

Kintor Pharmaceutical (9939 HK)

Fast clinical progress for Proxalutamide and other core assets

- Increased R&D spending due to accelerated R&D progress.** Kintor reported attributable net loss of RMB508mn in 2020 vs loss of RMB233mn in 2019. R&D cost increased 53.6% YoY to RMB329mn in 2020. As of end-2020, Kintor had a robust pipeline of 6 clinical stage drug candidates, incl. 1 Ph III stage asset, 2 Ph II assets, and 3 Ph I assets. Kintor is conducting multiple trials, including (i) phase III clinical trials for Proxalutamide monotherapy and combination therapy with Abiraterone for mCRPC in China; (ii) phase Ib clinical trials for Pylutamide in the US; (iii) phase II clinical trials for ALK-1 in Taiwan; (iv) trials for Proxalutamide for COVID-19 in Brazil; (v) trials for Pylutamide for acne vulgaris in China; (vi) phase II clinical trials for Pylutamide for androgenetic alopecia in China, etc. As of end-2020, Kintor had RMB1,389mn cash on hand, which will be sufficient to support the Company's future R&D activities.
- Proxalutamide showed promising efficacy on COVID-19 in several IIT studies in Brazil.** For mild or moderate COVID-19 patients treated with Proxalutamide, the hospitalization rate of male patients was reduced by 100%, while that of female patients was reduced by 90%. More importantly, for hospitalized COVID-19 patients, the mortality rate was reduced by 92%, and the length of hospital stay was cut by 9 days (5 vs 14). Kintor has received approval from the US FDA to conduct a registrational phase III trial of Proxalutamide's treatment of male COVID-19 outpatients with mild or moderate symptoms. Kintor is also conducting trials assessing Proxalutamide for treatment of mCRPC and mBC. Two Phase III trials of Proxalutamide monotherapy for 2L+ mCRPC and in combination with Abiraterone for 1L mCRPC are ongoing in China.
- Highly innovative pipelines.** For Pylutamide: Kintor completed the enrolment of 120 patients for Pylutamide's phase II trial for androgenetic alopecia in China and the data may be released in 2021. Kintor obtained NMPA's IND approval of Pylutamide gel formula for acne vulgaris in Sep 2020, while the trial may start in 2Q21E. For GT90001 (ALK-1 antibody): In a Ph II trial of GT90001 in combination of Nivolumab for 2L HCC in Taiwan, among the 20 evaluable patients, eight patients (40.0%) were observed PR. In Feb 2021, Kintor obtained US FDA approval to start a Ph II trial of GT90001 + Nivolumab for 2L HCC. For GT20029 (AR-degrader): The IND applications of GT20029 for androgenetic alopecia and acne vulgaris were accepted by the NMPA in Feb 2021.
- Maintain BUY.** Considering the positive progress of Proxalutamide in treating COVID-19, we expect it will be approved and launched to the US market in 2022 with a COVID-19 label. We raise our 22E/23E revenue forecast by 142%/54%, and raise our TP to HK\$38.88 based on a 10-year DCF model (WACC: 9.5%, terminal growth rate: 3.0%). **Risks:** Delay in pipeline progress; Competition from peers.

Earnings Summary

| (YE 31 Dec) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---|----------|----------|----------|----------|----------|
| Revenue (RMB mn) | 0 | 0 | 0 | 924 | 798 |
| Attributable net profit (loss) (RMB mn) | (233) | (508) | (397) | 274 | 207 |
| R&D expenses | (214) | (329) | (350) | (300) | (250) |
| EPS (RMB) | N/A | (1.64) | (1.08) | 0.74 | 0.56 |
| Consensus EPS (RMB) | N/A | N/A | (15.31) | 2.81 | N/A |
| ROE (%) | (63) | (34) | (36) | 20 | 13 |
| ROA (%) | (42) | (27) | (29) | 16 | 11 |
| Net gearing (%) | Net cash | Net cash | Net cash | Net cash | Net cash |
| Current ratio (x) | 1.5 | 8.4 | 9.7 | 8.3 | 10.0 |

