

Hansoh Pharma (3692 HK)

Strong sales growth of innovative drugs

- **Strong sales growth of innovative drugs in 1H24.** Hansoh reported RMB6.51bn revenue in 1H24, including US\$185mn upfront payment from GSK regarding the out-licensing of HS-20093 (B7-H3 ADC). In 1H24, Hansoh recorded RMB5.10bn (+13.8% YoY) revenue from product sales, representing 48% of our previous FY24 estimate, in line with our expectations. In 1H24, 77% of the total revenue came from innovative drugs. Excluding collaboration revenue, the sales from innovative drugs recorded strong growth of +31.6% YoY in 1H24. In 1H24, the company's selling expense ratio as % of product sales decreased significantly to 33.7% from 37.5% in FY23, and the admin expense ratio also decreased from 7.5% in FY23 to 6.9% in 1H24, indicating improved cost efficiency. Hansoh continues to invest in R&D with the R&D cost increasing 29% YoY to RMB1.20bn, representing 23.4% of product sales. In 1H24, Hansoh realized RMB2.73bn net income, with plans to distribute ~40% as dividends.
- **Expansion of aumolertinib's indications to drive growth.** As an early-mover in China's 3rd-generation EGFR-TKI market, Hansoh continues to expand aumolertinib's indications, with two additional NDAs of aumolertinib recently accepted by NMPA, including (1) adjuvant therapy after resection, and (2) maintenance therapy for locally advanced unresectable NSCLC without progression following chemoradiotherapy. With expected approvals by mid-2025 and the potential inclusion in the NRDL by early 2026, aumolertinib is poised to be the first domestic EGFR-TKI for these two indications. Additionally, we expect Hansoh to file another NDA of aumolertinib in combination with chemotherapy for 1L EGFRm NSCLC in 4Q24, differentiated from other domestic players. A Ph3 trial of aumolertinib + HS-10241 (cMET inhibitor) for EGFR-TKI resistant MET+ NSCLC is ongoing as well. With stable pricing and NRDL coverage for 1L and 2L indications through FY24, we expect aumolertinib's sales to grow 22% YoY to RMB4.38bn in FY24E. We expect aumolertinib's pricing to remain largely stable during the NRDL renewal in late 2024, and remain confident toward the management's target of aumolertinib's sales reaching RMB6.0bn in 2026.
- **Diversified pipeline of innovative drugs.** HS-20093 (B7-H3 ADC) is leading the global development, with two Ph3 studies for SCLC already underway in China. HS-20093 has demonstrated promising early signals in heavily treated SCLC patients, with 61.3% ORR, 5.9 months of mPFS and 9.8 months of mOS in the 8.0mg dose cohort in its Ph1 study (WCLC abstract, [link](#)), comparable to that of I-DXd (52.4% ORR, 5.6 months of mPFS and 12.2 months of OS; CMBI report, [link](#)), in our view. GSK has registered a global Ph1 trial for HS-20093, recently receiving BTM from the FDA. For HS-20089 (B7-H4 ADC), a Ph1 trial has been registered by GSK, with pivotal trials expected soon in China. We expect Hansoh to bring more ADC assets, including EGFR/cMet ADC, to clinical studies in 2H24 and beyond. HS-10374 (TYK2 inhibitor) is expected to enter Ph3 psoriasis study, with Ph2 data to be released in 2H24. Additionally, we expect HS-20094 (GLP-1/GIP dual agonist) to enter Ph3 study for obesity in 2H24.
- **Maintain BUY.** For FY24E, we expect Hansoh's total revenue to increase 21% YoY to RMB12.23bn. Excluding the impact of collaboration revenue, we expect Hansoh's organic revenue to grow 14.3%/14.1% YoY in FY24E/25E. We expect Hansoh's net profit to increase 33.3% and decrease 25.1% YoY in FY24E and FY25E to RMB4.37bn/3.27bn, respectively. With the strong sales of innovative drugs, we raise our DCF-based TP to HK\$24.11 from HK\$22.06 (WACC: 8.52%, terminal growth rate: 3.5%).

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	9,382	10,104	12,229	12,266	13,920
YoY growth (%)	(5.6)	7.7	21.0	0.3	13.5
Net profit (RMB mn)	2,584	3,278	4,368	3,271	3,652
YoY growth (%)	(4.8)	26.9	33.3	(25.1)	11.6
EPS (Reported) (RMB)	0.44	0.55	0.74	0.55	0.62
P/E (x)	43.1	34.0	25.6	34.2	30.6
R&D expenses (RMB mn)	(1,693)	(2,097)	(2,525)	(2,821)	(3,132)
Admin expenses (RMB mn)	(597)	(710)	(752)	(859)	(960)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$24.11
(Previous TP)	HK\$22.06
Up/Downside	17.0%
Current Price	HK\$20.60

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Stock Data

Mkt Cap (HK\$ mn)	122,274.4
Avg 3 mths t/o (HK\$ mn)	66.3
52w High/Low (HK\$)	20.60/9.61
Total Issued Shares (mn)	5935.7

