

Kintor Pharmaceutical (9939 HK)

Encouraging real-world data of proxalutamide in COVID-19 treatment in Paraguay

- Proxalutamide obtained its first overseas EUA.** In Jul 2021, Kintor obtained an emergency use authorization (EUA) from Paraguay's MSPBS for proxalutamide for treatment of hospitalized COVID-19 patients. In the first 25 hospitalized patients treated by proxalutamide in Paraguay, one patient (4%) died, and 7 patients (28%) who initially required high flow oxygen has benefited from proxalutamide. We think the real-world data may provide further support proxalutamide's regulatory registration in many countries.
 - Gender disparities in COVID-19 patients.** According to Global Health50/50, for COVID-19 patients, men accounting for a higher proportion of hospitalisations (54%), ICU admissions (64%) and deaths (57%) worldwide. That disparity has prompted speculation that androgens may promote COVID-19. Androgens increase production of TMPRSS2 and ACE2 receptor. Both molecules play key roles in coronavirus infections: TMPRSS2 cuts the virus' outer spike protein, which enables it to bind to ACE2 receptors and slip into cells' interiors. This explains the MoA of proxalutamide in treating COVID-19.
 - Proxalutamide is being assessed in multiple phase 3 trials for COVID-19.** Kintor is now conducting two phase 3 multi-regional clinical trials (MRCT) of proxalutamide for COVID-19 outpatients, and one phase 3 MRCT for COVID-19 inpatients in the US, South America (including Brazil), the EU, and Asia. First patient was dosed on 25 Apr for the phase 3 MRCT approved by the US FDA for outpatients, with the interim data readout expected in 4Q21E.
 - Cooperation with Fosun Pharma for proxalutamide commercialization in India and African countries.** On 15 Jul, Kintor entered into a licensing agreement with Fosun Pharma on the commercialisation of proxalutamide for COVID-19 indication in India and 28 African countries. Kintor will receive upfront and development milestone payments up to RMB110mn and commercialisation milestone payments of RMB450mn, and will also be eligible to receive not less than 50% of operating profit in the collaboration regions. Fosun Pharma has good distribution network in India and French-speaking African regions via its subsidiaries Gland Pharma and Tridem Pharma.
 - Expect PoC data of pyrilutamide for treatment of androgenetic alopecia in 2H21E.** The data of the phase 2 trial of pyrilutamide for androgenetic alopecia (AGA) in China may be released in 2H21E. On 11 July, the US FDA has also greenlighted pyrilutamide's phase 2 clinical trial for treating AGA.
 - Maintain BUY.** Given encouraging clinical experiences of proxalutamide in Paraguay and fast progress of pyrilutamide, we lift TP from HK\$92.08 to HK\$98.07 based on 10-year DCF model (WACC: 9.7%, terminal growth rate: 3.0%).
- Risks:** Clinical trial failure in proxalutamide for COVID-19; Delay in pipeline.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	0	0	0	10,132	8,351
Attributable net profit (loss) (RMB mn)	(233)	(508)	(457)	5,887	5,018
R&D expenses	(214)	(329)	(400)	(600)	(400)
EPS (RMB)	N/A	(1.64)	(1.18)	15.19	12.95
Consensus EPS (RMB)	N/A	N/A	(1.58)	14.31	6.12
ROE (%)	(63)	(34)	(44)	85	42
ROA (%)	(42)	(27)	(33)	75	39
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.5	8.4	5.2	9.7	19.8

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$98.07
(Previous TP)	HK\$92.08)
Up/Downside	+25.09%
Current Price	HK\$78.40

China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	30,387
Avg. 3mths t/o (HK\$ mn)	206.40
52W High/Low (HK\$)	86.60/7.20
Total Issued Shares (mn)	388

