

Innovent Biologics (1801 HK)

Strong sales growth with improved cost efficiency

BUY (Maintain)

- **Strong sales growth momentum.** In 1H23, Innovent recorded total revenue of RMB2.7bn, accounting for 51% of our previous FY estimate, which is better than our expectation. Innovent realized RMB2.5bn product sales in 1H23, regaining strong sales with +20% YoY growth rate (vs the -2% YoY in 2H22). The strong growth was driven by the strong performance of sintilimab and other products. According to Eli Lilly, in 2Q23, sales of sintilimab grew strongly by 70% QoQ or +41% YoY, which was mainly driven by the NRDL inclusion of sintilimab for 1L GC and 1L ESCC without price cut since Mar 2023 and COVID ease. With 7 indications approved and 6 included in NRDL, covering large indications of NSCLC, HCC, GC, and ESCC, we expect sintilimab's sales momentum to continue in 2H23 and beyond.
- **Continued to improve cost efficiency.** Under non-IFRS, Innovent's gross margin of product sales increased by 2.2 ppt to 80.8% in 1H23 from 78.6% in 1H22, thanks to improved production efficiency and higher proportion of high-margin products. The Company was able to further improve its cost efficiency in 1H23, with the ratio of selling and marketing expense to product revenue decreasing to 54.5% in 1H23 (vs 66.7% in 1H22), and the admin ratio reducing to 10.1% in 1H23 (vs 14.1% in 1H22). The R&D expenses decreased by 21% YoY to RMB923mn in 1H23. Innovent recorded a net loss of RMB190mn in 1H23, narrowing by 83% YoY, vs a loss of RMB1,085mn in 1H22. We expect Innovent to continue to improve its cost efficiency and to achieve EBITDA breakeven in 2025E. As of Jun 2023, Innovent had a strong cash balance of RMB8.5bn.
- **Strong innovative pipelines in oncology and non-oncology areas.** Innovent has multiple innovative drug candidates with large commercial potential, including IBI362 (GLP-1R/GCGR), IBI343 (CLDN18.2 ADC), IBI363 (PD-1/IL-2), IBI128 (XOI), IBI112 (IL-23p19), IBI302 (VEGF/complement), etc. In 2Q23, NOV's semaglutide (GLP-1R) has generated US\$1.1bn revenue from obesity globally, +65% QoQ, indicating strong demand in the global obesity market. In China, semaglutide recorded US\$332mn sales in 1H23, +142% YoY, potentially with some off-label use in obesity, indicating large upside in domestic demand. IBI362 (GLP-1R/GCGR dual agonists) has released promising 24-week treatment data for obesity (both 6mg and 9mg), showing its best-in-class potential, compared to semaglutide and tirzepatide (CMBI report [link](#)). Semaglutide and tirzepatide have filed NDA in China for obesity in Jun and Aug 2023, respectively, while IBI362 is expected to file NDA by end-2023/early-2024. Additionally, Innovent expects to read out 48-week treatment data of IBI362 from Ph2 trial (9mg) in obesity in 2H23 and to initiate a Ph3 study of IBI362 (9mg) by end-2023.
- **Expanding commercial product portfolio.** Innovent currently has 10 products marketed in China. In addition, parsaclisib (PI3Kδ) has been under NDA review since Jan 2023 and 7 other assets are in Ph3/pivotal trials, including IBI351 (KRAS G12C) and IBI344 (ROS1), both to file NDA by end-2023. Innovent has a stable oncology sales team of 3,000 employees. With SINTBILO (PCSK9) approved and other non-oncology products to be approved, the Company is also building up its non-oncology sales team.
- **Maintain BUY.** We like Innovent's strong sales growth recovery and the improving cost efficiency. We revised our DCF-based TP from HK\$50.34 to HK\$48.13 (WACC: 10.0%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	4,270	4,556	5,460	7,530	10,629
YoY growth (%)	11.1	6.7	19.8	37.9	41.2
Net profit (RMB mn)	(2,729)	(2,179)	(1,691)	(1,211)	(325)
EPS (Reported) (RMB)	(1.87)	(1.43)	(1.10)	(0.79)	(0.21)
R&D expenses (RMB mn)	(2,323)	(2,871)	(2,200)	(2,636)	(3,189)
CAPEX (RMB mn)	(1,066)	(897)	(500)	(400)	(300)