Source: FactSet

Shareholding Structure

Sunrise Trust Trustee	65.7%
JQC International Limited	16.0%

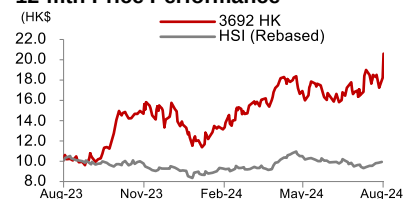
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	22.3%	17.7%
3-mth	23.9%	31.9%
6-mth	54.4%	44.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: DCF valuation

DCF Valuation (in RMB mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	4,267	3,157	3,637	4,944	5,745	6,731	7,946	8,943	9,587	9,970	10,237	10,237
Tax rate	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%
EBIT*(1-tax rate)	3,714	2,747	3,165	4,302	5,000	5,858	6,915	7,783	8,343	8,677	8,908	8,909
+ D&A	382	367	353	341	330	321	312	304	296	290	284	279
- Change in working capital	-790	10	-518	-902	-662	-706	-711	-305	61	184	206	248
- Capex	-500	-200	-200	-200	-200	-200	-200	-200	-200	-200	-200	-200
FCFF	2,806	2,924	2,801	3,542	4,468	5,273	6,316	7,581	8,501	8,951	9,198	9,236
Terminal value												190,556
Terminal growth rate	3.5%											
WACC	8.52%											
Cost of Equity	11.5%											
Cost of Debt	3.5%											
Equity Beta	0.90											
Risk Free Rate	2.5%											
Market Risk Premium	10.0%											
Target Debt to Asset ratio	35.0%											
Effective Corporate Tax Rate	15.0%											
Present value of enterprise (RMB mn)	110,218											
Net debt (RMB mn)	-20,019											
Equity value (RMB mn)	130,237											
No. of shares (mn)	5,936											
DCF per shares (RMB)	21.94											
DCF per share (HK\$)	24.11											

Source: CMBIGM estimates

Figure 2: Sensitivity analysis

		WACC				
		7.52%	8.02%	8.52%	9.02%	9.52%
Terminal growth	4.5%	36.20	31.26	27.57	24.69	22.40
	4.0%	32.56	28.67	25.65	23.23	21.26
	3.5%	29.84	26.65	24.11	22.04	20.32
	3.0%	27.71	25.04	22.85	21.04	19.51
	2.5%	26.01	23.71	21.81	20.20	18.82

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates - New vs Old

RMB mn	NEW			OLD			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	12,229	12,266	13,920	12,034	12,191	13,878	2%	1%	0%
Gross profit	11,025	10,917	12,389	10,859	10,850	12,352	2%	1%	0%
Operating profit	5,019	3,759	4,196	4,683	3,665	4,129	7%	3%	2%
Attributable net profit	4,368	3,271	3,652	4,075	3,190	3,594	7%	3%	2%
EPS (RMB)	0.74	0.55	0.62	0.69	0.54	0.61	7%	3%	2%
Gross margin	90.16%	89.00%	89.00%	90.24%	89.00%	89.00%	-0.08 ppt	0.00 ppt	0.00 ppt
Operating margin	41.04%	30.64%	30.14%	38.91%	30.06%	29.75%	+2.13 ppt	+0.58 ppt	+0.39 ppt
Net margin	35.71%	26.67%	26.23%	33.86%	26.16%	25.89%	+1.85 ppt	+0.50 ppt	+0.34 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: CMBIGM vs Consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	12,229	12,266	13,920	11,965	12,431	13,956	2%	-1%	0%
Gross profit	11,025	10,917	12,389	10,793	11,182	12,551	2%	-2%	-1%
Operating profit	5,019	3,759	4,196	4,032	3,898	4,463	24%	-4%	-6%
Attributable net profit	4,368	3,271	3,652	3,911	3,778	4,313	12%	-13%	-15%
EPS (RMB)	0.74	0.55	0.62	0.65	0.64	0.73	13%	-14%	-16%
Gross margin	90.16%	89.00%	89.00%	90.20%	89.95%	89.93%	-0.04 ppt	-0.95 ppt	-0.93 ppt
Operating margin	41.04%	30.64%	30.14%	33.70%	31.36%	31.98%	+7.34 ppt	-0.71 ppt	-1.83 ppt
Net margin	35.71%	26.67%	26.23%	32.69%	30.39%	30.90%	+3.03 ppt	-3.72 ppt	-4.67 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	9,935	9,382	10,104	12,229	12,266	13,920
Cost of goods sold	(870)	(867)	(1,031)	(1,204)	(1,349)	(1,531)
Gross profit	9,065	8,515	9,073	11,025	10,917	12,389
Selling expense	(3,428)	(3,550)	(3,531)	(3,654)	(4,293)	(4,872)
Admin expense	(943)	(597)	(710)	(752)	(859)	(960)
R&D expense	(1,797)	(1,693)	(2,097)	(2,525)	(2,821)	(3,132)
Other income	393	449	1,125	998	817	774
Other gains/(losses)	63	(117)	(27)	(40)	0	0
Net Interest income/(expense)	(53)	(58)	(67)	(34)	(2)	(2)
Pre-tax profit	3,300	2,948	3,766	5,019	3,759	4,196
Income tax	(587)	(365)	(489)	(651)	(488)	(544)
After tax profit	2,713	2,584	3,278	4,368	3,271	3,652
Net profit	2,713	2,584	3,278	4,368	3,271	3,652

