

Biocytogen (2315 HK)

Reducing burn rate with strong income growth and better operating efficiency

Biocytogen reported inline earnings with 1H23 revenue grew 43% YoY to RMB327mn, accounting for 45% of our previous full-year estimate. The Company recorded net loss of RMB190mn in 1H23 (vs RMB272mn net loss in 1H22), representing 67% of our full-year forecast. In 1H23, the pre-clinical CRO service business realized 42% YoY revenue growth to RMB238mn, driven by the strong growth of animal model selling (+58% YoY) and pre-clinical pharmacology & efficacy evaluation business (+37% YoY). The GP margin of the CRO business was 66% in 1H23 (stable vs 67% in 1H22). The antibody development business grew strongly by 44% YoY to RMB88mn in 1H23. With expanding footprint in Europe and the US, the Company's overseas revenue increased 97% YoY to RMB173mn in 1H23 (53% of total 1H23 revenue, vs 46% in FY22). In 1H23, the Company spent RMB248mn (or 76% of total revenue) on R&D, -24% YoY vs RMB328mn (or 143% of total revenue) in 1H22. The SG&A ratio decreased from 58% in 1H22 to 45% in 1H23, showing Biocytogen's improved cost efficiency. We expect the Company to break even in 2025. In Jun 2023, Biocytogen had a cash balance of RMB551mn.

■ **Advanced fully human antibody discovery platforms to drive long-term revenue growth.** As of Jul 2023, the Project Integrum (RenMice) has completed the knock-out of around 1,000 gene targets, and formed 400-500k antibody sequences. In 3Q23, the Company will complete the three-year Project Integrum (千鼠万抗). Additionally, the Company is also developing BsAb and nano-antibodies based on its RenLite and RenNano platforms. These fully human antibody discovery platforms will be an engine to continuously drive the Company's BD deals and revenue growth. As of end-1H23, the Company had reached 50 co-development/ out-licensing/ transfer development deals with around 30 domestic and global biopharma companies, including Merck, ADC Therapeutics, Hansoh Pharma, etc. The Company signed 16 new deals in 1H23, representing a 45% YoY increase in the number of projects signed. We expect five licensed-out molecules will progress to clinical stage in 2024. Besides the collaboration deals of molecules, Biocytogen has also out-licensed its RenMice platforms to 20 MNC or leading domestic biopharmas, including Merck, Janssen, BeiGene, Innovent, etc. As of Jun 2023, these licensees have initiated 42 projects in total. We expect the molecule co-development collaborations and platform out-licensing deals continue to drive the Company's long-term revenue growth with growing income from upfront fees, milestone fees and royalties.

■ **To unlock the value of in-house pipelines via out-licensing.** As of Jun 2023, the Company had built an internal pipeline of 10 drug candidates, including 5 clinical and 5 pre-clinical stage assets. Biocytogen's strategy is to self-direct the early discovery of drug molecules and then transfer/co-develop the molecules to/with its partners to accelerate the later Ph2/3 clinical development. Of the 10 in-house assets, 5 have achieved out-licensing agreements with partners. We expect Biocytogen to further license out its differentiated pipeline assets, including YH003 (CD40), YH001 (CTLA-4), YH012 (HER2/TROP2 ADC), YH013 (EGFR/MET ADC), etc.

■ **Maintain BUY.** We revised our DCF-based TP to HK\$22.36 from HK\$37.96 (WACC: 12.5%, terminal growth rate: 2.0%).

Earnings Summary

| (YE 31 Dec) | FY21A | FY22A | FY23E | FY24E | FY25E |
|----------------------|--------|--------|--------|--------|-------|
| Revenue (RMB mn) | 355 | 534 | 728 | 927 | 1,199 |
| YoY growth (%) | 39.8 | 50.6 | 36.5 | 27.2 | 29.4 |
| Net profit (RMB mn) | (546) | (602) | (354) | (109) | 130 |
| EPS (Reported) (RMB) | (1.51) | (1.58) | (0.89) | (0.27) | 0.32 |
| ROE (%) | (40.3) | (50.1) | (36.4) | (14.7) | 17.2 |
| R&D expenses (RMB) | (558) | (699) | (474) | (296) | (264) |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$22.36**

(Previous TP) **HK\$37.96**

Up/Downside **47.3%**

Current Price **HK\$15.18**

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Stock Data

| | |
|--------------------------|---------|
| Mkt Cap (HK\$ mn) | 5,783.6 |
| Avg 3 mths t/o (HK\$ mn) | 2.9 |
| 52w High/Low (HK\$) | NA/NA |
| Total Issued Shares (mn) | 381.0 |