Source: Bloomberg

Shareholding Structure

Management	34.03%
Pre-IPO & corner stone investors	34.07%
Free float	31.90%

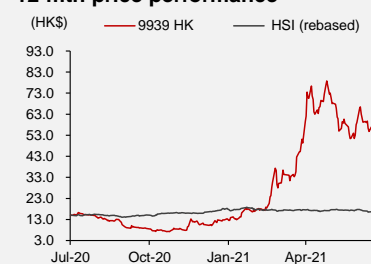
Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	32.7%	42.2%
3-mth	59.0%	69.3%
6-mth	485.1%	545.8%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: PWC

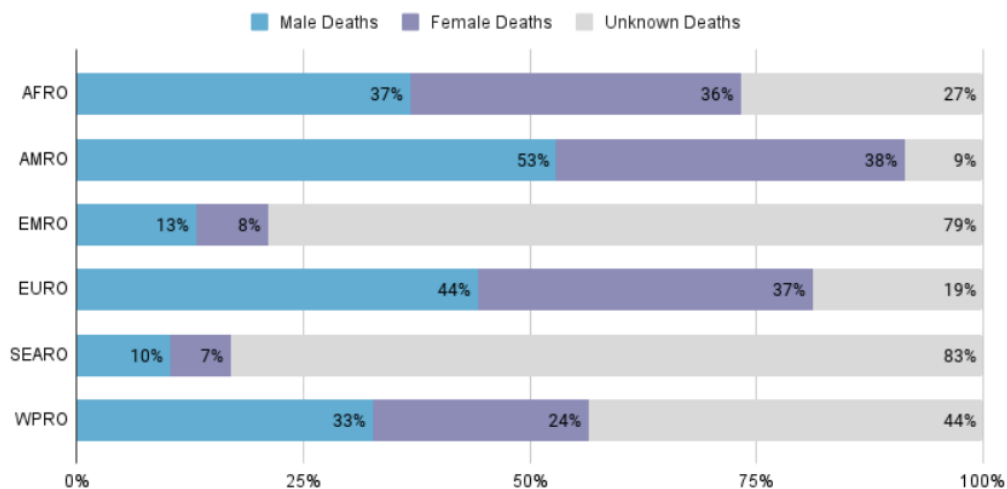
Web-site: www.kintor.com.cn

Related report:

- Proxalutamide may become an effective treatment for COVID-19 – 4 May 2021
- Fast clinical progress for Proxalutamide and other core assets – 29 Mar 2021

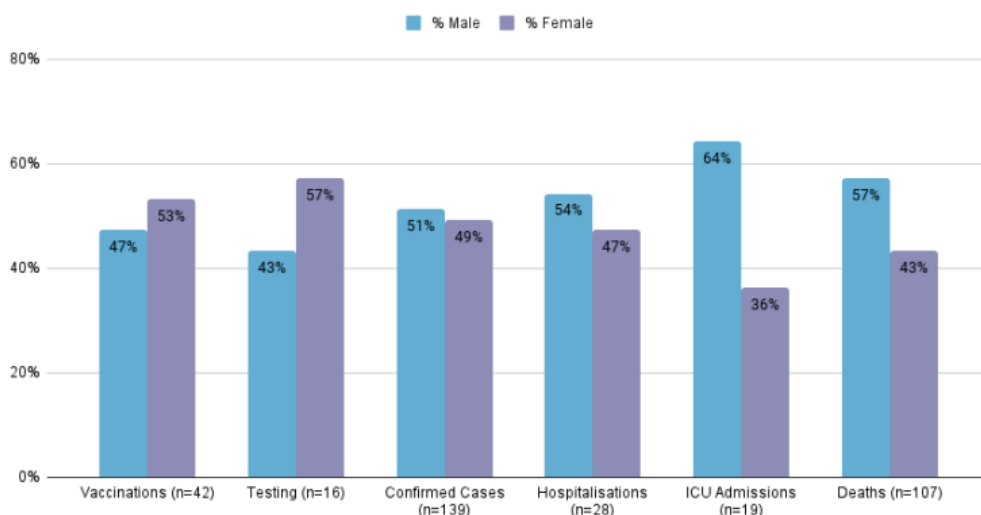
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Figure 1: Proportion of COVID-19 deaths where the sex is known by WHO region, Jun 2021



Source: Global Health 50/50, CMBIS

Figure 2: Gender differences along the COVID-19 clinical pathway



Source: Global Health 50/50, CMBIS

Valuation

We use DCF method to value the Company and we derive TP of HK\$98.07 based on 10-year risk-adjusted DCF model (WACC: 9.7%, terminal growth rate: 3.0%).

