

RemeGen (9995 HK)

Pursuit of sustainable long-term growth

In 2Q23, RemeGen recorded revenue of RMB254mn, mostly from the product sales of RC18 and RC48, compared to RMB168mn in 1Q23 (+51% QoQ) and RMB200mn in 2Q22 (+27% YoY). In 1H23, the Company recorded product sales of RMB416mn, representing approximately 1/3 of the Company's full-year guidance of RMB1.2-1.3bn. The Company intentionally slowed down the shipment volume of RC18 in 1H23 to prepare for the NDRL renewal late this year, which impacted the sales of RC18 in 1H23. Additionally, COVID-19 outbreak in China also impacted the sales performance in 1Q23. The GP margin reached 75.5% in 1H23 (vs 64.8% in FY22). RemeGen's SG&A expense ratio decreased from 141% in 1Q23 to 109% in 2Q23. In 2Q23, the R&D expense was RMB291mn, compared to RMB250mn in 1Q23 with the increase mainly caused by the initiations of more pivotal studies. The Company recorded a net loss of RMB380mn in 2Q23 (vs RMB324mn in 1Q23). As of Jun 2023, RemeGen had a cash balance of RMB1.26bn, implying additional financing might be needed, in our view.

■ **RC48 to target the differentiated UC indication.** RC48 distinguished itself from other HER2 ADCs by targeting differentiated indication of UC treatment. RC48 has been approved and included in NRDL for 2L UC and 3L GC. RemeGen is exploring RC48's potential in earlier lines of UC treatment, with several studies ongoing, including a Ph3 trial of RC48+toripalimab+chemo for 1L HER2-expressing UC, a Ph2 trial for perioperative MIBC and a Ph1/2 trial for NMIBC. In the US, Seagen is conducting a pivotal Ph2 trial of RC48 mono for 2/3L HER2-expressing UC. Seagen also recently registered a Ph3 trial of RC48+ Keytruda for 1L HER2-expressing UC ([link](#)). For GC treatment, besides the NRDL-included 3L GC, the Company is conducting a Ph2/3 study of RC48 + PD-1 + chemo / trastuzumab for 1L HER2-expressing GC in China. For BC, a Ph3 trial for HER2-low BC is ongoing in China with data readout expected in late-2024, while multiple Ph2 studies of RC48 for BC neoadjuvant treatment are ongoing.

■ **Large global potential of RC18 for multiple underserved autoimmune diseases.** Besides adult SLE, RemeGen is also exploring RC18 for the treatment of child SLE and lupus nephritis in China. For the underserved markets of IgA, pSS and MG, RemeGen has also released positive Ph2 study results, and has started the enrolment of Ph3 trials of the three indications in 2Q23 in China. In the overseas markets, the MRCT trial of RC18 for SLE is enrolling patients across the US, Europe, APAC and other regions, with the data readout of the first phase expected in mid-2024. The Company will start a Ph3 trial of RC18 for MG in the US, which has obtained the fast-track designation from the FDA. The Company also received IND approvals from the FDA to start Ph3 trials of RC18 in IgA and pSS.

■ **Maintain BUY.** Considering the moderate sales performance of RC18 and RC48 in 1H23, we revised down our DCF-based TP from HK\$71.89 to HK\$55.54 (WACC: 10.95%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	1,424	768	1,085	1,958	2,878
YoY growth (%)	na	(46)	41	80	47
Net profit (RMB mn)	276	(999)	(1,447)	(1,201)	(766)
EPS (Reported) (RMB)	0.57	(1.88)	(2.66)	(2.21)	(1.41)
R&D expenses (RMB mn)	(711)	(982)	(1,300)	(1,200)	(1,000)
Admin expenses (RMB mn)	(220)	(273)	(412)	(548)	(-633)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$55.54
(Previous TP)	HK\$71.89)
Up/Downside	58.5%
Current Price	HK\$35.05

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Stock Data

Mkt Cap (HK\$ mn)	19,076.4
Avg 3 mths t/o (HK\$ mn)	91.2
52w High/Low (HK\$)	70.05/29.95
Total Issued Shares (mn)	544.3
Source: FactSet	