Source: FactSet

Shareholding Structure

| | |
|---------------|-------|
| Management | 27.5% |
| SDIC Shanghai | 18.3% |

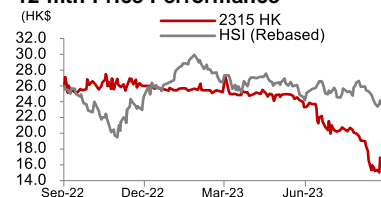
Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -24.0% | -16.5% |
| 3-mth | -37.3% | -35.8% |
| 6-mth | -41.3% | -35.9% |

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Risk-adjusted DCF valuation

| DCF Valuation (RMB mn) | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E | 2033E | 2034E | 2035E |
|----------------------------------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| EBIT | -288 | -41 | 235 | 508 | 732 | 1,061 | 1,419 | 1,801 | 2,074 | 2,243 | 2,422 | 2,585 | 2,762 |
| Tax rate | 0.0% | 0.0% | 15.0% | 15.0% | 15.0% | 15.0% | 15.0% | 15.0% | 15.0% | 15.0% | 15.0% | 15.0% | 15.0% |
| EBIT*(1-tax rate) | -288 | -41 | 200 | 432 | 622 | 902 | 1,206 | 1,531 | 1,763 | 1,907 | 2,059 | 2,197 | 2,348 |
| + D&A | 80 | 86 | 92 | 97 | 102 | 107 | 112 | 116 | 120 | 124 | 128 | 132 | 135 |
| - Change in working capital | -98 | -17 | -30 | -63 | -53 | -77 | -72 | -77 | -60 | -39 | -42 | -34 | -36 |
| - Capex | -200 | -200 | -200 | -200 | -200 | -200 | -200 | -200 | -200 | -200 | -200 | -200 | -200 |
| FCFF | -506 | -172 | 62 | 265 | 471 | 731 | 1,046 | 1,370 | 1,623 | 1,792 | 1,945 | 2,095 | 2,247 |
| Terminal value | | | | | | | | | | | | | 21,807 |
| Terminal value (RMB mn) | 4,711 | | | | | | | | | | | | |
| Total PV (RMB mn) | 8,589 | | | | | | | | | | | | |
| Net debt (RMB mn) | 547 | | | | | | | | | | | | |
| Minority interest (RMB mn) | 5 | | | | | | | | | | | | |
| Equity value (RMB mn) | 8,037 | | | | | | | | | | | | |
| # of shares (mn) | 399 | | | | | | | | | | | | |
| Price per share (RMB per share) | 20.12 | | | | | | | | | | | | |
| Price per share (HK\$ per share) | 22.36 | | | | | | | | | | | | |
| Terminal growth rate | 2.0% | | | | | | | | | | | | |
| WACC | 12.5% | | | | | | | | | | | | |
| Cost of Equity | 16.1% | | | | | | | | | | | | |
| Cost of Debt | 5.0% | | | | | | | | | | | | |
| Equity Beta | 1.10 | | | | | | | | | | | | |
| Risk Free Rate | 4.50% | | | | | | | | | | | | |
| Market Risk Premium | 10.50% | | | | | | | | | | | | |
| Target Debt to Asset ratio | 30.0% | | | | | | | | | | | | |
| Effective Corporate Tax Rate | 15.0% | | | | | | | | | | | | |

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

| | | WACC | | | | |
|----------------------|------|-------|-------|-------|-------|-------|
| | | 11.5% | 12.0% | 12.5% | 13.0% | 13.5% |
| Terminal growth rate | 4.0% | 28.65 | 26.12 | 23.88 | 21.89 | 20.11 |
| | 3.5% | 27.54 | 25.18 | 23.08 | 21.20 | 19.52 |
| | 3.0% | 26.56 | 24.34 | 22.36 | 20.58 | 18.98 |
| | 2.5% | 25.67 | 23.58 | 21.70 | 20.01 | 18.49 |
| | 2.0% | 24.86 | 22.88 | 21.10 | 19.49 | 18.03 |

