CMB International Securities | Equity Research | Company Update

Kintor Pharmaceutical (9939 HK)

Multiple out-license collaborations for Proxalutamide

Kintor reported attributable net loss of RMB325.8mn in 1H21 vs RMB195.4mn in 1H20, while adjusted net loss widened from RMB163.7mn in 1H20 to RMB299.9mn in 1H21. R&D expenses increased 90% YoY to RMB282.2mn in 1H21.

- **Proxalutamide has clear MoA for treatment of COVID-19**. Proxalutamide has a dual mechanism of action, which inhibits the androgen receptor competitively and decreases the expression of AR, effectively lowering the expression of the proteins ACE2 and TMPRSS2, which the coronavirus uses to invade host cells. In addition, Proxalutamide also promotes the clearance of pathogens and decreases inflammation by activating the Nrf2 pathway, which activates several antioxidative genes and proteins and reduces the intensity of the cytokine response, which is of clinical benefit to the most seriously ill COVID-19 patients. The drug also has potential to treat coronavirus variants. In vitro studies in the P3 laboratory have demonstrated that Proxalutamide can effectively inhibit infections caused by Alpha and Delta variants. The outcome of genome sequencing on COVID-19 inpatients in Brazil has shown that Proxalutamide has effectively treated inpatients infected by Gamma variant.
- **Proxalutamide has achieved multiple commercial collaborations in overseas regions**. In Jul 2021, Kintor entered into anagreement with Fosun Pharma on the commercialization of Proxalutamide for COVID-19 indication in India and 28 African countries. In Aug 2021, Kintor entered into a licensing agreement with Etana Biotech in relation to the commercialization of Proxalutamide for COVID-19 treatment in Indonesia. Commercial rights out-licenses reflect peers' approbation on Proxalutamide for COVID-19. Proxalutamide is currently undergoing two registered phase 3 MRCT for the treatment of COVID-19 outpatients with mild to moderate symptoms, and one registered phase 3 MRCT for COVID-19 in-patients, in regions including the US, South America, EU and Asia. In 1H21, Kintor obtained its first emergency use authorization (EUA) from Paraguay's MSPBS.
- **Pyrilutamide to release PoC data soon**. Kintor has completed the phase 2 trial of Pyrilutamide with 120 enrolled androgenetic alopecia (AGA) patients in China. Preliminary data is expected to be released in Sep 2021, which could be the first PoC data. On 11 Jul, the US FDA has greenlighted Pyrilutamide's phase 2 clinical trial for treating AGA. The population of patients with AGA reached over 133.7mn in China and 83.1mn in the US in 2019, respectively. The large prevalence and lack of effective treatment indicates huge unmet medical need for AGA.
- **Maintain BUY**. We maintain TP unchanged at HK$98.07 based on 10-year DCF model (WACC: 10.0%, terminal growth rate: 3.0%). **Risks:** Clinical trial failure in proxalutamide for COVID-19; Delay in pipelines.

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)	(450)	5,899	5,030
R&D expenses	(214)	(329)	(400)	(600)	(400)
EPS (RMB)	N/A	(1.64)	(1.16)	15.22	12.98
Consensus EPS (RMB)	N/A	N/A	(1.57)	12.66	6.09
ROE (%)	(63)	(34)	(22)	75	39
ROA (%)	(42)	(27)	(19)	67	37
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	1.5	8.4	11.0	11.0	21.5

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	**HK$98.07**
(Previous TP	HK$98.07)
Up/Downside	**+36.21%**
Current Price	**HK$72.00**

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Mkt. Cap. (HK$ mn)	27,906
Avg. 3mths t/o (HK$ mn)	184.39
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%

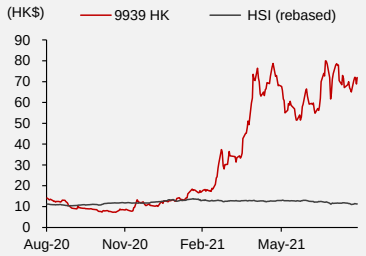
Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	12.0%	12.3%
3-mth	5.4%	20.8%
6-mth	326.5%	386.5%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: PWC
Web-site: www.kintor.com.cn

Related report:

1. Encouraging real-world data of proxalutamide in COVID-19 treatment in Paraguay – 26- Jul 2021
2. Proxalutamide may become an effective treatment for COVID-19 – 4 May 2021
3. Fast clinical progress for Proxalutamide and other core assets – 29 Mar 2021

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: 10.0%, terminal growth rate: 3.0%).

