

Innovent Biologics (1801 HK)

Strategic cooperation with Sanofi to strengthen presence in oncology

Innovent announced to license in two oncology assets from Sanofi, including tusamitamab ravtansine (tusa; anti-CEACAM5 ADC) and SAR444245 (SAR'245, non-alpha IL-2), with no upfront payments. In parallel, Sanofi will make an initial equity investment of EUR300mn (c. HK\$2.42bn) in Innovent.

- Tusa is a potential FIC ADC targeting CEACAM5.** In a Ph1/2 trial in nsq-NSCLC pts with high CEACAM5 expression, tusa monotherapy realized a 20.3% ORR ([link](#)). Globally, tusa is the most advanced anti-CEACAM5 ADC (Gilead's IMMU130 in Ph2; Merck's M9140 in Ph1). Tusa is currently in a Ph3 study vs SoC docetaxel in 2L high-CEACAM5 nsq-NSCLC globally including China ([link](#)). Tusa is also been assessed in Ph2 trials in 1L NSCLC, GC, etc. Innovent will lead the Tusa's future clinical development and commercialization in China, with the R&D costs shared with Sanofi. Sanofi will be eligible to receive up to EUR80mn milestone payments and future China sales royalties. Innovent aims to start PoC studies of Tusa with different regimens (including combo with sintilimab) in 1L NSCLC and 1L GC.
- SAR'245 enhances Innovent's presence in the IL-2 space.** SAR'245 is under global Ph2 studies for solid tumors and lymphoma, with early encouraging results observed ([link](#)). Innovent will lead the clinical development of SAR'245 in China while Sanofi will take charge of commercialization. Innovent is entitled to receive up to EUR60mn milestone payments and sales royalties. With different technology for specificity, Innovent is also developing two internal IL-2 assets, including Ph1 IBI-363 (PD-1/IL-2 fused BsAb, with IL-2R α activity maintained while $\beta\gamma$ binding reduced) and preclinical IBI-395 (PD-1/IL-2/IL-21 fusion protein).
- Sizable equity investment in Innovent at a high premium to the current share price.** Sanofi will make an initial equity investment of EUR300mn in Innovent, at HK\$42.42 per share, representing a 29% premium to Innovent's closing price as of 4 Aug. Upon execution, Sanofi will hold 3.73% stake in Innovent. We believe the two companies will be open for further collaborations in R&D and commercialization, which will enhance Innovent's presence in oncology and potentially other therapeutic areas.
- Expect better sales performance in 2H22 with the completion of commercial team reorganization.** In 2Q22, Innovent generated over RMB1.0bn product revenue. Eli Lilly reported US\$73.6mn sales from sintilimab in 2Q22, down 14% QoQ. The sales performance was temporarily impacted by the COVID-19 lockdown and restructuring of the commercial team. We expect product sales to regain strong momentum in 2H22.
- Maintain BUY.** Factoring in slower sales growth in 1H22, we revised DCF-based TP from HK\$58.32 to HK\$55.33 (WACC: 10.6%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	3,843.8	4,269.7	4,584.0	5,703.8	8,252.7
YoY growth (%)	266.9%	11.1%	7.4%	24.4%	44.7%
Net profit (RMB mn)	(998.4)	(3,138.1)	(2,037.4)	(1,445.6)	211.9
EPS (Reported) (RMB)	(0.74)	(2.16)	(1.39)	(0.98)	0.14
EPS (Consensus) (RMB)	na	na	(1.36)	(0.74)	(0.04)
R&D expenses (RMB)	(1,851.5)	(2,478.1)	(2,500.0)	(2,500.0)	(1,815.6)
CAPEX (RMB mn)	(489.0)	(1,065.6)	(300.0)	(300.0)	(300.0)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$55.33
(Previous TP)	HK\$58.32)
Up/Downside	54.6%
Current Price	HK\$35.80

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Stock Data

Mkt Cap (HK\$ mn)	52,535
Avg 3 mths t/o (HK\$ mn)	388.20
52w High/Low (HK\$)	82.00/18.06
Total Issued Shares (mn)	1,467

Source: FactSet

Shareholding Structure

Temasek Holdings	8.1%
Yu De-Chao Michael	7.2%

Source: HKEX

Share Performance

	Absolute	Relative
1-mth	-8.1%	-0.6%
3-mth	70.1%	75.1%
6-mth	14.6%	39.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Deloitte

Website: www.innoventbio.com

Related report:

- Encouraging preliminary data on IBI110 (LAG-3 mAb) released at ASCO – 6 Jun 2022
- Expanding portfolio of commercial products – 31 Mar 2022
- Temporary setback paves the way for future success – 14 Feb 2022
- Building world-leading innovation platform – 27 Aug 2021

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	-2,033	-1,430	265	2,124	4,376	6,568	8,227	9,743	10,852	11,951	11,906	12,187	12,519	12,781
Tax rate	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	-2,033	-1,430	225	1,806	3,720	5,583	6,993	8,281	9,224	10,158	10,120	10,359	10,642	10,864
+ D&A	191	198	205	212	218	224	229	234	239	243	248	252	256	259
- Change in working capital	819	-99	-309	-815	-695	-691	-532	-491	-236	-205	139	-8	-30	1
- Capex	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300
FCFF	-1,323	-1,631	-179	903	2,942	4,815	6,390	7,725	8,927	9,897	10,207	10,303	10,568	10,824
Terminal value														146,744
FCF + Terminal value	-1,323	-1,631	-179	903	2,942	4,815	6,390	7,725	8,927	9,897	10,207	10,303	10,568	157,569
PV of enterprise (RMB mn)	63,940													
Net debt (RMB mn)	-5,229													
Equity value (RMB mn)	69,169													
Equity value (HK\$ mn)	81,375													
No. of outstanding shares (mn)	1,471													
DCF per share (HK\$)	55.33													

Terminal growth rate	3.0%
WACC	10.6%
Cost of Equity	13.5%
Cost of Debt	4.5%
Equity Beta	1.0
Risk Free Rate	3.0%
Market Risk Premium	10.5%
Target Debt to Asset ratio	30.0%
Effective Corporate Tax Rate	15.0%

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

		WACC				
		9.6%	10.1%	10.6%	11.1%	11.6%
Terminal growth rate	4.0%	73.48	66.16	60.00	54.73	50.20
	3.5%	69.62	63.08	57.50	52.69	48.51
	3.0%	66.35	60.43	55.33	50.90	47.01
	2.5%	63.55	58.13	53.43	49.31	45.68
	2.0%	61.11	56.12	51.75	47.91	44.49

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	New			Old			Diff(%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	4,584	5,704	8,253	5,076	6,470	9,131	-10%	-12%	-10%
Gross profit	3,942	4,905	7,097	4,365	5,564	7,853	-10%	-12%	-10%
Operating profit	(1,546)	(1,036)	704	(1,468)	(868)	757	N/A	N/A	-7%
Net profit	(2,037)	(1,446)	212	(1,999)	(1,316)	227	N/A	N/A	-7%
EPS (RMB)	(1.39)	(0.98)	0.14	(1.36)	(0.90)	0.15	N/A	N/A	-7%
Gross margin	86.00%	86.00%	86.00%	86.00%	86.00%	86.00%	0.00ppt	0.00ppt	0.00ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff(%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	4,584	5,704	8,253	5,523	7,502	9,688	-17%	-24%	-15%
Gross profit	3,942	4,905	7,097	4,762	6,444	8,362	-17%	-24%	-15%
Operating profit	(1,546)	(1,036)	704	(2,117)	(1,141)	60	N/A	N/A	N/A
Net profit	(2,037)	(1,446)	212	(2,022)	(1,135)	(102)	N/A	N/A	N/A
EPS (RMB)	(1.39)	(0.98)	0.14	(1.36)	(0.74)	(0.04)	N/A	N/A	N/A
Gross margin	86.00%	86.00%	86.00%	86.23%	85.90%	86.31%	-0.23 ppt	+0.10 ppt	-0.31 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	1,048	3,844	4,270	4,584	5,704	8,253
Cost of goods sold	(125)	(388)	(573)	(642)	(799)	(1,155)
Gross profit	923	3,456	3,697	3,942	4,905	7,097
Operating expenses	(2,643)	(4,315)	(6,748)	(5,980)	(6,351)	(6,848)
Selling expense	(693)	(1,341)	(2,728)	(2,429)	(2,738)	(3,549)
Admin expense	(255)	(437)	(884)	(779)	(913)	(1,238)
R&D expense	(1,295)	(1,851)	(2,478)	(2,500)	(2,500)	(1,816)
Others	(400)	(686)	(657)	(271)	(200)	(246)
Pre-tax profit	(1,720)	(859)	(3,051)	(2,037)	(1,446)	249
Income tax	0	(140)	(87)	0	0	(37)
Net profit	(1,720)	(998)	(3,138)	(2,037)	(1,446)	212
Minority interest	0	0	0	0	0	0
Net profit to shareholders	(1,720)	(998)	(3,138)	(2,037)	(1,446)	212
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	5,455	9,467	11,551	10,063	9,371	10,561
Cash & equivalents	4,233	7,764	8,377	7,727	6,893	7,675
Account receivables	248	475	968	775	964	1,395
Inventories	359	706	1,347	703	656	633
Financial assets at FVTPL	463	357	645	645	645	645
Other current assets	154	165	213	213	213	213
Non-current assets	1,775	2,368	4,693	4,802	4,904	4,999
PP&E	1,345	1,584	2,693	2,820	2,939	3,052
Intangibles	0	33	772	772	772	772
Other non-current assets	430	752	1,228	1,210	1,192	1,175
Total assets	7,231	11,835	16,244	14,865	14,275	15,560
Current liabilities	1,044	1,486	3,050	3,032	3,075	3,173
Short-term borrowings	17	255	365	365	365	365
Account payables	84	121	195	177	220	318
Tax payable	0	0	61	61	61	61
Other current liabilities	942	1,110	2,429	2,429	2,429	2,429
Non-current liabilities	1,431	1,569	2,863	2,864	2,865	2,866
Long-term borrowings	808	925	2,023	2,023	2,023	2,023
Obligations under finance leases	25	10	86	87	88	89
Other non-current liabilities	598	634	754	754	754	754
Total liabilities	2,474	3,055	5,913	5,896	5,940	6,039
Share capital	0	0	0	0	0	0
Other reserves	4,756	8,780	10,330	8,969	8,335	9,521
Total shareholders equity	4,756	8,780	10,330	8,969	8,335	9,521
Minority interest	0	0	0	0	0	0
Total equity and liabilities	7,231	11,835	16,244	14,865	14,275	15,560
CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(1,720)	(719)	(2,964)	(2,037)	(1,446)	287
Depreciation & amortization	74	68	165	173	181	187
Tax paid	0	(140)	(87)	0	0	(37)
Change in working capital	(141)	(334)	(90)	819	(99)	(309)
Others	123	817	951	699	845	971
Net cash from operations	(1,664)	(308)	(2,025)	(346)	(519)	1,098

