

Akeso (9926 HK)

Eyes on the detailed head-to-head data of AK112 at WCLC in Sep

In 1H24, Akeso recorded RMB1.03bn in revenue, including RMB939mn from product sales. Cadonilimab/AK104 (PD-1/CTLA-4) recorded RMB706mn in sales in 1H24, +16% YoY or -6% HoH, accounting for 39% of our previous full-year estimate. We attribute the weaker-than-expected sales performance to the preparation for NRDL inclusion. Recall that Akeso reduced the retail price of AK104 from RMB13,220/125mg to RMB6,610/125mg in Jun 2024. Concurrently, Akeso discontinued the PAP program, a move we believe positions the drug ready for the upcoming NRDL negotiation. Approved in May 2024, Ivonescimab/ AK112 (PD-1/VEGF) realized RMB103mn sales revenue in 1H24. We expect AK104 and AK112 to participate in the NRDL negotiations by end-2024, which will boost their sales upon the inclusion in early 2025. Akeso maintained a high product GP margin at 91.6% in 1H24, compared to 91.8% in FY23. Selling expenses (incl. distribution cost) as % of product sales remained at 56.4% in 1H24, consistent with the 56.3% in FY23. R&D expenses increased 3.4% YoY to RMB594mn in 1H24. Akeso recorded RMB239mn of attributable net loss in 1H24. As of Jun 2024, Akeso had a sufficient cash balance of RMB5.69bn.

■ **Eyes on readout of the Ph3 H2H trial of AK112 vs Keytruda in 1L PD-L1+ NSCLC at WCLC meeting.** Akeso announced that the head-to-head Ph3 China study of AK112 mono vs Keytruda in 1L PD-L1 \geq 1% NSCLC met the PFS superiority endpoint ([link 1](#), [link 2](#)), with “a HR significantly better than expected”. Following this, an NDA was accepted in Aug 2024 in China with priority review, potentially offering a new chemo-free treatment option for PD-L1+ NSCLC patients. We look forward to the detailed PFS data release of the study at the coming WCLC meeting in Sep, and will monitor the OS data as it matures. Already approved in China for EGFR-TKI resistant nsq-NSCLC, the corresponding MRCT HARMONi trial conducted by Summit is on track to complete enrolment in 2H24. The Ph3 China trial of AK112+chemo vs tislelizumab+chemo in 1L sq-NSCLC is also expected to complete enrolment in 4Q24. Akeso is expanding the indications for AK112, with new Ph3 trials initiated in 1H24 including a Ph3 China trial of AK112+chemo vs durvalumab+chemo for 1L BTC and a Ph3 China trial of AK112+AK117 (CD47) for PD-L1+ HNSCC. A Ph3 trial of AK112+chemo for 1L pancreatic cancer is also in planning.

■ **Rapid progress of indication expansion for AK104.** Besides the approved 2/3L CC, Akeso is actively expanding AK104's indications. NDAs of AK104 in 1L GC (submitted in Jan 2024) and 1L CC (submitted in Apr 2024) are currently under review, with the approval expected by end-2024/in 1H25, respectively. Ph3 trials of AK104 in adjuvant HCC, advanced unresectable HCC, PD-L1- NSCLC, and PD-1-resistant 2L GC are ongoing. With an IND filed for AK138D1 (HER3 ADC), and multiple ADC assets in pre-clinical stage expected to enter the clinic, Akeso plans to explore the potential of AK104 or AK112 combined with ADCs to compete with PD-1+chemo.

■ **Maintain BUY.** We look forward to the detailed data of AK112 at the coming WCLC. Akeso's non-oncology products are nearing commercialization with NDAs for PCSK9 mAb and IL12/23 mAb under review. We expect AK104 and AK112 be covered by NRDL early next year. We revise our TP from HK\$59.61 to HK\$58.97 (WACC: 10.47%, terminal growth rate: 3.5%).

