

Innovent Biologics (1801 HK)

Building world-leading innovation platform

Innovent reported attributable net loss of RMB1,175.3mn in 1H21 vs RMB608.2mn in 1H20. Total revenue grew 97.3% YoY to RMB1,941.8mn in 1H21, while product revenue surged 101.4% to RMB1,854.6mn, mainly driven by strong sales growth of Tyvyt and three biosimilars. Gross profit margin of product sales was 87.3% in 1H21 vs 79.9% in 1H20, thanks to transitioning of manufacturing from single-use bioreactor to 6x3,000L stainless steel bioreactor from 4Q20. R&D expenses increased 29% YoY to RMB1,042.1mn in 1H21. Selling expenses of product revenue jumped to 61.3% in 1H21 from 48.5% in 1H20, primarily due to the expansion of sales team from 1,284 employees by 31 Dec 2020 to 2,117 employees by 30 Jun 2021.

■ **Fruitful business development deals.** Innovent has completed four successful BD deals YTD, including 1) out-license of BYVASDA (bevacizumab biosimilar)'s right in Indonesia to Etana, 2) in-license of ROS1/NTRK TKI from AnHeart Therapeutics, 3) collaboration with Synaffix to develop ADC candidates with Synaffix's ADC technology, and 4) a multifaceted strategic collaboration with Ascentage to co-develop and commercialize HQP1351 in China as well as joint development for co-therapy involving Ascentage's Bcl-2 inhibitor APG-2575 with Innovent's CD20 mAb and CD47 mAb. We believe Innovent will become the best commercial partner for domestic biotech companies given Innovent's strong commercialization network in China.

■ **Tyvyt to get three large indications added into NRDL.** With 3 sNDA approvals in 1H21, we expect Tyvyt's 1L ns-NSCLC, 1L s-NSCLC and 1L HCC will be included by NRDL through this year's negotiation. Coupled with the expansion of sales team, Tyvyt is well positioned to gain market share in China's PD(L)1 market. Despite significant drop in ASP, Tyvyt still achieved remarkable RMB1.4bn sales in 1H21, up 52% YoY. With more indications of PD(L)1 included by NRDL in China, off-label use will be very limited in the future. As an early mover in large indications, Tyvyt will benefit from NRDL inclusion, in our view. In addition, Innovent has also filed sNDA for Tyvyt for 2L s-NSCLC. Phase 3 studies of Tyvyt in 1L ESCC and 1L GC also met primary endpoints. We expect Tyvyt to further expand its labels in China to cover all major indications.

■ **Maintain BUY.** With over 1,000 R&D staff based in China and the US, Innovent is establishing a world-leading innovation platform in immunology, protein antibody engineering, pharmacology, translational medicine and cell therapy, which will drive the expansion of Innovent's global FIC and BIC portfolio. Considering larger-than-expected net loss in 1H21, we adjusted DCF-based TP from HK\$120.91 to HK\$116.89 (WACC: 9.3%, terminal growth rate: 4.0%).

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	1,048	3,844	3,882	6,098	8,578
YoY growth (%)	N/A	267%	1%	57%	41%
Net loss (RMB mn)	(1,720)	(998)	(2,177)	(1,225)	(307)
EPS (RMB)	(1.46)	(0.74)	(1.49)	(0.84)	(0.21)
Consensus EPS (RMB)	N/A	N/A	(0.93)	(0.26)	0.37
R&D expenses (RMB mn)	(1,295)	(1,851)	(2,200)	(2,400)	(2,600)
Capex (RMB mn)	(366)	(489)	(300)	(300)	(300)

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$116.89
(Previous TP)	HK\$120.91)
Up/Downside	+88.83%
Current Price	HK\$61.90

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Mkt. Cap. (HK\$ mn)	90,284
Avg. 3mths t/o (HK\$ mn)	538.08
52W High/Low (HK\$)	107.1/49.80
Total Issued Shares (mn)	1,459

Source: Bloomberg

Shareholding Structure

Temasek Holdings	8.23%
Yu De-Chao Michael	8.21%
Citigroup	5.63%
Eight Roads Investments	5.20%
Brown Brothers Harriman & Co.	5.02%
Free float	67.71%

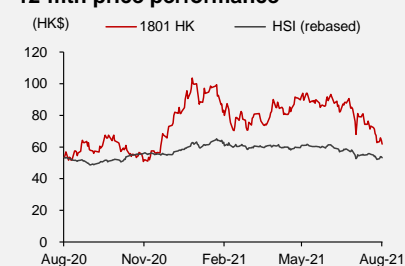
Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	-23.7%	-18.8%
3-mth	-29.8%	-21.1%
6-mth	-22.8%	-9.6%