Source: Company data, CMBIS estimates

BUY (Maintain)

| | |
|---------------|------------|
| Target Price | HK\$38.88 |
| (Previous TP) | HK\$21.41) |
| Up/Downside | +28.74% |
| Current Price | HK\$30.20 |

China Healthcare Sector

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| | |
|--------------------------|------------|
| Mkt. Cap. (HK\$ mn) | 11,156 |
| Avg. 3mths t/o (HK\$ mn) | 53.12 |
| 52W High/Low (HK\$) | 38.65/7.20 |
| Total Issued Shares (mn) | 369 |

Source: Bloomberg

Shareholding Structure

| | |
|----------------------------------|--------|
| Management | 34.03% |
| Pre-IPO & corner stone investors | 34.07% |
| Free float | 31.90% |

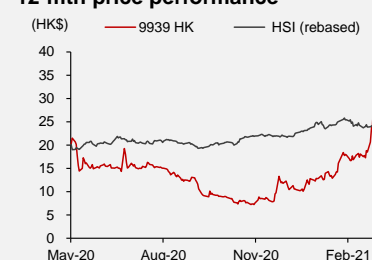
Source: HKEx, Bloomberg

Share performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 78.9% | 83.0% |
| 3-mth | 189.3% | 169.4% |
| 6-mth | 184.9% | 133.6% |

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: PWC

Web-site: www.kintor.com.cn

Related report:

- Enrollment completed for proxalutamide for hospitalized COVID-19 patients in Brazil – 26 Feb 2021
- Promising clinical data from Proxalutamide on COVID-19 and GT90001 (ALK-1) on 2L HCC – 14 Dec 2020
- Proxalutamide's 2L+ mCRPC Phase III trial needs to wait for OS data – 28 Sep 2020

Valuation

We use DCF method to value the Company and we derive TP of HK\$38.88 based on 10-year risk-adjusted DCF model (WACC: 9.5%, terminal growth rate: 3.0%).

Figure 1: Risk-adjusted DCF valuation

| DCF Valuation (in Rmb mn) | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|-------------------------------|---------------|-----------|------------|------------|------------|------------|--------------|--------------|--------------|---------------|
| EBIT | (405) | 318 | 237 | 525 | 968 | 1,229 | 1,357 | 1,516 | 1,603 | 1,671 |
| Tax rate | 0% | 15% | 15% | 15% | 15% | 15% | 15% | 15% | 15% | 15% |
| EBIT*(1-tax rate) | (405) | 270 | 202 | 446 | 823 | 1,045 | 1,154 | 1,289 | 1,363 | 1,420 |
| + D&A | 12 | 17 | 21 | 24 | 28 | 31 | 34 | 37 | 40 | 42 |
| - Change in working capital | (50) | (175) | 23 | (128) | (183) | (115) | (45) | (37) | (32) | (21) |
| - Capex | (100) | (80) | (80) | (80) | (80) | (80) | (80) | (80) | (80) | (80) |
| FCFF | (543) | 32 | 166 | 263 | 587 | 881 | 1,063 | 1,208 | 1,291 | 1,361 |
| Terminal value | | | | | | | | | | 21,451 |
| FCF + Terminal value | (543) | 32 | 166 | 263 | 587 | 881 | 1,063 | 1,208 | 1,291 | 22,812 |
| Present value of enterprise | 11,611 | | | | | | | | | |
| Net Debt | (308) | | | | | | | | | |
| Minorities | 0 | | | | | | | | | |
| Equity value (RMB mn) | 11,920 | | | | | | | | | |
| Equity value (HK\$ mn) | 14,361 | | | | | | | | | |
| Equity value (US\$ mn) | 1,853 | | | | | | | | | |
| Target price (HK\$) | 38.88 | | | | | | | | | |
| Terminal growth rate | 3.0% | | | | | | | | | |
| WACC | 9.5% | | | | | | | | | |
| Cost of Equity | 11.8% | | | | | | | | | |
| Cost of Debt | 5.0% | | | | | | | | | |
| Equity Beta | 0.9 | | | | | | | | | |
| Risk Free Rate | 3.0% | | | | | | | | | |
| Market Risk Premium | 10.0% | | | | | | | | | |
| Target Debt to Asset ratio | 30.0% | | | | | | | | | |
| Effective Corporate Tax Rate | 15.0% | | | | | | | | | |