Shareholding Structure

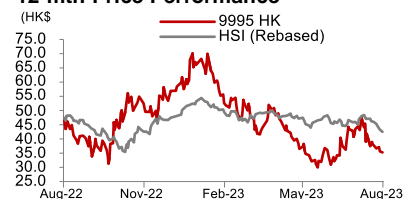
HKSCC nominees limited	34.8%
Yantai Rongda	18.8%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-19.4%	-13.6%
3-mth	-6.0%	3.9%
6-mth	-32.9%	-23.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related report:

- Expect sales recovery from 2Q ([link](#)) – 2 May 2023
- Wide clinical studies to unlock global potential ([link](#)) – 31 Mar 2023
- INITIATION: A pioneer biopharma in innovative ADC and fusion protein medicines ([link](#)) – 4 Nov 2022

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (RMB mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	(1,414)	(1,113)	(623)	398	1,166	2,237	3,188	4,440	5,495	6,258	6,249	6,051	6,086
Tax rate	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(1,414)	(1,113)	(623)	338	991	1,901	2,710	3,774	4,671	5,320	5,311	5,144	5,173
+ D&A	156	178	189	184	181	177	173	170	167	164	161	158	155
- Change in working capital	208	(249)	(261)	(243)	(328)	(395)	(396)	(447)	(309)	(332)	94	175	44
- Capex	(800)	(600)	(400)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
FCFF	(1,849)	(1,784)	(1,095)	179	743	1,583	2,387	3,397	4,428	5,051	5,466	5,376	5,273
Terminal value													68,341
FCF + Terminal value	(1,849)	(1,784)	(1,095)	179	743	1,583	2,387	3,397	4,428	5,051	5,466	5,376	73,614
PV of enterprise (RMB mn)	26,013												
Net debt (RMB mn)	(1,194)												
Equity value (RMB mn)	27,206												
No. of shares (mn)	544												
DCF per shares (RMB)	49.99												
DCF per share (HK\$)	55.54												

Terminal growth rate	3.0%
WACC	10.95%
Cost of Equity	14.0%
Cost of Debt	4.5%
Equity Beta	1.1
Risk Free Rate	3.0%
Market Risk Premium	10.0%
Target Debt to Asset ratio	30.0%
Effective Corporate Tax Rate	15.0%

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

Terminal growth rate	WACC				
	9.95%	10.45%	10.95%	11.45%	11.95%
4.0%	76.39	68.14	61.15	55.15	49.96
3.5%	71.89	64.50	58.16	52.67	47.89
3.0%	68.04	61.34	55.54	50.49	46.05
2.5%	64.71	58.58	53.24	48.55	44.41
2.0%	61.79	56.15	51.19	46.81	42.93

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY22E	FY23E	FY24E
Revenue	1,085	1,958	2,878	1,282	2,170	3,210	-15%	-10%	-10%
Gross profit	834	1,557	2,303	997	1,743	2,595	-16%	-11%	-11%
Operating profit	(1,414)	(1,113)	(623)	(1,099)	(786)	(299)	N/A	N/A	N/A
Net profit	(1,447)	(1,201)	(766)	(1,107)	(824)	(393)	N/A	N/A	N/A
EPS (RMB)	(2.66)	(2.21)	(1.41)	(2.03)	(1.51)	(0.72)	N/A	N/A	N/A
Gross margin	76.88%	79.53%	80.00%	77.72%	80.32%	80.85%	-0.83 ppt	-0.79 ppt	-0.85 ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff(%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY22E	FY23E	FY24E
Revenue	1,085	1,958	2,878	1,239	2,065	3,257	-12%	-5%	-12%
Gross profit	834	1,557	2,303	927	1,629	2,712	-10%	-4%	-15%
Operating profit	(1,414)	(1,113)	(623)	(1,040)	655	416	N/A	N/A	N/A
Net profit	(1,447)	(1,201)	(766)	(995)	(659)	130	N/A	N/A	N/A
EPS (RMB)	(2.66)	(2.21)	(1.41)	(1.65)	(0.87)	0.35	N/A	N/A	N/A
Gross margin	76.88%	79.53%	80.00%	74.82%	78.88%	83.28%	+2.06 ppt	+0.65 ppt	-3.28 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	0	1,424	768	1,085	1,958	2,878
Cost of goods sold	0	(67)	(270)	(251)	(401)	(576)
Gross profit	0	1,357	498	834	1,557	2,303
Operating expenses	(698)	(1,080)	(1,497)	(2,282)	(2,758)	(3,069)
Selling expense	(24)	(263)	(441)	(705)	(1,077)	(1,439)
Admin expense	(218)	(220)	(273)	(412)	(548)	(633)
R&D expense	(466)	(711)	(982)	(1,300)	(1,200)	(1,000)
Others	10	113	199	136	67	4
Operating profit	(669)	282	(992)	(1,414)	(1,113)	(623)
Interest income	(29)	(5)	(7)	(33)	(88)	(143)
Pre-tax profit	(698)	276	(999)	(1,447)	(1,201)	(766)
Income tax	0	0	0	0	0	0
Minority interest	0	0	0	0	0	0
Net profit	(698)	276	(999)	(1,447)	(1,201)	(766)

