

Kintor Pharmaceutical (9939 HK)

Continued development of proxalutamide for COVID-19 treatment

In 2021, Kintor recorded the first income in its history of RMB34.2mn revenue from out-licensing of proxalutamide. Kintor achieved out-license agreements with Fosun Pharma and Etana about the commercial rights of proxalutamide for COVID-19 in India & 28 African countries and Indonesia, respectively. R&D expenses increased to RMB767.9mn (+134% YoY), primarily due to the clinical trial expenses of proxalutamide (RMB537.3mn in 2021 vs RMB165.2mn in 2020). The R&D cost for pyrilutamide in 2021 was RMB45.7mn. Kintor had RMB1.06bn cash on hand as of end-2021, which is sufficient to support further R&D spending.

- Three ongoing Ph3 MRCT trials of proxalutamide for COVID-19.** One of the MRCT trials for outpatients (NCT04870606) did not meet the statistical significance in interim analysis in Dec 2021 due to the limited hospitalization events, while no safety concerns were observed. The enrollment of total 736 patients (95% from the US) was completed in Dec 2021 and the Company expects to release the top-line results for the final analysis soon. Kintor has amended the protocol of another outpatient MRCT trial (NCT04869228) to include high-risk population in China, Brazil, Malaysia and the Philippines. The Company expects to release the interim results of this outpatient trial in 2H22. In parallel, the enrollment of the inpatient MRCT trial (NCT05009732) is ongoing in the US, Philippines, South Africa and China.
- Proxalutamide to file NDA in China for treatment of prostate cancer.** The phase 3 trial of proxalutamide for 2L mCRPC completed enrollment in Aug 2020 and the NDA submission in China based on the final analysis of overall survival is expected in 2022. The phase 3 trial for 1L mCRPC in combo with abiraterone has completed enrollment of 718 patients in Feb 2022 in China. In the US, the phase 2 trial for 2L mCRPC has completed enrollment in Jul 2020, with data analysis ongoing.
- Clinical development of pyrilutamide progress smoothly.** Pyrilutamide (KX-826) is globally the first topical AR antagonist at phase 3 trial for AGA (androgenetic alopecia). The phase 2 trial for male AGA patients has met the primary endpoint (results to be released in Jun 2022). The phase 3 trial for male AGA patients in China (FPI in Dec 2021) may complete enrollment in 1H22. In addition, the phase 2 trial for female AGA patients has completed enrollment of 160 patients in Mar 2022, with the preliminary result expected in 4Q22. In the US, the phase 2 trial for male AGA patients finished FPI in Feb 2022. For the treatment of acne vulgaris, Kintor dosed the first patient in China for a phase 2 trial in Jan 2022.
- Maintain BUY.** Although the first interim data readout of proxalutamide for COVID-19 was not satisfying, Kintor continues its efforts in developing proxalutamide for COVID-19, mCRPC and other diseases. We see large commercial potential for pyrilutamide given its advanced positioning in the sizable AGA and acne vulgaris market. We revised our DCF-based TP from HK\$35.22 to HK\$34.37 (WACC: 10.7%, terminal growth rate: 2.0%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21E	FY22E	FY23E	FY24E
Revenue (RMB mn)	0	34	0	212	505
Attributable net P&L (RMB mn)	(508)	(842)	(582)	(448)	(293)
R&D expenses	(329)	(768)	(500)	(500)	(500)
EPS (RMB)	(1.64)	(2.36)	(1.50)	(1.16)	(0.76)
Consensus EPS (RMB)	N/A	N/A	0.24	2.52	0.49
ROE (%)	(34)	(51)	(54)	(72)	(88)
ROA (%)	(27)	(41)	(37)	(29)	(23)
Net gearing (%)	Net cash	Net cash	Net cash	17	170
Current ratio (x)	8.4	6.9	95.7	35.2	11.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$34.37
(Previous TP)	HK\$35.22)
Up/Downside	+205.77%
Current Price	HK\$11.24

China Healthcare Sector

Jill Wu, CFA

(852) 3900 0842

jillwu@cmbi.com.hk

Andy Wang

(852) 3657 6288

andywang@cmbi.com.hk

Mkt. Cap. (HK\$ mn)	4,357
Avg. 3mths t/o (HK\$ mn)	114.19
52W High/Low (HK\$)	89.00/6.91
Total Issued Shares (mn)	388

