

Ascentage Pharma (6855 HK)

Encouraging results of APG-2575 and APG-115 released at 2021 ASCO Annual Meeting

- **Four studies were selected for presentations at 2021 ASCO meeting, including two oral presentations.** The presented studies were 1) a global phase 1 study of the Bcl-2 inhibitor APG-2575 in r/r CLL and other hematologic malignancies (#7502, **oral presentation**), 2) a global phase II study of APG-115 (MDM2-p53 inhibitor) in combination with pembrolizumab for melanoma or advanced solid tumors that have failed immuno-oncologic drugs (#2506, **oral presentation**), 3) a phase 1/2 study of APG-115 with or without platinum chemotherapy, in p53 wild-type salivary gland carcinoma (TPS6094), and 4) a phase 1b/2 study of APG-1252 plus paclitaxel for r/r SCLC (TPS8589).
- **First-in-human study of APG-2575 delivered promising preliminary PoC data.** As the second Bcl-2 inhibitor entering clinical development globally, APG-2575 has demonstrated favorable safety and efficacy in the global phase 1 study. As of 15 Apr 2021, 36 patients have been treated with APG-2575 as a single agent at doses ranging from 20 mg to 1,200 mg, including 15 patients with r/r CLL/SLL and the remaining patients with other hematologic malignancies. 12 out of the 15 r/r CLL/SLL patients achieved PR (ORR=80%). More importantly, all of the 15 r/r CLL/SLL patients were previously treated by CD20, and 27% of them had previously received BTK inhibitors. APG-2575 demonstrated superior safety given no DLT was observed at the maximum dose of 1,200 mg. The MTD has not been reached, and no laboratory or clinical TLS has been reported. 600mg daily has been selected as the RP2D based on the clinical results. We expect APG-2575 to enter pivotal phase 2 stage by end-2021 or early-2022. The drug has best-in-class potential given its shorter daily ramp-up schedule (vs weekly for venetoclax) and limited TLS.
- **Encouraging preliminary efficacy of APG-115 plus pembrolizumab for IO resistant melanoma.** APG-115 is orally bioavailable MDM2-p53 antagonist. As of 15 Apr 2021, 102 **PD-1/PD-L1 inhibitor-resistant** patients had been treated with APG-115 of 150mg Q2D (RP2D) in combination with pembrolizumab. Among the 29 evaluable melanoma patients, there were 1 CR, 6 PR and 9 SD patients, indicating 24.1% ORR (7/29) and 55.2% DCR (16/29). Besides melanoma, PR cases were also found in patients with MPNST, liposarcoma, NSCLC and UC. The combination therapy also showed promising efficacy in MPNST and liposarcoma which pembrolizumab has no approved indications.
- **Maintain BUY.** We forecast HQP-1351 to obtain NMPA's approval by 4Q21E. We believe APG-2575 could become a global best-in-class Bcl-2 inhibitor. We lifted DCF-based TP from HK\$62.04 to HK\$66.04 to reflect higher probability of success of APG-2575 (WACC: 11.72%, terminal growth of 2.0%).

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	15	12	12	269	3,170
YoY growth (%)	113	(14)	0	2,061	1,078
Net profit (RMB mn)	(1,481)	(678)	(857)	(943)	85
EPS (RMB)	(12.69)	(3.14)	(3.39)	(3.73)	0.34
Consensus EPS (RMB)	N/A	N/A	(3.26)	(2.52)	(0.87)
R&D expenses (RMB mn)	(464)	(565)	(700)	(800)	(951)
Capex (RMB mn)	(77)	(252)	(450)	(200)	(200)
Current ratio	4.5	3.9	3.3	2.2	4.2

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$66.04
(Previous TP)	HK\$62.04
Up/Downside	+50.96%
Current Price	HK\$43.75

China Healthcare Sector

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Stock Data

Mkt. Cap. (HK\$ mn)	11,063
Avg. 3mths t/o (HK\$ mn)	81.64
52W High/Low (HK\$)	54.7 / 24.6
Total Issued Shares (mn)	253

