

Recbio (2179 HK)

Clinical development of core pipeline products continues

- **9-Valent HPV Vaccine, REC603:** The Ph III trial of REC603 in females aged 9-45, which recruited a total of 16,050 subjects, is in process. Recbio has completed three doses vaccination of immune-bridging trial in younger age groups and the immunogenicity comparative trial with Gardasil®9. The Company now follows up on the subjects of primary efficacy trial. Currently, there is one 9-valent HPV vaccine, Gardasil®9, approved in China which is the global top 3 best-selling vaccines in 2022, according to the F&S. Five domestic 9-valent HPV vaccines are under Ph III clinical trials. We expect Recbio to submit BLA application for REC603 in 2025E and to become one of the first commercialized domestic 9-Valent HPV vaccines in China.
- **Shingles Vaccine, REC610:** Recbio is conducting the Ph I trial of REC610 in the Philippines to evaluate the safety and immunogenicity of REC610 vs. GSK Shingrix® in healthy adult subjects aged 40 and above. The first batch of subject enrollment was completed in Feb 2023 and we expect clinical data readout in 2H23E. Moreover, the Company plans to initiate Ph I and Ph III trials in China in 2H23E and 2024E, respectively, and aims to submit BLA application for REC610 in 2025E. Currently, two shingles vaccines have been approved in China including one recombinant vaccine, Shingrix® from GSK, which is the global top 5 best-selling vaccines in 2022 according to the F&S, and one domestic live-attenuated vaccine from BCHO Biotech approved in Jan 2023. Three other recombinant vaccine candidates are under clinical development in China.
- **COVID vaccine, ReCOV:** Recbio presented positive data from the Phase II clinical studies ([Announcement](#); [CMBI report](#)) and completed the enrollment of subjects for international multi-center Ph III clinical trials in Nov 2022. The Company has submitted the marketing application to the PRC regulatory authorities on a rolling basis in Dec 2022 and obtained EUA for ReCOV in Mongolia in Mar 2023. We expect ReCOV to be approved in 2023E in China and to contribute revenue from 2024E.
- **Maintain BUY.** In May 2023, the Company has been selected as a constituent of the MSCI China Small Cap Index. Recbio reported RMB722.7mn net attributable loss for 2022, vs RMB657.6mn net attributable loss in 2021. R&D expense increased by 51.5% YoY to RMB716.4mn in 2022, mainly due to clinical trial expenses related to the expansion of scope of ReCOV clinical trials and Ph III trial of REC603. Given the declining demand for COVID vaccines and intensifying competition among domestic COVID vaccines, we lowered our estimates on ReCOV. We revised our TP from HK\$38.86 to HK\$20.96 (WACC: 10.6%, terminal growth rate: 2.5%).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	0	0	0	83	83
YoY growth (%)	na	na	na	na	(0.3)
Net profit (RMB mn)	(658)	(723)	(751)	(914)	(985)
EPS (Reported) (RMB cents)	na	(152.4)	(155.5)	(189.3)	(204.0)
R&D expenses (RMB)	(473)	(716)	(600)	(600)	(600)
Admin expenses (RMB mn)	(143)	(155)	(171)	(188)	(207)
CAPEX (RMB mn)	(238)	(297)	(250)	(200)	(150)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$20.96
(Previous TP) HK\$38.86
Up/Downside 61.20%
Current Price HK\$13.00

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Stock Data

Mkt Cap (HK\$ mn) 1,250.0
Avg 3 mths t/o (HK\$ mn) 3.0
52w High/Low (HK\$) 26.60/11.50
Total Issued Shares (mn) 100.0
Source: FactSet

Shareholding Structure

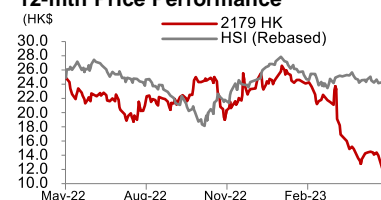
Taizhou Yuangong 17.2%
Junlian Shengyuan 5.9%
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-5.3%	-0.2%
3-mth	-48.3%	-44.9%
6-mth	-38.4%	-42.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: CMBIGM earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	0	83	83	146	487	782	N/A	-82.9%	-89.4%
Gross profit	0	-67	-67	29	112	196	N/A	-159.5%	-134.2%
Operating profit	-750	-888	-910	-712	-652	-593	N/A	N/A	N/A
Net profit	-751	-914	-985	-741	-726	-712	N/A	N/A	N/A
EPS (RMB)	-1.55	-1.89	-2.04	-1.53	-1.50	-1	N/A	N/A	N/A
Gross margin	N/A	N/A	N/A	20.00%	23.00%	25.00%	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

(RMB mn)	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	0	83	83	213	325	232	N/A	-74.3%	-64.2%
Gross Profit	0	-67	-67	121	190	181	N/A	-135.0%	-137.0%
Operating Profit	-750	-888	-910	-621	-573	-142	N/A	N/A	N/A
Net profit	-751	-914	-985	-423	-420	-178	N/A	N/A	N/A
EPS (RMB)	-1.55	-1.89	-2.04	-1.22	-1.15	-0.70	N/A	N/A	N/A
Gross Margin	N/A	N/A	N/A	56.67%	58.67%	78.00%	N/A	N/A	N/A

