

Shanghai Henlius Biotech, Inc. (2696 HK)

Smooth operation

On 30 Sep 2020, the Company announced that Dr. Scott Shi-Kau Liu has tendered his resignation from the position as an executive director and the CEO of the Company due to a change in personal business priorities. And Mr. Wenjie Zhang was appointed as the CEO of Henlius to keep innovating in operation management models and implementing the global strategy.

- A thoughtful arrangement.** Dr. Liu will continue to serve the Company as a head of the strategic advisory committee of the Company, focusing on the directions of the Company's R&D works, the formulation of the Company's strategies, and the team construction and development of the Company. Mr. Zhang has more than 25 years of commercial operation and management experience in the pharmaceutical industry. Since Mr. Zhang joined Henlius, he has been responsible for the operation management, focusing on building the innovative commercial operation mode and creating an international strategic layout, and successfully promotes the commercialization of HLX02 (trastuzumab biosimilar).
- License and supply arrangement with Accord for HLX02.** The Company has recently entered into a binding term sheet with Accord Healthcare Inc. to grant a license to Accord to develop and commercialize HLX02 trastuzumab injection (EU trade name: Zercepac) in the US and Canada. According to the agreement, relevant milestone payments from Accord US to Henlius include: upfront payment of US\$27mn, regulatory milestone payments of no more than US\$13mn and commercial sales milestone payments of US\$25mn for every US\$500mn of cumulative net sales. Henlius will also be eligible to receive a tiered royalty from 18% to 50% of future net profit of HLX02. With this collaboration, the commercialisation footprint of HLX02 has the potential to cover most of the global mainstream markets of biologics, in our view. A higher tiered royalty (18%-50% vs 15%-26.5%) in this agreement than last collaboration with Accord in EU reflects the HLX02's validated quality and efficacy, which may lead to higher-than-expected revenue of HLX02 from overseas.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	7	91	571	1,595	3,015
YoY growth (%)	-78%	1125%	527%	180%	89%
Net profit (RMB mn)	(494)	(875)	(824)	(413)	650
EPS (RMB)	(1.16)	(1.76)	(1.52)	(0.76)	1.20
Consensus EPS (RMB)	N/A	N/A	(1.46)	(0.64)	0.56
ROE (%)	(27.4)	(21.9)	(26.0)	(14.9)	19.0
ROA (%)	(16.0)	(14.8)	(15.8)	(7.0)	9.4
Net gearing (%)	Net cash	Net cash	12	60	46
Current ratio (x)	2.0	2.8	1.1	0.8	1.3

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$60.61**
 (Previous TP **HK\$60.61**)
 Up/Downside **+31.6%**
 Current Price **HK\$46.05**

China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	25,028
Avg. 3mths t/o (HK\$ mn)	11.59
52W High/Low (HK\$)	67.1/29.8
Total Issued Shares (mn)	163

Source: Bloomberg

Shareholding Structure

Fosun Pharma	53.76%
Management	11.35%
Institution investors	23.02%
Free float	11.71%

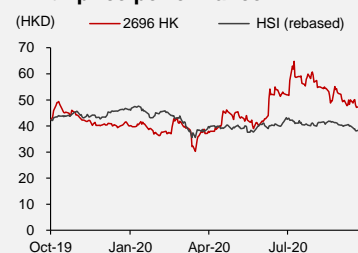
Source: Bloomberg

Share performance

	Absolute	Relative
1-mth	-10.6%	-7.9%
3-mth	-9.7%	-0.8%
6-mth	26.4%	25.2%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Ernst & Young

Web-site: www.henlius.com

Related Reports

- Capacity expansion to drive sales growth – 27 Aug 2020
- Expecting five NDA approvals within two years – 16 Jun 2020
- More product approvals in coming months – 27 Apr 2020
- Rich R&D progress – 25 Mar 2020
- Affordable innovation for global market – 8 Nov 2019

