

Ascentage Pharma (6855 HK)

Breakthrough in collaboration deals

Ascentage reported attributable net loss of RMB376.7mn in 1H21 vs RMB319.2mn in 1H20. Revenue grew 396.2% YoY to RMB13.0mn in 1H21, thanks to an IP license fee income from Unity. R&D cost increased 26.3% YoY to RMB317.5mn in 1H21, primarily due to increasing cost in clinical trials, expansion of research headcount and IP expenses. As of 30 Jun 2021, Ascentage had a robust pipeline of 8 clinical stage drug candidates with FIC and BIC potentials, and is the only biotech company with assets covering Bcl-2, IAP and MDM2-p53 apoptotic pathways. As of 30 Jun 2021, Ascentage has obtained a total of 12 ODDs and 1 FTD granted by the US FDA for four assets, including APG-2575 (Bcl-2 selective inhibitor), HQP1351 (3rd-generation BCR-ABL inhibitor), APG-1252 (Bcl-2/Bcl-xL inhibitor) and APG-115 (MDM2-p53 inhibitor), which has make a record among domestic peers.

■ **Multifaceted strategic collaboration with Innovent.** In July 2021, Ascentage and Innovent reached multifaceted strategic agreement on commercialization of Olverembatinib (HQP-1351) in China, joint clinical development of Lisoftoclax (APG-2575) and equity investment. For HQP-1351, apart from an upfront payment of US\$30mn, Ascentage is eligible to receive up to US\$115mn in milestone payments. Ascentage and Innovent will be jointly develop and commercialize HQP1351 in China, and equally split the profit. For APG-2575, Ascentage and Innovent will jointly explore the development of APG-2575 with the anti-CD20 mAb (HALPRYZA) and the anti-CD47 mAb letaplimab (IBI188) in certain indications. For equity investment, Innovent agrees to purchase US\$50mn of Ascentage's stock and has an option to purchase additional US\$50mn at a price of HK\$57.2 per share. We think such a large-scale multifaceted collaboration between two leading Chinese biopharma companies is groundbreaking.

■ **Abundant clinical progress.** Four clinical 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).

■ **Maintain BUY.** We maintain positive on the long-term growth of Ascentage, and 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\$66.04 to HK\$67.20 to reflect the collaboration deal with Innovent (WACC: 11.72%, terminal growth of 2.0%).

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	15	12	211	141	2,988
YoY growth (%)	113	(14)	1,591	(33)	2,021
Net profit (RMB mn)	(1,481)	(678)	(676)	(983)	50
EPS (RMB)	(12.69)	(3.14)	(2.57)	(3.74)	0.19
Consensus EPS (RMB)	N/A	N/A	(3.27)	(2.77)	(0.76)
R&D expenses (RMB mn)	(464)	(565)	(700)	(800)	(897)
Capex (RMB mn)	(77)	(250)	(450)	(400)	(400)
Current ratio	4.5	3.9	4.6	3.5	5.1

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price HK\$67.20
 (Previous TP) HK\$66.04
Up/Downside +79.21%
Current Price HK\$37.50

China Healthcare Sector

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Stock Data

Mkt. Cap. (HK\$ mn)	9,854
Avg. 3mths t/o (HK\$ mn)	97.70
52W High/Low (HK\$)	58.20/24.60
Total Issued Shares (mn)	263

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	-24.8%	-20.1%
3-mth	-23.7%	-15.7%
6-mth	8.6%	25.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related reports

1. Encouraging results of APG-2575 and APG-115 released at 2021 ASCO Annual Meeting – 9 Jun 2021
2. Gear up for commercialization – 7 Apr 2021
3. Promising progress on HQP-1351 and APG-2575 - 16 Dec 2020

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	211	141	2,988	12	269	3,170	1591%	-48%	-6%
Gross Profit	211	99	2,391	12	188	2,536	1591%	-48%	-6%
Operating Profit	(637)	(932)	160	(835)	(906)	169	N/A	N/A	-5%
Net profit	(676)	(983)	50	(857)	(943)	85	N/A	N/A	-41%
EPS (RMB)	(2.57)	(3.74)	0.19	(3.39)	(3.73)	0.34	N/A	N/A	-44%
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	211	141	2,988	70	404	1,405	202%	-65%	113%
Gross Profit	211	99	2,391	60	331	1,213	249%	-70%	97%
Operating Profit	(637)	(932)	160	(874)	(676)	23	N/A	N/A	595%
Net profit	(676)	(983)	50	(891)	(782)	(344)	N/A	N/A	N/A
EPS (RMB)	(2.57)	(3.74)	0.19	(3.27)	(2.77)	(0.76)	N/A	N/A	N/A
Gross Margin	100.00%	70.00%	80.00%	86.50%	82.05%	86.30%	+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	2028E	2029E	2030E
EBIT	(664)	(983)	58	1,252	2,096	2,740	3,393	3,766	4,143	4,516
Tax rate	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(664)	(983)	50	1,064	1,782	2,329	2,884	3,201	3,521	3,838
+ D&A	50	83	110	134	156	177	196	218	240	261
- Change in working capital	7	(58)	(1,102)	(1,008)	(521)	(442)	(451)	(501)	(551)	(601)
- Capex	(463)	(413)	(413)	(413)	(413)	(413)	(413)	(458)	(504)	(550)
FCFF	(1,070)	(1,371)	(1,356)	(223)	1,004	1,650	2,216	2,460	2,706	2,949
Terminal value										30,963
FCF + Terminal value	(1,070)	(1,371)	(1,356)	(223)	1,004	1,650	2,216	2,460	2,706	33,912
Discount factor	1.0	0.9	0.8	0.7	0.6	0.6	0.5	0.5	0.4	0.4
PV of FCF	(1,070)	(1,228)	(1,086)	(160)	645	949	1,140	1,133	1,115	12,513

