

# Innovent Biologics (1801 HK)

## Fast expanding commercial product portfolio

In 1H22, Innovent recorded total revenue of RMB2.2bn, including RMB2.0bn product sales revenue (+10% YoY). According to Eli Lilly, sintilimab sales in 1H22 was US\$159.1mn (-26% YoY), although Eli Lilly's reported numbers could be different from Innovent's numbers. The sales performance of sintilimab was temporarily impacted by the NRDL price cut, COVID-19 lockdown and commercial team restructuring. We expect sales of sintilimab to recover from 2H22E thanks to stabilized commercial team. Under non-IFRS measures (excl. impacts of non-cash items foreign exchange gain/loss and share-based costs), gross margin of product sales decreased to 78.6% in 1H22 from 89.8% in 1H21, mainly due to the price cut of sintilimab, lower gross margin of newly collaborated products such as olverembatinib, and increasing proportion of sales from lower-margin biosimilars. Under non-IFRS measures, selling expense as % of product sales was 66.7% in 1H22 (vs 56.7% in 1H21, 69.4% in 2H21). The Company's commercial team expanded from 2,117 employees in Jun 2021 to 2,745 in Jun 2022, which led to increase in selling expense ratio. Non-IFRS net loss was RMB1.09bn in 1H22, vs RMB677mn in 1H21. As of Aug 2022, Innovent has a strong cash position of c. US\$1.5bn.

■ **Fast expanding commercial product portfolio.** Innovent currently has seven commercial products. We expect 1L GC and 1L ESCC of sintilimab to be included in NRDL from 2023E, and the sNDA for 2L EGFRm nsq-NSCLC to be approved in China in 2H22E. NDAs of Retsevmo (RET) for NSCLC/MTC/TC were accepted by CDE in Aug 2021 with the approval expected in 2H22E, which will become the eighth commercial product of Innovent. Additionally, already approved for 2L GC in China, CYRAMZA (VEGFR2) may receive approval for 2L HCC in 2H22E. In Jun 2022, NDAs of IBI326 (BCMA CART) for r/r MM and IBI306 (PCSK9) for nFH/HeFH was accepted by CDE. IBI-362 (GLP-1/GCGR), another potential blockbuster, is expected to enter Ph3 studies for obesity and diabetes in end 2022 or early 2023. Within the next five years, Innovent targets to launch over 15 products in China which will support RMB20bn annual product revenue.

■ **Competitive early-stage pipelines with global rights.** IBI-110 (LAG3) continues to demonstrate positive signals in 1L sq-NSCLC and 1L GC patients in Ph1b studies with updated data release planned in 2H22. IBI-939, a differentiated IgG4 mAb targeting TIGIT (vs IgG1 mAb for other TIGIT candidates), has shown promising benefits in ORR and PFS in combination with sintilimab in a randomized Ph1b study in PD-L1 TPS ≥ 50% NSCLC, with internal data readout expected in end 2022/ early 2023. Additionally, IBI-322, a CD47/PD-L1 BsAb, is expected to have PoC data in lymphoma in end 2022/ early 2023.

■ **Maintain BUY.** We expect product sales to grow fast in coming years thanks to fast expanding commercial product portfolio. We revised our DCF-based TP from HK\$55.33 to HK\$52.59 (WACC: 9.9%, terminal growth rate: 3.0%).

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	3,844	4,270	4,884	6,001	8,577
YoY growth (%)	266.9	11.1	14.4	22.9	42.9
Net profit (RMB mn)	(998)	(3,138)	(2,070)	(1,816)	(663)
EPS (Reported) (RMB)	(0.74)	(2.16)	(1.35)	(1.19)	(0.43)
R&D expenses (RMB)	(1,851)	(2,478)	(2,500)	(2,300)	(2,144)
CAPEX (RMB mn)	(489)	(1,066)	(300)	(300)	(300)

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

Target Price	HK\$52.59
(Previous TP)	HK\$55.33)
Up/Downside	50.7%
Current Price	HK\$34.90

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### Stock Data

Mkt Cap (HK\$ mn)	53,314.9
Avg 3 mths t/o (HK\$ mn)	32.6
52w High/Low (HK\$)	80.30/18.64
Total Issued Shares (mn)	1527.6
Source: FactSet	

### Shareholding Structure

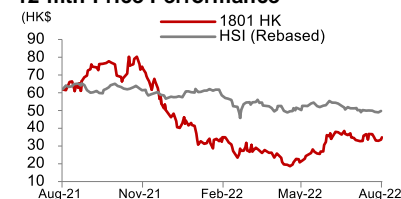
Temasek Holdings	8.1%
Yu De-Chao Michael	7.2%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	2.2%	5.9%
3-mth	59.7%	59.7%
6-mth	-0.1%	17.1%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

