

# Ascentage Pharma (6855 HK)

## Pipeline in smooth progress; First NDA filing this year

Ascentage announced FY19 net loss of RMB1,481mn, below our forecast of RMB1,082mn net loss. The difference was mainly due to RMB837mn one-off fair value loss on convertible redeemable preferred shares. Ascentage recognized RMB464mn research expense and RMB162mn admin expense, including RMB35m one-off listing expense. As of end-2019, the Company has RMB882mn cash on hand which provides strong funding for future R&D investment. Maintain BUY with our DCF-based TP unchanged at HK\$45.8.

- HQP1351 to file NDA in 2020E.** HQP1351 is a third generation BCR-ABL/KIT inhibitor for drug resistance in current TKI treatments (imatinib, dasatinib and nilotinib). In the Phase I trial, HQP1351 showed comparable efficacy and improved safety profile than ponatinib. No cardiovascular, cerebrovascular, or peripheral vascular thrombosis, including fatal myocardial infarction or stroke was reported among the 101 patients enrolled in China. HQP1351 finished patient enrollment of its pivotal phase II trial for r/r CML in China in Sep 2019 and will file NDA for treatment of r/r CML to the NMPA in 2020E, becoming the Company's first commercialized product.
- APG-2575 received approvals for initiating three different trials in the US and China.** As of Feb 2020, total 19 patients were enrolled in two Phase I trials in the US and China. Interim data from the US phase I trial shows satisfying safety profile with no DLTs (dose limiting toxicities), no TLS (tumor lysis syndrome) and the MTD (maximum tolerable dose) not reached at 20-600mg dose levels. In 1Q20, APG-2575 received approvals from the US FDA for a Phase Ib/II trial for r/r CLL/SLL (first patient enrolled in Mar 2020), a Phase Ib/II trial for WM, and approval from the NMPA for a Phase Ib trial for r/r AML.
- Strong in-house R&D capability in apoptosis pathways and next generation TKIs.** Ascentage has a pipeline of eight clinical stage small molecule candidates covering areas such as cancers, HBV and age-related diseases. As of Dec 2019, Ascentage Pharma was conducting 30+ phase I or II clinical trials in China, US and Australia. The most advanced drug is HQP1351 which and expected to receive approval from NMPA in 2021E. APG-2575 has entered into Phase Ib/II trials while APG-1252, APG-115 and APG-1387 are in Phase I trials.
- Maintain BUY.** We forecast drug sales to start in 2022E and apply risk-adjusted revenue to those drugs with different probability of success (PoS). We maintain our price target of HK\$45.8 based on an 8-year DCF valuation (WACC: 10.98%, terminal growth 3.0%).

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	7	15	7	7	91
YoY growth (%)	8	113	(52)	0	1,199
Net profit (RMB mn)	(345)	(1,481)	(729)	(794)	(835)
EPS (RMB)	N/A	(12.69)	(3.49)	(3.80)	(3.99)
Consensus EPS (RMB)	N/A	(12.69)	(3.02)	(2.98)	N/A
R&D expenses (RMB mn)	(250)	(464)	(600)	(600)	(600)
Capex (RMB mn)	(48)	(81)	(400)	(460)	(100)
Current ratio	9.4	4.5	0.5	0.1	0.1

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price	HK\$45.8
(Previous TP)	HK\$45.8)
Up/Downside	+107.4%
Current Price	HK\$22.10

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#### Stock Data

Mkt. Cap. (HK\$ mn)	4,617
Avg. 3mths t/o (HK\$ mn)	2.43
52W High/Low (HK\$)	53.6/19.8
Total Issued Shares (mn)	209

Source: Bloomberg

#### Shareholding Structure

Management	32.17%
Collected Mind (3SBio)	4.85%
Sino Biopharma	2.2%
Institution investors	26.28%
Free float	34.5%

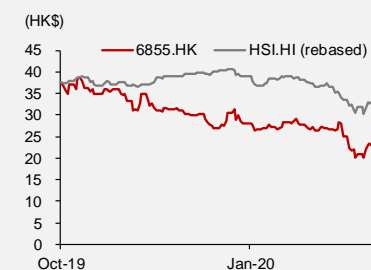
Source: SZSE

#### Share Performance

	Absolute	Relative
1-mth	-16.6%	-6.0%
3-mth	-26.3%	-10.0%
6-mth	N/A	N/A

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: Ernst & Young

#### Related reports

- Encouraging progress in innovative BCL-2 inhibitor – 11 Mar 2020
- Pioneer in developing apoptosis pathway drug – 20 Dec 2019

The Company has built up fully integrated discovery and preclinical development capabilities covering processes including: new target initiatives or target assessment, hit identification, lead generation, lead optimization, Investigational New Drug (IND)-enabling studies and clinical candidate selection.

