

Akeso (9926 HK)

Expect another fruitful year in 2024

In FY23, Akeso recorded RMB4.53bn in revenue, including RMB1.63bn from product sales and RMB2.92bn from license income relevant to AK112 (PD-1/VEGF). Cadonilimab/AK104 (PD-1/CTLA-4) achieved RMB1.36bn in sales in FY23, surpassing the Company's initial guidance of RMB1.2-1.3bn. In 2H23, AK104 recorded RMB752mn sales, +24% HoH, even with the impact of challenging regulatory environment in China in 2H23. Akeso maintained a high product GP margin at 91.8% in FY23, compared to 91.5% in FY22. Overall selling expenses (incl. distribution cost) as % of product sales decreased from 74.5% in FY22 to 56.3% in FY23, indicating the improving operating efficiency. The R&D expenses decreased 5.2% YoY to RMB1.25bn in FY23. Akeso recorded RMB2.03bn attributable net profit in FY23. Excluding the license income and equity investment loss, the operating net loss shrank by 45% YoY to RMB788mn in FY23, vs RMB1.43bn in FY22. As of end-2023, Akeso had a sufficient cash balance of RMB4.90bn.

- Near-term data readout of AK112's head-to-head study.** The H2H Ph3 study of AK112 mono vs Keytruda for PD-L1+ (TPS \geq 1%) NSCLC was fully enrolled in Aug 2023, with the interim PFS data readout expected in 2Q24. We think OS trend of this study is also important although OS is a secondary endpoint of the study. Akeso also filed the NDA of AK112 in Aug 2023 for post-TKI EGFR-m nsq-NSCLC, with the approval expected in 2H24 aligned with timing of the data release. The MRCT HARMONi trial is on track for enrolment completion in 2H24 as per Summit. The Ph3 trial in China evaluating AK112+chemo vs tislelizumab+chemo in 1L sq-NSCLC is expected to complete enrolment in 2024/early-2025 as well. We expect Akeso to initiate more Ph3 trials of AK112 to expand the indications of the drug.
- Fast indication expansion progress of AK104.** Besides the approved 2/3L CC, AK104 is in multiple Ph3 trials to expand its indication coverage. In Nov 2023, the Ph3 trial of AK104 in 1L GC met the OS endpoint and a sNDA was submitted to CDE in Jan 2024, with the approval expected in end-2024/early-2025. The Ph3 data in 1L GC will be released at the AACR meeting in Apr. In Nov 2023, the Ph3 trial of AK104 in 1L CC met the PFS endpoint in the interim analysis, with the sNDA submission expected upon the maturity of OS data. AK104 has also recently started two additional Ph3 trials, for 1L HCC (+lenvatinib+TACE) and post-PD(L)-1 GC (+AK109 +chemo). In a Ph2 study of AK104+lenvatinib+TACE in mid- and advanced-stage HCC ([link](#)), the ORR reached 85% (CR 15%) in 60 patients. Recall that Keytruda+lenvatinib+TACE realized a 47% ORR (10% CR, [link](#)). The results supported AK104's newly started Ph3 trial in 1L HCC. Akeso also started a Ph3 trial of AK104 + AK109 (VEGFR2 mAb) + chemo in post-PD(L)-1 GC. In a Ph2 trial, this triple-combo achieved ORR of 48% in post-PD(L)1 GC patients, vs 27% ORR of ramucirumab+chemo in the RAINBOW-Asia trial ([link](#)) and 42% ORR of fruquintinib+chemo in the FRUTIGA trial ([link](#)) for 2L GC patients.
- Maintain BUY.** We see blockbuster potential in AK104 and AK112. Akeso's non-oncology business is near commercialization with NDAs of PCSK9 and IL12/23 under review. We revised our TP from HK\$51.23 to HK\$59.61 (WACC: 11.64%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	838	4,526	2,715	4,291	7,819
YoY growth (%)	271.3	440.3	(40.0)	58.0	82.2
Net profit (RMB mn)	(1,168)	2,028	(130)	230	1,884
EPS (Reported) (RMB)	(1.42)	2.42	(0.16)	0.27	2.24
R&D expenses (RMB mn)	(1,323)	(1,254)	(1,379)	(1,517)	(1,761)
Admin expenses (RMB mn)	(199)	(200)	(271)	(428)	(614)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$59.61
(Previous TP)	HK\$51.23)
Up/Downside	19.3%
Current Price	HK\$49.95

