

Recbio (2179 HK)

Smooth progress of core pipeline products

Recbio reported RMB350mn net loss for 1H22, vs RMB330mn net loss in 1H21. R&D expense increased by 73% YoY to RMB354mn in 1H22, mainly due to clinical trial expenses related to the Ph III trial of REC603 and PhII/III trials of ReCOV. On 25 Aug, Recbio received a formal acceptance letter from China Securities Regulatory Commission, for the implementation of its H Share full circulation plan to convert 222.5mn Domestic Shares into H Shares.

■ **Efficient clinical development of REC603, a leading 9-valent HPV vaccine candidate.** In 2021, Recbio has initiated the Ph III trial of REC603 in females aged 9 - 45. In China, Gardasil 9 was only approved for females aged 16 – 26. REC603 has potential to become one of the first domestic 9-valent HPV vaccines to be commercialized in China given 1) the sample size of 16,050 subjects of REC603's Ph III trial is the largest among other 9-valent HPV vaccine candidates in China, and 2) the Ph III trial is conducted at clinical sites with higher HPV infection rate. Currently, follow-up on the subjects of REC603's primary efficacy trial is being conducted in accordance with the clinical protocol. Recbio has completed the subject enrolment and 1st dose vaccination of the two immuno-bridging trials in younger-age groups and the immunogenicity comparative trial with Gardasil 9 as of Aug 2022. We expect Recbio to submit BLA of REC603 to the NMPA in 2025E.

■ **Two clinical-stage COVID vaccine candidates.** ReCOV uses an NTD-RBD-foldon trimer as antigen. The inclusion of more conserved epitopes enables ReCOV with better cross-protection against emerging variants, including Omicron variant. Recbio has completed the Ph I trial of ReCOV in New Zealand, and has carried out Ph II/ III trials for basic and sequential booster immunization in the Philippines and the UAE, respectively. In Aug 2022, Recbio has received approval to conduct another Ph II trial in the Philippines, evaluating immunogenicity and safety of ReCOV versus COMIRNATY, as booster dose on the basic immunization of two doses inactive vaccines. Recbio has completed subject enrollment and dosing of the second Ph II trial in the Philippines. Recbio is also developing an Omicron-specific mRNA COVID vaccine candidate, R520A. This mRNA vaccine candidate was included in an IIT study (ChiCTR2200062207) initiated by China CDC assessing 14 new variant targeted COVID vaccine candidates.

■ **Maintain BUY.** We expect Recbio to submit EUA/ BLA for ReCOV in 2022E and IND applications for REC604a and REC610 in 2022E. We maintained our TP largely unchanged at HK\$38.77 (WACC: 12.5%, terminal growth rate: 2.0%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	0	0	62	1,745	1,446
YoY growth (%)	na	na	na	2,729.9	(17.1)
Net profit (RMB mn)	(179.4)	(657.6)	(785.2)	(238.5)	(266.4)
EPS (Reported) (RMB cents)	na	na	(162.58)	(49.39)	(55.16)
R&D expenses (RMB)	(131)	(473)	(650)	(600)	(500)
Admin expenses (RMB mn)	(18)	(143)	(180)	(198)	(218)
CAPEX (RMB mn)	(138)	(238)	(300)	(300)	(300)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$38.77
(Previous TP)	HK\$38.79
Up/Downside	73.9%
Current Price	HK\$22.30

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Stock Data

Mkt Cap (HK\$ mn)	10,770
Avg 3 mths t/o (HK\$ mn)	2.78
52w High/Low (HK\$)	28.30/17.72
Total Issued Shares (mn)	94

Source: FactSet

Shareholding Structure

Management	17.30%
Legend Capital	9.97%

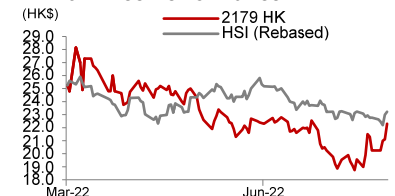
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	7.5%	11.4%
3-mth	-10.4%	-10.4%
6-mth	NM	NM

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: CMBIGM earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	62	1,745	1,446	155	1,789	1,474	-60.3%	-2.5%	-1.9%
Gross profit	40	1,151	969	101	1,181	988	-60.3%	-2.5%	-1.9%
Operating profit	-781	-210	-200	-723	-181	-180	N/A	N/A	N/A
Net profit	-785	-239	-266	-752	-260	-284	N/A	N/A	N/A
EPS (RMB cents)	-1.63	-0.49	-0.55	-1.56	-0.54	-0.59	N/A	N/A	N/A
Gross margin	65.00%	66.00%	67.00%	65.00%	66.00%	67.00%	0.0 ppt	0.0 ppt	0.0 ppt
Operating margin	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Margin	- N/A	N/A	N/A	- N/A	N/A	N/A	- N/A	N/A	N/A

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

(RMB mn)	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	62	1,745	1,446	252	1,636	1,504	-75.5%	6.6%	-3.9%
Gross Profit	40	1,151	969	157	1,253	1,157	-74.5%	-8.1%	-16.3%
Operating Profit	-781	-210	-200	-748	191	227	N/A	N/A	N/A
Net profit	-785	-239	-266	-718	171	187	N/A	N/A	N/A
EPS (RMB cents)	-1.63	-0.49	-0.55	-1.47	0.58	0.63	N/A	N/A	N/A
Gross Margin	65.00%	66.00%	67.00%	74.73%	74.80%	74.99%	-9.7 ppt	-8.8 ppt	-8.0 ppt
Operating Margin	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Margin	N/A	N/A	N/A	N/A	N/A	N/A	- N/A	N/A	N/A