Source: CMBIS estimates

Figure 2: Sensitivity analysis (HK\$)

| | | WACC | | | | |
|----------------------|------|-------|-------|--------------|-------|-------|
| | | 8.5% | 9.0% | 9.5% | 10.0% | 10.5% |
| Terminal growth rate | 4.0% | 56.39 | 49.72 | 44.29 | 39.77 | 35.97 |
| | 3.5% | 51.73 | 46.06 | 41.36 | 37.39 | 34.01 |
| | 3.0% | 47.92 | 43.01 | 38.88 | 35.35 | 32.31 |
| | 2.5% | 44.74 | 40.43 | 36.75 | 33.58 | 30.83 |
| | 2.0% | 42.05 | 38.21 | 34.91 | 32.03 | 29.51 |

Source: Company data, CMBIS estimates

Figure 3: FY20A results change

| | 2019A | 2020A | YoY Change | CMBIS 2020E | Diff (%) |
|---|--------------|--------------|---------------|--------------|------------|
| YE Dec 31 (RMB mn) | | | | | |
| Revenue | 0 | 0 | N/A | 0 | N/A |
| Cost of sales | 0 | 0 | N/A | 0 | N/A |
| Gross profit | 0 | 0 | N/A | 0 | N/A |
| Other income | 19 | 25 | 32.2% | 28 | -11.6% |
| Selling expenses | (0) | (9) | N/A | (10) | -13.7% |
| Administrative expenses | (33) | (77) | 135.2% | (100) | -22.9% |
| Research and development costs | (214) | (329) | 53.6% | (320) | 2.7% |
| Other (losses)/gains - net | (1) | (116) | N/A | 0 | N/A |
| Profit from operations | (229) | (505) | N/A | (402) | N/A |
| Finance costs - net | (4) | (3) | -13.2% | (3) | 31.7% |
| Profit (loss) before tax | (233) | (508) | 118.5% | (404) | N/A |
| Income tax expense | 0 | (0) | N/A | 0 | N/A |
| Profit (loss) for the year | (233) | (508) | N/A | (404) | N/A |
| Non-controlling interests | 0 | 0 | N/A | 0 | N/A |
| Profit (loss) attributable to shareholders | (233) | (508) | N/A | (404) | N/A |

Source: Company data, CMBIS estimates

Figure 4: CMBIS estimates revision

| RMB mn | New | | | Old | | | Diff (%) | | |
|------------------|--------|--------|--------|--------|--------|--------|----------|------------|-----------|
| | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E |
| Revenue | 0 | 924 | 798 | 0 | 382 | 519 | N/A | 142% | 54% |
| Gross Profit | 0 | 739 | 646 | 0 | 305 | 420 | N/A | 142% | 54% |
| Operating Profit | (389) | 331 | 252 | (267) | 23 | 200 | N/A | 1329% | 26% |
| Net profit | (397) | 274 | 207 | (269) | 21 | 168 | N/A | 1229% | 23% |
| EPS (RMB) | (1.08) | 0.74 | 0.56 | (0.73) | 0.06 | 0.45 | N/A | 1229% | 23% |
| Gross Margin | N/A | 80.00% | 81.00% | N/A | 80.00% | 81.00% | N/A | +0.00 ppt | +0.00 ppt |
| Operating Margin | N/A | 35.81% | 31.57% | N/A | 6.07% | 38.56% | N/A | +29.74 ppt | -6.99 ppt |
| Net Margin | N/A | 29.62% | 25.89% | N/A | 5.40% | 32.35% | N/A | +24.22 ppt | -6.47 ppt |