Present value of enterprise (RMB mn)	13,949
Net debt (RMB mn)	(708)
Equity value (RMB mn)	14,657
Equity value (HK\$ mn)	17,660
No. of shares outstanding	263
DCF per share (HK\$)	67.20

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

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	15	12	211	141	2,988
License fee income	11	10	208	10	10
Provision of R&D services	4	3	3	3	3
Cost of sales	(2)	(2)	0	(42)	(598)
Gross profit	12	10	211	99	2,391
Other income	49	45	30	30	30
Selling & distribution expenses	0	(1)	(10)	(70)	(897)
Milestone payment	0	0	(20)	(20)	(20)
Administrative expenses	(162)	(129)	(148)	(171)	(448)
R&D expenses	(464)	(565)	(700)	(800)	(897)
Operating profit	(564)	(639)	(637)	(932)	160
Other expenses	(914)	(30)	(10)	0	0
Finance costs, net	(4)	(6)	(26)	(51)	(101)
Pre-tax profit	(1,482)	(675)	(674)	(983)	58
Income tax	2	(2)	(2)	0	(9)
Minority interests	0	0	0	0	0
Net profit (Net loss)	(1,481)	(678)	(676)	(983)	50

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	(1,482)	(675)	(674)	(983)	58
Depreciation & amortization, etc.	26	27	50	83	110
Change in working capital	15	(58)	7	(58)	(1,102)
Tax paid	0	0	(2)	0	(9)
Others	980	96	26	51	101
Net cash from operating	(460)	(610)	(593)	(907)	(841)
Capex	(77)	(250)	(450)	(400)	(400)
(Purchases of)/proceeds from retrieval of other financial assets, net	20	5	0	0	0
Other investing activities	(143)	138	(13)	(13)	(13)
Net cash from investing	(201)	(107)	(463)	(413)	(413)
Net proceeds from shares issued	432	623	1,296	0	0
Bank borrowing	50	433	0	1,000	1,000
Capital repurchase	0	0	0	0	0
Interests paid	(4)	(6)	(26)	(51)	(101)
Net cash from financing	442	1,040	1,270	949	899
FX changes	1	(42)	0	0	0
Net change in cash	(219)	323	213	(371)	(356)
Cash at the beginning of the year	957	739	1,024	1,238	866
Cash at the end of the year	739	1,020	1,238	866	511

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	296	652	1,065	1,395	1,699
PP&E	94	434	850	1,182	1,487
Right-of-use assets	49	43	40	37	34
Other intangible assets	72	66	67	68	69
Goodwill	25	25	25	25	25
Equity investment measured at	32	32	32	32	32
Other non-current assets	25	52	52	52	52
Current assets	909	1,079	1,292	979	1,793
Inventories	0	0	0	23	491
Trade receivables	0	0	0	35	737
Prepayments, other receivables	27	55	55	55	55
Other financial assets	0	0	0	0	0
Cash and bank balances	882	1,024	1,238	866	511
Current liabilities	202	276	283	283	351
Bank loans	92	51	51	51	51
Trade payables	13	23	30	30	98
Other payables and accruals	97	189	189	189	189
Contract liabilities	0	0	0	0	0
Non-current liabilities	113	608	608	1,608	2,608
Bank loans	9	479	479	1,479	2,479
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	1,467	483	533
Minority interest	0	0	0	0	0
Shareholders' equity	890	847	1,467	483	533

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
License fee income	73	79	99	7	0
Provision of R&D services	27	21	1	2	0
Total	100	100	100	9	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)	0	0	15
Balance sheet ratios					
Current ratio (x)	4	4	5	3	5
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 (%)	0	0	Net cash	1	4
Total debt to asset ratio (%)	26	51	38	80	85
Returns (%)					
ROE	N/A	N/A	N/A	(1)	0
ROA	N/A	N/A	N/A	(0)	0
Per share data					
EPS (RMB)	(12.69)	(3.14)	(2.57)	(3.74)	0.19
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	0.00	3.92	5.58	1.84	2.03

Source: Company data, CMBIS estimates

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