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	2,977	2,300	3,212	2,127	1,856	2,043
Cash & equivalents	2,769	1,757	2,069	1,241	622	438
Account receivables	0	7	281	204	367	540
Inventories	66	280	523	344	527	726
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	143	256	339	339	339	339
Non-current assets	1,140	1,859	2,809	3,455	3,879	4,092
PP&E	803	1,578	2,407	3,053	3,479	3,693
Right-of-use assets	138	149	205	205	205	205
Intangibles	5	13	17	16	15	14
Financial assets at FVTPL	13	12	80	80	80	80
Other non-current assets	182	108	100	100	100	100
Total assets	4,118	4,159	6,021	5,582	5,735	6,135
Current liabilities	431	616	892	844	942	1,053
Short-term borrowings	108	0	0	0	0	0
Account payables	63	159	222	174	272	383
Other current liabilities	218	405	610	610	610	610
Lease liabilities	43	52	60	60	60	60
Non-current liabilities	92	96	149	1,149	2,349	3,349
Long-term borrowings	0	0	0	1,000	2,200	3,200
Deferred income	44	46	44	44	44	44
Other non-current liabilities	47	51	105	105	105	105
Total liabilities	523	713	1,041	1,993	3,291	4,402
Share capital	490	490	544	544	544	544
Other reserves	3,105	2,957	4,436	3,045	1,899	1,189
Total shareholders equity	3,595	3,446	4,980	3,589	2,444	1,733
Total equity and liabilities	4,118	4,159	6,021	5,582	5,735	6,135

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(698)	276	(999)	(1,447)	(1,201)	(766)
Depreciation & amortization	49	65	121	153	175	186
Tax paid	0	0	0	0	0	0
Change in working capital	(117)	(168)	(524)	208	(249)	(261)
Others	105	90	138	92	147	202
Net cash from operations	(660)	264	(1,264)	(993)	(1,128)	(639)
Investing						
Capital expenditure	(443)	(615)	(756)	(800)	(600)	(400)
Acquisition of subsidiaries/ investments	(102)	0	(1,905)	0	0	0
Net proceeds from disposal of short-term investments	102	0	1,846	0	0	0
Others	(36)	(23)	(27)	(2)	(2)	(2)
Net cash from investing	(479)	(638)	(842)	(802)	(602)	(402)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	(498)	(108)	0	1,000	1,200	1,000
Proceeds from share issues	4,508	(14)	2,520	0	0	0
Share repurchases	0	(449)	(41)	0	0	0
Others	(105)	(55)	(52)	(33)	(88)	(143)
Net cash from financing	3,904	(627)	2,427	967	1,112	857
Net change in cash						
Cash at the beginning of the year	35	2,769	1,757	2,069	1,241	622
Exchange difference	(31)	(10)	(9)	0	0	0
Cash at the end of the year	2,769	1,757	2,069	1,241	622	438
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	na	na	(46.1%)	41.4%	80.4%	47.0%
Gross profit	na	na	(63.3%)	67.6%	86.6%	47.9%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	na	95.3%	64.8%	76.9%	79.5%	80.0%
Operating margin	na	19.8%	(129.2%)	(130.3%)	(56.8%)	(21.6%)
Return on equity (ROE)	(41.5%)	7.8%	(23.7%)	(33.8%)	(39.8%)	(36.7%)
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	6.9	3.7	3.6	2.5	2.0	1.9
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	152.8	na	na	na	na

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

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