

Akeso (9926 HK)

AK112 to validate its potential as next-generation IO therapy

- **NRDL inclusion to fuel FY25 growth.** Akeso's FY24 results reflected strong cost controls despite a revenue shortfall. The Company reported total revenue of RMB2.1bn, including RMB2.0bn from product sales, representing a 25% YoY increase. Operating efficiency continued to improve, with SG&A-to-product sales ratio reduced to 61% from 69% in FY23 and R&D expenses down 5% YoY to RMB1.2bn. Akeso reported a net loss of RMB500mn and an EBITDA loss of RMB225mn. As of end-2024, the Company held a solid cash balance of RMB7.3bn, which is sufficient to support ongoing R&D and future commercial expansion. Looking ahead, we expect product sales to surge by 60% YoY to RMB3.3bn in FY25, mainly driven by the inclusion of AK104 and AK112 in the NRDL earlier this year.
- **Key Ph3 readouts to define value of AK112 as a next-generation IO.** AK112 is emerging as a key value driver for Akeso, with pivotal clinical data positioning it as a next-generation IO therapy. The drug has demonstrated a meaningful PFS benefit in a China head-to-head Ph3 trial versus Keytruda in first-line PD-L1-positive NSCLC. Although the Company has not disclosed the timeline for the OS data release from this trial, it remains a key catalyst that could further validate AK112's clinical advantage. In parallel, attention is turning to Summit's global Ph3 trial of AK112 plus chemo versus chemo alone in EGFR-TKI-resistant NSCLC patients, with data expected in mid-2025. The China cohort of this trial previously reported an mPFS of 7.1 vs 4.8 months (HR=0.46) and an mOS of 17.1 vs 14.5 months (HR=0.80, 0.59–1.08) at 52% data maturity. Given that the OS is at the statistical threshold, and considering the availability of other novel therapies post-progression, such as J&J's EGFR/cMet bsAb (approved) and Daiichi/MSD's HER3-DXd (BLA filed), we will closely watch the global OS data to assess AK112's potential positioning in this evolving treatment landscape.
- **Expanding AK112's footprint with first-line trials and next-gen ADC combinations.** Akeso is actively expanding the clinical scope of AK112, with a Ph3 trial in IO-resistant NSCLC planned in China for 2025. Beyond NSCLC, the Company is pursuing a broad first-line strategy with AK112, including ongoing Ph3 trials in TNBC, MSS CRC, BTC, HNSCC, and pancreatic cancer. Looking ahead, PD(L)-1/VEGF and ADC combinations could be revolutionary for oncology treatments. Summit has entered a clinical collaboration with Pfizer to evaluate AK112 in combination with Pfizer's ADCs. Meanwhile, Akeso is advancing its own innovative ADC pipeline, including HER3-targeting AK138D1, now in clinical studies, and the Trop2/Nectin4 BsAb-ADC AK146D1, which is expected to enter Ph1 trials in 1H25. We believe AK112-based combinations with ADCs has potential to cover multiple tumor types.
- **Maintain BUY.** As PD-(L)1/VEGF therapies have been a hot area in global BD transactions, we are increasingly positive on AK112's potential as a next-generation IO therapy. We raise our sales projections for AK112 and raise our TP from HK\$58.97 to HK\$102.61 given AK112's potential as a next-generation IO therapy (WACC: 9.17%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	4,526	2,124	3,385	5,072	8,110
YoY growth (%)	440.3	(53.1)	59.4	49.8	59.9
Net profit (RMB mn)	2,028.3	(501.0)	(191.9)	414.2	1,683.9
EPS (Reported) (RMB)	2.42	(0.59)	(0.21)	0.46	1.88
R&D expenses (RMB mn)	(1,254)	(1,188)	(1,306)	(1,394)	(1,937)
Admin expenses (RMB mn)	(200)	(204)	(317)	(466)	(650)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$102.61**
 (Previous TP) **HK\$58.97**
Up/Downside **19.3%**
Current Price **HK\$86.00**

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Stock Data

Mkt Cap (HK\$ mn)	77,191.5
Avg 3 mths t/o (HK\$ mn)	603.0
52w High/Low (HK\$)	86.00/31.80
Total Issued Shares (mn)	897.6

