

Henlius Biotech (2696 HK)

Anticipating sustained profitability

- Profit turnaround driven by core business operations.** Henlius's FY23 revenue increased 67.8% YoY to RMB5.40bn, driven by strong sales of HANQUYOU (trastuzumab biosimilar) and serplulimab (PD-1). HANQUYOU recorded RMB2.74bn revenue in FY23, +58% YoY. We think HANQUYOU may be free from VBP risks in 2024 due to relatively moderate competition landscape for Herceptin biosimilars. GP margin (as % of product sales) increased to 83.0% in FY23, vs 80.7% in FY22. Selling expense ratio (as % of product sales) decreased to 38.5% in FY23, from 39.2% in FY22, and admin ratio decreased from 13.2% in FY22 to 8.4% in FY23, showing improving operating efficiency. R&D expense decreased 20% YoY to RMB1.12bn in FY23. In FY23, Henlius recorded c. RMB1.05bn operating cash inflows, and achieved net profit of RMB546mn, marking the Company's first profitable year in its history. We believe that the net profit was primarily derived from its core operations, namely the promotion of drugs. Thus, we are confident that this profitability will be sustainable in the coming years. As of end 2023, Henlius had RMB989mn cash reserves.
- Serplulimab (PD-1) has global potential thanks its superior profile in SCLC and CRC.** The sales of serplulimab was RMB1.12bn in FY23, with 2H23 sales remaining stable (+1% HoH). This stability is notable even amidst a challenging period for the industry in China, attributable to the drug's differentiated profile in SCLC. The NDA for serplulimab as a first-line treatment for ES-SCLC was accepted by the EMA in Mar 2023, with the approval expected in 3Q24. In the US, Henlius is conducting a bridging study of serplulimab for 1L ES-SCLC, with data release and BLA submission expected by end-2024. Henlius has recently released encouraging data of serplulimab in 1L mCRC, especially in the underserved MSS CRC (CMBI report, [link](#)). A Ph3 trial in Asia, combining serplulimab with HLX04 and chemotherapy for first-line mCRC, is set to commence.
- Promising innovative assets with global BD potential.** HLX22 (a novel HER2 mAb) in combo with HANQUYOU and chemo had demonstrated overwhelming PFS signals in 1L GC compared with the current SoC (CMBI report, [link](#)). We expect Henlius to start a global Ph3 trial of HLX22 + HANQUYOU + chemo as a first-line treatment for GC, with Keytruda in the control arms. Henlius has developed a differentiated ADC platform leveraging MediLink's payload-linker technology which enables selective release of payload in tumor microenvironment. Based on this platform, HLX42 (EGFR ADC) has recently completed FPI in China, and also received a fast track designation from FDA for EGFR-TKI resistant NSCLC. HLX42 showed promising potential in post osimertinib EGFRm NSCLC in preclinical studies. HLX43 (PD-L1 ADC) started a Ph1 study in China in late 2023 with US IND approved as well. We think Henlius is likely to achieve global BD deals for its differentiated innovative assets, such as HLX22, HLX42 and HLX43.
- Maintain BUY.** We expect Henlius to file NDAs in the US for HLX14 in 3Q24 and for HLX11 in end 2024. HLX11 may become the first pertuzumab biosimilar in the US/EU. We maintain our DCF-based TP unchanged at HK\$18.67 (WACC 11.46%, terminal growth 2%).

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	3,215	5,395	5,928	6,204	7,133
YoY growth (%)	91.1	67.8	9.9	4.7	15.0
Net profit (RMB mn)	(695)	546	584	634	980
YoY growth (%)	na	na	7.0	8.5	54.6
EPS (Reported) (RMB)	(1.28)	1.01	1.08	1.17	1.80
P/E (x)	ns	11.4	12.2	11.2	7.3
R&D expenses (RMB mn)	(1,395)	(1,119)	(1,100)	(1,100)	(1,000)
Admin expenses (RMB mn)	(354)	(384)	(427)	(443)	(512)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$18.67
(Previous TP)	HK\$18.67)
Up/Downside	31.8%
Current Price	HK\$14.16

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Stock Data

Mkt Cap (HK\$ mn)	7,693.1
Avg 3 mths t/o (HK\$ mn)	2.7
52w High/Low (HK\$)	16.90/9.70
Total Issued Shares (mn)	543.3

