

# BeiGene (BGNE US)

## Improving cost efficiency with rapid sales growth

- **Strong sales growth continued in 1Q23, mainly driven by zanubrutinib's overseas sales.** In 1Q23, BeiGene recorded US\$410mn product sales (+21% QoQ or +57% YoY). Zanubrutinib maintained a strong sales momentum, with sales increasing 20% QoQ or 103% YoY to US\$211mn in 1Q23 (accelerating from +13% QoQ in 4Q22). The sales of zanubrutinib in the US increased by 11% QoQ to US\$139mn, and sales in China rose by 18% QoQ to US\$48mn, while the sales in the overseas market other than the US recorded remarkable 147% QoQ growth to US\$25mn. Ibrutinib continues to lose market share while its two indications (MCL and MZL) were recently withdrawn in the US, making zanubrutinib the only BTKi in the US and EU for MZL treatment. Additionally, with large indications of 1L & r/r CLL approved in the US in Jan 2023, and the PFS superiority vs ibrutinib in r/r CLL expected to be added to the label in 2023E, we foresee remarkable sales growth of zanubrutinib in 2023E.
- **Eyes on tislelizumab's US approval for 2L ESCC.** Tislelizumab sales reached US\$115mn in 1Q23, +12% QoQ or +31% YoY. With four new indications added to the NRDL from Mar 2023 at a small price cut of 5%, we expect tislelizumab to further gain market share and maintain its No.1 position in China's PD-(L)1 mAb market in terms of sales revenue. With 1L PD-L1+ GC approved in 1Q23, we expect tislelizumab to be further approved in China for 1L ESCC in 1H23E and 1L HCC in 2H23E, bringing the total number of marketed indications to 12. The US FDA will conduct site inspections in 2Q23 regarding the BLA of tislelizumab for 2L ESCC in the US. We expect the approval to happen within this year, which we view as a major catalyst for BeiGene.
- **Product sales exceeded COGS plus SG&A for the first time.** The gross margin (vs product sales) maintained a trend of improvement, recording 75.1%, 76.6%, 78.1% and 78.3% in 1Q-4Q22, respectively, and further increased to 80.1% in 1Q23, which was mainly driven by the growing proportion of sales from high-margin zanubrutinib. The SG&A ratio (vs product sales) also showed a clear downward trend, decreasing from 113% in 1Q22 to 80% in 1Q23. Similarly, the R&D ratio (vs product sales) shrank from 149% in 1Q22 to 100% in 1Q23. In 1Q23, BeiGene recorded for the first time with product sales greater than COGS plus SG&A expenses. BeiGene's net loss narrowed from US\$441mn in 4Q22 to US\$348mn in 1Q23. As of 1Q23, the Company had a cash balance of US\$3.8bn.
- **Smooth progress of drug candidates.** BeiGene expects to release Ph2 data in multiple indications (ESCC, HCC, NSCLC) of ociperlimab (TIGIT) in 2023. We look forward to the option execution by Novartis for ociperlimab this year, and we view the recent initiation of a Ph3 trial (AdvanTIG-306) by Novartis as a positive sign of the collaboration. For BGB-11417 (Bcl-2), BeiGene expects to initiate a pivotal trial (combo BTK) in 1L CLL in 2H23E.
- **Maintain BUY.** We revised our DCF-based TP from US\$290.42 to US\$315.68 (WACC: 9.14%, terminal growth rate: 3.0%).

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (US\$ mn)	1,176	1,416	2,383	3,333	4,480
Net profit (US\$ mn)	(1,413)	(2,004)	(1,273)	(575)	154
EPS (Reported) (US\$)	(15.23)	(19.43)	(12.18)	(5.50)	1.47
R&D expenses (US\$ mn)	(1,459)	(1,641)	(1,837)	(1,929)	(1,929)
CAPEX (US\$ mn)	(263)	(325)	(300)	(100)	(100)

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

<b>Target Price</b>	<b>US\$315.68</b>
(Previous TP)	US\$290.42)
<b>Up/Downside</b>	<b>26.4%</b>
<b>Current Price</b>	<b>US\$249.79</b>

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### Stock Data

Mkt Cap (US\$ mn)	26,113.7
Avg 3 mths t/o (US\$ mn)	48.5
52w High/Low (US\$)	274.50/121.11
Total Issued Shares (mn)	104.5
Source: FactSet	