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	23,179	25,832	28,883	27,439	29,759	32,321
Cash & equivalents	14,702	17,615	22,435	20,139	22,442	24,451
Account receivables	3,676	3,578	3,214	4,044	3,989	4,450
Inventories	410	448	576	598	670	760
Prepayment	160	182	236	236	236	236
Financial assets at FVTPL	2,357	2,544	512	512	512	512
Other current assets	1,874	1,464	1,910	1,910	1,910	1,910
Non-current assets	3,981	4,170	4,156	4,274	4,107	3,953
PP&E	3,225	3,196	3,045	3,194	3,058	2,935
Right-of-use assets	251	254	235	214	193	172
Intangibles	17	33	177	167	157	147
Other non-current assets	488	687	699	699	699	699
Total assets	27,160	30,002	33,039	31,713	33,866	36,274
Current liabilities	3,024	2,620	6,863	2,741	2,769	2,803
Short-term borrowings	0	0	0	0	0	0
Account payables	248	222	164	225	253	287
Other current liabilities	134	91	4,269	86	86	86
Lease liabilities	10	16	16	16	16	16
Contract liabilities	22	25	38	38	38	38
Accrued expenses	2,609	2,266	2,376	2,376	2,376	2,376
Non-current liabilities	4,108	4,735	381	381	381	381
Convertible bonds	3,743	4,283	40	40	40	40
Deferred income	267	351	255	255	255	255
Other non-current liabilities	98	102	87	87	87	87
Total liabilities	7,131	7,355	7,244	3,123	3,150	3,184
Share capital	0	0	0	0	0	0
Other reserves	20,029	22,647	25,795	28,590	30,716	33,090
Total shareholders equity	20,029	22,647	25,795	28,590	30,716	33,090
Total equity and liabilities	27,160	30,002	33,039	31,713	33,866	36,274

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	3,300	2,948	3,766	5,019	3,759	4,196
Depreciation & amortization	257	316	335	351	336	323
Tax paid	(319)	(324)	(590)	(651)	(488)	(544)
Change in working capital	(428)	(306)	257	(790)	10	(518)
Others	(232)	107	(652)	(620)	(471)	(428)
Net cash from operations	2,577	2,741	3,116	3,309	3,146	3,029
Investing						
Capital expenditure	(460)	(273)	(220)	(500)	(200)	(200)
Acquisition of subsidiaries/ investments	(357)	(186)	(239)	0	0	0
Net proceeds from disposal of short-term investments	(1,481)	(5,411)	1,418	685	504	461
Others	40	(65)	114	0	0	0
Net cash from investing	(2,259)	(5,935)	1,074	185	304	261
Financing						
Dividend paid	(381)	(712)	(652)	(1,572)	(1,145)	(1,278)
Net borrowings	15	0	0	0	0	0
Proceeds from share issues	(58)	(77)	(115)	0	0	0
Others	3,841	(29)	13	(4,217)	(2)	(2)
Net cash from financing	3,417	(818)	(754)	(5,790)	(1,147)	(1,280)
Net change in cash						
Cash at the beginning of the year	3,063	6,719	2,666	5,981	3,685	5,988
Exchange difference	(79)	(41)	(122)	0	0	0
Cash at the end of the year	6,719	2,666	5,981	3,685	5,988	7,997
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	14.3%	(5.6%)	7.7%	21.0%	0.3%	13.5%
Gross profit	14.9%	(6.1%)	6.5%	21.5%	(1.0%)	13.5%
Net profit	5.6%	(4.8%)	26.9%	33.3%	(25.1%)	11.6%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	91.2%	90.8%	89.8%	90.2%	89.0%	89.0%
Return on equity (ROE)	na	12.1%	13.5%	16.1%	11.0%	11.4%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	7.7	9.9	4.2	10.0	10.7	11.5
Receivable turnover days	0.0	141.1	122.7	120.7	118.7	116.7
Inventory turnover days	172.1	180.6	181.2	181.2	181.2	181.2
Payable turnover days	104.2	99.1	68.3	68.3	68.3	68.3
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	41.1	43.1	34.0	25.6	34.2	30.6
P/E (diluted)	41.6	43.2	34.6	25.6	34.2	30.6
P/B	5.6	4.9	4.3	3.9	3.6	3.4

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

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