Source: FactSet

Shareholding Structure

Management	26.8%
Fosun	21.7%

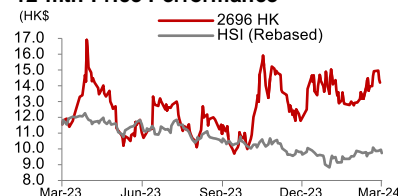
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	8.9%	10.5%
3-mth	21.0%	19.9%
6-mth	23.3%	35.0%

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	788	838	1,245	1,471	1,672	2,041	2,115	2,088	2,110	1,997	1,885	1,772
Less: Tax	(103)	(112)	(173)	(207)	(237)	(292)	(303)	(299)	(303)	(286)	(269)	(252)
Depreciation and amortisation	377	377	406	427	440	448	375	367	361	354	349	344
CAPEX (incl. intangible assets)	(1,000)	(1,000)	(850)	(700)	(550)	(350)	(350)	(350)	(350)	(350)	(350)	(350)
Change in working capital	(75)	56	53	(30)	(20)	(14)	11	20	(5)	23	24	24
FCF	(12)	339	853	1,124	1,513	1,760	1,840	1,818	1,807	1,734	1,633	1,533
Terminal value												15,320
Present value of enterprise (RMB mn)	12,469											
Debt & Preferred Stock (RMB mn)	3,977											
Deposit and pledged cash (RMB mn)	738											
Equity value (RMB mn)	9,229											
Value per share (RMB)	16.99											
Value per share (HK\$)	18.67											
Terminal growth rate	3.0%											
WACC	10.31%											
Cost of Equity	12.9%											
Cost of Debt	5.0%											
Equity Beta	1.10											
Risk Free Rate	3.0%											
Market Risk Premium	9.0%											
Target Debt to Asset ratio	30.0%											
Effective Corporate Tax Rate	15.0%											

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

		WACC				
		9.3%	9.8%	10.3%	10.8%	11.3%
Terminal growth rate	4.0%	22.06	20.33	18.76	17.34	16.05
	3.5%	22.01	20.27	18.71	17.30	16.01
	3.0%	21.95	20.22	18.67	17.26	15.98
	2.5%	21.89	20.17	18.62	17.22	15.94
	2.0%	21.84	20.12	18.57	17.17	15.90

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	5,928	6,204	7,133	5,888	6,208	7,128	1%	0%	0%
Operating Profit	788	838	1,245	823	858	1,251	-4%	-2%	0%
Net profit	584	634	980	598	635	970	-2%	0%	1%
EPS (RMB)	1.08	1.17	1.80	1.10	1.17	1.79	-2%	0%	1%
Gross Margin	70.66%	69.24%	69.16%	69.23%	67.33%	66.98%	+1.43 ppt	+1.91 ppt	+2.18 ppt
Net Margin	9.86%	10.22%	13.74%	10.15%	10.24%	13.61%	-0.30 ppt	-0.02 ppt	+0.14 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	5,928	6,204	7,133	5,955	6,653	N/A	0%	-7%	N/A
Operating profit	788	838	1,245	742	780	N/A	6%	7%	N/A
Net profit	584	634	980	621	704	N/A	-6%	-10%	N/A
EPS (RMB)	1.08	1.17	1.80	1.14	1.30	N/A	-6%	-10%	N/A
Operating margin	70.66%	69.24%	69.16%	73.02%	72.20%	N/A	-2.36 ppt	-2.96 ppt	N/A
Net Margin	9.86%	10.22%	13.74%	10.43%	10.58%	N/A	-0.58 ppt	-0.36 ppt	N/A

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	1,682	3,215	5,395	5,928	6,204	7,133
Cost of goods sold	(523)	(845)	(1,476)	(1,739)	(1,908)	(2,200)
Gross profit	1,160	2,370	3,919	4,189	4,296	4,933
Selling expense	(520)	(1,049)	(1,754)	(1,873)	(1,914)	(2,175)
Admin expense	(281)	(354)	(384)	(427)	(443)	(512)
R&D expense	(1,024)	(1,395)	(1,119)	(1,100)	(1,100)	(1,000)
Operating profit	(665)	(428)	662	788	838	1,245
Other gains/(losses)	(292)	(266)	(92)	(101)	(92)	(92)
EBITDA	(500)	(163)	1,008	1,166	1,244	1,672
EBIT	(665)	(428)	662	788	838	1,245
Pre-tax profit	(957)	(694)	570	687	746	1,153
Income tax	(27)	(1)	(24)	(103)	(112)	(173)
After tax profit	(984)	(695)	546	584	634	980
Minority interest	0	0	0	0	0	0
Net profit	(984)	(695)	546	584	634	980