Source: FactSet

Shareholding Structure

Yu Xia	12.1%
Baiyong Li	6.4%

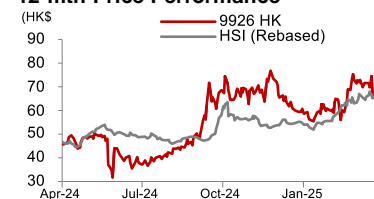
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	17.9%	16.5%
3-mth	41.7%	22.5%
6-mth	25.4%	14.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (RMB mn)	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	-296	411	1,937	3,191	4,842	6,532	7,934	9,233	9,770	10,141	10,053
Tax rate	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	-296	350	1,646	2,713	4,116	5,552	6,744	7,848	8,304	8,620	8,545
+ D&A	161	159	157	155	154	152	150	149	148	146	145
- Change in working capital	-93	-519	-85	-243	-347	-280	-165	-2	196	240	275
- Capex	-200	-100	-100	-100	-100	-100	-100	-100	-100	-100	-100
FCFF	-429	-110	1,619	2,525	3,822	5,324	6,629	7,895	8,548	8,906	8,865
Terminal value											148,086
FCF + Terminal value	-429	-110	1,619	2,525	3,822	5,324	6,629	7,895	8,548	8,906	156,951
Present value of enterprise (RMB mn)	83,050										
Net debt (RMB mn)	-2,542										
Non-controlling interests (RMB mn)	-60										
Equity value (RMB mn)	85,652										
No. of shares (mn)	898										
DCF per shares (RMB)	95.43										
DCF per shares (HK\$)	102.61										
Terminal growth rate	3.0%										
WACC	9.17%										
Cost of Equity	12.5%										
Cost of Debt	3.5%										
Equity Beta	1.0										
Risk Free Rate	2.5%										
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				
	8.17%	8.67%	9.17%	9.67%	10.17%
4.0%	149.17	131.04	116.48	104.54	94.57
3.5%	136.71	121.45	108.93	98.49	89.67
3.0%	126.66	113.55	102.61	93.36	85.45
2.5%	118.39	106.93	97.23	88.94	81.77
2.0%	111.46	101.30	92.61	85.10	78.55

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	New			Old			Diff(%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	3,385	5,072	8,110	3,543	7,073	9,431	-4%	-28%	-14%
Gross profit	2,762	4,175	6,891	3,060	6,218	8,301	-10%	-33%	-17%
Operating profit	-296	411	1,937	-618	977	1,826	N/A	-58%	6%
Net profit	-192	414	1,684	-576	815	1,535	N/A	-49%	10%
EPS (RMB)	(0.21)	0.46	1.88	(0.67)	0.94	1.77	N/A	-51%	6%
Gross margin	81.59%	82.33%	84.96%	86.37%	87.91%	88.02%	-4.78 ppt	-5.58 ppt	-3.06 ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff(%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	3,385	5,072	8,110	3,703	5,658	8,018	-9%	-10%	1%
Gross profit	2,762	4,175	6,891	3,281	5,051	7,112	-16%	-17%	-3%
Operating profit	-296	411	1,937	168	1,261	2,692	-276%	-67%	-28%
Net profit	-192	414	1,684	97	1,068	2,361	-298%	-61%	-29%
EPS (RMB)	(0.21)	0.46	1.88	0.14	1.23	2.70	N/A	-62%	-30%
Gross margin	81.59%	82.33%	84.96%	88.61%	89.27%	88.70%	-7.02 ppt	-6.94 ppt	-3.73 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	838	4,526	2,124	3,385	5,072	8,110
Cost of goods sold	(94)	(133)	(289)	(623)	(896)	(1,220)
Gross profit	744	4,393	1,835	2,762	4,175	6,891
Operating expenses	(2,122)	(2,363)	(2,268)	(2,876)	(3,587)	(4,766)
Selling expense	(553)	(890)	(1,002)	(1,335)	(1,804)	(2,266)
Admin expense	(199)	(200)	(204)	(317)	(466)	(650)
R&D expense	(1,323)	(1,254)	(1,188)	(1,306)	(1,394)	(1,937)
Others	(48)	(19)	125	82	77	88
Operating profit	(1,406)	1,862	(618)	(296)	411	1,937
Net Interest income/(expense)	(43)	(87)	(68)	(78)	(78)	(78)
Pre-tax profit	(1,422)	1,943	(501)	(192)	510	2,047
Income tax	0	(0)	0	0	(77)	(307)
After tax profit	(1,422)	1,942	(501)	(192)	434	1,740
Minority interest	(254)	(86)	0	0	20	56
Net profit	(1,168)	2,028	(501)	(192)	414	1,684