**Figure 1: Key pipeline of Ascentage**

Candidate	Mechanism	Lead Indications	Preclinical	Ph I	Ph II	Countries
HQP1351	BCR-ABL mutant	Resistant CML	pivotal phase II			China
	KIT	GIST				China
APG-2575	Bcl-2 Selective	CLL/SLL				China, U.S. & Australia
		WM				U.S. & Australia
		AML				China
APG-1252	Bcl-2/Bcl-xL	SCLC/NSCLC				China, U.S. & Australia
		NSCLC (Combo)				China
APG-115	MDM2-p53	Solid tumors(IO combo)				China & U.S.
		AML				China & U.S.
APG-1387	IAP Dimer	Solid tumors(IO combo)				China & U.S.
		Hepatitis B				China
AT-101	Bcl-2/Bcl-xL/Mcl-1	CLL				China & U.S.
APG-2449	FAK/ALK/ROS1	NSCLC				China
HQP8361	c-Met selective	Cancer (c-Met+)				China
Bcl-2 related Strategic relationship with Unity to develop senolytic drugs.						U.S.

Source: Company data, CMBIS

**Figure 2: CMBIS earnings revisions**

(RMB mn)	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	7	7	7	7	0%	0%
Gross profit	7	7	7	7	0%	0%
Operating profit	(713)	(747)	(690)	(707)	N/A	N/A
Net profit	(729)	(794)	(710)	(763)	N/A	N/A
EPS (RMB)	(3.49)	(3.80)	(3.40)	(3.75)	N/A	N/A

Source: Company data, CMBIS estimates

**Figure 3: CMBIS estimates vs consensus**

(RMB mn)	CMBI		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	7	7	6	121	11%	-94%
Gross profit	7	7	6	108	24%	-94%
Operating profit	(713)	(747)	(661)	(563)	N/A	N/A
Net profit	(729)	(794)	(558)	(681)	N/A	N/A
EPS (RMB)	(3.49)	(3.80)	(3.02)	(2.98)	N/A	N/A

Source: Company data, CMBIS estimates

**Figure 4: Peers comparison**

Ticker	Company	Current Px (HKD)	Mkt Cap (USD mn)	Px Change (%)			AVG Trading Turnover (HKD mn)			IPO Date	IPO Px (HKD)
				30 d	60 d	90 d	30 d	60 d	90 d		
6160.HK	Beigene	75.85	9,827	-18%	-16%	-24%	-	7	6	2018-08-08	108.00
1801.HK	Innovent	30.15	5,220	-15%	0%	14%	10	128	101	2018-10-31	13.98
1877.HK	Junshi	31.30	4,679	29%	32%	17%	10	7	5	2018-12-24	19.38
6185.HK	CanSino	121.00	3,475	48%	93%	105%	146	93	68	2019-03-28	22.00
2696.HK	Henlius	38.00	2,664	-9%	-3%	-7%	1	1	1	2019-09-25	49.60
9966.HK	AlphaMab	15.52	1,849	-12%	14%	11%	7	10	10	2019-12-12	10.20
9969.HK	InnoCare	10.98	1,772	N/A	N/A	N/A	N/A	N/A	N/A	2020-03-23	8.95
2616.HK	CStone	8.84	1,173	-16%	-18%	-14%	2	2	4	2019-02-26	12.00
6855.HK	Ascentage	22.10	595	-17%	-16%	-26%	2	1	2	2019-10-28	34.20

Source: Bloomberg, CMBIS

## Financial Summary

### Income statement

YE Dec 31 (Rmb mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>7</b>	<b>15</b>	<b>7</b>	<b>7</b>	<b>91</b>
License fee income	0	11	0	0	0
Provision of R&D services	7	4	7	7	7
Cost of sales	0	(2)	0	0	(27)
<b>Gross profit</b>	<b>7</b>	<b>12</b>	<b>7</b>	<b>7</b>	<b>64</b>
Other income	61	49	19	19	19
Selling & distribution expenses	0	0	0	0	(45)
Milestone payment	0	0	0	(20)	(20)
Administrative expenses	(90)	(162)	(139)	(153)	(168)
R&D expenses	(250)	(464)	(600)	(600)	(600)
<b>Operating profit</b>	<b>(272)</b>	<b>(564)</b>	<b>(713)</b>	<b>(747)</b>	<b>(751)</b>
Other expenses	(38)	(914)	0	0	0
Finance costs, net	(37)	(4)	(16)	(48)	(84)
<b>Pre-tax profit</b>	<b>(347)</b>	<b>(1,482)</b>	<b>(729)</b>	<b>(794)</b>	<b>(835)</b>
Income tax	2	2	0	0	0
Minority interests	0	0	0	0	0
<b>Net profit (Net loss)</b>	<b>(345)</b>	<b>(1,481)</b>	<b>(729)</b>	<b>(794)</b>	<b>(835)</b>

