

RemeGen (9995 HK)

Strong growth amid challenging environment

RemeGen recorded strong product sales growth in 3Q23, in a challenging environment, with revenue reaching RMB347mn, vs RMB254mn in 2Q23 (+37% QoQ) and RMB219mn in 3Q22 (+58% YoY). The strong growth in 3Q23 was mainly driven by RC18 (RMB180mn+ sales in 3Q23, +45% QoQ), while the sales of RC48 also recorded QoQ increase to RMB150mn+ in 3Q23. Recall that, in 1H23, the Company intentionally slowed down the shipment volume of RC18 to prepare for the NDRL renewal in late 2023 and the shipment has been back to normal since July. In 3Q23, the GP margin increased to 76.3% (vs 75.5% in 1H23). Thanks to the economy of scale, the SG&A expense ratio decreased to 77% in 3Q23 (vs 122% in 1H23). In 3Q23, the R&D expense rose to RMB318mn, vs RMB291mn in 2Q23. The Company narrowed its net loss to RMB327mn in 3Q23 (vs RMB380mn in 2Q23). As of Sep 2023, RemeGen had a cash balance of RMB791mn, and had secured around RMB4.9bn bank credit, according to the management.

■ **Large global potential of RC18 in multiple autoimmune diseases.** In China, besides adult SLE, RemeGen is also exploring RC18 for the treatment of child SLE (Ph1) and lupus nephritis (Ph2). The sNDA of RC18 for RA was submitted to the CDE in Aug 2023, and the Company will report the Ph3 data at the coming ACR Meeting in Nov. For the underserved markets of IgA, pSS and MG, RemeGen has completed the FPI for three Ph3 trials of these indications in 3Q23. Overseas, the Ph3 SLE MRCT trial of RC18 is enrolling patients across the US, Europe, APAC and other regions. The first stage of the Ph3 study may complete the 90 patient enrolment in 4Q23, which upon FDA approval, will remain blinded and be included into the second stage of the Ph3 study to speed up the clinical development. A Ph3 trial in MG has started in the US, and the Company has reached a consensus with FDA to initiate Ph3 studies in IgA and pSS. We expect RC18 to achieve a blockbuster out-licensing deal based on its strong profile in autoimmune diseases.

■ **RC48 to mainly focus on UC market in the US.** The Ph3 trial initiated by Seagen evaluating RC48 + Keytruda for 1L HER2-expressing UC in the US ([link](#)) has achieved FPI, which is an important milestone, in our view. Patient enrolment of the pivotal Ph2 trial of RC48 mono for 2/3L HER2-expressing UC in the US progressed smoothly. In China, to enhance the advantages in UC, RemeGen is exploring RC48's potential in earlier lines of UC treatment, including first-line, neoadjuvant, MIBC and NMIBC settings. With positive signal observed in Ph2 trial of MIBC, RemeGen is in communication with CDE regarding a confirmatory trial of RC48+PD-1 for neoadjuvant MIBC. For GC and BC indications, the Company is actively exploring the potential of RC48 in earlier line treatment with a variety of Ph2 trials ongoing.

■ **Maintain BUY.** We expect RemeGen to continue its product sales growth in 4Q23 and beyond, and expect RC18 and RC48 to renew NDRL via 'Simple Renewals' with moderate price cuts. We revise up our DCF-based TP from HK\$55.54 to HK\$57.65 (WACC: 11.09%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	1,424	768	1,178	2,028	3,038
YoY growth (%)	na	(46.1)	53.5	72.1	49.8
Net profit (RMB mn)	276	(999)	(1,332)	(1,088)	(421)
EPS (Reported) (RMB)	0.57	(1.88)	(2.45)	(2.00)	(0.77)
R&D expenses (RMB mn)	(711)	(982)	(1,200)	(1,200)	(1,000)
Admin expenses (RMB mn)	(220)	(273)	(377)	(568)	(668)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$57.65
(Previous TP)	HK\$55.54
Up/Downside	29.4%
Current Price	HK\$44.55

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)	24,246.9
Avg 3 mths t/o (HK\$ mn)	59.2
52w High/Low (HK\$)	70.05/29.95
Total Issued Shares (mn)	544.3
Source: FactSet	

