

Innovent Biologics (1801 HK)

Entering sustainable profitability with a global innovation engine

- **To achieve sustainable profitability.** Innovent achieved profitability ahead of schedule in FY24, realizing full-year non-IFRS net profit of RMB332mn and non-IFRS EBITDA profit of RMB412mn. We think the better-than-expected profitability was mainly due to 1) strong product revenue growth and 2) one-off license fee income, especially the RMB690mn income from the transaction with IASO Bio. Total revenue reached RMB9.42bn (+52% YoY), including RMB8.23bn in product sales (+44% YoY). Sintilimab's sales grew by 34% YoY to US\$526mn, according to Eli Lilly. Looking ahead to FY25, mgmt projects continued non-IFRS EBITDA profitability, even excluding the US\$80mn upfront payment from the DLL3 ADC out-licensing deal with Roche. Non-IFRS GPM expanded to 84.9% in FY24 from 82.8% in FY23, while the SG&A expense ratio decreased to 50.9% in FY24 from 58.0% in FY23, demonstrating improved operational efficiency. As of end 2024, Innovent held a robust cash balance of RMB10.2bn to support its long-term development.
- **Next-generation IO plus ADC, advancing toward global leadership in oncology.** We see significant synergies between the Company's next-generation IO (IBI363) and its expanding ADC portfolio (Claudin18.2ADC, DLL3 ADC, bispecific ADCs, dual-payload ADCs and APCs). Innovent already has over 10 ADC clinical programs, with combination trials with IBI363 being a key focus moving forward. We think IBI363 (PD-1/IL-2) has the potential to become a blockbuster next-generation IO therapy, targeting IO-treated and cold tumors. Data updates are anticipated at ASCO meeting in Jun, including PFS results from the 3mg/kg dose in IO-resistant sq-NSCLC. Innovent expects to initiate a Ph3 trial in this treatment setting this year. A Ph2 pivotal trial is underway comparing IBI363 to Keytruda in first-line IO-naïve melanoma. Furthermore, Innovent plans to initiate a Ph3 trial of IBI363 plus bevacizumab in third-line MSS CRC in 2025.
- **Emerging blockbuster pipeline in CVM and beyond.** Key CVM pipelines include IBI3016 (AGT siRNA), IBI3032 (GLP-1 small molecule), IBI3012 (GIP/GLP-1/GCG), and IBI3030 (PCSK9-GLP-1/GCG/GIP). IBI-3012 demonstrates superior efficacy over Amgen's AM133 in preclinical models, with enhanced weight loss, better glycemic control, improved insulin sensitivity, reduced weight rebound, and a longer half-life due to optimized antibody engineering. In oncology, IBI3001 (EGFR/B7H3 ADC) has global FIC potential, while IBI3020 (CEACAM5 dual-payload ADC) is expected to file IND in 1H25. In autoimmune diseases, Ph1 readouts are expected in 2025 for IBI356 (OX40L) and IBI3002 (IL-4Rα/TSLP). Innovent targets five assets to enter Ph3 MRCTs by 2030, laying the foundation for globalization.
- **Maintain BUY.** Driven by the anticipated near-term approval of mazdutide, continued profitability, and strong momentum across its innovative pipeline, we revise up our earnings forecasts and lift our DCF-based TP from HK\$57.67 to HK\$61.71 (WACC: 9.3%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	6,206	9,422	11,356	13,184	17,418
YoY growth (%)	36.2	51.8	20.5	16.1	32.1
Net profit (RMB mn)	(1,027.9)	(94.6)	445.7	757.3	2,053.2
EPS (Reported) (RMB)	(0.66)	(0.06)	0.27	0.46	1.25
R&D expenses (RMB mn)	(2,228)	(2,681)	(2,676)	(2,755)	(3,025)
CAPEX (RMB mn)	(1,119)	(400)	(300)	(300)	(300)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$61.71
(Previous TP)	HK\$57.67
Up/Downside	33.6%
Current Price	HK\$46.20

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Stock Data

Mkt Cap (HK\$ mn)	75,684.3
Avg 3 mths t/o (HK\$ mn)	501.3
52w High/Low (HK\$)	51.15/30.00
Total Issued Shares (mn)	1638.2