Source: Bloomberg

Shareholding Structure

Management	32.17%
Collected Mind (3SBio)	4.85%
Sino Biopharma	2.2%
Institution investors	26.28%
Free float	34.5%

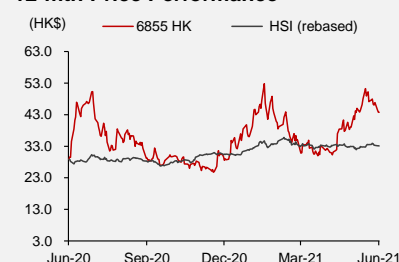
Source: SZSE

Share Performance

	Absolute	Relative
1-mth	12.0%	11.4%
3-mth	38.0%	36.9%
6-mth	47.8%	35.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young Related reports

1. Gear up for commercialization – 7 Apr 2021
2. Promising progress on HQP-1351 and APG-2575 - 16 Dec 2020

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<https://euromoney.com/brokers>

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	12	269	3,170	12	269	2,990	0%	0%	6%
Gross Profit	12	188	2,536	12	188	2,392	0%	0%	6%
Operating Profit	(835)	(906)	169	(835)	(906)	160	N/A	N/A	6%
Net profit	(857)	(943)	85	(857)	(943)	77	N/A	N/A	10%
EPS (RMB)	(3.39)	(3.73)	0.34	(3.39)	(3.73)	0.31	N/A	N/A	10%
Gross Margin	100.00%	70.00%	80.00%	100.00%	70.00%	80.00%	0.00ppt	0.00ppt	0.00ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	12	269	3,170	38	529	1,811	-67%	-49%	75%
Gross Profit	12	188	2,536	34	432	1,545	-64%	-56%	64%
Operating Profit	(835)	(906)	169	(904)	(638)	160	N/A	N/A	5.61%
Net profit	(857)	(943)	85	(907)	(736)	(220)	N/A	N/A	N/A
EPS (RMB)	(3.39)	(3.73)	0.34	(3.26)	(2.52)	(0.87)	N/A	N/A	N/A
Gross Margin	100.00%	70.00%	80.00%	91.00%	81.68%	85.33%	+9.00ppt	-11.68ppt	-5.33ppt

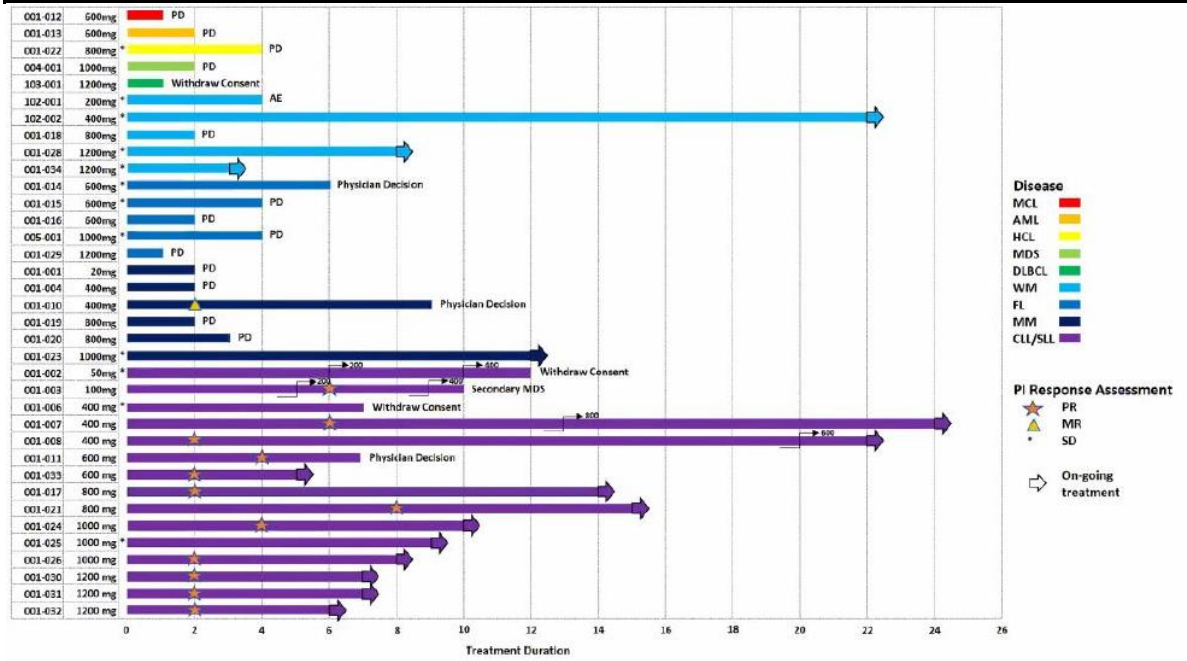
Source: Company data, Bloomberg, CMBIS estimates