### Shareholding Structure

Amgen	19.6%
Baker Bros	12.2%

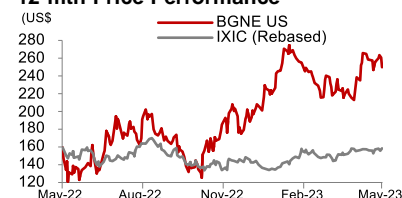
Source: ar

### Share Performance

	Absolute	Relative
1-mth	17.8%	15.5%
3-mth	-2.8%	-4.6%
6-mth	34.7%	15.3%

Source: FactSet

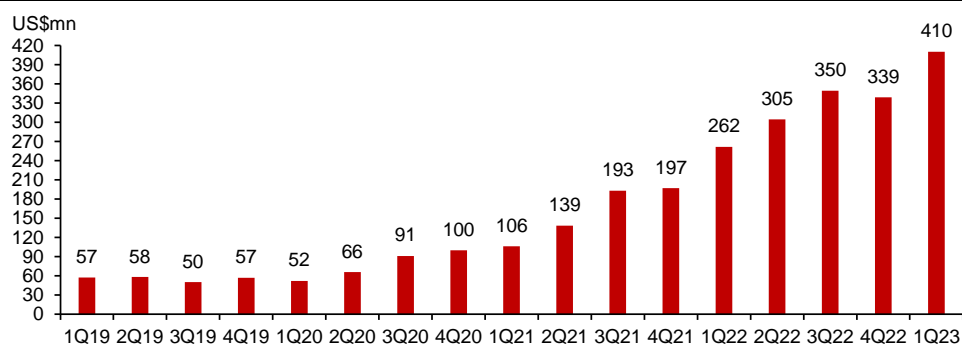
### 12-mth Price Performance



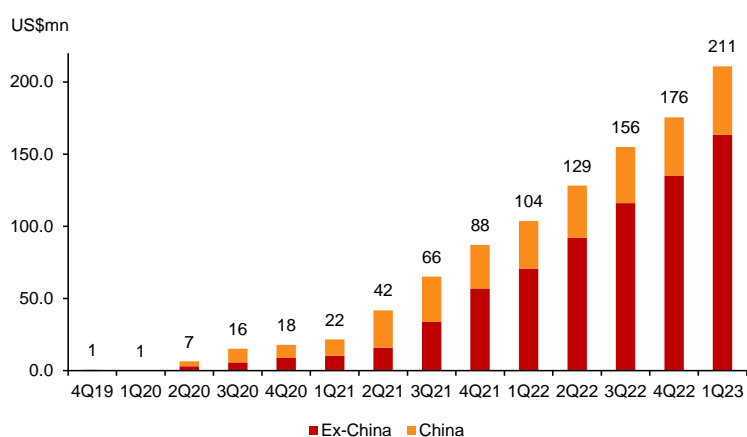
Source: FactSet

### Related report:

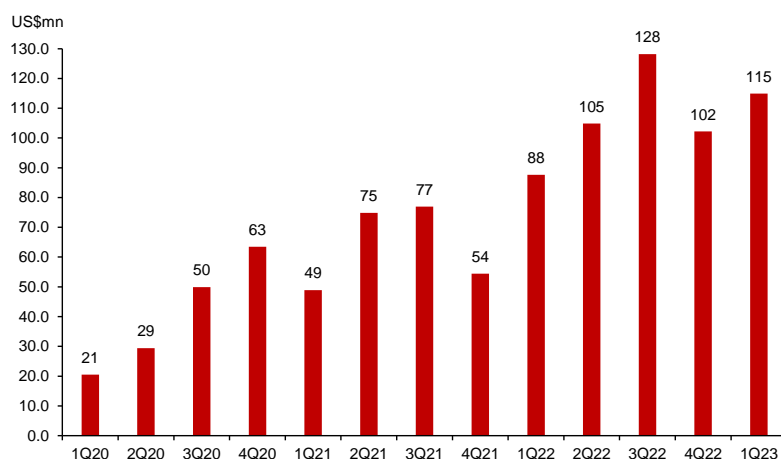
1. Expect strong sales in 2023 driven by the US approval of zanubrutinib in CLL ([link](#)) – 1 Mar 2023
2. Strong sales momentum maintained in 3Q22 ([link](#)) – 11 Nov 2022
3. Superior PFS vs ibrutinib in r/r CLL further supports the best-in-class potential of zanubrutinib ([link](#)) – 14 Oct 2022
4. Strong sales continued in 2Q22 ([link](#)) – 8 Aug 2022
5. Positive on the US BLA approval of tislelizumab despite the deferral ([link](#)) – 18 Jul 2022
6. Harvest season for a global leading biopharma company ([link](#)) – 17 Jun 2022

