

Biocytogen (2315 HK)

Strong revenue growth in FY22

Biocytogen's FY22 revenue grew 51% YoY to RMB534mn, in line with our estimate. The pre-clinical CRO service business realized a 54% YoY revenue growth to RMB406mn in FY22, driven by the strong growth of pre-clinical pharmacology & efficacy evaluation and animal model selling business units (revenue +67% and +57% YoY, respectively). The antibody development business was able to maintain a strong YoY revenue growth of 43%, even though there were COVID-19 interruptions and increasing cost of capital in the biotech/biopharma sector in 2022. With expanding footprint in Europe and the US, the Company's overseas revenue increased 82% YoY to RMB246mn in FY22 (46% of total FY22 revenue), compared to RMB136mn in FY21 (35% of total FY21 revenue). The R&D cost was RMB699mn or 131% of total revenue in FY22 (vs RMB558mn or 158% of total revenue in FY21). The SG&A ratio versus revenue decreased from 65% in FY21 to 59% in FY22, showing the Company's improving cost efficiency. In FY22, the Company recorded RMB602mn net loss (RMB546mn in FY21). As of end-2022, Biocytogen has a sufficient cash balance of RMB627mn.

■ **Fully human antibody discovery platforms to drive deal and revenue growth.** As of end-2022, Biocytogen has reached 34 co-development deals, and has out-licensed its RenMice platforms to 17 leading biotech/biopharma companies who have initiated 40 projects so far. In Mar 2023, Biocytogen also entered another platform out-licensing with MNC Janssen. As of end-2022, Biocytogen has knocked out 680+ target genes in the RenMab platform and 260+ target genes in the RenLite platform. We expect, by 3Q23E, the Company will complete most of the work of the Project Integrum (RenMab) and obtain 400-500k antibody sequences covering 1,000+ innovative targets. The RenNano platform is able to produce fully human single chain antibody sequence for drug development without further in vitro humanization, and is currently used for the development of molecules targeting 100 genes. In addition, the Company has developed TCRm platform which can break through the limitations of traditional antibody that targets cell membrane surface antigens, and replace TCR with antibodies that can target intracellular antigens. The RenMice platforms will be an engine to continuously drive the Company's BD deals and revenue growth.

■ **To unlock the value of in-house developed assets through out-licensing.** Biocytogen's strategy is to self-direct the early R&D of drug molecules and then transfer/co-develop the molecules to/with its partners to accelerate the Ph2/3 development. Biocytogen has the potential to realize multiple out-licensing deals for its advanced assets, including YH008 (PD-1/CD40), YH003 (CD40), YH006 (CTLA-4/OX40), YH012 (HER2/TROP2 ADC), YH013 (EGFR/ MET ADC), etc. YH008 has entered Ph1 trial in the US and China, which may facilitate the ex-China deal discussions upon the data release of the trial. YH003 is being assessed in a Ph2 MRCT trial combo with PD-1 for PDAC in the US, China, Australia, New Zealand and other regions, and in a Ph2 trial for melanoma in China. YH001 entered a Ph1/2 study in the US by Tracon for sarcoma with the data of the Ph1 part to be available by end-2023; Biocytogen itself is also conducting a Ph2 MRCT trial of YH001 for NSCLC and HCC.

■ **Maintain BUY.** We revised our DCF-based TP to HK\$37.96 from HK\$40.51 (WACC: 11.1%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	355	534	733	972	1,334
YoY growth (%)	39.8	50.6	37.2	32.7	37.2
Net profit (RMB mn)	(546)	(602)	(284)	(121)	113
EPS (Reported) (RMB)	(1.51)	(1.58)	(0.71)	(0.30)	0.28
ROE (%)	(40.3)	(50.1)	(28.2)	(15.1)	14.1
R&D expenses (RMB mn)	(558)	(699)	(454)	(438)	(427)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$37.96
(Previous TP)	HK\$40.51
Up/Downside	52.1%
Current Price	HK\$24.95

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Stock Data

Mkt Cap (HK\$ mn)	9,965
Avg 3 mths t/o (HK\$ mn)	4.32
52w High/Low (HK\$)	28.80/ 23.50
Total Issued Shares (mn)	399
Source: FactSet	