Figure 1: 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	16	20	24	28	31	34	37	39	42
- Change in working capital	0	(661)	(185)	(143)	90	34	18	(21)	(54)	(73)
- Capex	(90)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)
FCFF	**(543)**	**5,126**	**4,673**	**3,077**	**2,476**	**2,192**	**2,096**	**2,151**	**2,249**	**2,436**
Terminal value										**35,894**
FCF + Terminal value	(543)	5,126	4,673	3,077	2,476	2,192	2,096	2,151	2,249	38,330

Present value of enterprise	29,961
Net Debt	(1,588)
Minorities	0
Equity value (RMB mn)	31,549
Equity value (HK$ mn)	**38,011**
Equity value (US$ mn)	**4,905**
Target price (HK$)	**98.07**

Terminal growth rate	
WACC	
Cost of Equity	**3.0%**
Cost of Debt	**10.0%**
Equity Beta	12.5%
Risk Free Rate	5.0%
Market Risk Premium	0.9
Target Debt to Asset ratio	3.0%
Effective Corporate Tax Rate	10.5%

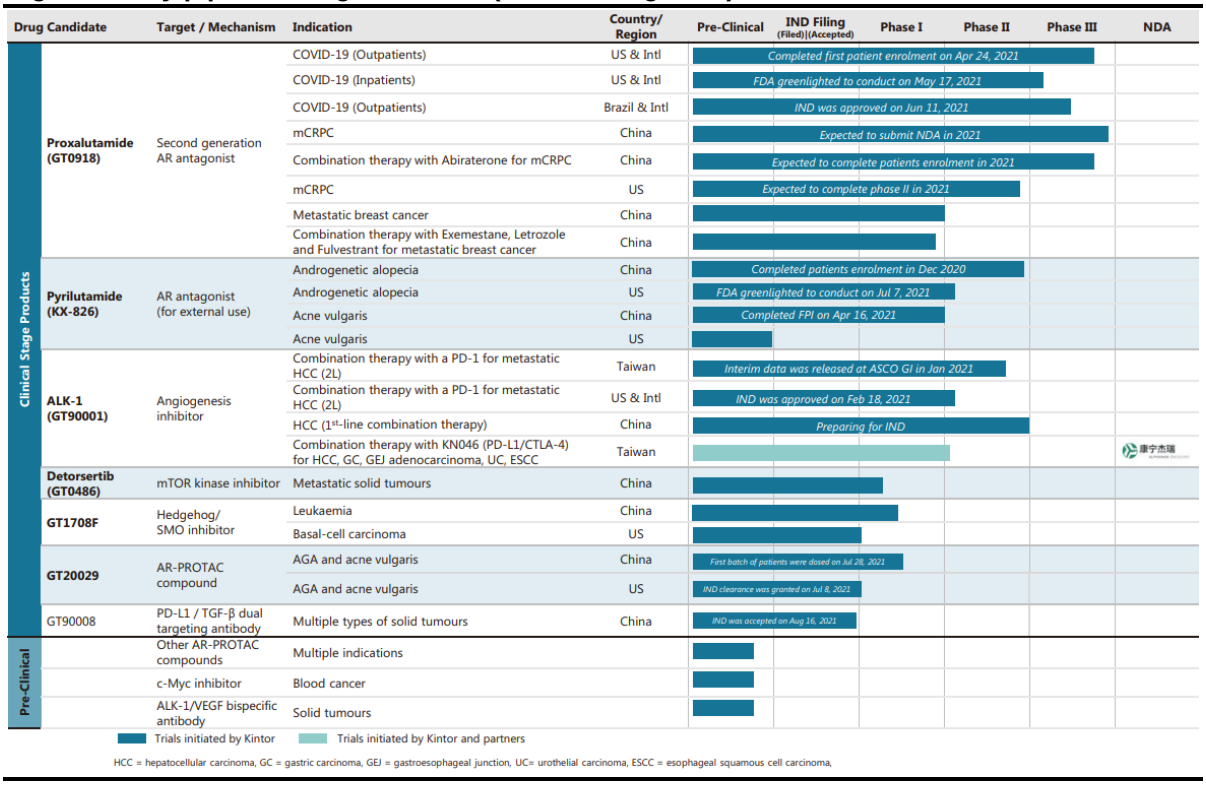
Source: CMBIS estimates

Figure 2: Sensitivity analysis (HK$)