**Figure 1: Quarterly product sales of BeiGene (1Q19 – 1Q23)**

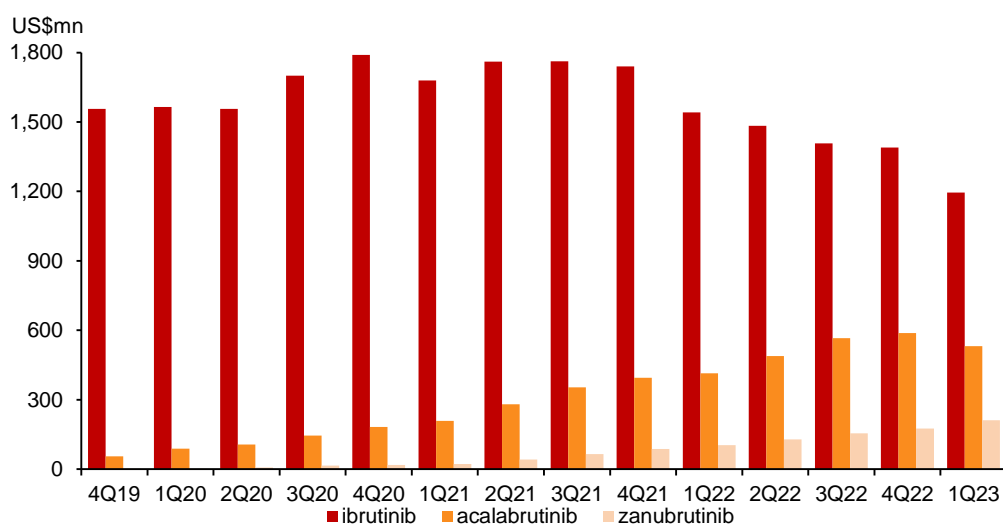
Source: Company data, CMBIGM.

**Figure 2: Zanubrutinib quarterly sales (4Q19 – 1Q23)**

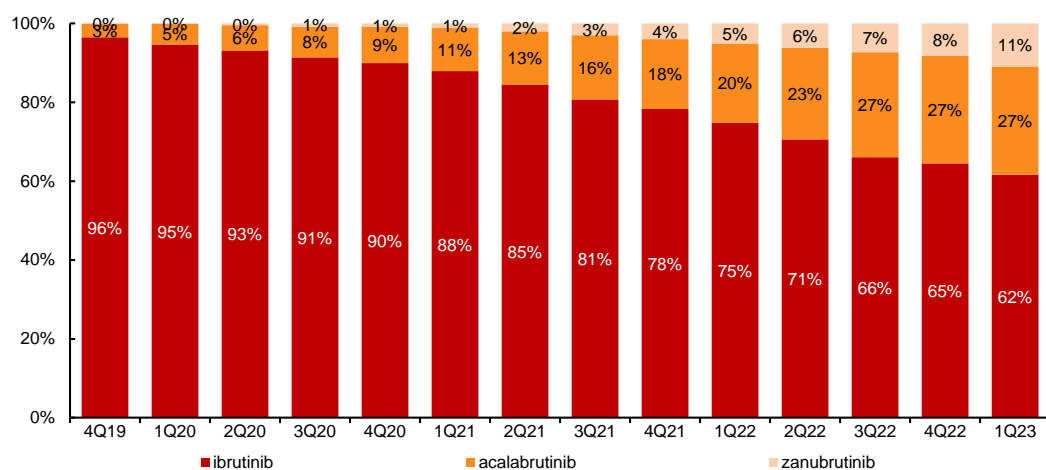
Source: Company data, CMBIGM. Note: Zanubrutinib was originally approved in Nov 2019 in the US.

**Figure 3: Tislelizumab quarterly sales (1Q20 – 1Q23)**

Source: Company data, CMBIGM. Note: In 1Q and 4Q21, sales of tislelizumab was impacted by the negative adjustments totalling US\$45.6mn for distributor channel inventory compensation due to price cuts of tislelizumab for additional indications included in NRDL.

**Figure 4: Global sales of major BTK inhibitors (4Q19 – 1Q23)**

Source: Company data, CMBIGM.

**Figure 5: Market share of major BTK inhibitors (4Q19 – 1Q23)**

Source: Company data, CMBIGM.