Source: Company, CMBIS estimates

Figure 5: CMBIS estimates vs consensus

| RMB mn | CMBIS | | | Consensus | | | Diff (%) | | |
|------------------|--------|--------|--------|-----------|--------|--------|----------|------------|------------|
| | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E |
| Revenue | 0 | 924 | 798 | 110 | 423 | 935 | -100% | 119% | -15% |
| Gross Profit | 0 | 739 | 646 | 84 | 346 | 781 | -100% | 114% | -17% |
| Operating Profit | (389) | 331 | 252 | (435) | 71 | 374 | N/A | 369% | -33% |
| Net profit | (397) | 274 | 207 | (431) | 77 | 389 | N/A | 256% | -47% |
| EPS (RMB) | (1.08) | 0.74 | 0.56 | (15.31) | 2.81 | N/A | N/A | -74% | N/A |
| Gross Margin | N/A | 80.00% | 81.00% | 76.75% | 81.75% | 83.50% | N/A | -1.75 ppt | -2.50 ppt |
| Operating Margin | N/A | 35.81% | 31.57% | N/A | 16.67% | 40.00% | N/A | +19.14 ppt | -8.43 ppt |
| Net Margin | N/A | 29.62% | 25.89% | N/A | 18.20% | 41.60% | N/A | +11.42 ppt | -15.72 ppt |

Source: Company, CMBIS estimates

Financial Statements

Income statement

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---|--------------|--------------|--------------|------------|------------|
| Revenue | 0 | 0 | 0 | 924 | 798 |
| Proxalutamide China sales – risk adjusted | 0 | 0 | 0 | 34 | 213 |
| Proxalutamide US sales - risk adjusted | 0 | 0 | 0 | 852 | 480 |
| Pyrilutamide China sales - risk adjusted | 0 | 0 | 0 | 38 | 99 |
| Pyrilutamide US sales - risk adjusted | 0 | 0 | 0 | 0 | 5 |
| ALK-1 China sales - risk adjusted | 0 | 0 | 0 | 0 | 0 |
| Others | 0 | 0 | 0 | 0 | 0 |
| Cost of sales | 0 | 0 | 0 | (185) | (152) |
| Gross profit | 0 | 0 | 0 | 739 | 646 |
| Other income | 19 | 25 | 31 | 28 | 29 |
| Selling & distribution expenses | (33) | (77) | (70) | (111) | (80) |
| R&D expenses | (214) | (329) | (350) | (300) | (250) |
| Administrative expenses | (0) | (9) | 0 | (25) | (94) |
| Other expenses | (1) | (116) | 0 | 0 | 0 |
| Operating profit (loss) | (229) | (505) | (389) | 331 | 252 |
| Finance costs | (4) | (3) | (9) | (9) | (9) |
| Pre-tax profit (loss) | (233) | (508) | (397) | 322 | 243 |
| Income tax | 0 | (0) | 0 | (48) | (36) |
| Minority interests | 0 | 0 | 0 | 0 | 0 |
| Attributable net profit (loss) | (233) | (508) | (397) | 274 | 207 |

Cash flow summary

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|--|--------------|--------------|--------------|-------------|-------------|
| Profit before tax | (233) | (508) | (397) | 322 | 243 |
| Depreciation and amortization, etc. | 5 | 7 | 12 | 17 | 21 |
| Change in working capital | 0 | 1 | (50) | (175) | 23 |
| Others | (0) | 120 | 0 | (48) | (36) |
| Net income tax paid | 0 | (0) | 0 | (48) | (36) |
| Operating cash flow | (228) | (381) | (436) | 116 | 251 |
| Purchase of PP&E | (67) | (69) | (100) | (80) | (80) |
| Purchase of land use right | 0 | 0 | 0 | 0 | 0 |
| Purchases of financial assets at FV through profit or loss | 0 | 0 | 0 | 0 | 0 |
| Purchases of financial assets measured at amortized cost | (55) | 0 | 0 | 0 | 0 |
| Others | 115 | (371) | 0 | 0 | 0 |
| Investing cash flow | (7) | (440) | (100) | (80) | (80) |
| Proceeds from borrowings | 59 | 239 | 0 | 0 | 0 |
| Repayments of borrowings | (65) | 0 | 0 | 0 | 0 |
| Capital contribution from equity holders | 348 | 1,443 | 0 | 0 | 0 |
| Others | (46) | 99 | 0 | 0 | 0 |
| Financing cash flow | 296 | 1,780 | 0 | 0 | 0 |
| FX changes | (3) | (91) | 0 | 0 | 0 |
| Net change in cash | 61 | 960 | (536) | 36 | 171 |
| Cash at the beginning year | 138 | 196 | 1,066 | 530 | 566 |
| Cash at the end | 196 | 1,065 | 530 | 566 | 737 |