Shareholding Structure

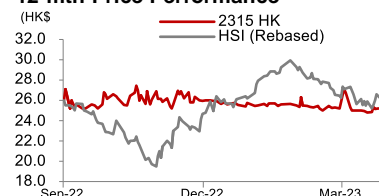
Management	27.5%
SDIC Shanghai	18.3%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	0.0%	1.9%
3-mth	-1.4%	-1.2%
6-mth	-6.0%	-14.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (RMB mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	-218	-53	215	504	836	1,218	1,645	2,098	2,480	2,750	3,023	3,265	3,500
Tax rate	0.0%	0.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	-218	-53	183	428	710	1,036	1,398	1,784	2,108	2,338	2,570	2,775	2,975
+ D&A	80	86	92	97	102	107	112	116	120	124	128	132	135
- Change in working capital	-119	-28	-46	-85	-76	-100	-95	-100	-80	-55	-52	-35	-28
- Capex	-200	-200	-200	-200	-200	-200	-200	-200	-200	-200	-200	-200	-200
FCFF	-457	-196	28	241	536	843	1,215	1,600	1,949	2,207	2,446	2,672	2,882
Terminal value													36,681
Terminal value (RMB mn)	8,411												
Total PV (RMB mn)	13,843												
Net debt (RMB mn)	498												
Minority interest (RMB mn)	5												
Equity value (RMB mn)	13,340												
# of shares (mn)	399												
Price per share (RMB per share)	33.4												
Price per share (HK\$ per share)	37.96												
Terminal growth rate	3.0%												
WACC	11.1%												
Cost of Equity	14.0%												
Cost of Debt	5.0%												
Equity Beta	1.05												
Risk Free Rate	3.00%												
Market Risk Premium	10.50%												
Target Debt to Asset ratio	30.0%												
Effective Corporate Tax Rate	15.0%												

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

		WACC				
		10.1%	10.6%	11.1%	11.6%	12.1%
Terminal growth rate	4.0%	51.94	46.35	41.59	37.52	33.99
	3.5%	49.02	43.98	39.66	35.91	32.65
	3.0%	46.51	41.92	37.96	34.50	31.46
	2.5%	44.33	40.12	36.45	33.24	30.40
	2.0%	42.41	38.53	35.12	32.11	29.44

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	733	972	1,334	782	1,098	1,559	-6%	-11%	-14%
Gross Profit	547	731	1,014	583	828	1,187	-6%	-12%	-15%
Operating Profit	(216)	(51)	218	(323)	(150)	153	NA	NA	42%
Net profit	(284)	(121)	113	(357)	(204)	74	NA	NA	52%
EPS (RMB)	(0.71)	(0.30)	0.28	(0.89)	(0.51)	0.19	NA	NA	52%
Gross Margin	74.73%	75.22%	76.01%	74.49%	75.40%	76.13%	+0.24 ppt	-0.18 ppt	-0.12 ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	733	972	1,334	853	1,194	1,778	-14%	-19%	-25%
Gross Profit	547	731	1,014	618	874	1,330	-11%	-16%	-24%
Operating Profit	(216)	(51)	218	(288)	(70)	NA	NA	NA	NA
Net profit	(284)	(121)	113	(289)	(86)	68	NA	NA	NA
EPS (RMB)	(0.71)	(0.30)	0.28	(0.74)	(0.22)	NA	NA	NA	NA
Gross Margin	74.73%	75.22%	76.01%	72.48%	73.21%	74.80%	+2.25 ppt	+2.01 ppt	+1.21 ppt