Figure 6: Risk-adjusted DCF valuation

DCF Valuation (US\$ mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	(1,304)	(587)	177	906	1,769	2,594	3,395	3,943	4,251	4,348	4,408	4,426	4,542
Tax rate	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(1,304)	(587)	150	770	1,504	2,205	2,886	3,352	3,614	3,696	3,747	3,762	3,861
+ D&A	83	84	86	87	88	89	89	90	91	92	92	93	93
- Change in working capital	(294)	(195)	(301)	(208)	(230)	(211)	(187)	(121)	(59)	(6)	3	14	(13)
- Capex	(300)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
FCFF	(1,814)	(797)	(165)	549	1,261	1,982	2,688	3,221	3,546	3,681	3,742	3,769	3,841
Terminal value													64,452
PV of enterprise (US\$ mn)	30,783												
Net debt (US\$ mn)	(2,218)												
Equity value (US\$ mn)	33,002												
No. of ADS (mn)	105												
DCF per ADS (US\$)	315.68												
Terminal growth rate	3.0%												
WACC	9.14%												
Cost of Equity	12.0%												
Cost of Debt	4.5%												
Equity Beta	0.9												
Risk Free Rate	3.0%												
Market Risk Premium	10.0%												
Target Debt to Asset ratio	35.0%												
Effective Corporate Tax Rate	15.0%												

Source: CMBIGM estimates

Figure 7: Sensitivity analysis (US\$)

Terminal growth rate	WACC				
	8.14%	8.64%	9.14%	9.64%	10.14%
4.0%	461.88	403.37	356.46	318.07	286.11
3.5%	424.46	374.85	334.26	300.48	271.96
3.0%	394.32	351.39	315.68	285.54	259.80
2.5%	369.53	331.76	299.89	272.69	249.22
2.0%	348.78	315.08	286.32	261.52	239.95

Source: CMBIGM estimates

Figure 8: CMBIGM estimates revision

US\$ mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,383	3,333	4,480	2,343	3,298	4,432	2%	1%	1%
Gross Profit	1,966	2,746	3,635	1,893	2,659	3,510	4%	3%	4%
Operating Profit	(1,304)	(687)	127	(1,287)	(653)	185	NA	NA	NA
Net profit	(1,273)	(575)	154	(1,259)	(542)	204	NA	NA	NA
EPS (US\$ per ADS)	(12.18)	(5.50)	1.47	(12.09)	(5.20)	1.96	NA	NA	NA
Gross Margin	82.48%	82.39%	81.14%	80.77%	80.64%	79.21%	+1.71 ppt	+1.76 ppt	+1.93 ppt

Source: Company data, CMBIGM estimates

Figure 9: CMBIGM estimate vs consensus

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,383	3,333	4,480	2,146	2,833	3,774	11%	18%	19%
Gross Profit	1,966	2,746	3,635	1,752	2,318	3,126	12%	18%	16%
Operating Profit	(1,304)	(687)	127	(1,365)	(970)	(309)	N/A	N/A	N/A
Net Profit	(1,273)	(575)	154	(1,316)	(932)	(263)	N/A	N/A	N/A
EPS (US\$ per ADS)	(12.18)	(5.50)	1.47	(11.9)	(8.11)	(1.92)	N/A	N/A	N/A
Gross Margin	82.48%	82.39%	81.14%	81.64%	81.84%	82.82%	+0.84 ppt	+0.56 ppt	-1.69 ppt

Source: Company data, Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Revenue	309	1,176	1,416	2,383	3,333	4,480
Cost of goods sold	(71)	(165)	(286)	(418)	(587)	(845)
Gross profit	238	1,011	1,129	1,966	2,746	3,635
Operating expenses	(1,896)	(2,450)	(2,919)	(3,269)	(3,433)	(3,508)
SG&A expense	(600)	(990)	(1,278)	(1,431)	(1,503)	(1,578)
R&D expense	(1,295)	(1,459)	(1,641)	(1,837)	(1,929)	(1,929)
Others	(1)	(1)	(1)	(1)	(1)	(1)
Other income	39	0	(171)	30	111	54
Pre-tax profit	(1,618)	(1,439)	(1,961)	(1,273)	(575)	181
Income tax	18	25	(43)	0	0	(27)
Minority interest	(4)	0	0	0	0	0
Net profit	(1,601)	(1,413)	(2,004)	(1,273)	(575)	154
Adjusted net profit	(1,597)	(1,413)	(2,004)	(1,273)	(575)	154