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Stock Data

Mkt Cap (HK\$ mn)	42,010.8
Avg 3 mths t/o (HK\$ mn)	192.0
52w High/Low (HK\$)	51.95/31.25
Total Issued Shares (mn)	841.1

Source: FactSet

Shareholding Structure

Gemstone Living Trust	6.9%
Yu Xia	5.6%

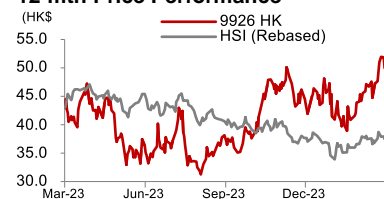
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	13.4%	10.8%
3-mth	12.4%	12.2%
6-mth	32.1%	43.9%

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	(226)	226	2,299	3,121	4,198	5,281	6,185	6,894	7,166	7,410	7,442	7,258
Tax rate	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(226)	192	1,954	2,653	3,568	4,489	5,257	5,860	6,091	6,299	6,326	6,170
+ D&A	127	130	129	128	128	127	126	126	125	125	124	124
- Change in working capital	(37)	(247)	(369)	196	(197)	(133)	(31)	76	132	139	161	173
- Capex	(300)	(200)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
FCFF	(437)	(125)	1,614	2,877	3,399	4,382	5,252	5,961	6,248	6,463	6,512	6,366
Terminal value												82,328
FCF + Terminal value	(437)	(125)	1,614	2,877	3,399	4,382	5,252	5,961	6,248	6,463	6,512	88,694
Present value of enterprise (RMB mn)	44,334											
Net debt (RMB mn)	(550)											
Non-controlling interests (RMB mn)	(168)											
Equity value (RMB mn)	45,118											
No. of shares (mn)	841											
DCF per shares (RMB)	53.64											
DCF per shares (HK\$)	59.61											
Terminal growth rate	3.0%											
WACC	10.97%											
Cost of Equity	14.0%											
Cost of Debt	4.5%											
Equity Beta	1.1											
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\$)

Terminal growth rate	WACC				
	9.97%	10.47%	10.97%	11.47%	11.97%
4.0%	77.33	70.37	64.43	59.30	54.84
3.5%	73.49	67.25	61.86	57.16	53.04
3.0%	70.21	64.54	59.61	55.27	51.44
2.5%	67.36	62.17	57.62	53.59	50.01
2.0%	64.87	60.09	55.86	52.09	48.72