### Auditor: Deloitte

Website: [www.innoventbio.com](http://www.innoventbio.com)

### Related report:

1. Strategic cooperation with Sanofi to strengthen presence in oncology – 8 Aug 2022
2. Encouraging preliminary data on IBI110 (LAG-3 mAb) released at ASCO – 6 Jun 2022
3. Expanding portfolio of commercial products – 31 Mar 2022
4. Temporary setback paves the way for future success – 14 Feb 2022

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	-2,167	-1,870	-715	878	2,995	5,280	6,919	8,506	9,578	10,625	10,605	10,661	10,739	10,766
Tax rate	2%	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	-2,118	-1,870	-715	746	2,546	4,488	5,881	7,230	8,141	9,031	9,014	9,062	9,128	9,151
+ D&A	191	198	205	212	218	224	229	234	239	243	248	252	256	259
- Change in working capital	610	115	12	-396	-514	-529	-306	-337	-178	-146	101	26	17	34
- Capex	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300
FCFF	-1,617	-1,857	-798	262	1,949	3,882	5,504	6,828	7,902	8,828	9,063	9,039	9,101	9,145
Terminal value														137,257
FCF + Terminal value	-1,617	-1,857	-798	262	1,949	3,882	5,504	6,828	7,902	8,828	9,063	9,039	9,101	146,402
PV of enterprise (RMB mn)	60,953													
Net debt (RMB mn)	-7,338													
Equity value (RMB mn)	68,290													
Equity value (HK\$ mn)	80,342													
No. of outstanding shares (mn)	1,528													
DCF per share (HK\$)	52.59													

Terminal growth rate	3.0%
WACC	9.9%
Cost of Equity	12.5%
Cost of Debt	4.5%
Equity Beta	0.9
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				
		8.9%	9.4%	9.9%	10.4%	10.9%
Terminal growth rate	4.0%	72.10	64.23	57.75	52.31	47.70
	3.5%	67.62	60.73	54.97	50.07	45.88
	3.0%	63.90	57.78	52.59	48.14	44.29
	2.5%	60.77	55.26	50.54	46.45	42.89
	2.0%	58.10	53.09	48.75	44.97	41.64

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	4,884	6,001	8,577	4,584	5,704	8,253	7%	5%	4%
Gross profit	3,858	4,800	6,948	3,942	4,905	7,097	-2%	-2%	-2%
Operating profit	(1,640)	(1,428)	(233)	(1,546)	(1,036)	704	N/A	N/A	N/A
Net profit	(2,070)	(1,816)	(663)	(2,037)	(1,446)	212	N/A	N/A	N/A
EPS (RMB)	(1.35)	(1.19)	(0.43)	(1.39)	(0.98)	0.14	N/A	N/A	N/A
Gross margin	79.00%	80.00%	81.00%	86.00%	86.00%	86.00%	-7.00 ppt	-6.00 ppt	-5.00 ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff(%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	4,884	6,001	8,577	5,336	7,198	9,544	-8%	-17%	-10%
Gross profit	3,858	4,800	6,948	4,545	6,133	8,155	-15%	-22%	-15%
Operating profit	(1,640)	(1,428)	(233)	(2,222)	(1,288)	(136)	N/A	N/A	N/A
Net profit	(2,070)	(1,816)	(663)	(2,215)	(889)	179	N/A	N/A	N/A
EPS (RMB)	(1.35)	(1.19)	(0.43)	(1.47)	(0.76)	(0.06)	N/A	N/A	N/A
Gross margin	79.00%	80.00%	81.00%	85.18%	85.21%	85.45%	-6.18 ppt	-5.21 ppt	-4.45 ppt

Source: Company data, Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	1,048	3,844	4,270	4,884	6,001	8,577
Cost of goods sold	(125)	(388)	(573)	(1,026)	(1,200)	(1,630)
Gross profit	923	3,456	3,697	3,858	4,800	6,948
Operating expenses	(2,643)	(4,315)	(6,748)	(5,977)	(6,616)	(7,611)
Selling expense	(693)	(1,341)	(2,728)	(2,930)	(3,240)	(4,117)
Admin expense	(255)	(437)	(884)	(855)	(930)	(1,158)
R&D expense	(1,295)	(1,851)	(2,478)	(2,500)	(2,300)	(2,144)
Others	(400)	(686)	(657)	308	(146)	(191)
Pre-tax profit	(1,720)	(859)	(3,051)	(2,118)	(1,816)	(663)
Income tax	0	(140)	(87)	48	0	0
Minority interest	0	0	0	0	0	0
Net profit	(1,720)	(998)	(3,138)	(2,070)	(1,816)	(663)