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	838	4,526	2,820	3,318	7,191
YoY growth (%)	271.3	440.3	(37.7)	17.7	116.7
Net profit (RMB mn)	(1,168)	2,028	(243)	(398)	1,519
EPS (Reported) (RMB)	(1.42)	2.42	(0.28)	(0.46)	1.75
R&D expenses (RMB mn)	(1,323)	(1,254)	(1,379)	(1,517)	(1,589)
Admin expenses (RMB mn)	(199)	(200)	(241)	(322)	(567)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$58.97
(Previous TP)	HK\$59.61)
Up/Downside	20.1%
Current Price	HK\$49.10

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Stock Data

Mkt Cap (HK\$ mn)	42,513.6
Avg 3 mths t/o (HK\$ mn)	276.7
52w High/Low (HK\$)	51.95/31.80
Total Issued Shares (mn)	865.9

Source: FactSet

Shareholding Structure

Yu Xia	12.1%
Green Court Capital	5.0%

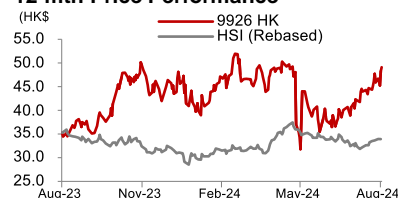
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	21.4%	14.7%
3-mth	53.4%	55.5%
6-mth	4.2%	-4.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (RMB mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	(311)	(443)	1,821	2,424	4,027	5,036	5,966	6,435	6,702	6,800	6,716	6,438
Tax rate	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(311)	(443)	1,548	2,061	3,423	4,280	5,071	5,469	5,697	5,780	5,709	5,473
+ D&A	148	151	149	148	146	145	144	143	141	140	139	138
- Change in working capital	(63)	(78)	(418)	266	(140)	(89)	(47)	67	129	148	158	168
- Capex	(300)	(200)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
FCFF	(526)	(570)	1,179	2,374	3,330	4,236	5,068	5,579	5,868	5,968	5,906	5,679
Terminal value												84,314
FCF + Terminal value	(526)	(570)	1,179	2,374	3,330	4,236	5,068	5,579	5,868	5,968	5,906	89,993
Present value of enterprise (RMB mn)	44,734											
Net debt (RMB mn)	(1,533)											
Non-controlling interests (RMB mn)	(194)											
Equity value (RMB mn)	46,461											
No. of shares (mn)	866											
DCF per shares (RMB)	53.66											
DCF per shares (HK\$)	58.97											
Terminal growth rate	3.5%											
WACC	10.47%											
Cost of Equity	14.1%											
Cost of Debt	4.5%											
Equity Beta	1.1											
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				
	9.47%	9.97%	10.47%	10.97%	11.47%
4.5%	79.59	71.49	64.76	59.07	54.22
4.0%	74.69	67.61	61.64	56.53	52.12
3.5%	70.62	64.33	58.97	54.33	50.29
3.0%	67.17	61.53	56.65	52.41	48.67
2.5%	64.22	59.09	54.63	50.71	47.24

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	New			Old			Diff(%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	2,820	3,318	7,191	2,715	4,291	7,819	4%	-23%	-8%
Gross profit	2,592	2,867	6,408	2,519	3,951	7,117	3%	-27%	-10%
Operating profit	(311)	(443)	1,821	(226)	226	2,299	N/A	N/A	N/A
Net profit	(243)	(398)	1,519	(130)	230	1,884	N/A	N/A	N/A
EPS (RMB)	(0.28)	(0.46)	1.75	(0.16)	0.27	2.24	N/A	N/A	N/A
Gross margin	91.91%	86.39%	89.11%	92.76%	92.07%	91.02%	-0.85 ppt	-5.68 ppt	-1.91 ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	2,820	3,318	7,191	2,666	4,202	6,114	6%	-21%	18%
Gross profit	2,592	2,867	6,408	2,426	3,787	5,491	7%	-24%	17%
Operating profit	(311)	(443)	1,821	(395)	257	1,313	N/A	N/A	N/A
Net profit	(243)	(398)	1,519	(372)	230	1,128	N/A	N/A	N/A
EPS (RMB)	(0.28)	(0.46)	1.75	(0.41)	0.28	1.29	N/A	N/A	N/A
Gross margin	91.91%	86.39%	89.11%	90.99%	90.13%	89.81%	+0.92 ppt	-3.73 ppt	-0.70 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	226	838	4,526	2,820	3,318	7,191
Cost of goods sold	(31)	(94)	(133)	(228)	(451)	(783)
Gross profit	194	744	4,393	2,592	2,867	6,408
Operating expenses	(1,442)	(2,122)	(2,363)	(2,748)	(3,178)	(4,450)
Selling expense	(179)	(553)	(890)	(1,358)	(1,570)	(2,531)
Admin expense	(244)	(199)	(200)	(241)	(322)	(567)
R&D expense	(1,123)	(1,323)	(1,254)	(1,379)	(1,517)	(1,589)
Others	103	(48)	(19)	230	232	237
Operating profit	(1,271)	(1,406)	1,862	(311)	(443)	1,821
Net Interest income/(expense)	(10)	(43)	(87)	(107)	(107)	(107)
Pre-tax profit	(1,258)	(1,422)	1,943	(263)	(418)	1,851
Income tax	0	0	(0)	0	0	(278)
After tax profit	(1,258)	(1,422)	1,942	(263)	(418)	1,573
Minority interest	(183)	(254)	(86)	(20)	(20)	54
Net profit	(1,075)	(1,168)	2,028	(243)	(398)	1,519