Figure 3: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(465)	6,883	5,786	3,854	2,870	2,596	2,499	2,606	2,757	2,996
Tax rate	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(465)	5,851	4,918	3,276	2,439	2,207	2,124	2,215	2,344	2,547
+ D&A	12	17	21	25	28	31	34	37	40	42
- Change in working capital	0	(661)	(185)	(143)	90	34	18	(21)	(54)	(73)
- Capex	(100)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)
FCFF	(553)	5,127	4,674	3,078	2,477	2,192	2,097	2,151	2,250	2,436
Terminal value										37,594
FCF + Terminal value	(553)	5,127	4,674	3,078	2,477	2,192	2,097	2,151	2,250	40,030
Present value of enterprise										31,251
Net Debt										(298)
Minorities										0
Equity value (RMB mn)										31,548
Equity value (HK\$ mn)										38,010
Equity value (US\$ mn)										4,905
Target price (HK\$)										98.07
Terminal growth rate										3.0%
WACC										9.7%
Cost of Equity										12.0%
Cost of Debt										5.0%
Equity Beta										0.9
Risk Free Rate										3.0%
Market Risk Premium										10.0%
Target Debt to Asset ratio										30.0%
Effective Corporate Tax Rate										15.0%

Source: CMBIS estimates

Figure 4: Sensitivity analysis (HK\$)

		WACC				
		8.7%	9.2%	9.7%	10.2%	10.7%
Terminal growth rate	4.0%	127.23	116.03	106.78	98.99	92.34
	3.5%	119.83	110.18	102.07	95.15	89.17
	3.0%	113.73	105.28	98.07	91.84	86.41
	2.5%	108.62	101.11	94.62	88.97	83.98
	2.0%	104.28	97.52	91.63	86.44	81.84

Source: Company data, CMBIS estimates

Figure 5: Key pipeline drugs of Kintor (as of Mar 2021)

Drug Candidate	Target / Mechanism	Indication	Country/Region	Pre-Clinical	IND Filing (Filed)(Accepted)	Phase I	Phase II	Phase III	NDA	
Clinical Stage Products	Proxalutamide (GT0918)	Second generation AR antagonist	COVID-19 (Outpatients)	US MRCT	Completed first patient enrolment					
			COVID-19 (Inpatients, including ICU)*	US	Preparing for IND					
			COVID-19 (Outpatients)*	MRCT	Preparing for IND					
			COVID-19 (Inpatients)	Brazil	Released preliminary results on Mar 11, 2021					cb APPLIED BIOLOGY
			mCRPC	China	Expected to submit NDA in 2021					
			Combination therapy with Abiraterone for mCRPC	China	Expected to complete patients enrolment in 2021					
			mCRPC	US	Expected to complete phase II in 2021					
			Metastatic breast cancer	China						
			Combination therapy with Exemestane, Letrozole and Fulvestrant for metastatic breast cancer	China						
			Androgenetic alopecia	China	Completed patients enrolment in Dec. 2020					
Pyirilutamide (KX-826)	AR antagonist (for external use)	Androgenetic alopecia	US							
		Acne vulgaris	China	Complete enrolment of first batch of patients						
		Acne vulgaris	US							
ALK-1 (GT90001)	Angiogenesis inhibitor	Combination therapy with a PD-1 for metastatic HCC (2L)	Taiwan	Interim data was released at ASCO GI in Jan 2021						
		Combination therapy with a PD-1 for metastatic HCC (2L)	US MRCT							
		HCC (1 st -line combination therapy)	China	Preparing for IND						
		Combination therapy with KN046 (PD-L1/CTLA-4) for HCC, gastric cancer, urothelial tumor, ESCC	Taiwan						康宁诺康	
Detorsertib (GT0486)	mTOR kinase inhibitor	Metastatic solid tumours	China							
GT1708F	Hedgehog/SMO inhibitor	Leukaemia	China							
		BCC	US							
GT20029	AR degrader (PROTAC)	AGA and acne vulgaris	China							
Pre-Clinical	GT90008	PD-L1 / TGF-β dual targeting antibody		Prepare for IND						
		Other AR degraders (PROTAC)								
		c-Myc inhibitor	Blood cancer							