- **Clinical trial of neutralizing antibody HLX70 approved by FDA.** The Company's subsidiary, Hengenix Biotech, Inc, has received a "study may proceed" letter from the US FDA to approve the clinical trial for anti-S1 fully human monoclonal neutralising antibody HLX70 for COVID-19. Pre-clinical data has demonstrated that HLX70 can significantly inhibit SARS-CoV-2 virus infection and has good safety profile. As no COVID-19 antibody drug was approved to market globally yet, we think, HLX70 may become one of the first waves of neutralizing antibody approved.
- **Maintain BUY with unchanged TP of HK\$60.61.** We expect risk-adjusted revenue to be RMB571m in FY20E and RMB1,595m in FY21E. TP of HK\$60.61 is based on 11-year risk-adjusted DCF valuation (WACC: 10.0%, terminal growth rate: 3.0%).

Figure 1: CMBIS estimates vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	571	1,595	3,015	619	1,521	2,733	-7.8%	4.8%	10.3%
Gross profit	320	1,083	2,368	332	1,002	2,125	-3.6%	8.1%	11.4%
Operating profit	(790)	(318)	834	(791)	(390)	294	N/A	N/A	183.7%
Net profit	(824)	(413)	650	(835)	(357)	311	N/A	N/A	108.9%
EPS (RMB)	(1.52)	(0.76)	1.20	(1.46)	(0.64)	0.56	N/A	N/A	115.0%
Gross margin	56.05%	67.89%	78.53%	53.62%	65.87%	77.75%	+2.43ppt	+2.02ppt	+0.79ppt
Operating margin	-138.44%	-19.96%	27.67%	-127.75%	-25.62%	10.76%	-10.69ppt	+5.66ppt	+16.91ppt
Net Margin	-144.50%	-25.88%	21.55%	-134.96%	-23.48%	11.38%	-9.54ppt	-2.40ppt	+10.17ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 2: Peers comparison

Ticker	Company	TP (LC)	Rating	Current Px (LC)	Mkt Cap (USD mn)	Px Change (%)			AVG Trading Turnover (mn LC)			IPO Date	IPO Px (LC)
						30 d	60 d	90 d	30 d	60 d	90 d		
2696.HK	Henlius	60.6	BUY	46.1	3,229	-12%	-19%	-11%	4	6	12	2019-09-25	49.60
IMAB.US	I-Mab	52.6	BUY	38.8	2,241	5%	29%	35%	9	8	6	2020-01-17	14.00
9969.HK	InnoCare	16.2	BUY	10.6	1,767	-3%	-26%	-28%	22	22	25	2020-03-23	8.95
6855.HK	Ascentage	70.7	BUY	29.7	858	-1%	-20%	-32%	10	12	30	2019-10-28	34.20
9939.HK	Kintor	19.4	BUY	9.4	449	-27%	-40%	-37%	4	5	18	2020-05-22	20.15
6160.HK	Beigene	N/A	NR	177.7	26,950	25%	33%	45%	53	48	57	2018-08-08	108.00
1801.HK	Innovent	N/A	NR	59.4	10,728	3%	19%	-4%	518	429	486	2018-10-31	13.98
1877.HK	Junshi	N/A	NR	50.2	9,777	5%	-2%	-11%	36	39	61	2018-12-24	19.38
6185.HK	CanSino	N/A	NR	171.5	8,751	6%	-29%	-24%	180	281	370	2019-03-28	22.00
9926.HK	AkesoBio	N/A	NR	27.5	2,793	0%	-6%	-24%	26	38	51	2020-04-24	16.18
9966.HK	AlphaMab	N/A	NR	14.9	1,799	1%	-11%	-13%	48	34	34	2019-12-12	10.20
2616.HK	CStone	N/A	NR	11.5	1,563	33%	-4%	3%	23	20	21	2019-02-26	12.00