Source: Bloomberg

12-mth price performance

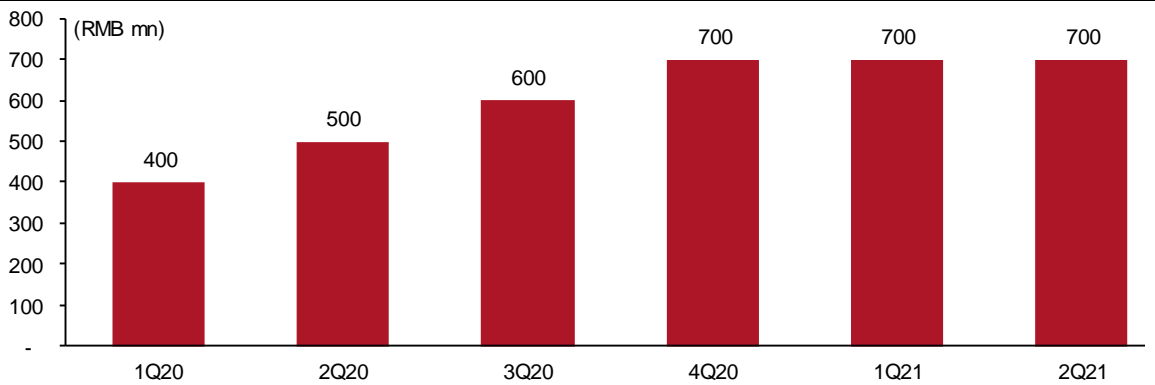


Source: Bloomberg

Auditor: Deloitte

Related report
 Growing into a global biopharma company – 22 Jul 2021 (Initiation)

Figure 1: Quarterly sales of Tyvyt (1Q20-2Q21)



Source: Company data, CMBIS; Note: the sales data were from Innovent's financial statements

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	3,882	6,098	8,578	3,579	5,747	8,192	8%	6%	5%
Gross Profit	3,300	5,183	7,248	3,042	4,885	6,922	8%	6%	5%
Operating Profit	(1,543)	(523)	410	(811)	(136)	643	NA	NA	-36%
Net profit	(2,177)	(1,225)	(307)	(1,399)	(857)	(125)	NA	NA	NA
EPS (RMB)	(1.49)	(0.84)	(0.21)	(0.96)	(0.59)	(0.09)	NA	NA	NA
Gross Margin	85.00%	85.00%	84.50%	85.00%	85.00%	84.50%	0.00ppt	0.00ppt	0.00ppt

Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	3,882	6,098	8,578	4,394	6,926	9,090	-12%	-12%	-6%
Gross Profit	3,300	5,183	7,248	3,676	5,837	7,618	-10%	-11%	-5%
Operating Profit	(1,543)	(523)	410	(1,137)	(38)	2,135	NA	NA	-81%
Net profit	(2,177)	(1,225)	(307)	(1,274)	(271)	431	NA	NA	NA
EPS (RMB)	(1.49)	(0.84)	(0.21)	(0.93)	(0.26)	0.37	NA	NA	NA
Gross Margin	85.00%	85.00%	84.50%	83.65%	84.28%	83.81%	+1.35ppt	+0.72ppt	+0.69ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 4: Base case valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	(2,253)	(1,324)	(398)	1,165	3,663	7,054	10,127	12,571	15,403	17,065	18,510	18,386	18,720	19,167	19,634
Tax rate	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(2,253)	(1,324)	(398)	990	3,114	5,996	8,608	10,685	13,093	14,505	15,734	15,628	15,912	16,292	16,689
+ D&A	99	108	117	126	134	142	150	157	164	170	177	183	189	194	199
- Change in working capital	82	(308)	(362)	(388)	(395)	(455)	(591)	(405)	(440)	(234)	145	110	(39)	(64)	(68)
- Capx	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)
FCFF	(2,372)	(1,824)	(943)	428	2,553	5,383	7,867	10,137	12,517	14,141	15,755	15,621	15,762	16,122	16,521
Terminal value															325,745
PV of enterprise (RMB mn)	132,799														
Net debt (RMB mn)	(8,701)														
Equity value (RMB mn)	141,500														
Equity value (HK\$ mn)	170,482														
No. of outstanding shares (mn)	1,459														
DCF per share (HK\$)	116.89														
Terminal growth rate	4.0%														
WACC	9.3%														
Cost of Equity	11.6%														
Cost of Debt	4.5%														
Equity Beta	0.8														
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 Statements

