

# Shanghai Henlius Biotech, Inc. (2696 HK)

## Expecting five NDA approvals within two years

- On 13 Jun, Henlius held an R&D info-day in Shanghai. The Company aims to provide world-class quality biological drug with affordable price. To date, Henlius has already owned one marketed product (HLX01), two NDA-submitted compounds (HLX02, HLX03), and three to-submit NDAs (HLX04, RA indication of HLX01, HLX10). We expected the Company to expand its pipeline portfolio thanks to its strong in-house R&D capacity.
- Expecting 5 new approvals by end 2021E.** On 31 May, the Company announced that the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) has adopted a positive opinion, recommending marketing authorization for biosimilar HLX02 (Herceptin biosimilar). Previously in Apr, Henlius' biopharmaceutical manufacturing facility of HLX02 in Xuhui, Shanghai, has received EU's GMP approval. We expect HLX02 to receive EU MAA approval for commercialization in 3Q20E. In addition, we forecast HLX02 to receive approvals from NMPA in 2H20E. We also expect HLX03 (Humira biosimilar) to receive approvals from NMPA by the end of 2020E. In addition, we expect Henlius to file NDAs to the NMPA for HLX04 (Avastin biosimilar) and HLX01 (RA indication) by 2020E. HLX10 (PD-1 mAb) may submit NDA for its first indication, MSI-H/MMR solid tumor, by 2020E.
- Rich innovative pipelines supported by comprehensive in-house R&D platforms.** Henlius has developed rich bio-innovative pipelines with 22 clinical trials in progress, including nine Phase 3 trials. Core innovative pipelines include HLX10 (PD-1, Ph 3), HLX07 (EGFR biobetter, Ph 1b/2), HLX22 (HER2 innovative, Ph 1), HLX55 (c-MET innovative, Ph 1), HLX56 (DR4 innovative, Ph 1). Henlius also established state-of-the-art bi-specific antibody development platform with three bi-specific antibody candidates in pre-clinical phase. The Company actively involves in development of anti-COVID-19 drugs with two candidates in pre-clinical phase, including HLX71 (S1 protein), and HLX70 (S1 protein).
- TP remained unchanged at HK\$57.21.** Our TP of HK\$57.21 is based on 11-year risk-adjusted DCF valuation (WACC: 10.03%, terminal growth rate: 3.0%). We like Henlius for its rich biological pipeline and strong in-house R&D capability.
- Catalysts:** 1) Earlier-than-expected launch of products in pipeline, 2) stronger-than-expected sales from newly launched product, 3) positive outcome of clinical trial data.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	7	91	615	1,444	2,818
YoY growth (%)	-78%	1125%	576%	135%	95%
Net profit (RMB mn)	(494)	(875)	(772)	(262)	616
YoY growth (%)	N/A	N/A	N/A	N/A	N/A
EPS (RMB)	(1.16)	(1.76)	(1.42)	(0.48)	1.13
Change (%)	N/A	N/A	N/A	N/A	N/A
Consensus EPS (RMB)	N/A	N/A	(1.45)	(0.71)	0.37
ROE (%)	(27.4)	(21.9)	(23.9)	(8.8)	17.2
ROA (%)	(16.0)	(14.8)	(14.6)	(4.3)	8.8
Net gearing (%)	Net cash	Net cash	11	48	39
Current ratio (x)	2.0	2.8	1.1	1.1	1.5

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price	HK\$57.21
(Previous TP)	HK\$57.21
Up/Downside	+30.0%
Current Price	HK\$44.00

### China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	23,914
Avg. 3mths t/o (HK\$ mn)	2.87
52W High/Low (HK\$)	50.9/ 29.8
Total Issued Shares (mn)	163

Source: Bloomberg

### Shareholding Structure

Fosun Pharma	53.76%
Management	11.35%
Institution investors	23.02%
Free float	11.71%

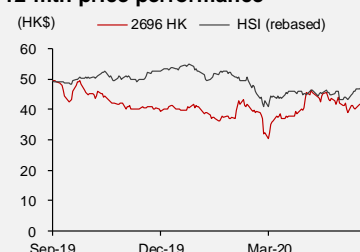
Source: Bloomberg

### Share performance

	Absolute	Relative
1-mth	-0.6%	-2.5%
3-mth	8.2%	7.0%
6-mth	4.1%	18.7%

Source: Bloomberg

### 12-mth price performance



Source: Bloomberg

**Auditor: Ernst & Young**

### Related Reports

- More product approvals in coming months – 27 Apr 2020
- Rich R&D progress – 25 Mar 2020
- Affordable innovation for global market – 8 Nov 2019

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**Figure 1: CMBIS estimates vs consensus**

(RMB mn)	CMBIS		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	615	1,444	652	1,569	-5.7%	-8.0%
Gross profit	372	986	388	1,088	-4.1%	-9.4%
Operating profit	(737)	(167)	(800)	(281)	N/A	N/A
Net profit	(772)	(262)	(838)	(415)	N/A	N/A
EPS (RMB)	(1.42)	(0.48)	(1.45)	(0.71)	N/A	N/A
Gross margin	60.49%	68.28%	59.46%	69.35%	1.03ppt	-1.07ppt
Operating margin	-119.84%	-11.57%	-122.68%	-17.91%	2.84ppt	6.34ppt
Net Margin	-125.53%	-18.14%	-128.50%	-26.42%	2.97ppt	8.27ppt