Figure 3: Base case valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E
EBIT	(857)	(943)	100	1,343	2,228	2,906	3,540
Tax rate	0%	0%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(857)	(943)	85	1,142	1,893	2,470	3,009
+ D&A	58	98	110	120	129	137	144
- Change in working capital	29	(97)	(1,101)	(1,018)	(531)	(453)	(457)
- Capex	(450)	(200)	(200)	(200)	(200)	(200)	(200)
FCFF	(1,220)	(1,142)	(1,107)	43	1,291	1,954	2,496
Terminal value							26,204
FCF + Terminal value	(1,220)	(1,142)	(1,107)	43	1,291	1,954	28,700
Discount factor	1.0	0.9	0.8	0.7	0.6	0.6	0.5
PV of FCF	(1,220)	(1,023)	(887)	31	829	1,123	14,764
Present value of enterprise (RMB mn)	13,618						
Net debt (RMB mn)	(244)						
Equity value (RMB mn)	13,862						
Equity value (HK\$ mn)	16,701						
No. of shares outstanding	252,875,623						
DCF per share (HK\$)	66.04						
Terminal growth rate	2.0%						
WACC	11.72%						
Cost of Equity	14.6%						
Cost of Debt	6.0%						
Equity Beta	1.1						
Risk Free Rate	3.0%						
Market Risk Premium	10.5%						
Target Debt to Asset ratio	30.0%						
Effective Corporate Tax Rate	15.0%						

Source: CMBIS estimates

Figure 6: Swimmer plot: efficacy of APG-2575 in all patients



Source: ASCO 2021 Annual Meeting, CMBIS

Figure 7: Baseline characteristics of patients with CLL/SLL

	Overall (N = 15)		Overall (N = 15)
Diagnosis, no. (%)		Prognostic features, no. (%)	
CLL	14 (93.3)	Del(17p)/TP53 mutation	2 (13.3)
SLL	1 (6.7)	Del(11q)	1 (6.7)
		CD38+	3 (20.0)
Rai stage at enrollment, no. (%)		Unmutated IgVH	9 (60.0)
I-II	8 (53.3)		
III-IV	7 (46.7)	Previous therapy, no. (%)	
		Any previous fludarabine therapy	2 (13.3)
IPI, no. (%)		Previous CD20 antibody-based therapy	15 (100.0)
Low	3 (20.0)	Previous BTKI therapy	4 (26.7)
Intermediate	5 (33.3)		
High	6 (40.0)	Bulky nodes, no. (%)	
Very high	1 (6.7)	> 5 cm	4 (26.7)

BTKI, Bruton tyrosine kinase inhibitor; IPI, International Prognostic Index.
*Data cutoff: April 15, 2021.