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	5,455	9,467	11,551	12,487	11,663	12,173
Cash & equivalents	4,233	7,764	8,377	9,836	9,079	9,482
Account receivables	248	475	968	669	740	940
Inventories	359	706	1,347	1,124	986	893
Financial assets at FVTPL	463	357	645	645	645	645
Other current assets	154	165	213	213	213	213
Non-current assets	1,775	2,368	4,693	4,802	4,904	4,999
PP&E	1,345	1,584	2,693	2,820	2,939	3,052
Intangibles	0	33	772	772	772	772
Other non-current assets	430	752	1,228	1,210	1,192	1,175
Total assets	7,231	11,835	16,244	17,289	16,567	17,172
Current liabilities	1,044	1,486	3,050	3,137	3,186	3,304
Short-term borrowings	17	255	365	365	365	365
Account payables	84	121	195	282	331	449
Tax payable	0	0	61	61	61	61
Other current liabilities	942	1,110	2,429	2,429	2,429	2,429
Non-current liabilities	1,431	1,569	2,863	2,864	2,865	2,866
Long-term borrowings	808	925	2,023	2,023	2,023	2,023
Obligations under finance leases	25	10	86	87	88	89
Other non-current liabilities	598	634	754	754	754	754
Total liabilities	2,474	3,055	5,913	6,002	6,051	6,170
Share capital	0	0	0	0	0	0
Other reserves	4,756	8,780	10,330	11,287	10,516	11,002
Total shareholders equity	4,756	8,780	10,330	11,287	10,516	11,002
Minority interest	0	0	0	0	0	0
Total equity and liabilities	7,231	11,835	16,244	17,289	16,567	17,172

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	(1,720)	(719)	(2,964)	(2,167)	(1,816)	(663)
Depreciation & amortization	74	68	165	173	181	187
Tax paid	0	(140)	(87)	48	0	0
Change in working capital	(141)	(334)	(90)	610	115	12
Others	123	817	951	967	1,009	1,116
<b>Net cash from operations</b>	<b>(1,664)</b>	<b>(308)</b>	<b>(2,025)</b>	<b>(368)</b>	<b>(511)</b>	<b>652</b>
<b>Investing</b>						
Capital expenditure	(366)	(489)	(1,066)	(300)	(300)	(300)
Acquisition of subsidiaries/ investments	0	(6)	(38)	0	0	0
Net proceeds from disposal of short-term investments	(2,268)	(12,001)	(12,121)	500	0	0
Others	65	7,311	10,527	137	142	139
<b>Net cash from investing</b>	<b>(2,569)</b>	<b>(5,185)</b>	<b>(2,698)</b>	<b>337</b>	<b>(158)</b>	<b>(161)</b>
<b>Financing</b>						
Dividend paid	0	0	0	0	0	0
Net borrowings	33	355	1,208	0	0	0
Proceeds from share issues	2,175	4,662	3,951	2,077	0	0
Others	(98)	(105)	(155)	(87)	(87)	(87)
<b>Net cash from financing</b>	<b>2,109</b>	<b>4,912</b>	<b>5,003</b>	<b>1,989</b>	<b>(87)</b>	<b>(87)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	4,525	2,426	1,276	1,359	3,318	2,561
Exchange difference	25	(569)	(197)	0	0	0
<b>Cash at the end of the year</b>	<b>2,426</b>	<b>1,276</b>	<b>1,359</b>	<b>3,318</b>	<b>2,561</b>	<b>2,964</b>
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Revenue	10,953.3%	266.9%	11.1%	14.4%	22.9%	42.9%
Gross profit	9,635.6%	274.6%	7.0%	4.4%	24.4%	44.7%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Gross profit margin	88.1%	89.9%	86.6%	79.0%	80.0%	81.0%
Return on equity (ROE)	(38.4%)	(14.8%)	(32.8%)	(19.1%)	(16.7%)	(6.2%)
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.7)	(0.7)	(0.6)	(0.7)	(0.6)	(0.6)
Current ratio (x)	5.2	6.4	3.8	4.0	3.7	3.7
Receivable turnover days	86.4	34.3	61.7	50.0	45.0	40.0
Inventory turnover days	620.7	500.9	653.8	400.0	300.0	200.0
Payable turnover days	185.7	96.4	100.5	100.5	100.5	100.5
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
<b>YE 31 Dec</b>						
P/B	5.5	6.4	9.2	4.1	4.4	4.2

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

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