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

| RMB mn | New | | | Old | | | Diff (%) | | |
|------------------|--------|--------|--------|--------|--------|--------|-----------|-----------|-----------|
| | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Revenue | 728 | 927 | 1,199 | 733 | 972 | 1,334 | -1% | -5% | -10% |
| Gross Profit | 518 | 663 | 870 | 547 | 731 | 1,014 | -5% | -9% | -14% |
| Operating Profit | (286) | (39) | 238 | (216) | (51) | 218 | NA | NA | 9% |
| Net profit | (354) | (109) | 130 | (284) | (121) | 113 | NA | NA | 15% |
| EPS (RMB) | (0.89) | (0.27) | 0.32 | (0.71) | (0.30) | 0.28 | NA | NA | 15% |
| Gross Margin | 71.15% | 71.54% | 72.55% | 74.73% | 75.22% | 76.01% | -3.58 ppt | -3.68 ppt | -3.46 ppt |

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

| RMB mn | CMBIGM | | | Consensus | | | Diff (%) | | |
|------------------|--------|--------|--------|-----------|--------|--------|-----------|-----------|-----------|
| | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Revenue | 728 | 927 | 1,199 | 735 | 996 | 1,323 | -1% | -7% | -9% |
| Gross Profit | 518 | 663 | 870 | 539 | 736 | 984 | -4% | -10% | -12% |
| Operating Profit | (286) | (39) | 238 | (298) | (149) | 50 | NA | NA | 380% |
| Net profit | (354) | (109) | 130 | (312) | (132) | 65 | NA | NA | 101% |
| EPS (RMB) | (0.89) | (0.27) | 0.32 | (0.87) | (0.34) | 0.16 | NA | NA | 99% |
| Gross Margin | 71.15% | 71.54% | 72.55% | 73.38% | 73.90% | 74.39% | -2.23 ppt | -2.36 ppt | -1.84 ppt |

Source: Company data, CMBIGM estimates

Financial Summary

| INCOME STATEMENT | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
|--|-------|-------|-------|-------|-------|-------|
| YE 31 Dec (RMB mn) | | | | | | |
| Revenue | 254 | 355 | 534 | 728 | 927 | 1,199 |
| Cost of goods sold | (87) | (107) | (142) | (210) | (264) | (329) |
| Gross profit | 167 | 247 | 392 | 518 | 663 | 870 |
| Operating expenses | (525) | (753) | (922) | (804) | (701) | (632) |
| Selling expense | (32) | (42) | (50) | (73) | (93) | (117) |
| Admin expense | (245) | (188) | (263) | (270) | (324) | (264) |
| R&D expense | (276) | (558) | (699) | (474) | (296) | (264) |
| Others | 19 | 10 | 4 | 0 | 0 | 0 |
| Operating profit | (358) | (506) | (530) | (286) | (39) | 238 |
| Other expense | (118) | (39) | (56) | (69) | (70) | (85) |
| Other gains/(losses) | 9 | 26 | 87 | 12 | 12 | 12 |
| Share of (losses)/profits of associates/JV | 0 | (0) | (15) | 0 | 0 | 0 |
| Pre-tax profit | (477) | (546) | (601) | (354) | (109) | 153 |
| Income tax | 0 | 0 | (1) | 0 | 0 | (23) |
| After tax profit | (477) | (546) | (602) | (354) | (109) | 130 |
| Minority interest | (49) | (0) | (0) | 0 | 0 | 0 |
| Net profit | (428) | (546) | (602) | (354) | (109) | 130 |