Shareholding Structure

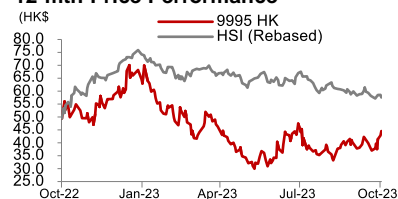
HKSCC nominees limited	34.8%
Yantai Rongda	18.8%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	10.5%	15.0%
3-mth	0.9%	18.4%
6-mth	-2.7%	13.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related report:

- Pursuit of sustainable long-term growth ([link](#)) – 23 Aug 2023
- Expect sales recovery from 2Q ([link](#)) – 2 May 2023
- Wide clinical studies to unlock global potential ([link](#)) – 31 Mar 2023
- INITIATION: A pioneer biopharma in innovative ADC and fusion protein medicines ([link](#)) – 4 Nov 2022

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (RMB mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	(1,298)	(1,000)	(278)	513	1,262	2,267	3,315	4,676	5,729	6,515	6,498	6,308	6,359
Tax rate	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(1,298)	(1,000)	(278)	436	1,073	1,927	2,818	3,974	4,870	5,537	5,523	5,361	5,405
+ D&A	156	178	189	184	181	177	173	170	167	164	161	158	155
- Change in working capital	179	(235)	(282)	(339)	(337)	(407)	(392)	(431)	(343)	(349)	87	181	41
- Capex	(800)	(600)	(400)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
FCFF	(1,763)	(1,657)	(771)	182	816	1,597	2,500	3,613	4,594	5,252	5,671	5,601	5,501
Terminal value													70,058
FCF + Terminal value	(1,763)	(1,657)	(771)	182	816	1,597	2,500	3,613	4,594	5,252	5,671	5,601	75,558
PV of enterprise (RMB mn)	26,962												
Net debt (RMB mn)	(1,280)												
Equity value (RMB mn)	28,241												
No. of shares (mn)	544												
DCF per shares (RMB)	51.89												
DCF per share (HK\$)	57.65												

Terminal growth rate	3.0%
WACC	11.09%
Cost of Equity	14.2%
Cost of Debt	4.5%
Equity Beta	1.1
Risk Free Rate	3.2%
Market Risk Premium	10.0%
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				
	10.09%	10.59%	11.09%	11.59%	12.09%
4.0%	78.41	70.20	63.20	57.19	51.97
3.5%	73.99	66.60	60.25	54.73	49.91
3.0%	70.20	63.48	57.65	52.56	48.08
2.5%	66.90	60.75	55.37	50.63	46.44
2.0%	64.01	58.33	53.33	48.90	44.97

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	New			Old			Diff(%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	1,178	2,028	3,038	1,085	1,958	2,878	9%	4%	6%
Gross profit	910	1,624	2,451	834	1,557	2,303	9%	4%	6%
Operating profit	(1,298)	(1,000)	(278)	(1,414)	(1,113)	(623)	N/A	N/A	N/A
Net profit	(1,332)	(1,088)	(421)	(1,447)	(1,201)	(766)	N/A	N/A	N/A
EPS (RMB)	(2.45)	(2.00)	(0.77)	(2.66)	(2.21)	(1.41)	N/A	N/A	N/A
Gross margin	77.20%	80.08%	80.69%	76.88%	79.53%	80.00%	+0.31 ppt	+0.55 ppt	+0.69 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff(%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	1,178	2,028	3,038	1,177	1,936	3,034	0%	5%	0%
Gross profit	910	1,624	2,451	908	1,562	2,512	0%	4%	-2%
Operating profit	(1,298)	(1,000)	(278)	(1,186)	(838)	(270)	N/A	N/A	N/A
Net profit	(1,332)	(1,088)	(421)	(1,116)	(754)	(241)	N/A	N/A	N/A
EPS (RMB)	(2.45)	(2.00)	(0.77)	(2.04)	(1.40)	(0.52)	N/A	N/A	N/A
Gross margin	77.20%	80.08%	80.69%	77.12%	80.69%	82.79%	+0.08 ppt	-0.61 ppt	-2.10 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	0	1,424	768	1,178	2,028	3,038
Cost of goods sold	0	(67)	(270)	(269)	(404)	(587)
Gross profit	0	1,357	498	910	1,624	2,451
Operating expenses	(698)	(1,080)	(1,497)	(2,241)	(2,712)	(2,872)
Selling expense	(24)	(263)	(441)	(801)	(1,014)	(1,215)
Admin expense	(218)	(220)	(273)	(377)	(568)	(668)
R&D expense	(466)	(711)	(982)	(1,200)	(1,200)	(1,000)
Others	10	113	199	137	70	11
Operating profit	(669)	282	(992)	(1,298)	(1,000)	(278)
Interest income	(29)	(5)	(7)	(33)	(88)	(143)
Pre-tax profit	(698)	276	(999)	(1,332)	(1,088)	(421)
Income tax	0	0	0	0	0	0
Minority interest	0	0	0	0	0	0
Net profit	(698)	276	(999)	(1,332)	(1,088)	(421)