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	3,152	3,058	5,677	6,410	6,130	7,785
Cash & equivalents	2,642	2,092	1,542	2,025	1,380	2,484
Account receivables	102	271	296	436	555	986
Inventories	197	342	392	503	748	869
Prepayment	212	157	95	95	95	95
Financial assets at FVTPL	0	196	852	852	852	852
Other current assets	0	0	2,500	2,500	2,500	2,500
Non-current assets	1,654	2,437	3,211	3,363	3,412	3,363
PP&E	1,353	2,000	2,824	2,991	3,056	3,022
Right-of-use assets	152	163	338	323	308	292
Intangibles	4	8	6	6	6	6
Financial assets at FVTPL	0	10	12	12	12	12
Other non-current assets	145	256	30	30	30	30
Total assets	4,806	5,496	8,888	9,773	9,542	11,148
Current liabilities	656	1,361	1,205	1,293	1,480	1,513
Short-term borrowings	46	446	391	391	391	391
Account payables	206	309	355	443	630	663
Other current liabilities	396	600	445	445	445	445
Lease liabilities	8	6	15	15	15	15
Non-current liabilities	870	1,587	2,826	2,826	2,826	2,826
Long-term borrowings	804	1,421	2,577	2,577	2,577	2,577
Deferred income	64	160	240	240	240	240
Other non-current liabilities	2	6	9	9	9	9
Total liabilities	1,526	2,948	4,030	4,119	4,305	4,339
Share capital	0	0	0	0	0	0
Other reserves	3,164	2,636	4,692	5,509	5,112	6,631
Total shareholders equity	3,164	2,636	4,692	5,510	5,112	6,631
Minority interest	116	(88)	(174)	(194)	(214)	(160)
Total equity and liabilities	4,806	5,496	8,549	9,435	9,204	10,810

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(1,258)	(1,422)	1,943	(263)	(418)	1,851
Depreciation & amortization	58	106	143	148	151	149
Tax paid	0	0	0	0	0	(278)
Change in working capital	107	60	418	(63)	(78)	(418)
Others	92	16	(36)	7	7	7
Net cash from operations	(1,001)	(1,240)	2,468	(171)	(338)	1,312
Investing						
Capital expenditure	(712)	(776)	(719)	(300)	(200)	(100)
Net proceeds from disposal of short-term investments	120	(200)	(3,055)	0	0	0
Others	12	86	(223)	0	0	0
Net cash from investing	(580)	(890)	(3,997)	(300)	(200)	(100)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	645	1,005	1,099	0	0	0
Proceeds from share issues	978	495	(3)	1,060	0	0
Share repurchases	(52)	0	0	0	0	0
Others	15	(15)	(135)	(107)	(107)	(107)
Net cash from financing	1,587	1,486	961	953	(107)	(107)
Net change in cash						
Cash at the beginning of the year	2,684	2,642	2,092	1,542	2,025	1,380
Exchange difference	(49)	95	19	0	0	0
Cash at the end of the year	2,642	2,092	1,542	2,025	1,380	2,484
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	na	271.3%	440.3%	(37.7%)	17.7%	116.7%
Gross profit	na	282.5%	490.8%	(41.0%)	10.6%	123.5%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	86.1%	88.8%	97.1%	91.9%	86.4%	89.1%
Operating margin	(563.1%)	(167.9%)	41.1%	(11.0%)	(13.3%)	25.3%
Return on equity (ROE)	(33.9%)	(40.3%)	55.4%	(4.8%)	(7.5%)	25.9%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	4.8	2.2	4.7	5.0	4.1	5.1
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	18.5	ns	ns	25.5
P/B	11.1	14.5	8.3	7.3	7.9	6.0

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

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