Source: ASCO 2021 Annual Meeting, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	15	12	12	269	3,170
License fee income	11	10	10	10	10
Provision of R&D services	4	3	3	3	3
Cost of sales	(2)	(2)	0	(81)	(634)
Gross profit	12	10	12	188	2,536
Other income	49	45	30	30	30
Selling & distribution expenses	0	(1)	(10)	(135)	(951)
Milestone payment	0	0	(20)	(20)	(20)
Administrative expenses	(162)	(129)	(148)	(171)	(475)
R&D expenses	(464)	(565)	(700)	(800)	(951)
Operating profit	(564)	(639)	(835)	(906)	169
Other expenses	(914)	(30)	0	0	0
Finance costs, net	(4)	(6)	(21)	(37)	(69)
Pre-tax profit	(1,482)	(675)	(857)	(943)	100
Income tax	2	(2)	0	0	(15)
Minority interests	0	0	0	0	0
Net profit (Net loss)	(1,481)	(678)	(857)	(943)	85

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	(1,482)	(675)	(857)	(943)	100
Depreciation & amortization, etc.	26	27	58	98	110
Change in working capital	15	52	29	(97)	(1,101)
Tax paid	0	(2)	0	0	(15)
Others	980	(80)	21	37	69
Net cash from operating	(460)	(678)	(748)	(905)	(838)
Capex	(77)	(252)	(450)	(200)	(200)
(Purchases of)/proceeds from retrieval of other financial assets, net	20	0	0	0	0
Other investing activities	(143)	144	0	0	0
Net cash from investing	(201)	(107)	(450)	(200)	(200)
Net proceeds from shares issued	432	623	969	0	0
Bank borrowing	50	433	0	800	800
Capital repurchase	0	0	0	0	0
Interests paid	(4)	(6)	(21)	(37)	(69)
Net cash from financing	442	1,040	948	763	731
FX changes	1	(113)	0	0	0
Net change in cash	(219)	255	(251)	(342)	(307)
Cash at the beginning of the year	957	882	1,024	774	431
Cash at the end of the year	739	1,024	774	431	125

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	296	652	992	1,093	1,184
PP&E	94	434	841	957	1,061
Right-of-use assets	49	43	33	24	14
Other intangible assets	72	66	61	56	52
Goodwill	25	25	25	25	25
Equity investment measured at	32	32	32	32	32
Other non-current assets	25	52	0	0	0
Current assets	909	1,079	828	597	1,482
Inventories	0	0	0	44	521
Trade receivables	0	0	0	66	782
Prepayments, other receivables	27	55	55	55	55
Other financial assets	0	0	0	0	0
Cash and bank balances	882	1,024	774	431	125
Current liabilities	202	276	253	266	357
Bank loans	92	51	51	51	51
Trade payables	13	23	0	13	104
Other payables and accruals	97	189	189	189	189
Contract liabilities	0	0	0	0	0
Non-current liabilities	113	608	608	1,408	2,208
Bank loans	9	479	479	1,279	2,079
Deferred tax liabilities	17	15	15	15	15
Convertible redeemable preferred	0	0	0	0	0
Other non-current liabilities	0	0	0	0	0
Others	86	114	114	114	114
Total net assets	890	847	959	16	100
Minority interest	0	0	0	0	0
Shareholders' equity	890	847	959	16	100

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
License fee income	73	79	79	4	0
Provision of R&D services	27	21	21	1	0
Total	100	100	100	5	0
Profit & loss ratios (%)					
Gross margin	86	84	100	70	80
EBITDA margin	N/A	N/A	N/A	N/A	N/A
Pre-tax margin	N/A	N/A	N/A	N/A	N/A
Net margin	N/A	N/A	N/A	N/A	N/A
Effective tax rate (%)	0	(0)	15	15	15
Balance sheet ratios					
Current ratio (x)	4	4	3	2	4
Trade receivables turnover days	N/A	N/A	N/A	N/A	N/A
Trade payables turnover days	N/A	N/A	N/A	N/A	N/A
Net debt to total equity ratio (%)	N/A	N/A	N/A	N/A	N/A
Total debt to asset ratio (%)	26	51	47	99	96
Returns (%)					
ROE	N/A	N/A	N/A	(2)	1
ROA	N/A	N/A	N/A	(1)	0
Per share data					
EPS (RMB)	(12.69)	(3.14)	(3.39)	(3.73)	0.34
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	0.00	3.92	3.79	0.06	0.40

Source: Company data, CMBIS estimates

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