Source: Wind, CMBIS

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	7	91	571	1,595	3,015
Drug sales	-	79	543	1,489	2,844
BD sales	-	3	19	97	162
Other income	7	9	9	9	9
Cost of sales	(5)	(72)	(251)	(512)	(647)
Gross profit	2	19	320	1,083	2,368
Distribution expenses	-	(46)	(124)	(322)	(706)
Administrative expenses	(109)	(175)	(136)	(179)	(228)
R&D expenses	(365)	(608)	(850)	(900)	(600)
Operating profit	(472)	(809)	(790)	(318)	834
Finance income/ (cost)	(58)	(48)	(55)	(115)	(133)
Exceptional	30	(17)	20	20	20
Pre-tax profit	(500)	(875)	(824)	(413)	722
Profit tax	(5)	(1)	-	-	(72)
Minority interest	11	-	-	-	-
Net profit	(494)	(875)	(824)	(413)	650

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
PBT	(500)	(875)	(824)	(413)	722
Depreciation & amortization	10	51	150	195	226
Change in working capital	302	153	(142)	(64)	(33)
Income tax paid	(5)	(1)	-	-	(72)
Others	140	228	82	142	160
Net cash from operating activities	(52)	(443)	(734)	(140)	1,002
Capex	(137)	(289)	(500)	(400)	(300)
Acquisition of intangible asset	(598)	(632)	(800)	(600)	(500)
Other	-	(212)	-	-	-
Net cash from investing activities	(735)	(1,133)	(1,300)	(1,000)	(800)
Loan to related party	(575)	-	-	-	-
Net proceeds from shares issued	2,639	2,950	-	-	-
Bank borrowing	296	51	300	1,000	300
Acquisition of non-controlling interests	(635)	-	-	-	-
Interest paid	(45)	(35)	(55)	(115)	(133)
Net cash from financing activities	1,679	2,966	245	885	167
Net change in cash	892	1,390	(1,789)	(254)	370
Cash at the beginning	59	959	2,301	512	258
Exchange difference	9	(30)	-	-	-
Cash at the end	959	2,319	512	258	627

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	2,008	3,239	4,361	5,139	5,685
Fixed asset	324	501	951	1,256	1,430
Intangible assets	1,383	2,175	2,875	3,375	3,775
Other non-current assets	301	563	536	508	480
Current assets	1,087	2,661	856	752	1,200
Cash	959	2,301	512	258	627
Inventories	25	130	62	126	160
Trade and bills receivables	7	30	82	168	213
Prepayments, deposits & other receivables	90	196	196	196	196
Pledged cash	6	4	4	4	4
Current liabilities	533	960	802	888	932
Borrowings	143	278	278	278	278
Trade and other payables	85	240	82	168	213
Other current liabilities	305	441	441	441	441
Non-current liabilities	759	940	1,240	2,240	2,540
Borrowings	385	331	631	1,631	1,931
Other non-current liabilities	373	609	609	609	609
Total net assets	1,803	4,000	3,176	2,763	3,413
Minority interest	-	-	-	-	-
Shareholders' equity	1,803	4,000	3,176	2,763	3,413

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Drug sales	-	86.8	95.1	93.4	94.3
BD sales	-	3.7	3.3	6.1	5.4
Other income	100.0	9.4	1.6	0.6	0.3
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	27	21	56	68	79
EBITDA margin	(5,969)	(803)	(107)	(6)	36
Pre-tax margin	(6,741)	(962)	(145)	(26)	24
Net margin	(6,653)	(963)	(145)	(26)	22
Effective tax rate	(1)	(0)	-	-	10
Balance sheet ratios					
Current ratio (x)	2.0	2.8	1.1	0.8	1.3
Trade receivables turnover days	115	50	50	50	50
Trade payables turnover days	799	120	120	120	120
Inventory turnover days	90	90	90	90	90
Net debt to total equity ratio (%)	Net cash	Net cash	12.4	59.6	46.3
Returns (%)					
ROE	(27.4)	(21.9)	(26.0)	(14.9)	19.0
ROA	(16.0)	(14.8)	(15.8)	(7.0)	9.4
Per share data					
EPS (RMB)	(1.16)	(1.76)	(1.52)	(0.76)	1.20
DPS (RMB)	-	-	-	-	-
BVPS (RMB)	4.2	8.0	5.8	5.1	6.3

Source: Company data, CMBIS estimates

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