Balance sheet

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|------------------------------------|------------|--------------|--------------|--------------|--------------|
| Non-current assets | 333 | 431 | 519 | 582 | 641 |
| PP&E | 98 | 175 | 264 | 328 | 389 |
| Intangible assets | 179 | 210 | 210 | 209 | 209 |
| Right-of-use assets | 14 | 12 | 11 | 10 | 9 |
| Other non-current assets | 41 | 34 | 34 | 34 | 34 |
| Current assets | 221 | 1,421 | 853 | 1,110 | 1,249 |
| Inventories | 0 | 0 | 0 | 30 | 25 |
| Trade receivables | 0 | 0 | 0 | 152 | 131 |
| Other receivables and prepayments | 25 | 32 | 0 | 38 | 33 |
| Financial assets at FV through P&L | 0 | 0 | 0 | 0 | 0 |
| Cash and cash equivalents | 196 | 1,066 | 530 | 566 | 737 |
| Restricted cash | 0 | 0 | 0 | 0 | 0 |
| Non-current liabilities | 41 | 174 | 174 | 174 | 174 |
| Borrowings | 0 | 135 | 135 | 135 | 135 |
| Lease liabilities | 2 | 0 | 0 | 0 | 0 |
| Deferred income tax liabilities | 39 | 39 | 39 | 39 | 39 |
| Current liabilities | 143 | 169 | 88 | 134 | 125 |
| Trade and other payables | 80 | 81 | 0 | 46 | 37 |
| Borrowings | 59 | 84 | 84 | 84 | 84 |
| Lease liabilities | 3 | 3 | 3 | 3 | 3 |
| Deferred income | 1 | 0 | 0 | 0 | 0 |
| Amounts due to related parties | 0 | 1 | 1 | 1 | 1 |
| Total net assets | 370 | 1,508 | 1,111 | 1,384 | 1,591 |
| Minority interest | 0 | 0 | 0 | 0 | 0 |
| Shareholders' equity | 370 | 1,508 | 1,111 | 1,384 | 1,591 |

Key ratios

| YE 31 Dec | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------------------|-------|--------|--------|-------|-------|
| Sales mix (%) | | | | | |
| Proxalutamide China sales adjusted | 0 | 0 | 0 | 4 | 27 |
| Proxalutamide US sales | 0 | 0 | 0 | 92 | 60 |
| Pyrilutamide China sales - adjusted | 0 | 0 | 0 | 4 | 12 |
| Pyrilutamide US sales | 0 | 0 | 0 | 0 | 1 |
| ALK-1 China sales - | 0 | 0 | 0 | 0 | 0 |
| Others | 0 | 0 | 0 | 0 | 0 |
| Total | 100 | 100 | 100 | 100 | 100 |
| Profit & loss ratios (%) | | | | | |
| Gross margin | N/A | N/A | 70 | 80 | 81 |
| EBITDA margin | N/A | N/A | N/A | 36 | 32 |
| Pre-tax margin | N/A | N/A | N/A | 35 | 30 |
| Net margin | N/A | N/A | N/A | 30 | 26 |
| Effective tax rate | 0 | 0 | 0 | 15 | 15 |
| Balance sheet ratios | | | | | |
| Current ratio (x) | 2 | 8 | 10 | 8 | 10 |
| Net debt to equity (%) | Net | Net | Net | Net | Net |
| Returns (%) | | | | | |
| ROE | -63 | -34 | -36 | 20 | 13 |
| ROA | -42 | -27 | -29 | 16 | 11 |
| Per share value | | | | | |
| EPS (RMB) | N/A | (1.64) | (1.08) | 0.74 | 0.56 |
| DPS (RMB) | N/A | 0.00 | 0.00 | 0.00 | 0.00 |
| BVP (RMB) | N/A | 4.87 | 3.01 | 3.75 | 4.31 |

Source: Company data, CMBIS estimates

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