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	254	355	534	733	972	1,334
Cost of goods sold	(87)	(107)	(142)	(185)	(241)	(320)
Gross profit	167	247	392	547	731	1,014
Operating expenses	(525)	(753)	(922)	(763)	(783)	(796)
Selling expense	(32)	(42)	(50)	(70)	(90)	(120)
Admin expense	(245)	(188)	(263)	(256)	(272)	(267)
R&D expense	(276)	(558)	(699)	(454)	(438)	(427)
Others	19	10	4	0	0	0
Operating profit	(358)	(506)	(530)	(216)	(51)	218
Other expense	(118)	(39)	(56)	(69)	(70)	(85)
Other gains/(losses)	9	26	87	17	17	18
Share of (losses)/profits of associates/JV	0	(0)	(15)	0	0	0
Pre-tax profit	(477)	(546)	(601)	(284)	(121)	133
Income tax	0	0	(1)	0	0	(20)
After tax profit	(477)	(546)	(602)	(284)	(121)	113
Minority interest	(49)	(0)	(0)	0	0	0
Net profit	(428)	(546)	(602)	(284)	(121)	113

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	1,148	874	919	804	1,121	1,198
Cash & equivalents	750	466	627	423	659	617
Account receivables	115	183	148	231	304	413
Inventories	8	15	19	24	32	42
Other current assets	254	168	85	85	85	85
Contract obtaining costs	21	42	41	41	41	41
Non-current assets	1,179	1,429	1,881	2,001	2,115	2,223
PP&E	1,136	1,391	1,599	1,719	1,833	1,942
Intangibles	2	6	31	31	31	31
Other non-current assets	41	32	251	251	251	251
Total assets	2,327	2,303	2,800	2,805	3,235	3,421
Current liabilities	328	447	606	575	627	700
Borrowings			127	127	127	127
Account payables	88	102	146	152	198	263
Tax payable	14	27	45	45	45	45
Other current liabilities	0	0	1	1	1	1
Lease liabilities	179	256	231	231	231	231
Contract liabilities	48	62	56	20	25	34
Non-current liabilities	540	604	1,043	1,363	1,863	1,863
Long-term borrowings	0	0	52	372	872	872
Deferred income	90	93	90	90	90	90
Other non-current liabilities	450	511	901	901	901	901
Total liabilities	868	1,051	1,522	1,811	2,362	2,436
Share capital	360	375	399	399	399	399
Other reserves	1,098	877	751	467	346	459
Total shareholders equity	1,458	1,252	1,151	867	745	858
Total equity and liabilities	2,327	2,303	2,800	2,805	3,235	3,421

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(477)	(546)	(601)	(284)	(121)	133
Depreciation & amortization	43	128	132	0	86	92
Tax paid	0	0	(1)	0	0	(20)
Change in working capital	(29)	(10)	62	(119)	(28)	(46)
Others	237	62	56	148	70	85
Net cash from operations	(225)	(366)	(353)	(255)	6	243
Investing						
Capital expenditure	(296)	(199)	(100)	(200)	(200)	(200)
Net proceeds from disposal of short-term investments	1,393	650	0	0	0	0
Others	(1,285)	(535)	(56)	(69)	(70)	(85)
Net cash from investing	(188)	(84)	(156)	(269)	(270)	(285)
Financing						
Dividend paid	0	0	0	0	0	0
Proceeds from share issues	948	311	483	0	0	0
Others	(80)	(92)	180	320	500	0
Net cash from financing	868	219	663	320	500	0
Net change in cash						
Cash at the beginning of the year	(4)	697	466	627	423	659
Exchange difference	246	(0)	0	0	0	0
Cash at the end of the year	697	466	621	423	659	617
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	49.3%	39.8%	50.6%	37.2%	32.7%	37.2%
Gross profit	71.9%	48.2%	58.3%	39.7%	33.6%	38.6%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	65.9%	69.8%	73.4%	74.7%	75.2%	76.0%
Operating margin	(141.4%)	(142.7%)	(99.4%)	(29.4%)	(5.3%)	16.3%
Return on equity (ROE)	(89.8%)	(40.3%)	(50.1%)	(28.2%)	(15.1%)	14.1%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	3.5	2.0	1.9	1.8	2.2	2.1
Receivable turnover days	96.8	106.1	73.6	75.0	74.0	73.0
Inventory turnover days	33.7	51.6	47.8	47.8	47.8	47.8
Payable turnover days	221.7	323.8	319.2	300.0	300.0	300.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	na	na	na	na	78.3
P/E (diluted)	na	na	na	na	na	78.3

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

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