■ Trials initiated by Kintor
■ Trials initiated by Kintor and partners
■ Trials initiated by Investigators

Source: Company data, CMBIS; Notes: mCRPC = metastatic castration resistant prostate cancer, MRCT = Multi Regional Clinical Trial, HCC = hepatocellular carcinoma, BCC = basal cell carcinoma, PROTAC = proteolysis targeting chimera, ESCC = Esophageal squamous cell carcinoma, * Subject to regulators' approval

Figure 6: CMBIS estimates revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	0	10,132	8,351	0	9,783	8,082	N/A	4%	3%
Gross Profit	0	8,106	6,764	0	7,827	6,546	N/A	4%	3%
Operating Profit	(449)	6,934	5,912	(449)	6,672	5,702	N/A	4%	4%
Net profit	(457)	5,887	5,018	(457)	5,664	4,839	N/A	4%	4%
EPS (RMB)	(1.18)	15.19	12.95	(1.24)	15.33	13.10	N/A	-1%	-1%
Gross Margin	N/A	80.00%	81.00%	N/A	80.00%	81.00%	N/A	+0.00 ppt	+0.00 ppt
Operating Margin	N/A	68.44%	70.79%	N/A	68.20%	70.55%	N/A	+0.24 ppt	+0.24 ppt
Net Margin	N/A	58.10%	60.08%	N/A	57.89%	59.88%	N/A	+0.20 ppt	+0.21 ppt

Source: Company data, CMBIS estimates

Figure 7: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	0	10,132	8,351	40	8,560	4,599	N/A	18%	82%
Gross Profit	0	8,106	6,764	34	7,362	4,001	N/A	10%	69%
Operating Profit	(449)	6,934	5,912	(598)	1,902	1,801	N/A	265%	228%
Net profit	(457)	5,887	5,018	(589)	5,413	2,286	N/A	9%	119%
EPS (RMB)	(1.18)	15.19	12.95	(1.58)	14.31	6.12	N/A	6%	111%
Gross Margin	N/A	80.00%	81.00%	85.00%	86.00%	87.00%	N/A	-6.00 ppt	-6.00 ppt
Operating Margin	N/A	68.44%	70.79%	N/A	22.22%	39.16%	N/A	+46.22 ppt	+31.63 ppt
Net Margin	N/A	58.10%	60.08%	N/A	63.24%	49.71%	N/A	-5.14 ppt	+10.38 ppt

Source: Company data, CMBIS estimates

Financial Statements

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	0	0	0	10,132	8,351
Proxalutamide China sales - risk adjusted	0	0	0	29	183
Proxalutamide US sales - risk adjusted	0	0	0	10,058	8,038
Pyrilutamide China sales - risk adjusted	0	0	0	46	123
Pyrilutamide US sales - risk adjusted	0	0	0	0	6
ALK-1 China sales - risk adjusted	0	0	0	0	0
Others	0	0	0	0	0
Cost of sales	0	0	0	(2,026)	(1,587)
Gross profit	0	0	0	8,106	6,764
Other income	19	25	31	66	141
Selling & distribution expenses	(33)	(77)	(80)	(608)	(501)
R&D expenses	(214)	(329)	(400)	(600)	(400)
Administrative expenses	(0)	(9)	0	(30)	(92)
Other expenses	(1)	(116)	0	0	0
Operating profit (loss)	(229)	(505)	(449)	6,934	5,912
Finance costs	(4)	(3)	(9)	(9)	(9)
Pre-tax profit (loss)	(233)	(508)	(457)	6,925	5,903
Income tax	0	(0)	0	(1,039)	(885)
Minority interests	0	0	0	0	0
Attributable net profit (loss)	(233)	(508)	(457)	5,887	5,018