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	3,058	5,677	8,692	8,535	8,755	10,281
Cash & equivalents	2,092	1,542	4,418	3,994	3,868	5,144
Account receivables	271	296	525	656	1,002	1,449
Inventories	342	392	707	842	843	647
Prepayment	157	95	116	116	116	116
Financial assets at FVTPL	196	852	426	426	426	426
Other current assets	0	2,500	2,500	2,500	2,500	2,500
Non-current assets	2,437	3,211	3,665	3,704	3,645	3,588
PP&E	2,000	2,824	3,231	3,285	3,241	3,199
Right-of-use assets	163	338	320	304	289	274
Intangibles	8	6	12	12	12	12
Financial assets at FVTPL	10	12	16	16	16	16
Other non-current assets	256	30	87	87	87	87
Total assets	5,496	8,888	12,356	12,239	12,400	13,869
Current liabilities	1,361	1,205	1,687	1,761	1,489	1,554
Short-term borrowings	446	391	535	535	535	535
Account payables	309	355	425	499	227	292
Other current liabilities	600	445	716	716	716	716
Lease liabilities	6	15	10	10	10	10
Non-current liabilities	1,587	2,826	3,697	3,697	3,697	3,697
Long-term borrowings	1,421	2,577	3,406	3,406	3,406	3,406
Deferred income	160	240	290	290	290	290
Other non-current liabilities	6	9	1	1	1	1
Total liabilities	2,948	4,030	5,384	5,458	5,186	5,251
Share capital	0	0	0	0	0	0
Other reserves	2,636	4,692	6,814	6,622	7,036	8,383
Total shareholders equity	2,636	4,692	6,814	6,622	7,036	8,383
Minority interest	(88)	(174)	(60)	(60)	(41)	15
Total equity and liabilities	5,496	8,549	12,137	12,019	12,181	13,650

CASH FLOW	2022A	2023A	2024E	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(1,422)	1,943	(501)	(192)	510	2,047
Depreciation & amortization	106	143	159	161	159	157
Tax paid	0	0	0	0	(77)	(307)
Change in working capital	60	418	(123)	(93)	(519)	(85)
Others	16	(36)	(32)	(22)	(22)	(22)
Net cash from operations	(1,240)	2,468	(498)	(146)	52	1,790
Investing						
Capital expenditure	(776)	(719)	(300)	(200)	(100)	(100)
Net proceeds from disposal of short-term investments	(200)	(3,055)	0	0	0	0
Others	86	(223)	0	0	0	0
Net cash from investing	(890)	(3,997)	(300)	(200)	(100)	(100)
Financing						
Dividend paid	0	0	0	0	0	(337)
Net borrowings	1,005	1,099	400	0	0	0
Proceeds from share issues	495	(3)	2,878	0	0	0
Share repurchases	0	0	0	0	0	0
Others	(15)	(135)	(68)	(78)	(78)	(78)
Net cash from financing	1,486	961	3,210	(78)	(78)	(414)
Net change in cash						
Cash at the beginning of the year	2,642	2,092	1,542	4,418	3,994	3,868
Exchange difference	95	19	0	0	0	0
Cash at the end of the year	2,092	1,542	4,418	3,994	3,868	5,144
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	271.3%	440.3%	(53.1%)	59.4%	49.8%	59.9%
Gross profit	282.5%	490.8%	(58.2%)	50.5%	51.2%	65.0%
Operating profit	na	na	na	na	na	370.8%
Net profit	na	na	na	na	na	306.6%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	88.8%	97.1%	86.4%	81.6%	82.3%	85.0%
Operating margin	(167.9%)	41.1%	(29.1%)	(8.8%)	8.1%	23.9%
Return on equity (ROE)	(40.3%)	55.4%	(8.7%)	(2.9%)	6.1%	21.8%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	2.2	4.7	5.2	4.8	5.9	6.6
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	ns	33.1	ns	ns	173.7	42.7
P/B	26.0	14.9	10.1	11.0	10.3	8.6

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

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