sales. We expect RC18 and RC48 to experience an uptake in FY24, with RC18 taking a slight lead.
- Looking forward to next step of RC18's global development.** The first stage of RC18's Ph3 global SLE trial has completed enrolment of 90 patients. RemeGen is internally discussing whether to unblind the first-stage study or keep it blinded as part of the second stage. The company expects to start enrolling for the second stage of the Ph3 study by mid-2024, which will be followed by another Ph3 study as required by the FDA. If the data from the first-stage study are released, we believe it could serve as a strong catalyst for RC18's global development strategy and potential out-licensing deals. If kept blinded, it could expedite RC18's global development. Additionally, a Ph3 trial of RC18 in MG is ongoing in the US with a Ph3 pSS trial in planning.
- Awaiting overseas BD collaborations.** We believe that RC18 remains the foremost candidate for international BD partnerships. We think RC18 could still be the top priority of overseas BD collaboration. RC88 (MSLN ADC) received a fast track designation from the FDA, with PoC data to be released at ASCO in Jun. RemeGen plans to start a Ph2 MRCT study in the US, EU, China, etc. The prospects for RC88 to secure an out-licensing agreement are promising. We think that revenue streams from such BD collaborations will play a crucial role in underpinning RemeGen's robust growth trajectory.
- Maintain BUY.** We expect RC18 and RC48 to regain strong sales momentum in 2024 and beyond. We revise our DCF-based TP from HK\$57.65 to HK\$41.72 (WACC: 11.33%, terminal growth rate: 2.0%).

Earnings Summary

| (YE 31 Dec) | FY22A | FY23A | FY24E | FY25E | FY26E |
|-------------------------|---------|-----------|-----------|-----------|---------|
| Revenue (RMB mn) | 768 | 1,076 | 1,601 | 2,695 | 3,954 |
| YoY growth (%) | (46.1) | 40.2 | 48.8 | 68.3 | 46.7 |
| Net profit (RMB mn) | (998.8) | (1,511.2) | (1,451.0) | (1,069.8) | (361.6) |
| EPS (Reported) (RMB) | (1.88) | (2.80) | (2.67) | (1.96) | (0.66) |
| R&D expenses (RMB mn) | (982) | (1,306) | (1,306) | (1,250) | (1,384) |
| Admin expenses (RMB mn) | (273) | (314) | (400) | (512) | (633) |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$41.72**
 (Previous TP) HK\$57.65
Up/Downside **53.7%**
Current Price **HK\$27.15**

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) | 14,778.6 |
| Avg 3 mths t/o (HK\$ mn) | 69.2 |
| 52w High/Low (HK\$) | 52.00/15.22 |
| Total Issued Shares (mn) | 544.3 |

Source: FactSet

Shareholding Structure

| | |
|------------------------|-------|
| HKSCC nominees limited | 34.8% |
| Yantai Rongda | 18.8% |

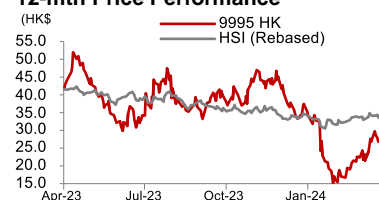
Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 21.5% | 21.8% |
| 3-mth | -27.5% | -25.3% |
| 6-mth | -32.6% | -27.5% |

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Risk-adjusted DCF valuation

| DCF Valuation (RMB mn) | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E | 2033E | 2034E | 2035E |
|-----------------------------|---------|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| EBIT | (1,386) | (959) | (230) | 538 | 1,502 | 2,731 | 3,810 | 4,725 | 5,542 | 5,669 | 5,547 | 5,591 |
| Tax rate | 0% | 0% | 0% | 15% | 15% | 15% | 15% | 15% | 15% | 15% | 15% | 15% |
| EBIT*(1-tax rate) | (1,386) | (959) | (230) | 458 | 1,277 | 2,321 | 3,239 | 4,016 | 4,711 | 4,819 | 4,715 | 4,752 |
| + D&A | 179 | 191 | 191 | 192 | 193 | 193 | 194 | 194 | 195 | 195 | 195 | 196 |
| - Change in working capital | 514 | (305) | (321) | (386) | (408) | (407) | (435) | (323) | (339) | 97 | 150 | 41 |
| - Capex | (600) | (400) | (200) | (200) | (200) | (200) | (200) | (200) | (200) | (200) | (200) | (200) |
| FCFF | (1,293) | (1,473) | (559) | 64 | 861 | 1,907 | 2,797 | 3,687 | 4,367 | 4,911 | 4,860 | 4,789 |
| Terminal value | | | | | | | | | | | | 52,347 |
| FCF + Terminal value | (1,293) | (1,473) | (559) | 64 | 861 | 1,907 | 2,797 | 3,687 | 4,367 | 4,911 | 4,860 | 57,136 |

| | |
|------------------------------|---------------|
| PV of enterprise (RMB mn) | 22,261 |
| Net debt (RMB mn) | 1,821 |
| Equity value (RMB mn) | 20,440 |
| No. of shares (mn) | 544 |
| DCF per shares (RMB) | 37.55 |
| DCF per share (HK\$) | 41.72 |