Source: FactSet

Shareholding Structure

Temasek Holdings	7.9%
Capital Group	7.0%

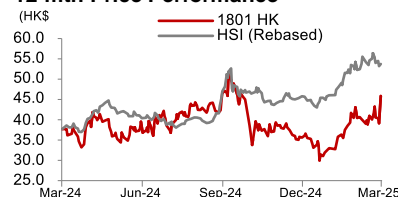
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	14.2%	11.8%
3-mth	29.8%	11.3%
6-mth	-0.9%	-12.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	272	686	2,269	4,419	6,771	9,406	10,739	10,916	11,012	10,690	10,363
Tax rate	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	231	583	1,929	3,756	5,755	7,995	9,129	9,279	9,360	9,086	8,808
+ D&A	371	369	367	365	363	362	360	358	357	356	354
- Change in working capital	19	-288	-607	-603	-519	-484	-295	-66	-32	74	137
- Capex	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300
FCFF	322	364	1,389	3,218	5,300	7,572	8,894	9,271	9,385	9,216	8,999
Terminal value											147,217
FCF + Terminal value	322	364	1,389	3,218	5,300	7,572	8,894	9,271	9,385	9,216	156,216

PV of enterprise (RMB mn)	87,848
Net debt (RMB mn)	-6,173
Equity value (RMB mn)	94,021
Equity value (HK\$ mn)	101,098
No. of outstanding shares (mn)	1,638
DCF per share (HK\$)	61.71

Terminal growth rate	3.0%
WACC	9.3%
Cost of equity	12.7%
Cost of debt	3.5%
Equity beta	0.95
Risk-free rate	3.2%
Market risk premium	10.0%
Target debt to asset ratio	35.0%
Effective corporate tax rate	15.0%

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

		WACC				
		8.3%	8.8%	9.3%	9.8%	10.3%
Terminal growth rate	4.0%	86.37	76.77	69.00	62.58	57.19
	3.5%	79.91	71.77	65.04	59.40	54.60
	3.0%	74.67	67.63	61.71	56.69	52.36
	2.5%	70.34	64.14	58.88	54.35	50.41
	2.0%	66.69	61.17	56.43	52.31	48.70

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	New			Old			Diff(%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	11,356	13,184	17,418	10,799	13,879	18,035	5%	-5%	-3%
Gross profit	9,503	10,930	14,476	9,017	11,450	14,789	5%	-5%	-2%
Operating profit	1,516	2,047	3,833	1,334	2,715	5,024	14%	-25%	-24%
Net profit	526	817	2,093	278	1,287	3,024	89%	-37%	-31%
EPS (RMB)	0.27	0.46	1.25	0.17	0.79	0.00	60%	-41%	N/A
Gross margin	83.68%	82.90%	83.11%	83.50%	82.50%	82.00%	+0.18 ppt	+0.40 ppt	+1.11 ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff(%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	11,356	13,184	17,418	11,138	13,907	17,996	2%	-5%	-3%
Gross profit	9,503	10,930	14,476	9,269	11,638	15,132	3%	-6%	-4%
Operating profit	1,516	2,047	3,833	117	1,299	3,185	N/A	N/A	92%
Net profit	526	817	2,093	286	1,337	3,203	N/A	N/A	-12%
EPS (RMB)	0.27	0.46	1.25	0.19	0.81	1.83	N/A	N/A	-14%
Gross margin	83.68%	82.90%	83.11%	83.22%	83.68%	84.09%	+0.46 ppt	-0.78 ppt	-0.97 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	4,556	6,206	9,422	11,356	13,184	17,418
Cost of goods sold	(931)	(1,136)	(1,510)	(1,853)	(2,254)	(2,941)
Gross profit	3,625	5,070	7,912	9,503	10,930	14,476
Operating expenses	(5,796)	(6,214)	(7,990)	(8,979)	(10,039)	(12,061)
Selling expense	(2,591)	(3,101)	(4,347)	(5,147)	(5,636)	(6,723)
Admin expense	(835)	(750)	(738)	(806)	(968)	(1,283)
R&D expense	(2,871)	(2,228)	(2,681)	(2,676)	(2,755)	(3,025)
Others	502	(136)	(224)	(349)	(679)	(1,030)
Pre-tax profit	(2,170)	(1,144)	(79)	524	891	2,416
Income tax	(9)	116	(16)	(79)	(134)	(362)
Minority interest	0	0	0	0	0	0
Net profit	(2,179)	(1,028)	(95)	446	757	2,053
BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	11,507	13,428	10,273	11,470	13,012	15,948
Cash & equivalents	9,163	10,052	7,508	8,634	9,791	11,954
Account receivables	575	1,006	1,184	1,164	1,352	1,786
Inventories	1,429	968	822	914	1,112	1,450
Financial assets at FVTPL	3	918	376	376	376	376
Other current assets	337	484	383	383	383	383
Non-current assets	6,082	7,199	11,330	11,258	11,189	11,122
PP&E	3,411	4,290	5,280	5,243	5,208	5,176
Intangibles	1,198	1,270	1,283	1,283	1,283	1,283
Other non-current assets	1,472	1,639	4,768	4,733	4,698	4,664
Total assets	17,589	20,627	21,603	22,728	24,202	27,070
Current liabilities	3,499	4,477	4,369	4,459	4,556	4,722
Short-term borrowings	888	1,195	405	405	405	405
Account payables	326	373	358	448	545	711
Tax payable	3	0	0	0	0	0
Other current liabilities	2,282	2,909	3,606	3,606	3,606	3,606
Non-current liabilities	3,360	3,623	4,116	4,121	4,127	4,132
Long-term borrowings	2,215	2,327	2,412	2,412	2,412	2,412
Obligations under finance leases	99	73	5	10	15	21
Other non-current liabilities	1,046	1,223	1,699	1,699	1,699	1,699
Total liabilities	6,859	8,100	8,485	8,580	8,683	8,854
Share capital	0	0	0	0	0	0
Other reserves	10,730	12,527	13,118	14,148	15,519	18,216
Total shareholders equity	10,730	12,528	13,118	14,148	15,519	18,216
Minority interest	0	0	0	0	0	0
Total equity and liabilities	17,589	20,627	21,603	22,728	24,202	27,070

