

# RemeGen (9995 HK)

## Expect sales recovery from 2Q

In 1Q23, RemeGen recorded revenue of RMB168mn, mostly from the product sales of RC18 and RC48, compared to RMB202mn in 4Q22 (-17% QoQ) and RMB150mn in 1Q22 (+12% YoY). The Company maintained the FY23 revenue target of no less than RMB1,250mn unchanged. According to the management, the Company intentionally slowed down the shipment volume of RC18 in 1Q23, considering high product sales in 1Q could have a negative impact on the NDRL renewal of RC18 late this year. In addition, we think the COVID-19 outbreak also impacted the sales performance of RC18 and RC48 in 1Q23. We expect product sales to recover from 2Q23 thanks to the normalized operation environment post the COVID pandemic. The GP margin has increased to 85% in 1Q23 vs 76% in 4Q22. The SG&A expenses were stable (RMB237mn vs RMB269mn in 1Q23 and 4Q22, respectively). In 1Q23, the R&D expense was RMB250mn, compared to RMB320mn in 4Q22. The Company recorded a net loss of RMB324mn in 1Q23, compared to a net loss of RMB323mn in 4Q22. As of Mar 2023, RemeGen had a cash balance of RMB1.62bn (including held-for-sale financial assets) vs RMB2.19bn in end-2022.

■ **RC48 to target the differentiated UC indication while exploring front-line and HER2-low market.** RC48 distinguished itself from other HER2 ADCs like DS-8201, TDM-1, and SHR-A1811 (Hengrui) by targeting differentiated indication of UC treatment. The NDRL has added RC48 for 2L UC with stable pricing, effective from Mar 2023, which will drive the product sales growth, in our view. RemeGen is exploring RC48's potential in earlier lines of UC treatment, with several studies ongoing, including a Ph3 trial of RC48+toripalimab for 1L HER2-expressing UC, a Ph2 trial for perioperative MIBC and a trial for NMIBC to be initiated. In the US, Seagen is conducting a pivotal Ph2 trial of RC48 mono for 2/3L HER2 -positive and -low UC treatment. Seagen also plans to start a Ph3 trial of RC48+Keytruda for 1L HER2-expressing UC in 2H23. In addition, a Ph3 trial for HER2-low BC is ongoing in China with data readout expected in late-2024. Additionally, we expect the potential acquisition of Seagen by Pfizer will have a positive impact on the global development of RC48 considering Pfizer's current pipeline portfolio.

■ **Large potential of RC18 for multiple underserved autoimmune diseases.** Besides adult SLE, RemeGen is also exploring RC18 for the treatment of child SLE and lupus nephritis. For the underserved markets of IgA, pSS and MG, RemeGen has also released positive Ph2 study results, and expects to start enrolments of Ph3 trials of the three indications in 2Q23 in China. In the overseas markets, the MRCT trial of RC18 for SLE is enrolling patients across the US, Europe, APAC and other regions, with the data readout of the first phase expected in mid-2024. The Company will start a Ph3 trial of RC18 for MG in the US in 2H23, and potentially for IgA and pSS later.

■ **Maintain BUY.** We are positive towards the sales of RC18 and RC48 in 2Q23 and beyond and maintained our DCF-based TP unchanged at HK\$71.89 (WACC: 10.95%, terminal growth rate: 3.0%).

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	1,424	768	1,282	2,170	3,210
YoY growth (%)	na	(46)	67	69	48
Net profit (RMB mn)	276	(999)	(1,107)	(824)	(393)
EPS (Reported) (RMB)	0.57	(1.88)	(2.03)	(1.51)	(0.72)
R&D expenses (RMB mn)	(711)	(982)	(1,200)	(1,100)	(1,000)
Admin expenses (RMB mn)	(220)	(273)	(391)	(553)	(690)

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

**Target Price** **HK\$71.89**  
 (Previous TP **HK\$71.89**)  
**Up/Downside** **57.0%**  
**Current Price** **HK\$45.80**

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### Stock Data

Mkt Cap (HK\$ mn)	24,927.2
Avg 3 mths t/o (HK\$ mn)	116.7
52w High/Low (HK\$)	70.05/26.00
Total Issued Shares (mn)	544.3

Source: FactSet

### Shareholding Structure

HKSCC nominees limited	34.8%
Yantai Rongda	18.8%

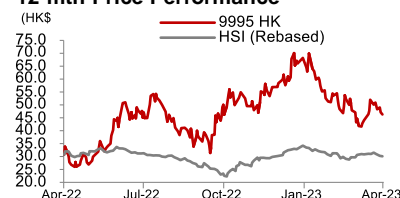
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	5.7%	5.1%
3-mth	-33.5%	-24.2%
6-mth	-1.0%	-26.0%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Related report:

- 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	(1,099)	(786)	(299)	495	1,478	2,850	4,092	5,636	6,902	7,795	7,881	7,496	7,548
Tax rate	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(1,099)	(786)	(299)	421	1,256	2,422	3,478	4,791	5,866	6,626	6,699	6,371	6,415
+ D&A	156	178	189	184	181	177	173	170	167	164	161	158	155
- Change in working capital	148	(245)	(289)	(314)	(488)	(485)	(499)	(524)	(347)	(378)	59	276	42
- Capex	(800)	(600)	(400)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
FCFF	(1,595)	(1,453)	(800)	191	848	2,014	3,052	4,337	5,586	6,312	6,818	6,705	6,513
Terminal value													84,405
FCF + Terminal value	(1,595)	(1,453)	(800)	191	848	2,014	3,052	4,337	5,586	6,312	6,818	6,705	90,918
PV of enterprise (RMB mn)	33,957												
Net debt (RMB mn)	(473)												
Equity value (RMB mn)	34,430												
No. of shares (mn)	544												
DCF per shares (RMB)	63.26												
DCF per share (HK\$)	71.89												
Terminal growth rate	3.0%												
WACC	10.95%												
Cost of Equity	14.0%												
Cost of Debt	4.5%												
Equity Beta	1.1												
Risk Free Rate	3.0%												
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				
	9.95%	10.45%	10.95%	11.45%	11.95%
4.0%	98.31	87.85	78.97	71.34	64.74
3.5%	92.63	83.24	75.19	68.21	62.13
3.0%	87.77	79.25	71.89	65.46	59.80
2.5%	83.56	75.77	68.97	63.01	57.73
2.0%	79.87	72.69	66.39	60.81	55.86

Source: CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff(%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY22E	FY23E	FY24E
Revenue	1,282	2,170	3,210	1,355	2,252	3,378	-5%	-4%	-5%
Gross profit	997	1,743	2,595	1,050	1,823	2,821	-5%	-4%	-8%
Operating profit	(1,099)	(786)	(299)	(846)	(458)	157	N/A	N/A	N/A
Net profit	(1,107)	(824)	(393)	(845)	(429)	126	N/A	N/A	N/A
EPS (RMB)	(2.03)	(1.51)	(0.72)	(1.55)	(0.81)	0.28	N/A	N/A	N/A
Gross margin	77.72%	80.32%	80.85%	77.47%	80.96%	83.50%	+0.25 ppt	-0.64 ppt	-2.65 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	1,282	2,170	3,210
Cost of goods sold	0	(67)	(270)	(286)	(427)	(615)
Gross profit	0	1,357	498	997	1,743	2,595
Operating expenses	(698)	(1,080)	(1,497)	(2,104)	(2,567)	(2,988)
Selling expense	(24)	(263)	(441)	(667)	(1,020)	(1,348)
Admin expense	(218)	(220)	(273)	(391)	(553)	(690)
R&D expense	(466)	(711)	(982)	(1,200)	(1,100)	(1,000)
Others	10	113	199	154	106	50
Operating profit	(669)	282	(992)	(1,099)	(786)	(299)
Interest income	(29)	(5)	(7)	(8)	(38)	(93)
Pre-tax profit	(698)	276	(999)	(1,107)	(824)	(393)
Income tax	0	0	0	0	0	0
Minority interest	0	0	0	0	0	0
Net profit	(698)	276	(999)	(1,107)	(824)	(393)

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	2,977	2,300	3,212	1,491	1,591	2,159
Cash & equivalents	2,769	1,757	2,069	520	282	443
Account receivables	0	7	281	241	407	602
Inventories	66	280	523	391	562	775
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	4,946	5,469	6,251
Current liabilities	431	616	892	868	960	1,079
Short-term borrowings	108	0	0	0	0	0
Account payables	63	159	222	198	290	408
Other current liabilities	218	405	610	610	610	610
Lease liabilities	43	52	60	60	60	60
Non-current liabilities	92	96	149	149	1,349	2,349
Long-term borrowings	0	0	0	0	1,200	2,200
Deferred income	44	46	44	44	44	44
Other non-current liabilities	47	51	105	105	105	105
Total liabilities	523	713	1,041	1,017	2,309	3,428
Share capital	490	490	544	544	544	544
Other reserves	3,105	2,957	4,436	3,385	2,616	2,279
Total shareholders equity	3,595	3,446	4,980	3,929	3,161	2,824
Total equity and liabilities	4,118	4,159	6,021	4,946	5,469	6,251

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	(698)	276	(999)	(1,107)	(824)	(393)
Depreciation & amortization	49	65	121	153	175	186
Tax paid	0	0	0	0	0	0
Change in working capital	(117)	(168)	(524)	148	(245)	(289)
Others	105	90	138	67	97	152
<b>Net cash from operations</b>	<b>(660)</b>	<b>264</b>	<b>(1,264)</b>	<b>(739)</b>	<b>(797)</b>	<b>(344)</b>
<b>Investing</b>						
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)
<b>Net cash from investing</b>	<b>(479)</b>	<b>(638)</b>	<b>(842)</b>	<b>(802)</b>	<b>(602)</b>	<b>(402)</b>
<b>Financing</b>						
Dividend paid	0	0	0	0	0	0
Net borrowings	(498)	(108)	0	0	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)	(8)	(38)	(93)
<b>Net cash from financing</b>	<b>3,904</b>	<b>(627)</b>	<b>2,427</b>	<b>(8)</b>	<b>1,162</b>	<b>907</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	35	2,769	1,757	2,069	520	282
Exchange difference	(31)	(10)	(9)	0	0	0
<b>Cash at the end of the year</b>	<b>2,769</b>	<b>1,757</b>	<b>2,069</b>	<b>520</b>	<b>282</b>	<b>443</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	na	na	(46.1%)	67.0%	69.3%	47.9%
Gross profit	na	na	(63.3%)	100.2%	74.9%	48.8%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	na	95.3%	64.8%	77.7%	80.3%	80.8%
Operating margin	na	19.8%	(129.2%)	(85.7%)	(36.2%)	(9.3%)
Return on equity (ROE)	(41.5%)	7.8%	(23.7%)	(24.9%)	(23.2%)	(13.1%)
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Current ratio (x)	6.9	3.7	3.6	1.7	1.7	2.0
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	na	152.8	na	na	na	na

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

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