Source: Bloomberg

Shareholding Structure

Youzhi Tong	13.17%
Chuangxing Guo	11.13%
Gree Financial	6.77%
Legend Holdings	6.00%
CloudAlpha	4.98%
Others	57.95%

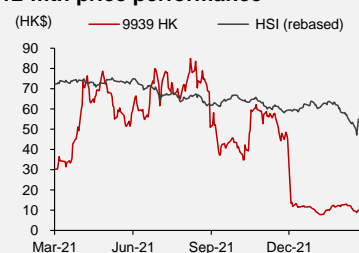
Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	-11.4%	-5.7%
3-mth	-75.1%	-73.0%
6-mth	-78.0%	-75.1%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: PWC

Web-site: www.kintor.com.cn

Related report:

- Continue to pursue development of proxalutamide for treatment of COVID-19 – 29 Dec 2021
- Proxalutamide expects to deliver differentiated clinical results compared with molnupiravir – 6 Oct 2021
- Multiple out-license collaborations for Proxalutamide – 30 Aug 2021

Valuation

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(583)	(433)	(267)	501	864	1,292	1,640	2,031	2,482
Tax rate	0%	0%	0%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(583)	(433)	(267)	426	734	1,098	1,394	1,726	2,109
+ D&A	12	4	13	17	21	24	28	31	34
- Change in working capital	59	157	(78)	(253)	(121)	(109)	(120)	(127)	(138)
- Capex	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
FCFF	(612)	(373)	(432)	89	535	914	1,202	1,531	1,906
Terminal value									22,284
FCF + Terminal value	(612)	(373)	(432)	89	535	914	1,202	1,531	24,191
Present value of enterprise	10,638								
Net Debt	(285)								
Minorities	0								
Equity value (RMB mn)	10,923								
Equity value (HK\$ mn)	13,321								
Equity value (US\$ mn)	1,719								
Target price (HK\$)	34.37								
Terminal growth rate	2.0%								
WACC	10.7%								
Cost of Equity	13.5%								
Cost of Debt	5.0%								
Equity Beta	1.0								
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\$)

		WACC				
		9.7%	10.2%	10.7%	11.2%	11.7%
Terminal growth rate	3.0%	46.75	42.22	38.31	34.90	31.92
	2.5%	43.81	39.75	36.22	33.12	30.39
	2.0%	41.26	37.59	34.37	31.53	29.01
	1.5%	39.01	35.67	32.72	30.10	27.77
	1.0%	37.02	33.96	31.24	28.82	26.64

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	0	212	505	23	1,019	1,217	-100.0%	-79.2%	-58.5%
Gross Profit	0	172	414	18	826	998	-100.0%	-79.2%	-58.5%
Operating Profit	(570)	(422)	(259)	(709)	307	368	-19.6%	-237.3%	-170.4%
Net profit	(582)	(448)	(293)	(718)	254	305	-18.9%	-276.7%	-196.1%
EPS (RMB)	(1.50)	(1.16)	(0.76)	(1.85)	0.65	0.79	-18.9%	-276.7%	-196.1%
Gross Margin	N/A	81.00%	82.00%	80.00%	81.00%	82.00%	0.00ppt	0.00ppt	0.00ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	0	212	505	9,847	2,800	2,096	-100.0%	-92.4%	-75.9%
Gross Profit	0	172	414	8,125	2,314	1,113	-100.0%	-92.6%	-62.8%
Operating Profit	(570)	(422)	(259)	1,661	1,691	683	-134.3%	-125.0%	-137.9%
Net profit	(582)	(448)	(293)	2,511	790	190	-123.2%	-156.8%	-254.3%
EPS (RMB)	(1.50)	(1.16)	(0.76)	0.24	2.52	0.49	-728.7%	-146.0%	-254.3%
Gross Margin	N/A	81.00%	82.00%	82.52%	82.63%	53.10%	N/A	-1.63 ppt	+28.90 ppt