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	1,647	2,192	1,953	2,008	1,918	2,376
Cash & equivalents	707	680	851	738	684	1,151
Restricted cash	0	0	0	0	0	0
Account receivables	296	456	383	477	497	542
Inventories	420	757	420	495	439	385
Other current assets	224	298	298	298	298	298
Non-current assets	5,526	6,733	7,487	8,110	8,554	8,827
PP&E	1,229	1,817	2,136	2,422	2,630	2,767
Right-of-use assets	438	412	348	283	219	154
Intangibles	3,635	4,332	4,833	5,234	5,535	5,735
Other non-current assets	224	171	171	171	171	171
Current liabilities	2,960	5,002	4,671	4,765	4,785	4,831
Short-term borrowings	1,571	2,522	2,522	2,522	2,522	2,522
Account payables	383	714	383	477	497	542
Other current liabilities	867	1,443	1,443	1,443	1,443	1,443
Contract liabilities	138	322	322	322	322	322
Non-current liabilities	1,916	2,286	2,586	2,586	2,286	2,286
Long-term borrowings	1,052	1,155	1,455	1,455	1,155	1,155
Deferred income	156	193	193	193	193	193
Other non-current liabilities	708	938	938	938	938	938
Total liabilities	4,876	7,288	7,258	7,351	7,071	7,117
Share capital	543	543	543	543	543	543
Retained earnings	1,753	1,093	1,639	2,223	2,857	3,543
Total shareholders equity	2,297	1,636	2,182	2,767	3,401	4,087
Minority interest	0	0	0	0	0	0
Total equity and liabilities	2,297	1,636	2,182	2,767	3,401	4,087

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(957)	(694)	570	687	746	1,153
Depreciation & amortization	166	265	346	377	406	427
Tax paid	0	(1)	(24)	(103)	(112)	(173)
Change in working capital	511	1,101	79	(75)	56	53
Others	370	311	111	119	110	110
Net cash from operations	90	982	1,081	1,006	1,207	1,571
Investing						
Capital expenditure	(460)	(585)	(500)	(500)	(450)	(400)
Others	(1,221)	(774)	(600)	(500)	(400)	(300)
Net cash from investing	(1,681)	(1,359)	(1,100)	(1,000)	(850)	(700)
Financing						
Dividend paid	0	0	0	0	0	(294)
Net borrowings	800	1,074	300	0	(300)	0
Proceeds from share issues	0	0	0	0	0	0
Others	(152)	(216)	(111)	(119)	(110)	(110)
Net cash from financing	648	858	189	(119)	(410)	(404)
Net change in cash						
Cash at the beginning of the year	1,114	155	680	851	738	684
Exchange difference	(17)	38	0	0	0	0
Cash at the end of the year	707	680	851	738	684	1,151
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	186.3%	91.1%	67.8%	9.9%	4.7%	15.0%
Gross profit	186.0%	104.4%	65.3%	6.9%	2.6%	14.8%
Operating profit	na	na	na	19.1%	6.3%	48.6%
EBITDA	na	na	na	15.7%	6.7%	34.4%
EBIT	na	na	na	19.1%	6.3%	48.6%
Net profit	na	na	na	7.0%	8.5%	54.6%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	68.9%	73.7%	72.6%	70.7%	69.2%	69.2%
Operating margin	(39.5%)	(13.3%)	12.3%	13.3%	13.5%	17.5%
EBITDA margin	(29.7%)	(5.1%)	18.7%	19.7%	20.1%	23.4%
Return on equity (ROE)	(35.8%)	(35.4%)	28.6%	23.6%	20.6%	26.2%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	0.6	0.4	0.4	0.4	0.4	0.5
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	11.4	12.2	11.2	7.3
P/B	6.7	4.8	2.9	2.6	2.1	1.7

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

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