Investing						
Capital expenditure	(366)	(489)	(1,066)	(300)	(300)	(300)
Acquisition of subsidiaries/ investments	0	(6)	(38)	0	0	0
Net proceeds from disposal of short-term investments	(2,268)	(12,001)	(12,121)	500	0	0
Others	65	7,311	10,527	121	110	109
Net cash from investing	(2,569)	(5,185)	(2,698)	321	(190)	(191)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	33	355	1,208	0	0	0
Proceeds from share issues	2,175	4,662	3,951	0	0	0
Others	(98)	(105)	(155)	(125)	(125)	(125)
Net cash from financing	2,109	4,912	5,003	(125)	(125)	(125)
Net change in cash						
Cash at the beginning of the year	4,525	2,426	1,276	1,359	1,209	375
Exchange difference	25	(569)	(197)	0	0	0
Cash at the end of the year	2,426	1,276	1,359	1,209	375	1,157
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	10,953.3%	266.9%	11.1%	7.4%	24.4%	44.7%
Gross profit	9,635.6%	274.6%	7.0%	6.6%	24.4%	44.7%
Net profit	(70.0%)	(42.0%)	214.3%	(35.1%)	(29.0%)	(114.7%)
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	88.1%	89.9%	86.6%	86.0%	86.0%	86.0%
Net profit margin	(164.2%)	(26.0%)	(73.5%)	(44.4%)	(25.3%)	2.6%
Return on assets (ROA)	n/m	n/m	n/m	n/m	n/m	1.4%
Return on equity (ROE)	(36.2%)	(11.4%)	(30.4%)	(22.7%)	(17.3%)	2.2%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	(0.7)	(0.7)	(0.6)	(0.6)	(0.5)	(0.5)
Current ratio (x)	5.2	6.4	3.8	3.3	3.0	3.3
Receivable turnover days	86.4	34.3	61.7	61.7	61.7	61.7
Inventory turnover days	620.7	500.9	653.8	400.0	300.0	200.0
Payable turnover days	185.7	96.4	100.5	100.5	100.5	100.5
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	n/m	n/m	n/m	n/m	n/m	213.6
P/B	5.5	6.4	9.2	5.0	5.4	4.8

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

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