Source: Company data, CMBIGM estimates

Valuation

Figure 3: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	-795	-217	-207	183	745	2,040	3,455	4,757	5,373	5,666	5,936	5,972	5,955	5,897
Tax rate	0.0%	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)	-795	-217	-207	156	634	1,734	2,937	4,043	4,567	4,816	5,046	5,076	5,062	5,012
+ D&A	29	38	47	55	60	64	69	73	77	81	85	89	92	96
- Change in working capital	-136	-746	140	-275	-1,162	-1,827	-1,683	-1,117	-212	-156	-118	-43	20	71
- Capex	-300	-300	-300	-300	-200	-200	-200	-200	-200	-200	-200	-200	-200	-200
FCFF	-1,201	-1,225	-320	-364	-669	-228	1,123	2,799	4,232	4,542	4,813	4,922	4,975	4,979
Terminal value	48,434													
Terminal growth rate	2.0%													
WACC	12.5%													
Cost of Equity	15.7%													
Cost of Debt	6.0%													
Equity Beta	1.10													
Risk Free Rate	3.0%													
Market Risk Premium	11.5%													
Target Debt to Asset ratio	30.0%													
Effective Corporate Tax Rate	15.0%													
Terminal value	9,329													
Total PV	15,365													
Net debt	-552													
Minority interest	-0													
Equity value (RMB mn)	15,917													
Equity value (HK\$ mn)	483													
No. of shares outstanding (mn)	32.96													
DCF per share (HK\$)	38.77													

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	0	0	0	62	1,745	1,446
Cost of goods sold	0	0	0	(22)	(593)	(477)
Gross profit	0	0	0	40	1,151	969
Selling expense	0	0	(3)	(10)	(576)	(463)
Admin expense	(12)	(18)	(143)	(180)	(198)	(218)
R&D expense	(63)	(131)	(473)	(650)	(600)	(500)
Others	(76)	(37)	(56)	(4)	(29)	(66)
Operating profit	(62)	(142)	(601)	(781)	(210)	(200)
Other income	13	10	28	19	13	12
Other expense	0	(3)	(10)	0	0	0
Pre-tax profit	(138)	(179)	(658)	(785)	(239)	(266)
Income tax	0	0	0	0	0	0
Minority interest	0	0	(0)	0	0	0
Net profit	(138)	(179)	(658)	(785)	(239)	(266)

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	311	709	1,295	760	1,667	1,564
Cash & equivalents	57	356	1,183	629	382	503
Account receivables	0	0	0	25	717	594
Inventories	7	8	24	18	479	379
Prepayment	14	20	88	88	88	88
Financial assets at FVTPL	232	326	0	0	0	0
Non-current assets	116	338	625	895	1,157	1,411
PP&E	56	129	416	692	959	1,216
Intangibles	22	22	22	22	22	22
Goodwill	9	9	9	9	9	9
Other non-current assets	28	178	177	172	167	163
Total assets	427	1,047	1,919	1,655	2,824	2,975
Current liabilities	18	57	139	23	430	348
Account payables	2	2	17	11	293	235
Other current liabilities	16	55	122	13	138	112
Non-current liabilities	728	1,998	107	107	1,107	1,607
Long-term borrowings	0	0	50	50	1,050	1,550
Deferred income	0	18	32	32	32	32
Other non-current liabilities	728	1,980	24	24	24	24
Total liabilities	746	2,056	246	130	1,537	1,954
Share capital	0	0	448	448	448	448
Total shareholders equity	(320)	(1,009)	1,673	1,526	1,287	1,021
Minority interest	0	0	(0)	(0)	(0)	(0)
Total equity and liabilities	427	1,047	1,919	1,655	2,824	2,975

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(138)	(179)	(658)	(785)	(239)	(266)
Depreciation & amortization	4	13	22	29	38	47
Tax paid	0	0	0	0	0	0
Change in working capital	(68)	64	(19)	(136)	(746)	140
Others	64	32	181	(10)	21	60
Net cash from operations	(139)	(70)	(473)	(901)	(925)	(20)
Investing						
Capital expenditure	(79)	(138)	(238)	(300)	(300)	(300)
Acquisition of subsidiaries/ investments	2	0	0	0	0	0
Others	(269)	(120)	307	14	8	7
Net cash from investing	(346)	(259)	69	(286)	(292)	(293)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	0	0	50	0	1,000	500
Proceeds from share issues	0	0	0	638	0	0
Others	490	680	1,179	(4)	(29)	(66)
Net cash from financing	490	680	1,229	634	971	434
Net change in cash						
Cash at the beginning of the year	1	7	356	1,183	629	382
Exchange difference	0	(3)	(8)	0	0	0
Cash at the end of the year	7	356	1,173	629	382	503
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	na	na	na	na	2,729.9%	(17.1%)
Gross profit	na	na	na	na	2,773.5%	(15.9%)
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	na	na	na	65.0%	66.0%	67.0%
Operating margin	na	na	na	(1,267.5%)	(12.0%)	(13.8%)
Return on equity (ROE)	na	na	(197.9%)	(49.1%)	(17.0%)	(23.1%)
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Current ratio (x)	17.5	12.3	9.3	32.7	3.9	4.5
Receivable turnover days	na	na	na	150.0	150.0	150.0
Inventory turnover days	na	na	na	300.0	295.0	290.0
Payable turnover days	na	na	na	180.0	180.0	180.0
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Div yield (%)	na	na	na	0.0	0.0	0.0

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

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