		WACC				
		9.0%	**9.5%**	**10.0%**	**10.5%**	**11.0%**
	4.0%	123.94	114.03	105.75	98.71	92.66
	3.5%	117.57	108.94	101.61	95.31	89.83
Terminal growth rate	**3.0%**	112.27	104.63	**98.07**	92.36	87.35
	2.5%	107.78	100.94	95.00	89.78	85.17
	2.0%	103.94	97.75	92.32	87.51	83.23

Source: Company data, CMBIS estimates

Figure 3: Key pipeline drugs of Kintor (as of 27 Aug 2021)



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 4: CMBIS estimates revision

	New			Old			Diff (%)		
RMB mn	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	0	10,132	8,351	0	10,132	8,351	N/A	0.0%	0.0%
Gross Profit	0	8,106	6,764	0	8,106	6,764	N/A	0.0%	0.0%
Operating Profit	(441)	6,949	5,927	(449)	6,934	5,912	N/A	0.2%	0.2%
Net profit	(450)	5,899	5,030	(457)	5,887	5,018	N/A	0.2%	0.3%
EPS (RMB)	(1.16)	15.22	12.98	(1.18)	15.19	12.95	N/A	0.2%	0.3%
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	68.58%	70.97%	N/A	68.44%	70.79%	N/A	+0.14ppt	+0.18 ppt
Net Margin	N/A	58.22%	60.23%	N/A	58.10%	60.08%	N/A	+0.12 ppt	+0.15 ppt

Source: Company data, CMBIS estimates

Figure 5: CMBIS estimates vs consensus

	CMBIS			Consensus			Diff (%)		
RMB mn	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	0	10,132	8,351	40	8,553	4,653	N/A	18%	79%
Gross Profit	0	8,106	6,764	34	7,634	4,048	N/A	6%	67%
Operating Profit	(441)	6,949	5,927	(634)	2,972	1,871	N/A	134%	217%
Net profit	(450)	5,899	5,030	(613)	5,339	2,322	N/A	10%	117%
EPS (RMB)	(1.16)	15.22	12.98	(1.57)	12.66	6.09	N/A	20%	113%
Gross Margin	N/A	80.00%	81.00%	85.00%	89.25%	87.00%	N/A	-9.25 ppt	-6.00 ppt
Operating Margin	N/A	68.58%	70.97%	-1605.06%	34.75%	40.21%	N/A	+33.83 ppt	+30.76 ppt
Net Margin	N/A	58.22%	60.23%	-1550.63%	62.42%	49.90%	N/A	-4.20 ppt	+10.33 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	39	81	155
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)**	**(441)**	**6,949**	**5,927**
Finance costs	(4)	(3)	(9)	(9)	(9)
Pre-tax profit (loss)	**(233)**	**(508)**	**(450)**	**6,940**	**5,918**
Income tax	0	(0)	0	(1,041)	(888)
Minority interests	0	0	0	0	0
Attributable net profit (loss)	**(233)**	**(508)**	**(450)**	**5,899**	**5,030**

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	**(233)**	**(508)**	**(450)**	**6,940**	**5,918**
Depreciation and amortization, etc.	5	7	12	16	20
Change in working capital	0	(13)	0	(661)	(185)
Others	(0)	134	(1)	(1,042)	(888)
Net income tax paid	0	(0)	0	(1,041)	(888)
Operating cash flow	**(228)**	**(381)**	**(439)**	**5,254**	**4,864**
Purchase of PP&E	(67)	(69)	(90)	(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)**	**(90)**	**(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	950	0	0
Others	(46)	(32)	0	0	0
Financing cash flow	**296**	**1,780**	**950**	**0**	**0**
FX changes	(3)	(91)	0	0	0
Net change in cash	61	960	421	5,174	4,784
Cash at the beginning year	138	196	1,066	1,487	6,661
Cash at the end	**196**	**1,065**	**1,487**	**6,661**	**11,445**

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	**333**	**431**	**510**	**574**	**634**
PP&E	98	175	255	320	382
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**	**1,840**	**8,261**	**13,086**
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	1,487	6,661	11,445
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**	**2,008**	**7,907**	**12,937**
Minority interest	0	0	0	0	0
Shareholders' equity	**370**	**1,508**	**2,008**	**7,907**	**12,937**

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	11	11	21
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	-63	-34	-22	75	39
ROA	-42	-27	-19	67	37
Per share value					
EPS (RMB)	N/A	(1.64)	(1.16)	15.22	12.98
DPS (RMB)	N/A	0.00	0.00	0.00	0.00
BVP (RMB)	N/A	4.87	5.18	20.40	33.38

Source: Company data, CMBIS estimates

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