Source: Company data, CMBIGM estimates

Financial Statements

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec (RMB mn)	FY20A	FY21E	FY22E	FY23E	FY24E
Revenue	0	34	0	212	505	Profit before tax	(508)	(842)	(582)	(448)	(293)
Proxalutamide China sales – risk adjusted	0	0	0	0	152	Depreciation and amortization, etc.	7	11	12	4	13
Proxalutamide US sales - risk adjusted	0	0	0	109	132	Change in working capital	(13)	(319)	59	157	(78)
Pyrilutamide China sales - risk adjusted	0	0	0	71	194	Others	134	99	(1)	(1)	(1)
Pyrilutamide US sales - risk adjusted	0	0	0	0	10	Net income tax paid	(0)	(1)	0	0	0
ALK-1 China sales - risk adjusted	0	0	0	0	0	Operating cash flow	(381)	(1,051)	(512)	(288)	(359)
Others	0	34	0	0	0	Purchase of PP&E	(69)	(76)	(100)	(100)	(100)
Cost of sales	0	0	0	(40)	(91)	Purchase of land use right	0	0	0	0	0
Gross profit	0	34	0	172	414	Purchases of financial assets at FV through profit or loss	(253)	(515)	0	0	0
Other income	25	29	30	28	24	Purchases of financial assets measured at amortized cost	0	0	0	0	0
Selling & distribution expenses	(77)	(103)	(100)	(100)	(100)	Others	(118)	684	0	0	0
R&D expenses	(329)	(768)	(500)	(500)	(500)	Investing cash flow	(440)	92	(100)	(100)	(100)
Administrative expenses	(9)	(15)	0	(21)	(97)	Proceeds from borrowings	239	20	300	400	0
Other expenses	(116)	(17)	0	0	0	Repayments of borrowings	(79)	(84)	0	0	0
Operating profit (loss)	(505)	(840)	(570)	(422)	(259)	Capital contribution from equity holders	1,653	952	0	0	0
Finance costs	(3)	(2)	(12)	(26)	(34)	Others	(32)	(31)	0	0	0
Pre-tax profit (loss)	(508)	(842)	(582)	(448)	(293)	Financing cash flow	1,780	858	300	400	0
Income tax	(0)	0	0	0	0	FX changes	(91)	(34)	0	0	0
Minority interests	0	0	0	0	0	Net change in cash	960	(102)	(312)	12	(459)
Attributable net profit (loss)	(508)	(842)	(582)	(448)	(293)	Cash at the beginning year	196	1,066	930	618	630
						Cash at the end	1,065	930	618	630	171

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	431	542	631	727	815	Sales mix (%)					
PP&E	175	224	316	417	509	Proxalutamide China sales adjusted	0	0	0	0	30
Intangible assets	210	236	235	235	235	Proxalutamide US sales	0	0	0	52	26
Right-of-use assets	12	39	35	31	27	Pyrilutamide China sales - adjusted	0	0	0	34	38
Other non-current assets	34	44	44	44	44	Pyrilutamide US sales	0	0	0	0	2
						ALK-1 China sales -	0	0	0	0	0
Current assets	1,421	1,526	945	813	449	Others	0	0	0	0	0
Inventories	0	351	200	28	55	Total	100	100	100	100	100
Trade receivables	0	0	0	23	83						
Other receivables and prepayments	32	118	0	6	14	Profit & loss ratios (%)					
Financial assets at FV through P&L	0	0	0	0	0	Gross margin	N/A	0	80	81	82
Cash and cash equivalents	1,066	930	618	630	171	EBITDA margin	N/A	N/A	N/A	(203)	(50)
Restricted cash	0	2	2	2	2	Pre-tax margin	N/A	N/A	N/A	(212)	(58)
						Net margin	N/A	N/A	N/A	(212)	(58)
Non-current liabilities	174	193	493	893	893	Effective tax rate	(0)	0	0	0	0
Borrowings	135	148	448	848	848						
Lease liabilities	0	3	3	3	3	Balance sheet ratios					
Deferred income tax liabilities	39	39	39	39	39	Current ratio (x)	8	7	96	35	11
						Net debt to equity (%)	Net cash	Net cash	Net cash	17	170
Current liabilities	169	220	10	23	40						
Trade and other payables	81	210	0	13	30	Returns (%)					
						ROE	(34)	(51)	(54)	(72)	(88)
Borrowings	84	7	7	7	7	ROA	(27)	(41)	(37)	(29)	(23)
Lease liabilities	3	2	2	2	2						
Deferred income	0	0	0	0	0	Per share value					
Amounts due to related parties	1	0	0	0	0	EPS (RMB)	(1.64)	(2.36)	(1.50)	(1.16)	(0.76)
						DPS (RMB)	0.00	0.00	0.00	0.00	0.00
Total net assets	1,508	1,655	1,073	624	331	BVP (RMB)	4.87	4.64	2.77	1.61	0.85
Minority interest	0	0	0	0	0						
Shareholders' equity	1,508	1,655	1,073	624	331						

Source: Company data, CMBIGM estimates

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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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