| | |
|------------------------------|---------------|
| Terminal growth rate | 2.0% |
| WACC | 11.33% |
| Cost of Equity | 14.6% |
| Cost of Debt | 4.5% |
| Equity Beta | 1.1 |
| Risk Free Rate | 3.0% |
| 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 | | | | |
|----------------------|--------|--------|--------|--------|--------|
| | 10.33% | 10.83% | 11.33% | 11.83% | 12.33% |
| 3.0% | 56.19 | 50.52 | 45.58 | 41.25 | 37.42 |
| 2.5% | 53.30 | 48.10 | 43.54 | 39.52 | 35.94 |
| 2.0% | 50.76 | 45.96 | 41.72 | 37.96 | 34.60 |
| 1.5% | 48.51 | 44.05 | 40.09 | 36.55 | 33.38 |
| 1.0% | 46.50 | 42.33 | 38.61 | 35.28 | 32.27 |

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

| RMB mn | New | | | Old | | | Diff (%) | | |
|------------------|---------|---------|--------|---------|--------|--------|-----------|-----------|-----------|
| | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E |
| Revenue | 1,601 | 2,695 | 3,954 | 2,028 | 3,038 | 4,383 | -21% | -11% | -10% |
| Gross profit | 1,225 | 2,094 | 3,123 | 1,624 | 2,451 | 3,597 | -25% | -15% | -13% |
| Operating profit | (1,386) | (959) | (230) | (1,000) | (278) | 513 | N/A | N/A | N/A |
| Net profit | (1,451) | (1,070) | (362) | (1,088) | (421) | 287 | N/A | N/A | N/A |
| EPS (RMB) | (2.67) | (1.97) | (0.66) | (2.00) | (0.77) | 0.53 | N/A | N/A | N/A |
| Gross margin | 76.52% | 77.72% | 78.98% | 80.08% | 80.69% | 82.07% | -3.56 ppt | -2.97 ppt | -3.09 ppt |

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

| RMB mn | CMBIGM | | | Consensus | | | Diff (%) | | |
|------------------|---------|---------|--------|-----------|--------|--------|-----------|-----------|-----------|
| | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E |
| Revenue | 1,601 | 2,695 | 3,954 | 1,762 | 2,685 | 3,531 | -9% | 0% | 12% |
| Gross profit | 1,225 | 2,094 | 3,123 | 1,400 | 2,213 | 2,906 | -12% | -5% | 7% |
| Operating profit | (1,386) | (959) | (230) | (1,099) | (444) | 84 | N/A | N/A | N/A |
| Net profit | (1,451) | (1,070) | (362) | (1,020) | (441) | 111 | N/A | N/A | N/A |
| EPS (RMB) | (2.67) | (1.97) | (0.66) | (1.83) | (0.91) | 0.05 | N/A | N/A | N/A |
| Gross margin | 76.52% | 77.72% | 78.98% | 79.43% | 82.40% | 82.31% | -2.91 ppt | -4.69 ppt | -3.33 ppt |