| BALANCE SHEET | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
|-------------------------------|-------|-------|-------|-------|-------|-------|
| YE 31 Dec (RMB mn) | | | | | | |
| Current assets | 1,148 | 874 | 919 | 757 | 1,084 | 1,166 |
| Cash & equivalents | 750 | 466 | 627 | 374 | 634 | 626 |
| Account receivables | 115 | 183 | 148 | 230 | 289 | 371 |
| Inventories | 8 | 15 | 19 | 28 | 35 | 43 |
| Other current assets | 254 | 168 | 85 | 85 | 85 | 85 |
| Contract obtaining costs | 21 | 42 | 41 | 41 | 41 | 41 |
| Non-current assets | 1,179 | 1,429 | 1,881 | 2,001 | 2,115 | 2,223 |
| PP&E | 1,136 | 1,391 | 1,599 | 1,719 | 1,833 | 1,942 |
| Intangibles | 2 | 6 | 31 | 31 | 31 | 31 |
| Other non-current assets | 41 | 32 | 251 | 251 | 251 | 251 |
| Total assets | 2,327 | 2,303 | 2,800 | 2,758 | 3,199 | 3,389 |
| Current liabilities | 328 | 447 | 606 | 598 | 648 | 709 |
| Short-term borrowings | na | na | 127 | 127 | 127 | 127 |
| Account payables | 88 | 102 | 146 | 173 | 217 | 271 |
| Tax payable | 14 | 27 | 45 | 45 | 45 | 45 |
| Other current liabilities | 0 | 0 | 1 | 1 | 1 | 1 |
| Lease liabilities | 179 | 256 | 231 | 231 | 231 | 231 |
| Contract liabilities | 48 | 62 | 56 | 22 | 28 | 35 |
| Non-current liabilities | 540 | 604 | 1,043 | 1,363 | 1,863 | 1,863 |
| Long-term borrowings | 0 | 0 | 52 | 372 | 872 | 872 |
| Deferred income | 90 | 93 | 90 | 90 | 90 | 90 |
| Other non-current liabilities | 450 | 511 | 901 | 901 | 901 | 901 |
| Total liabilities | 868 | 1,051 | 1,649 | 1,961 | 2,511 | 2,572 |
| Share capital | 360 | 375 | 399 | 399 | 399 | 399 |
| Other reserves | 1,098 | 877 | 751 | 397 | 288 | 418 |
| Total shareholders equity | 1,458 | 1,252 | 1,151 | 797 | 688 | 818 |
| Total equity and liabilities | 2,327 | 2,303 | 2,800 | 2,758 | 3,199 | 3,389 |

| CASH FLOW | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Operating | | | | | | |
| Profit before taxation | (477) | (546) | (601) | (354) | (109) | 153 |
| Depreciation & amortization | 43 | 128 | 174 | 0 | 86 | 92 |
| Tax paid | 0 | 0 | 0 | 0 | 0 | (23) |
| Change in working capital | (29) | (10) | 0 | (98) | (17) | (30) |
| Others | 237 | 62 | 124 | 148 | 70 | 85 |
| Net cash from operations | (225) | (366) | (303) | (304) | 30 | 277 |
| Investing | | | | | | |
| Capital expenditure | (296) | (199) | (240) | (200) | (200) | (200) |
| Net proceeds from disposal of short-term investments | 1,393 | 650 | 101 | 0 | 0 | 0 |
| Others | (1,285) | (535) | (15) | (69) | (70) | (85) |
| Net cash from investing | (188) | (84) | (154) | (269) | (270) | (285) |
| Financing | | | | | | |
| Dividend paid | 0 | 0 | 0 | 0 | 0 | 0 |
| Proceeds from share issues | 948 | 311 | 521 | 0 | 0 | 0 |
| Others | (80) | (92) | 66 | 320 | 500 | 0 |
| Net cash from financing | 868 | 219 | 587 | 320 | 500 | 0 |
| Net change in cash | | | | | | |
| Cash at the beginning of the year | (4) | 697 | 466 | 627 | 374 | 634 |
| Exchange difference | 246 | (0) | 14 | 0 | 0 | 0 |
| Cash at the end of the year | 697 | 466 | 611 | 374 | 634 | 626 |
| GROWTH | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| Revenue | 49.3% | 39.8% | 50.6% | 36.5% | 27.2% | 29.4% |
| Gross profit | 71.9% | 48.2% | 58.3% | 32.3% | 27.9% | 31.3% |
| PROFITABILITY | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| Gross profit margin | 65.9% | 69.8% | 73.4% | 71.2% | 71.5% | 72.6% |
| Operating margin | (141.4%) | (142.7%) | (99.4%) | (39.2%) | (4.2%) | 19.8% |
| Return on equity (ROE) | (89.8%) | (40.3%) | (50.1%) | (36.4%) | (14.7%) | 17.2% |
| GEARING/LIQUIDITY/ACTIVITIES | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| Current ratio (x) | 3.5 | 2.0 | 1.5 | 1.3 | 1.7 | 1.6 |
| Receivable turnover days | 96.8 | 106.1 | 73.6 | 75.0 | 74.0 | 73.0 |
| Inventory turnover days | 33.7 | 51.6 | 47.8 | 47.8 | 47.8 | 47.8 |
| Payable turnover days | 221.7 | 323.8 | 319.2 | 300.0 | 300.0 | 300.0 |
| VALUATION | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| P/E | na | na | na | na | na | 43.4 |
| P/E (diluted) | na | na | na | na | na | 43.4 |

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

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| | |
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