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	New			Old			Diff(%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	2,715	4,291	7,819	2,874	4,234	8,444	-6%	1%	-7%
Gross profit	2,519	3,951	7,117	2,580	3,576	7,108	-2%	10%	0%
Operating profit	(226)	226	2,299	(462)	(568)	1,645	N/A	N/A	N/A
Net profit	(130)	230	1,884	(418)	(570)	1,299	N/A	N/A	N/A
EPS (RMB)	(0.16)	0.27	2.24	(0.50)	(0.68)	1.54	N/A	N/A	N/A
Gross margin	92.76%	92.07%	91.02%	89.76%	84.46%	84.18%	+3.01 ppt	+7.61 ppt	+6.84 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	2,715	4,291	7,819	2,848	4,575	6,409	-5%	-6%	22%
Gross profit	2,519	3,951	7,117	2,558	4,088	5,693	-2%	-3%	25%
Operating profit	(226)	226	2,299	(443)	441	1,734	N/A	N/A	N/A
Net profit	(130)	230	1,884	(386)	398	1,386	N/A	N/A	N/A
EPS (RMB)	(0.16)	0.27	2.24	(0.50)	0.41	1.68	N/A	N/A	N/A
Gross margin	92.76%	92.07%	91.02%	89.82%	89.35%	88.83%	+2.94 ppt	+2.72 ppt	+2.19 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	2,715	4,291	7,819
Cost of goods sold	(31)	(94)	(133)	(197)	(340)	(702)
Gross profit	194	744	4,393	2,519	3,951	7,117
Operating expenses	(1,442)	(2,122)	(2,363)	(2,602)	(3,608)	(4,688)
Selling expense	(179)	(553)	(890)	(1,195)	(1,880)	(2,543)
Admin expense	(244)	(199)	(200)	(271)	(428)	(614)
R&D expense	(1,123)	(1,323)	(1,254)	(1,379)	(1,517)	(1,761)
Others	103	(48)	(19)	243	217	230
Operating profit	(1,271)	(1,406)	1,862	(226)	226	2,299
Net Interest income/(expense)	(10)	(43)	(87)	(107)	(107)	(107)
Pre-tax profit	(1,258)	(1,422)	1,943	(190)	236	2,322
Income tax	0	0	(0)	0	(35)	(348)
After tax profit	(1,258)	(1,422)	1,942	(190)	200	1,974
Minority interest	(183)	(254)	(86)	(60)	(30)	90
Net profit	(1,075)	(1,168)	2,028	(130)	230	1,884
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	3,152	3,058	5,677	5,340	5,563	7,686
Cash & equivalents	2,642	2,092	1,542	1,042	825	2,358
Account receivables	102	271	296	418	727	1,102
Inventories	197	342	392	433	564	779
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	3,384	3,454	3,425
PP&E	1,353	2,000	2,824	3,007	3,087	3,068
Right-of-use assets	152	163	338	328	318	308
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	8,724	9,017	11,111
Current liabilities	656	1,361	1,205	1,232	1,324	1,445
Short-term borrowings	46	446	391	391	391	391
Account payables	206	309	355	382	474	595
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	4,057	4,150	4,271
Share capital	0	0	0	0	0	0
Other reserves	3,164	2,636	4,692	4,562	4,792	6,676
Total shareholders equity	3,164	2,636	4,692	4,562	4,792	6,676
Minority interest	116	(88)	(174)	(234)	(264)	(174)
Total equity and liabilities	4,806	5,496	8,549	8,386	8,679	10,773

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(1,258)	(1,422)	1,943	(190)	236	2,322
Depreciation & amortization	58	106	120	127	130	129
Tax paid	0	0	(0)	0	(35)	(348)
Change in working capital	107	60	(4)	(37)	(247)	(369)
Others	92	16	(31)	7	7	7
Net cash from operations	(1,001)	(1,240)	2,027	(94)	90	1,740
Investing						
Capital expenditure	(712)	(776)	(500)	(300)	(200)	(100)
Net proceeds from disposal of short-term investments	120	(200)	0	0	0	0
Others	12	86	0	0	0	0
Net cash from investing	(580)	(890)	(500)	(300)	(200)	(100)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	645	1,005	0	0	0	0
Proceeds from share issues	978	495	0	0	0	0
Share repurchases	(52)	0	0	0	0	0
Others	15	(15)	(87)	(107)	(107)	(107)
Net cash from financing	1,587	1,486	(87)	(107)	(107)	(107)
Net change in cash						
Cash at the beginning of the year	2,684	2,642	2,092	1,542	1,042	825
Exchange difference	(49)	95	0	0	0	0
Cash at the end of the year	2,642	2,092	3,532	1,042	825	2,358
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	na	271.3%	440.3%	(40.0%)	58.0%	82.2%
Gross profit	na	282.5%	490.8%	(42.7%)	56.9%	80.1%
Operating profit	na	na	na	na	na	917.0%
Net profit	na	na	na	na	na	717.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	86.1%	88.8%	97.1%	92.8%	92.1%	91.0%
Operating margin	(563.1%)	(167.9%)	41.1%	(8.3%)	5.3%	29.4%
Return on equity (ROE)	(33.9%)	(40.3%)	55.4%	(2.8%)	4.9%	32.8%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	4.8	2.2	4.7	4.3	4.2	5.3
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	15.2	ns	167.8	20.5
P/B	10.2	6.6	6.8	8.9	8.5	5.9

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

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