

Kintor Pharmaceutical (9939 HK)

Enrollment completed for proxalutamide for hospitalized COVID-19 patients in Brazil

- Patients enrollment of proxalutamide for the treatment of hospitalised COVID-19 patients in Brazil completed.** Considering previous promising data of proxalutamide for COVID-19 outpatients (mild or moderate), the Company and its partner quickly initiated a clinical study of Proxalutamide for the treatment of hospitalized COVID-19 male and female patients since the end of Jan 2021. By 22 Feb 2021, the trial has finished the recruitment of a total of 588 patients (294 male and 294 female). This trial is an investigator initiated multi-center, randomized, double-blinded, placebo-controlled parallel assignment study assessing Proxalutamide for hospitalized COVID-19 patients in Brazil. The primary endpoint is the effectiveness of Proxalutamide Arm relative to the Control Arm as assessed by the 8-point COVID-19 ordinal scale on day-14. Full set of data are expected to be available in Mar 2021.
- Promising results of proxalutamide for the treatment of COVID-19 outpatients.** This is an investigator initiated randomized, double-blind and placebo-controlled clinical trial (NCT04446429) in Brazil conducted by Kintor and Applied Biology. In the male cohort, the hospitalization rate of proxalutamide arm is 0.0% (0/134) which is significantly lower than the Controlled Arm (27.0%, 35/138). In the female cohort, the interim analysis showed that the percentage of hospitalization, admission to ICU, mechanical ventilation requirement and death was 1.7% vs. 17.1%, 0% vs. 8.6%, 0% vs. 5.7% and 0% vs. 2.9% in Proxalutamide arm and control arm, respectively.
- Efficient R&D progress.** For GT90001 (ALK-1 antibody): The IND application of GT90001 for a multiregional phase II clinical trial for combination treatment of GT90001 and Nivolumab for the second-line treatment of advanced HCC was approved by the US FDA in Feb 2021. The results from phase II clinical trial of GT90001 and Nivolumab combination treatment for HCC patients in Taiwan was presented at the ASCO-GI meeting in Jan 2021. For GT20029 (AR-degrader): The IND applications of GT20029 for androgenetic alopecia and acne vulgaris were accepted by the NMPA in Feb 2021. This is the first clinical stage PROTAC product developed by Kintor's in-house platform. For Ppyrilutamide: Kintor obtained NMPA's IND approval of Ppyrilutamide gel formula for acne vulgaris in Sep 2020, while the trial may start in 1Q21E. Phase II trial on androgenetic alopecia in China has completed patient enrollment in Dec 2020 and registrational phase III trial will start in 2H21E.
- Maintain BUY.** Considering the positive progress of Proxalutamide in treating COVID-19, we raised our TP to HK\$21.41 based on a 10-year DCF model (WACC: 11.8%, terminal growth rate: 2.0%). We like Kintor given its robust pipelines including Proxalutamide, Ppyrilutamide, ALK-1 antibody, PD-L1/TGF-β bispecific antibody, AR degrader, 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	382
Attributable net profit (loss) (RMB mn)	(108)	(233)	(404)	(269)	21
R&D expenses	N/A	N/A	N/A	N/A	N/A
EPS (RMB)	N/A	N/A	(1.09)	(0.73)	0.06
Consensus EPS (RMB)	N/A	N/A	(11.60)	(15.31)	2.78
ROE (%)	(43)	(63)	(25)	(20)	2
ROA (%)	(26)	(42)	(23)	(19)	1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	2.0	1.5	15.3	13.5	10.2

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$21.41
(Previous TP)	HK\$19.38)
Up/Downside	+21.07%
Current Price	HK\$17.68

China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	6,531
Avg. 3mths t/o (HK\$ mn)	12.87
52W High/Low (HK\$)	22.95/7.20
Total Issued Shares (mn)	369

Source: Bloomberg

Shareholding Structure

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

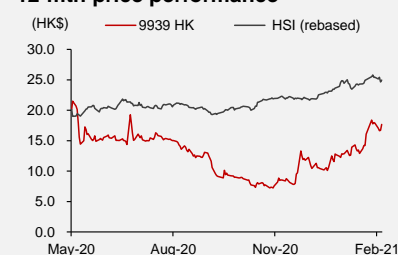
Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	30.1%	28.9%
3-mth	88.5%	68.6%
6-mth	12.2%	-3.5%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: PWC

Web-site: www.kintor.com.cn

Related report:

- Promising clinical data from Proxalutamide on COVID-19 and GT90001 (ALK-1) on 2L HCC – 14 Dec 2020
- Proxalutamide's 2L+ mCRPC Phase III trial needs to wait for OS data – 28 Sep 2020
- Specializing in AR-related innovative therapies – 24 Jul 2020

Valuation

We use DCF method to value the Company and we derive TP of HK\$21.41 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)	11	188	494	859	1,092	1,220	1,315	1,398	1,462
Tax rate	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(282)	11	160	420	730	928	1,037	1,118	1,188	1,243
+ D&A	17	26	29	32	35	38	41	43	46	48
- Change in working capital	(10)	(72)	(26)	(144)	(187)	(113)	(46)	(39)	(32)	(21)
- Capex	(150)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)
FCFF	(425)	(115)	83	228	499	773	953	1,041	1,122	1,189
Terminal value										12,410
FCF + Terminal value	(425)	(115)	83	228	499	773	953	1,041	1,122	13,599
Present value of enterprise	6,158									
Net Debt	(779)									
Minorities	0									
Equity value (RMB mn)	6,938									
Equity value (HK\$ mn)	7,907									
Equity value (US\$ mn)	1,020									
Target price (HK\$)	21.41									
Terminal growth rate	2.0%									
WACC	11.8%									
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%
Terminal growth rate	3.0%	26.82	24.77	22.98	21.38	19.97
	2.5%	25.68	23.81	22.15	20.67	19.35
	2.0%	24.68	22.95	21.41	20.03	18.79
	1.5%	23.78	22.17	20.73	19.44	18.27
	1.0%	22.97	21.47	20.13	18.91	17.81

Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	0	0	382	0	0	72	N/A	N/A	428%
Gross Profit	0	0	305	0	0	58	N/A	N/A	428%
Operating Profit	(402)	(267)	23	(402)	(267)	8	N/A	N/A	N/A
Net profit	(404)	(269)	21	(404)	(269)	5	N/A	N/A	N/A
EPS (RMB)	(1.09)	(0.73)	0.06	(1.09)	(0.73)	0.01	N/A	N/A	N/A
Gross Margin	N/A	N/A	80.00%	N/A	N/A	80.00%	N/A	N/A	0.00 ppt
Operating Margin	N/A	N/A	6.07%	N/A	N/A	11.09%	N/A	N/A	-5.02pt
Net Margin	N/A	N/A	5.40%	N/A	N/A	7.55%	N/A	N/A	-2.15 ppt

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	382	1	110	268	N/A	N/A	42%
Gross Profit	0	0	305	1	84	219	N/A	N/A	39%
Operating Profit	(402)	(267)	23	(349)	(435)	63	N/A	N/A	-63%
Net profit	(404)	(269)	21	(411)	(431)	69	N/A	N/A	-70%
EPS (RMB)	(1.09)	(0.73)	0.06	(11.60)	(15.31)	2.78	N/A	N/A	-98%
Gross Margin	N/A	N/A	80.00%	83.50%	76.75%	81.75%	N/A	N/A	-1.75 ppt
Operating Margin	N/A	N/A	6.07%	-34850.00%	-396.77%	23.51%	N/A	N/A	-17.44 ppt
Net Margin	N/A	N/A	5.40%	-41066.70%	-393.43%	25.75%	N/A	N/A	-20.35 ppt

Source: Company, CMBIS estimates

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	1	0	0	0	382
Proxalutamide China sales – risk adjusted	0	0	0	0	34
Proxalutamide US sales - risk adjusted	0	0	0	0	309
Pyrilutamide China sales - risk adjusted	0	0	0	0	38
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	(76)
Gross profit	0	0	0	0	305
Other income	12	19	28	33	29
Selling & distribution expenses	(24)	(33)	(100)	0	(76)
R&D expenses	(93)	(214)	(320)	(300)	(210)
Administrative expenses	0	0	(10)	0	(25)
Other expenses	1	(1)	0	0	0
Operating profit (loss)	(104)	(229)	(402)	(267)	23
Finance costs	(4)	(4)	(3)	(3)	(3)
Pre-tax profit (loss)	(108)	(233)	(404)	(269)	21
Income tax	0	0	0	0	0
Minority interests	0	0	0	0	0
Attributable net profit (loss)	(108)	(233)	(404)	(269)	21

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	(108)	(233)	(404)	(269)	21
Depreciation and amortization, etc.	2	5	9	17	26
Change in working capital	(4)	0	(45)	(10)	(72)
Others	(5)	(0)	0	0	0
Net income tax paid	0	0	0	0	0
Operating cash flow	(115)	(228)	(440)	(262)	(26)
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
Investing cash flow	(65)	(7)	(150)	(150)	(80)
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
Financing cash flow	304	296	1,650	0	0
FX changes	0	(3)	0	0	0
Net change in cash	124	61	1,060	(412)	(106)
Cash at the beginning year	13	138	196	1,255	843
Cash at the end	138	196	1,255	843	737

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	205	333	474	607	661
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
Current assets	218	221	1,265	843	828
Inventories	0	0	0	0	13
Trade receivables	0	0	0	0	63
Other receivables and prepayments	14	25	10	0	16
Financial assets at FV through P&L	0	0	0	0	0
Cash and cash equivalents	138	196	1,255	843	737
Restricted cash	67	0	0	0	0
Non-current liabilities	64	41	41	41	41
Borrowings	22	0	0	0	0
Lease liabilities	3	2	2	2	2
Deferred income tax liabilities	39	39	39	39	39
Current liabilities	108	143	83	63	81
Trade and other payables	18	80	20	0	19
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
Total net assets	252	370	1,615	1,346	1,367
Minority interest	0	0	0	0	0
Shareholders' equity	252	370	1,615	1,346	1,367

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Proxalutamide China sales adjusted	0	0	0	0	9
Proxalutamide US sales	0	0	0	0	81
Pyrilutamide China sales - adjusted	0	0	0	0	10
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
Profit & loss ratios (%)					
Gross margin	N/A	N/A	N/A	70	80
EBITDA margin	N/A	N/A	N/A	N/A	10
Pre-tax margin	N/A	N/A	N/A	N/A	5
Net margin	NA	N/A	N/A	N/A	5
Effective tax rate	0	0	0	0	0
Balance sheet ratios					
Current ratio (x)	2	2	15	13	10
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	-43	-63	-25	-20	2
ROA	-26	-42	-23	-19	1
Per share value					
EPS (RMB)	N/A	N/A	(1.09)	(0.73)	0.06
DPS (RMB)	N/A	N/A	0.00	0.00	0.00
BVP (RMB)	N/A	N/A	4.37	3.64	3.70

Source: Company data, CMBIS estimates

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