### Cash flow summary

YE Dec 31 (Rmb mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Profit before tax</b>	<b>(347)</b>	<b>(1,482)</b>	<b>(729)</b>	<b>(794)</b>	<b>(835)</b>
Depreciation & amortization, etc.	18	26	29	79	136
Change in working capital	27	58	(13)	0	(18)
Tax paid	0	2	0	0	0
Others	64	936	16	48	84
<b>Net cash from operating</b>	<b>(238)</b>	<b>(460)</b>	<b>(697)</b>	<b>(668)</b>	<b>(632)</b>
Capex	(48)	(81)	(400)	(460)	(100)
(Purchases of)/proceeds from retrieval of other financial assets, net	376	14	0	0	0
Other investing activities	(35)	(135)	(5)	(5)	(5)
<b>Net cash from investing</b>	<b>293</b>	<b>(201)</b>	<b>(405)</b>	<b>(465)</b>	<b>(105)</b>
Net proceeds from shares issued	911	404	0	0	0
Bank borrowing	35	50	600	1,000	800
Capital repurchase	(76)	0	0	0	0
Interests paid	(2)	(4)	(16)	(48)	(84)
<b>Net cash from financing</b>	<b>860</b>	<b>442</b>	<b>584</b>	<b>952</b>	<b>716</b>
FX changes	27	145	0	0	0
<b>Net change in cash</b>	<b>915</b>	<b>(219)</b>	<b>(518)</b>	<b>(180)</b>	<b>(21)</b>
Cash at the beginning of the year	15	957	882	365	185
<b>Cash at the end of the year</b>	<b>957</b>	<b>882</b>	<b>365</b>	<b>185</b>	<b>164</b>

### Balance sheet

YE Dec 31 (Rmb mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>239</b>	<b>296</b>	<b>672</b>	<b>1,058</b>	<b>1,026</b>
PP&E	27	94	480	875	852
Right-of-use assets	40	49	45	41	37
Other intangible assets	75	72	66	61	56
Goodwill	25	25	25	25	25
Equity investment measured at FVTPL	60	32	32	32	32
Other non-current assets	12	25	25	25	25
<b>Current assets</b>	<b>990</b>	<b>909</b>	<b>391</b>	<b>211</b>	<b>213</b>
Inventories	0	0	0	0	7
Trade receivables	0	0	0	0	15
Prepayments, other receivables	19	27	27	27	27
Other financial assets	14	0	0	0	0
Cash and bank balances	957	882	365	185	164
<b>Current liabilities</b>	<b>105</b>	<b>202</b>	<b>789</b>	<b>1,789</b>	<b>2,593</b>
Bank loans	38	92	692	1,692	2,492
Trade payables	5	13	0	0	4
Other payables and accruals	63	97	97	97	97
Contract liabilities	0	0	0	0	0
<b>Non-current liabilities</b>	<b>2,136</b>	<b>113</b>	<b>113</b>	<b>113</b>	<b>113</b>
Bank loans	4	9	9	9	9
Deferred tax liabilities	19	17	17	17	17
Convertible redeemable preferred shares	2,076	0	0	0	0
Other non-current liabilities	0	0	0	0	0
Others	37	86	86	86	86
<b>Total net assets</b>	<b>(1,012)</b>	<b>890</b>	<b>162</b>	<b>(633)</b>	<b>(1,467)</b>
<b>Minority interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Shareholders' equity</b>	<b>(1,012)</b>	<b>890</b>	<b>162</b>	<b>(633)</b>	<b>(1,467)</b>

### Key ratios

YE Dec 31	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
License fee income	1	73	0	0	0
Provision of R&D services	99	27	100	100	8
Total	100	100	100	100	8
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	100	86	100	100	70
EBITDA margin	N/A	N/A	N/A	N/A	N/A
Pre-tax margin	N/A	N/A	N/A	N/A	N/A
Net margin	N/A	N/A	N/A	N/A	N/A
Effective tax rate (%)	0	0	0	0	0
<b>Balance sheet ratios</b>					
Current ratio (x)	9	4	0	0	0
Trade receivables turnover	N/A	N/A	N/A	N/A	N/A
Trade payables turnover days	N/A	N/A	N/A	N/A	N/A
Net debt to total equity ratio (%)	N/A	N/A	N/A	N/A	N/A
Total debt to asset ratio (%)	182	26	85	150	218
<b>Returns (%)</b>					
ROE	N/A	N/A	N/A	N/A	1
ROA	N/A	N/A	N/A	N/A	(1)
<b>Per share data</b>					
EPS (RMB)	N/A	(12.69)	(3.49)	(3.80)	(3.99)
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	N/A	Net	1.61	7.26	11.19

Source: Company data, CMBIS estimates

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