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(2,162)	(1,261)	(63)	603	1,025	2,778
Depreciation & amortization	245	276	339	337	335	333
Tax paid	(9)	116	(16)	(79)	(134)	(362)
Change in working capital	295	403	768	19	(288)	(607)
Others	(327)	511	225	294	314	176
Net cash from operations	(1,958)	46	1,253	1,173	1,252	2,317
Investing						
Capital expenditure	(897)	(1,119)	(400)	(300)	(300)	(300)
Acquisition of subsidiaries/ investments	(79)	0	0	0	0	0
Net proceeds from disposal of short-term investments	(583)	(358)	(2,500)	0	0	0
Others	768	478	423	323	276	217
Net cash from investing	(790)	(999)	(2,477)	23	(24)	(83)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	715	418	(1,000)	0	0	0
Proceeds from share issues	2,131	2,255	0	0	0	0
Others	46	(86)	(68)	(71)	(71)	(71)
Net cash from financing	2,892	2,587	(1,068)	(71)	(71)	(71)
Net change in cash						
Cash at the beginning of the year	1,359	9,163	10,052	7,508	8,634	9,791
Exchange difference	119	(7)	0	0	0	0
Cash at the end of the year	9,163	10,052	7,508	8,634	9,791	11,954
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	6.7%	36.2%	51.8%	20.5%	16.1%	32.1%
Gross profit	(3.7%)	39.8%	56.1%	20.1%	15.0%	32.4%
Net profit	na	na	na	na	69.9%	171.1%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	79.6%	81.7%	84.0%	83.7%	82.9%	83.1%
Return on equity (ROE)	(20.7%)	(8.8%)	(0.7%)	3.3%	5.1%	12.2%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.6)	(0.4)	(0.4)	(0.5)	(0.5)
Current ratio (x)	3.3	3.0	2.4	2.6	2.9	3.4
Receivable turnover days	61.8	46.5	42.4	37.4	37.4	37.4
Inventory turnover days	544.2	385.0	216.3	180.0	180.0	180.0
Payable turnover days	102.1	112.1	88.2	88.2	88.2	88.2
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	ns	ns	ns	158.6	93.3	34.4
P/B	6.1	5.4	5.4	5.0	4.6	3.9

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

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