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	2,977	2,300	3,212	2,255	2,087	2,624
Cash & equivalents	2,769	1,757	2,069	1,327	836	975
Account receivables	0	7	281	221	381	570
Inventories	66	280	523	368	531	739
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	143	256	339	339	339	339
Non-current assets	1,140	1,859	2,809	3,455	3,879	4,092
PP&E	803	1,578	2,407	3,053	3,479	3,693
Right-of-use assets	138	149	205	205	205	205
Intangibles	5	13	17	16	15	14
Financial assets at FVTPL	13	12	80	80	80	80
Other non-current assets	182	108	100	100	100	100
Total assets	4,118	4,159	6,021	5,710	5,965	6,716
Current liabilities	431	616	892	857	945	1,060
Short-term borrowings	108	0	0	0	0	0
Account payables	63	159	222	186	274	390
Other current liabilities	218	405	610	610	610	610
Lease liabilities	43	52	60	60	60	60
Non-current liabilities	92	96	149	1,149	2,349	3,349
Long-term borrowings	0	0	0	1,000	2,200	3,200
Deferred income	44	46	44	44	44	44
Other non-current liabilities	47	51	105	105	105	105
Total liabilities	523	713	1,041	2,005	3,293	4,409
Share capital	490	490	544	544	544	544
Other reserves	3,105	2,957	4,436	3,160	2,128	1,763
Total shareholders equity	3,595	3,446	4,980	3,704	2,672	2,307
Total equity and liabilities	4,118	4,159	6,021	5,710	5,965	6,716

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(698)	276	(999)	(1,332)	(1,088)	(421)
Depreciation & amortization	49	65	121	153	175	186
Tax paid	0	0	0	0	0	0
Change in working capital	(117)	(168)	(524)	179	(235)	(282)
Others	105	90	138	92	147	202
Net cash from operations	(660)	264	(1,264)	(907)	(1,001)	(315)
Investing						
Capital expenditure	(443)	(615)	(756)	(800)	(600)	(400)
Acquisition of subsidiaries/ investments	(102)	0	(1,905)	0	0	0
Net proceeds from disposal of short-term investments	102	0	1,846	0	0	0
Others	(36)	(23)	(27)	(2)	(2)	(2)
Net cash from investing	(479)	(638)	(842)	(802)	(602)	(402)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	(498)	(108)	0	1,000	1,200	1,000
Proceeds from share issues	4,508	(14)	2,520	0	0	0
Share repurchases	0	(449)	(41)	0	0	0
Others	(105)	(55)	(52)	(33)	(88)	(143)
Net cash from financing	3,904	(627)	2,427	967	1,112	857
Net change in cash						
Cash at the beginning of the year	35	2,769	1,757	2,069	1,327	836
Exchange difference	(31)	(10)	(9)	0	0	0
Cash at the end of the year	2,769	1,757	2,069	1,327	836	975
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	na	na	(46.1%)	53.5%	72.1%	49.8%
Gross profit	na	na	(63.3%)	82.7%	78.6%	50.9%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	na	95.3%	64.8%	77.2%	80.1%	80.7%
Operating margin	na	19.8%	(129.2%)	(110.2%)	(49.3%)	(9.1%)
Return on equity (ROE)	(41.5%)	7.8%	(23.7%)	(30.7%)	(34.1%)	(16.9%)
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	6.9	3.7	3.6	2.6	2.2	2.5
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	152.8	na	na	na	na

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.