Source: Company data, CMBIS estimates

## Financial Statements

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>7</b>	<b>91</b>	<b>615</b>	<b>1,444</b>	<b>2,818</b>
Drug sales	-	79	588	1,339	2,647
BD sales	-	3	19	97	162
Other income	7	9	9	9	9
<b>Cost of sales</b>	<b>(5)</b>	<b>(72)</b>	<b>(243)</b>	<b>(459)</b>	<b>(591)</b>
<b>Gross profit</b>	<b>2</b>	<b>19</b>	<b>372</b>	<b>986</b>	<b>2,227</b>
Distribution expenses	-	(46)	(112)	(292)	(668)
Administrative expenses	(109)	(175)	(147)	(161)	(212)
R&D expenses	(365)	(608)	(850)	(700)	(550)
Operating profit	<b>(472)</b>	<b>(809)</b>	<b>(737)</b>	<b>(167)</b>	<b>798</b>
Finance income/ (cost)	(58)	(48)	(55)	(115)	(133)
Exceptional	30	(17)	19	19	19
<b>Pre-tax profit</b>	<b>(500)</b>	<b>(875)</b>	<b>(772)</b>	<b>(262)</b>	<b>685</b>
Profit tax	(5)	(1)	-	-	(68)
Minority interest	11	-	-	-	-
<b>Net profit</b>	<b>(494)</b>	<b>(875)</b>	<b>(772)</b>	<b>(262)</b>	<b>616</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>PBT</b>	<b>(500)</b>	<b>(875)</b>	<b>(772)</b>	<b>(262)</b>	<b>685</b>
Depreciation & amortization	10	51	150	195	226
Change in working capital	302	153	(140)	(53)	(33)
Income tax paid	(5)	(1)	-	-	(68)
Others	140	228	82	142	160
<b>Net cash from operating activities</b>	<b>(52)</b>	<b>(443)</b>	<b>(680)</b>	<b>22</b>	<b>969</b>
Capex	(137)	(289)	(500)	(400)	(300)
Acquisition of intangible asset	(598)	(632)	(800)	(600)	(500)
Other	-	(212)	-	-	-
<b>Net cash from investing activities</b>	<b>(735)</b>	<b>(1,133)</b>	<b>(1,300)</b>	<b>(1,000)</b>	<b>(800)</b>
Loan to related party	(575)	-	-	-	-
Net proceeds from shares issued	2,639	2,950	-	-	-
Bank borrowing	296	51	300	1,000	300
Acquisition of non-controlling	(635)	-	-	-	-
Interest paid	(45)	(35)	(55)	(115)	(133)
<b>Net cash from financing activities</b>	<b>1,679</b>	<b>2,966</b>	<b>245</b>	<b>885</b>	<b>167</b>
Net change in cash	892	1,390	(1,734)	(93)	337
Cash at the beginning	59	959	2,301	567	474
Exchange difference	9	(30)	-	-	-
<b>Cash at the end</b>	<b>959</b>	<b>2,319</b>	<b>567</b>	<b>474</b>	<b>811</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>2,008</b>	<b>3,239</b>	<b>4,361</b>	<b>5,139</b>	<b>5,685</b>
Fixed asset	324	501	951	1,256	1,430
Intangible assets	1,383	2,175	2,875	3,375	3,775
Other non-current assets	301	563	536	508	480
<b>Current assets</b>	<b>1,087</b>	<b>2,661</b>	<b>906</b>	<b>938</b>	<b>1,351</b>
Cash	959	2,301	567	474	811
Inventories	25	130	60	113	146
Trade and bills receivables	7	30	80	151	194
Prepayments, deposits & other receivables	90	196	196	196	196
Pledged cash	6	4	4	4	4
<b>Current liabilities</b>	<b>533</b>	<b>960</b>	<b>799</b>	<b>870</b>	<b>914</b>
Borrowings	143	278	278	278	278
Trade and other payables	85	240	80	151	194
Other current liabilities	305	441	441	441	441
<b>Non-current liabilities</b>	<b>759</b>	<b>940</b>	<b>1,240</b>	<b>2,240</b>	<b>2,540</b>
Borrowings	385	331	631	1,631	1,931
Other non-current liabilities	373	609	609	609	609
<b>Total net assets</b>	<b>1,803</b>	<b>4,000</b>	<b>3,229</b>	<b>2,966</b>	<b>3,582</b>
Minority interest	-	-	-	-	-
<b>Shareholders' equity</b>	<b>1,803</b>	<b>4,000</b>	<b>3,229</b>	<b>2,966</b>	<b>3,582</b>

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Drug sales	-	86.8	95.6	92.7	93.9
BD sales	-	3.7	3.1	6.7	5.7
Other income	100.0	9.4	1.4	0.6	0.3
Total	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	27	21	61	68	79
EBITDA margin	(5,969)	(803)	(91)	4	37
Pre-tax margin	(6,741)	(962)	(126)	(18)	24
Net margin	(6,653)	(963)	(126)	(18)	22
Effective tax rate	(1)	(0)	-	-	10
<b>Balance sheet ratios</b>					
Current ratio (x)	2.0	2.8	1.1	1.1	1.5
Trade receivables turnover days	115	50	50	50	50
Trade payables turnover days	799	120	120	120	120
Inventory turnover days	90	90	90	90	90
Net debt to total equity ratio (%)	Net	Net	10.5	48.3	38.9
<b>Returns (%)</b>					
ROE	(27.4)	(21.9)	(23.9)	(8.8)	17.2
ROA	(16.0)	(14.8)	(14.6)	(4.3)	8.8
<b>Per share data</b>					
EPS (RMB)	(1.16)	(1.76)	(1.42)	(0.48)	1.13
DPS (RMB)	-	-	-	-	-
BVPS (RMB)	4.2	8.0	5.9	5.5	6.6

Source: Company data, CMBIS estimates

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