Source: Company data, CMBIGM estimates

Valuation

Figure 3: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)		2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT		-775	-909	-928	-639	350	1,316	2,033	2,632	2,691	2,618	2,475	2,235	1,899
Tax rate		0.0%	0.0%	0.0%	0.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)		-775	-909	-928	-639	298	1,119	1,728	2,237	2,288	2,225	2,104	1,899	1,614
+ D&A		50	56	59	60	61	63	64	65	66	68	69	70	71
- Change in working capital		-251	-61	2	-586	-1,390	-1,770	-980	-470	-33	182	312	498	672
- Capex		-250	-200	-150	-100	-100	-100	-100	-100	-100	-100	-100	-100	-100
FCFF		-1,226	-1,115	-1,017	-1,265	-1,131	-689	712	1,732	2,221	2,375	2,385	2,368	2,258
Terminal value														28,612
Terminal growth rate		2.5%												
WACC		10.6%												
Cost of Equity		14.0%												
Cost of Debt		5.0%												
Equity Beta		1.10												
Risk Free Rate		3.0%												
Market Risk Premium		10.0%												
Target Debt to Asset ratio		35.0%												
Effective Corporate Tax Rate		15.0%												
Terminal value		7,733												
Total PV		8,054												
Net debt		-831												
Minority interest		-22												
Equity value (RMB mn)		8,907												
Equity value (HK\$ mn)		483												
No. of shares outstanding (mn)		18.44												
DCF per share (HK\$)		20.96												

Source: CMBIGM estimates

Figure 4: Sensitivity analysis (HK\$)

		WACC				
		9.6%	10.1%	10.6%	11.1%	11.6%
Terminal growth rate	3.5%	31.05	27.08	23.73	20.86	18.38
	3.0%	28.85	25.29	22.25	19.63	17.35
	2.5%	26.95	23.73	20.96	18.55	16.44
	2.0%	25.30	22.36	19.81	17.58	15.62
	1.5%	23.86	21.16	18.80	16.72	14.89

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	0	0	0	0	83	83
Cost of goods sold	0	0	0	0	(150)	(150)
Gross profit	0	0	0	0	(67)	(67)
Selling expense	0	(3)	(9)	(9)	(60)	(60)
Admin expense	(18)	(143)	(155)	(171)	(188)	(207)
R&D expense	(131)	(473)	(716)	(600)	(600)	(600)
Others	7	18	148	30	26	24
Operating profit	(142)	(601)	(732)	(750)	(888)	(910)
Other expense	(37)	(56)	(4)	(14)	(39)	(89)
Pre-tax profit	(179)	(658)	(736)	(764)	(927)	(999)
Income tax	0	0	0	0	0	0
After tax profit	(179)	(658)	(736)	(764)	(927)	(999)
Minority interest	0	(0)	(13)	(13)	(13)	(13)
Net profit	(179)	(658)	(723)	(751)	(914)	(985)

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	709	1,295	1,420	1,152	1,178	1,093
Cash & equivalents	356	1,183	1,325	1,113	984	901
Account receivables	0	0	0	0	34	34
Inventories	8	24	56	0	121	119
Prepayment	20	88	39	39	39	39
Financial assets at FVTPL	326	0	0	0	0	0
Non-current assets	338	625	890	1,086	1,227	1,314
PP&E	129	416	559	770	924	1,023
Intangibles	22	22	34	33	33	32
Goodwill	9	9	9	9	9	9
Other non-current assets	178	177	288	274	261	249
Total assets	1,047	1,919	2,310	2,238	2,405	2,407
Current liabilities	57	139	329	22	116	116
Short-term borrowings	0	0	1	1	1	1
Account payables	2	17	63	0	74	74
Other current liabilities	55	122	266	22	42	42
Non-current liabilities	1,998	107	328	328	1,328	2,328
Long-term borrowings	0	50	232	232	1,232	2,232
Deferred income	18	32	61	61	61	61
Other non-current liabilities	1,980	24	35	35	35	35
Total liabilities	2,056	246	657	349	1,444	2,444
Share capital	0	448	483	483	483	483
Total shareholders equity	(1,009)	1,673	1,662	1,911	997	11
Minority interest	0	(0)	(9)	(22)	(35)	(49)
Total equity and liabilities	1,047	1,919	2,310	2,238	2,405	2,407

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(179)	(658)	(736)	(764)	(927)	(999)
Depreciation & amortization	13	22	44	53	59	63
Tax paid	0	0	0	0	0	0
Change in working capital	64	(19)	203	(251)	(61)	2
Others	32	181	(91)	(10)	18	70
Net cash from operations	(70)	(473)	(580)	(972)	(911)	(863)
Investing						
Capital expenditure	(138)	(238)	(297)	(250)	(200)	(150)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(120)	307	(82)	24	21	19
Net cash from investing	(259)	69	(378)	(226)	(179)	(131)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	0	50	184	0	1,000	1,000
Proceeds from share issues	0	0	670	1,000	0	0
Others	680	1,179	(14)	(14)	(39)	(89)
Net cash from financing	680	1,229	839	986	961	911
Net change in cash						
Cash at the beginning of the year	7	356	1,173	1,325	1,113	984
Exchange difference	(3)	(8)	115	0	0	0
Cash at the end of the year	356	1,173	1,169	1,113	984	901
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	na	na	na	na	na	(0.3%)
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	na	na	na	na	na	na
Operating margin	na	na	na	na	na	na
Return on equity (ROE)	na	(39.3%)	(43.7%)	(39.8%)	(95.1%)	na
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	12.3	9.3	4.3	52.9	10.1	9.4
Receivable turnover days	na	na	0.0	150.0	150.0	150.0
Inventory turnover days	na	na	0.0	300.0	295.0	290.0
Payable turnover days	na	na	0.0	180.0	180.0	180.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Div yield (%)	na	na	0.0	0.0	0.0	0.0

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

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