Source: Company data, Bloomberg, CMBIGM estimates

Target Price	HK\$48.13
(Previous TP)	HK\$50.34)
Up/Downside	38.9%
Current Price	HK\$34.65

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Stock Data

Mkt Cap (HK\$ mn)	53,171.9
Avg 3 mths t/o (HK\$ mn)	236.0
52w High/Low (HK\$)	47.00/22.00
Total Issued Shares (mn)	1,534.5
Source: FactSet	

Shareholding Structure

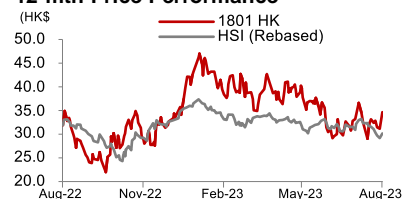
Temasek Holdings	9.0%
Yu De-Chao Michael	6.9%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	4.4%	7.0%
3-mth	-12.6%	-8.3%
6-mth	-9.8%	-0.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Deloitte

Website: www.innoventbio.com

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	-1,741	-1,250	-371	763	2,812	5,163	7,414	8,766	9,959	10,556	10,829	10,815	10,705
Tax rate	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	-1,741	-1,250	-371	648	2,390	4,389	6,302	7,451	8,465	8,973	9,205	9,193	9,099
+ D&A	294	303	305	307	308	310	311	313	314	315	316	317	318
- Change in working capital	-38	-126	60	-635	-581	-739	-603	-382	-320	4	-58	78	97
- Capex	-500	-400	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300
FCFF	-1,985	-1,473	-306	20	1,817	3,660	5,710	7,082	8,159	8,992	9,163	9,288	9,215
Terminal value													135,906
FCF + Terminal value	-1,985	-1,473	-306	20	1,817	3,660	5,710	7,082	8,159	8,992	9,163	9,288	145,120

PV of enterprise (RMB mn)	61,434
Net debt (RMB mn)	-5,044
Equity value (RMB mn)	66,478
Equity value (HK\$ mn)	73,865
No. of outstanding shares (mn)	1,535
DCF per share (HK\$)	48.13

Terminal growth rate	3.0%
WACC	10.0%
Cost of Equity	13.3%
Cost of Debt	4.5%
Equity Beta	1.0
Risk Free Rate	2.8%
Market Risk Premium	10.5%
Target Debt to Asset ratio	35.0%
Effective Corporate Tax Rate	15.0%

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

		WACC				
		9.0%	9.5%	10.0%	10.5%	11.0%
Terminal growth rate	4.0%	66.68	59.32	53.23	48.11	43.76
	3.5%	62.34	55.90	50.49	45.89	41.93
	3.0%	58.72	53.00	48.13	43.96	40.33
	2.5%	55.65	50.51	46.10	42.27	38.92
	2.0%	53.03	48.36	44.32	40.78	37.67

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	New			Old			Diff(%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY22E	FY23E	FY24E
Revenue	5,460	7,530	10,629	5,349	7,510	10,561	2%	0%	1%
Gross profit	4,399	6,104	8,670	4,309	6,088	8,614	2%	0%	1%
Operating profit	(1,030)	(418)	641	(2,304)	(1,370)	145	N/A	N/A	N/A
Net profit	(1,691)	(1,211)	(325)	(2,788)	(1,928)	(488)	N/A	N/A	N/A
EPS (RMB)	(1.10)	(0.79)	(0.21)	(1.82)	(1.26)	(0.32)	N/A	N/A	N/A
Gross margin	80.57%	81.07%	81.57%	80.57%	81.07%	81.57%	0.00 ppt	0.00 ppt	0.00 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	5,460	7,530	10,629	5,873	7,383	9,807	-7%	2%	8%
Gross profit	4,399	6,104	8,670	4,747	5,985	8,040	-7%	2%	8%
Operating profit	(1,030)	(418)	641	(2,100)	(1,339)	(132)	N/A	N/A	N/A
Net profit	(1,691)	(1,211)	(325)	(1,666)	(1,015)	(25)	N/A	N/A	N/A
EPS (RMB)	(1.10)	(0.79)	(0.21)	(1.14)	(0.63)	0.07	N/A	N/A	N/A
Gross margin	80.57%	81.07%	81.57%	80.83%	81.06%	81.98%	-0.26 ppt	+0.01 ppt	-0.41 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	3,844	4,270	4,556	5,460	7,530	10,629
Cost of goods sold	(388)	(505)	(931)	(1,061)	(1,426)	(1,959)
Gross profit	3,456	3,764	3,625	4,399	6,104	8,670
Operating expenses	(4,315)	(6,406)	(5,796)	(6,090)	(7,315)	(8,995)
Selling expense	(1,341)	(2,620)	(2,591)	(2,730)	(3,163)	(3,826)
Admin expense	(437)	(806)	(835)	(764)	(979)	(1,275)
R&D expense	(1,851)	(2,323)	(2,871)	(2,200)	(2,636)	(3,189)
Others	(686)	(657)	502	(395)	(538)	(704)
Pre-tax profit	(859)	(2,642)	(2,170)	(1,691)	(1,211)	(325)
Income tax	(140)	(87)	(9)	0	0	0
Minority interest	0	0	0	0	0	0
Net profit	(998)	(2,729)	(2,179)	(1,691)	(1,211)	(325)