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Current assets	4,961	7,614	5,207	3,834	3,399	3,775
Cash & equivalents	1,382	4,376	3,870	2,091	1,806	1,644
Account receivables	60	483	173	484	690	1,009
Inventories	89	243	282	377	522	740
Financial assets at FVTPL	3,269	2,242	665	665	165	165
Other current assets	160	271	217	217	217	217
Non-current assets	640	1,032	1,172	1,384	1,399	1,414
PP&E	358	588	846	1,063	1,078	1,093
Deferred income tax	66	110	0	0	0	0
Intangibles	5	47	41	41	41	41
Other non-current assets	211	287	286	280	280	280
Total assets	5,601	8,646	6,379	5,218	4,799	5,188
Current liabilities	1,075	1,600	1,469	1,580	1,736	1,972
Short-term borrowings	335	428	329	329	329	329
Account payables	232	262	295	406	563	799
Tax payable	20	21	25	25	25	25
Other current liabilities	488	888	820	820	820	820
Non-current liabilities	656	803	527	527	527	527
Long-term borrowings	184	202	209	209	209	209
Deferred income	0	220	42	42	42	42
Other non-current liabilities	473	381	276	276	276	276
Total liabilities	1,732	2,403	1,996	2,107	2,264	2,500
Share capital	7,415	11,191	11,541	11,541	11,541	11,541
Retained earnings	(3,553)	(4,966)	(7,080)	(8,354)	(8,929)	(8,775)
Other reserves	7	18	(77)	(77)	(77)	(77)
Total shareholders equity	3,869	6,243	4,383	3,110	2,535	2,689
Minority interest	0	0	0	0	0	0
Total equity and liabilities	5,601	8,646	6,379	5,217	4,798	5,188

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (US\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	(1,618)	(1,439)	(1,961)	(1,273)	(575)	181
Depreciation & amortization	32	46	66	83	84	86
Tax paid	18	25	(43)	0	0	(27)
Others	285	68	441	(294)	(195)	(301)
<b>Net cash from operations</b>	<b>(1,283)</b>	<b>(1,299)</b>	<b>(1,497)</b>	<b>(1,484)</b>	<b>(685)</b>	<b>(61)</b>
<b>Investing</b>						
Capital expenditure	(118)	(263)	(325)	(300)	(100)	(100)
Acquisition of subsidiaries/ investments	(5,690)	(2,191)	(17)	0	0	0
Net proceeds from disposal of short-term investments	2,751	3,147	1,564	0	500	0
Others	(112)	(52)	(144)	0	0	0
<b>Net cash from investing</b>	<b>(3,168)</b>	<b>641</b>	<b>1,077</b>	<b>(300)</b>	<b>400</b>	<b>(100)</b>
<b>Financing</b>						
Net borrowings	434	423	351	0	0	0
Proceeds from share issues	4,232	3,443	0	0	0	0
Others	537	(229)	(370)	0	0	0
<b>Net cash from financing</b>	<b>5,203</b>	<b>3,637</b>	<b>(19)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	621	1,390	4,383	3,875	2,091	1,806
Exchange difference	18	14	(69)	0	0	0
<b>Cash at the end of the year</b>	<b>1,390</b>	<b>4,383</b>	<b>3,875</b>	<b>2,091</b>	<b>1,806</b>	<b>1,644</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Revenue	(27.9%)	280.8%	20.4%	68.3%	39.8%	34.4%
Gross profit	na	324.6%	11.7%	74.0%	39.7%	32.4%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Gross profit margin	77.1%	86.0%	79.8%	82.5%	82.4%	81.1%
Adj. net profit margin	(517.0%)	(120.2%)	(141.5%)	(53.4%)	(17.3%)	3.4%
Return on equity (ROE)	(66.3%)	(28.0%)	(37.7%)	(34.0%)	(20.4%)	5.9%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Net debt to equity (x)	(1.1)	(1.0)	(0.9)	(0.7)	(0.6)	(0.5)
Current ratio (x)	4.6	4.8	3.5	2.4	2.0	1.9
Receivable turnover days	77.6	84.3	84.6	84.6	84.6	84.6
Inventory turnover days	304.4	367.3	334.4	329.4	324.4	319.4
Payable turnover days	915.5	547.1	355.0	355.0	350.0	345.0
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
P/E	na	na	na	na	na	169.6
P/E (diluted)	na	na	na	na	na	169.6
P/B	58.3	64.1	55.3	109.2	133.9	126.3

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

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<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
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