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

| INCOME STATEMENT | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Revenue | 1,424 | 768 | 1,076 | 1,601 | 2,695 | 3,954 |
| Cost of goods sold | (67) | (270) | (253) | (376) | (600) | (831) |
| Gross profit | 1,357 | 498 | 823 | 1,225 | 2,094 | 3,123 |
| Operating expenses | (1,080) | (1,497) | (2,334) | (2,676) | (3,164) | (3,485) |
| Selling expense | (263) | (441) | (775) | (961) | (1,347) | (1,384) |
| Admin expense | (220) | (273) | (314) | (400) | (512) | (633) |
| R&D expense | (711) | (982) | (1,306) | (1,306) | (1,250) | (1,384) |
| Others | 113 | 199 | 61 | (9) | (55) | (84) |
| Operating profit | 282 | (992) | (1,488) | (1,386) | (959) | (230) |
| Interest income | (5) | (7) | (23) | (65) | (111) | (132) |
| Pre-tax profit | 276 | (999) | (1,511) | (1,451) | (1,070) | (362) |
| Income tax | 0 | 0 | 0 | 0 | 0 | 0 |
| Minority interest | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit | 276 | (999) | (1,511) | (1,451) | (1,070) | (362) |
| BALANCE SHEET | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec (RMB mn) | | | | | | |
| Current assets | 2,300 | 3,212 | 2,229 | 2,027 | 2,246 | 2,071 |
| Cash & equivalents | 1,757 | 2,069 | 727 | 922 | 692 | 55 |
| Account receivables | 7 | 281 | 420 | 301 | 506 | 742 |
| Inventories | 280 | 523 | 742 | 464 | 707 | 934 |
| Financial assets at FVTPL | 0 | 0 | 0 | 0 | 0 | 0 |
| Other current assets | 256 | 339 | 340 | 340 | 340 | 340 |
| Non-current assets | 1,859 | 2,809 | 3,295 | 3,717 | 3,928 | 3,939 |
| PP&E | 1,578 | 2,407 | 2,833 | 3,257 | 3,469 | 3,480 |
| Right-of-use assets | 149 | 205 | 252 | 252 | 252 | 252 |
| Intangibles | 13 | 17 | 24 | 23 | 22 | 21 |
| Financial assets at FVTPL | 12 | 80 | 94 | 94 | 94 | 94 |
| Other non-current assets | 108 | 100 | 92 | 92 | 92 | 92 |
| Total assets | 4,159 | 6,021 | 5,524 | 5,744 | 6,174 | 6,010 |
| Current liabilities | 616 | 892 | 1,138 | 1,253 | 1,397 | 1,539 |
| Short-term borrowings | 0 | 0 | 286 | 286 | 286 | 286 |
| Account payables | 159 | 222 | 139 | 255 | 399 | 541 |
| Other current liabilities | 405 | 610 | 653 | 653 | 653 | 653 |
| Lease liabilities | 52 | 60 | 58 | 58 | 58 | 58 |
| Non-current liabilities | 96 | 149 | 953 | 2,453 | 3,753 | 3,753 |
| Long-term borrowings | 0 | 0 | 841 | 2,341 | 3,641 | 3,641 |
| Deferred income | 46 | 44 | 37 | 37 | 37 | 37 |
| Other non-current liabilities | 51 | 105 | 76 | 76 | 76 | 76 |
| Total liabilities | 713 | 1,041 | 2,091 | 3,707 | 5,151 | 5,293 |
| Share capital | 490 | 544 | 544 | 544 | 544 | 544 |
| Other reserves | 2,957 | 4,436 | 2,893 | 1,498 | 484 | 178 |
| Total shareholders equity | 3,446 | 4,980 | 3,437 | 2,042 | 1,028 | 722 |
| Total equity and liabilities | 4,159 | 6,021 | 5,528 | 5,749 | 6,179 | 6,015 |

| CASH FLOW | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|--------------|----------------|----------------|--------------|----------------|--------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Operating | | | | | | |
| Profit before taxation | 276 | (999) | (1,511) | (1,451) | (1,070) | (362) |
| Depreciation & amortization | 65 | 121 | 153 | 176 | 188 | 188 |
| Tax paid | 0 | 0 | 0 | 0 | 0 | 0 |
| Change in working capital | (168) | (524) | (494) | 514 | (305) | (321) |
| Others | 90 | 138 | 182 | 124 | 169 | 190 |
| Net cash from operations | 264 | (1,264) | (1,670) | (637) | (1,018) | (304) |
| Investing | | | | | | |
| Capital expenditure | (615) | (756) | (750) | (600) | (400) | (200) |
| Acquisition of subsidiaries/ investments | 0 | (1,905) | 0 | 0 | 0 | 0 |
| Net proceeds from disposal of short-term investments | 0 | 1,846 | 0 | 0 | 0 | 0 |
| Others | (23) | (27) | (2) | (2) | (2) | (2) |
| Net cash from investing | (638) | (842) | (752) | (602) | (402) | (202) |
| Financing | | | | | | |
| Dividend paid | 0 | 0 | 0 | 0 | 0 | 0 |
| Net borrowings | (108) | 0 | 1,100 | 1,500 | 1,300 | 0 |
| Proceeds from share issues | (14) | 2,520 | 0 | 0 | 0 | 0 |
| Share repurchases | (449) | (41) | 0 | 0 | 0 | 0 |
| Others | (55) | (52) | (23) | (65) | (111) | (132) |
| Net cash from financing | (627) | 2,427 | 1,077 | 1,435 | 1,189 | (132) |
| Net change in cash | | | | | | |
| Cash at the beginning of the year | 2,769 | 1,757 | 2,069 | 727 | 922 | 692 |
| Exchange difference | (10) | (9) | 0 | 0 | 0 | 0 |
| Cash at the end of the year | 1,757 | 2,069 | 724 | 922 | 692 | 55 |
| GROWTH | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| Revenue | na | (46.1%) | 40.2% | 48.8% | 68.3% | 46.7% |
| Gross profit | na | (63.3%) | 65.3% | 48.9% | 70.9% | 49.1% |
| PROFITABILITY | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| Gross profit margin | 95.3% | 64.8% | 76.5% | 76.5% | 77.7% | 79.0% |
| Operating margin | 19.8% | (129.2%) | (138.3%) | (86.5%) | (35.6%) | (5.8%) |
| Return on equity (ROE) | 7.8% | (23.7%) | (35.9%) | (53.0%) | (69.7%) | (41.3%) |
| GEARING/LIQUIDITY/ACTIVITIES | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| Current ratio (x) | 3.7 | 3.6 | 2.0 | 1.6 | 1.6 | 1.3 |
| VALUATION | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
| YE 31 Dec | | | | | | |
| P/E | 44.3 | ns | ns | ns | ns | ns |

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

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CMB International Global Markets Limited

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

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