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	9,467	11,551	11,507	10,637	10,591	11,695
Cash & equivalents	7,764	8,377	9,163	8,284	8,010	9,025
Account receivables	475	968	575	850	1,069	1,364
Inventories	706	1,347	1,429	1,163	1,172	966
Financial assets at FVTPL	357	645	3	3	3	3
Other current assets	165	213	337	337	337	337
Non-current assets	2,368	4,693	6,082	6,288	6,385	6,380
PP&E	1,584	2,693	3,411	3,649	3,778	3,805
Intangibles	33	772	1,198	1,198	1,198	1,198
Other non-current assets	752	1,228	1,472	1,441	1,409	1,377
Total assets	11,835	16,244	17,589	16,925	16,976	18,075
Current liabilities	1,486	3,050	3,499	3,470	3,572	3,721
Short-term borrowings	255	365	888	888	888	888
Account payables	121	195	326	297	399	548
Tax payable	0	61	3	3	3	3
Other current liabilities	1,110	2,429	2,282	2,282	2,282	2,282
Non-current liabilities	1,569	2,863	3,360	3,371	3,381	3,392
Long-term borrowings	925	2,023	2,215	2,215	2,215	2,215
Obligations under finance leases	10	86	99	110	120	131
Other non-current liabilities	634	754	1,046	1,046	1,046	1,046
Total liabilities	3,055	5,913	6,859	6,841	6,954	7,114
Share capital	0	0	0	0	0	0
Other reserves	8,780	10,330	10,730	10,084	10,022	10,961
Total shareholders equity	8,780	10,330	10,730	10,084	10,022	10,961
Minority interest	0	0	0	0	0	0
Total equity and liabilities	11,835	16,244	17,589	16,925	16,976	18,075

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(719)	(2,555)	(2,162)	(1,691)	(1,211)	(325)
Depreciation & amortization	68	165	245	262	271	273
Tax paid	(140)	(87)	(9)	0	0	0
Change in working capital	(334)	(90)	295	(38)	(126)	60
Others	817	951	(327)	1,036	1,152	1,260
Net cash from operations	(308)	(1,616)	(1,958)	(430)	87	1,269
Investing						
Capital expenditure	(489)	(1,066)	(897)	(500)	(400)	(300)
Acquisition of subsidiaries/ investments	(6)	(38)	(79)	0	0	0
Net proceeds from disposal of short-term investments	(12,001)	(12,121)	(10,603)	0	0	0
Others	7,311	10,527	10,143	166	155	162
Net cash from investing	(5,185)	(2,698)	(1,435)	(334)	(245)	(138)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	355	1,208	715	0	0	0
Proceeds from share issues	4,662	3,951	2,131	0	0	0
Others	(105)	(155)	46	(115)	(115)	(116)
Net cash from financing	4,912	5,003	2,892	(115)	(115)	(116)
Net change in cash						
Cash at the beginning of the year	4,233	7,764	8,377	9,163	8,284	8,010
Exchange difference	(569)	(197)	119	0	0	0
Cash at the end of the year	7,764	8,377	9,163	8,284	8,010	9,025

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

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