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	(233)	(508)	(457)	6,925	5,903
Depreciation and amortization, etc.	5	7	12	17	21
Change in working capital	0	(13)	0	(661)	(185)
Others	(0)	134	(1)	(1,039)	(886)
Net income tax paid	0	(0)	0	(1,039)	(885)
Operating cash flow	(228)	(381)	(446)	5,242	4,852
Purchase of PP&E	(67)	(69)	(100)	(80)	(80)
Purchase of land use right	0	0	0	0	0
Purchases of financial assets at FV through profit or loss	0	(253)	0	0	0
Purchases of financial assets measured at amortized cost	(55)	0	0	0	0
Others	115	(118)	0	0	0
Investing cash flow	(7)	(440)	(100)	(80)	(80)
Proceeds from borrowings	59	239	0	0	0
Repayments of borrowings	(65)	(79)	0	0	0
Capital contribution from equity holders	348	1,653	0	0	0
Others	(46)	(32)	0	0	0
Financing cash flow	296	1,780	0	0	0
FX changes	(3)	(91)	0	0	0
Net change in cash	61	960	(546)	5,162	4,772
Cash at the beginning year	138	196	1,066	519	5,682
Cash at the end	196	1,065	519	5,682	10,454

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	333	431	520	583	643
PP&E	98	175	265	330	390
Intangible assets	179	210	210	209	209
Right-of-use assets	14	12	11	10	9
Other non-current assets	41	34	34	34	34
Current assets	221	1,421	873	7,282	12,095
Inventories	0	0	0	167	174
Trade receivables	0	0	0	833	915
Other receivables and prepayments	25	32	30	278	229
Financial assets at FV through P&L	0	0	0	0	0
Cash and cash equivalents	196	1,066	519	5,682	10,454
Restricted cash	0	0	0	0	0
Non-current liabilities	41	174	174	174	174
Borrowings	0	135	135	135	135
Lease liabilities	2	0	0	0	0
Deferred income tax liabilities	39	39	39	39	39
Current liabilities	143	169	168	754	610
Trade and other payables	80	81	80	666	522
Borrowings	59	84	84	84	84
Lease liabilities	3	3	3	3	3
Deferred income	1	0	0	0	0
Amounts due to related parties	0	1	1	1	1
Total net assets	370	1,508	1,050	6,937	11,955
Minority interest	0	0	0	0	0
Shareholders' equity	370	1,508	1,050	6,937	11,955

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Proxalutamide China sales adjusted	0	0	0	0	2
Proxalutamide US sales	0	0	0	99	96
Pyrilutamide China sales - adjusted	0	0	0	0	1
Pyrilutamide US sales	0	0	0	0	0
ALK-1 China sales -	0	0	0	0	0
Others	0	0	0	0	0
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	N/A	N/A	80	80	81
EBITDA margin	N/A	N/A	N/A	68	70
Pre-tax margin	N/A	N/A	N/A	68	71
Net margin	N/A	N/A	N/A	58	60
Effective tax rate	0	0	0	15	15
Balance sheet ratios					
Current ratio (x)	2	8	5	10	20
Net debt to equity (%)	Net	Net	Net	Net	Net
Returns (%)					
ROE	-63	-34	-44	85	42
ROA	-42	-27	-33	75	39
Per share value					
EPS (RMB)	N/A	(1.64)	(1.18)	15.19	12.95
DPS (RMB)	N/A	0.00	0.00	0.00	0.00
BVP (RMB)	N/A	4.87	2.71	17.90	30.84

Source: Company data, CMBIS estimates

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