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	1,048	3,844	3,882	6,098	8,578
Cost of sales	(125)	(388)	(582)	(915)	(1,330)
Gross profit	923	3,456	3,300	5,183	7,248
Administrative expenses	(255)	(437)	(650)	(671)	(858)
R&D expenses	(1,295)	(1,851)	(2,200)	(2,400)	(2,600)
Selling and marketing expenses	(693)	(1,341)	(2,135)	(2,866)	(3,603)
Other income	144	247	227	230	222
Other gains and losses	15	(480)	(85)	0	0
Operating profit	(1,161)	(406)	(1,543)	(523)	410
Listing expenses	0	0	0	0	0
Finance costs, net	(59)	(68)	(51)	(30)	(31)
Royalties and other related	(500)	(384)	(582)	(671)	(686)
Pre-tax profit	(1,720)	(859)	(2,177)	(1,225)	(307)
Income tax	0	(140)	0	0	0
Minority interests	0	0	0	0	0
Net profit (Net loss)	(1,720)	(998)	(2,177)	(1,225)	(307)

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	(1,720)	(859)	(2,177)	(1,225)	(307)
Depreciation and	86	86	99	108	117
Changes in working capital	(141)	(334)	82	(308)	(362)
Tax paid	14	(140)	0	0	0
Others	97	939	489	577	721
Net cash from operating	(1,664)	(308)	(1,507)	(847)	169
Capex	(366)	(489)	(300)	(300)	(300)
Placement of term deposits with maturity dates over 3 months	(4,264)	(7,126)	0	0	0
Other investing activities	2,061	2,431	127	130	122
Net cash from investing activities	(2,569)	(5,185)	(173)	(170)	(178)
Net proceeds from shares issued	2,169	4,657	3,877	0	0
New borrowings raised	43	372	0	0	0
Repayment of borrowings	(10)	(17)	(700)	0	0
Other financing activities	(93)	(100)	(51)	(30)	(31)
Net cash from financing activities	2,109	4,912	3,125	(30)	(31)
Net change in cash	(2,124)	(580)	1,445	(1,047)	(39)
Fx Changes	25	(569)	0	0	0
Cash at the beginning of the	4,525	2,426	7,764	9,209	8,162
Cash at the end of the year	2,426	1,276	9,209	8,162	8,122

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	1,775	2,368	2,570	2,761	2,944
PP&E	1,345	1,584	1,803	2,012	2,213
Right-of-use assets	92	327	309	292	274
Intangible assets	0	33	33	33	33
Deposits for acquisition of PP&E	85	272	272	272	272
Other non-current assets	254	152	152	152	152
Current assets	5,455	9,467	10,901	10,271	10,730
Inventories	359	706	638	752	911
Trade receivables	248	475	532	835	1,175
Deposits, prepayments and other receivables	152	165	165	165	165
Other financial assets	463	357	357	357	357
Cash and bank balances	4,233	7,764	9,209	8,162	8,122
Current liabilities	1,044	1,486	1,557	1,666	1,802
Borrowings	17	255	255	255	255
Lease liabilities	16	16	16	16	16
Trade payables	84	121	191	301	437
Other payables and accrued	885	974	974	974	974
Contract liabilities	42	120	120	120	120
Non-current liabilities	1,431	1,569	870	871	872
Contract liabilities	582	588	588	588	588
Borrowings	808	925	225	225	225
Lease liabilities	25	10	11	12	13
Government grants	17	46	46	46	46
Total net assets	4,756	8,780	11,043	10,495	10,999
Minority interest	0	0	0	0	0
Shareholders' equity	4,756	8,780	11,043	10,495	10,999

Key ratios

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit & loss ratios (%)					
Gross margin	88	90	85	85	85
EBITDA margin	N/A	(21.4)	(55.5)	(19.9)	(3.3)
Net margin	N/A	(26.0)	(56.1)	(20.1)	(3.6)
Effective tax rate (%)	0	(16)	0	0	0
Balance sheet ratios					
Current ratio (x)	5	6	7	6	6
Trade receivables turnover	86	34	50	50	50
Trade payables turnover days	186	96	120	120	120
Total debt to asset ratio (%)	34	26	18	19	20
Returns (%)					
ROE	(36)	(11)	(20)	(12)	(3)
ROA	(24)	(8)	(16)	(9)	(2)
Per share data					
DPS (RMB)	(1.46)	(0.74)	(1.49)	(0.84)	(0.21)
DPS (RMB)	0.0	0.0	0.0	0.0	0.0
BVPS (RMB)	4.0	6.5	7.6	7.2	7.5

Source: Company data, CMBIS estimates

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