

I-Mab BioPharma (IMAB US)

CD73 confirmed as a promising target for cancer immunotherapy

■ **AstraZeneca's oleclumab (anti-CD73 mAb) in combination with durvalumab (anti-PD-L1 mAb) showed promising clinical results, providing further evidence for CD73 target.** At the ESMO 2021 Virtual Congress, AstraZeneca presented interim results of a COAST phase 2 trial, highlighting the improved progression-free survival (PFS) and objective response rate (ORR) for oleclumab (O) or monalizumab (M, anti-NKG2A mAb) in combination with durvalumab (D) in unresectable, Stage III NSCLC. After a median follow-up of 11.5 months, the interim analysis showed D+O combination reduced the risk of disease progression or death by 56% (hazard ratio [HR]: 0.44; 95% confidence interval [CI] 0.26-0.75), and D+M reduced the risk by 35% (HR of 0.65; 95% CI 0.49-0.85), when compared to D alone. The 10-month PFS rate was 64.8% for the D+O combination and 72.7% for D+M, versus 39.2% with D alone. The results also showed an increase in confirmed ORR for D+O over D alone (30% vs. 18%) and for D+M over D alone (36% vs. 18%). Meanwhile, there were no new safety signals identified for either D+O or D+M combinations. The above results reinforced the potential of CD73 as a promising immune-oncology target.

■ **I-Mab's uliledlimab is a potential best-in-class CD73 antibody with promising preliminary tolerability and efficacy, and has the potential for a blockbuster partnering deal.** I-Mab presented the US phase 1 clinical data of uliledlimab in combination with atezolizumab (anti-PD-L1 mAb) in advanced solid tumors at the 2021 ASCO meeting. Uliledlimab demonstrated a linear pharmacokinetic profile and reached full receptor occupancy on B cells at the middle and high dose levels with no "hook effect" (antibody loses its effectiveness at high concentrations which is commonly seen with other CD73 antibodies). Among the 13 efficacy-evaluable patients dosed at ≥ 10 mg/kg, three patients had complete or partial responses (ORR=23%) and three had stable disease (disease control rate=46%). I-Mab is advancing uliledlimab in phase 2 clinical trials in both the US and China in ovarian cancer, lung cancer and other selected tumor types. We expect I-Mab to release the results of its China phase 2 study in solid tumors in 1H22E, and to start a phase 2 trial in the US in 4Q21E. In parallel, I-Mab is actively discussing with potential partners for a license-out deal of uliledlimab, which may be finalized within the next few quarters.

■ **Reiterate BUY.** We view uliledlimab as another promising asset in I-Mab's highly innovative and differentiated pipelines. We expect I-Mab to file its first BLA to the NMPA for Felzartamab (CD38 mAb) in combination with dexamethasone for 3L MM by end-2021E. We also expect I-Mab to achieve commercial collaboration for eftansomatropin alfa (TJ101, long-acting growth hormone). We maintain our DCF-based TP unchanged at US\$101.37 (WACC: 9.74%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	30	1,543	322	1,874	1,518
Net profit (RMB mn)	(1,452)	580	(1,405)	(515)	(706)
EPS (RMB per ADS)	N/A	8.07	(19.70)	(6.70)	(9.17)
Consensus EPS (RMB per ADS)	N/A	N/A	(8.88)	(7.11)	(7.00)
R&D expenses (RMB mn)	(840)	(985)	(1,100)	(1,155)	(1,213)
Capex (RMB mn)	(12)	(8)	(100)	(100)	(100)

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	US\$101.37
(Previous TP)	US\$101.37)
Up/Downside	+40.17%
Current Price	US\$72.32

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Mkt. Cap. (US\$ mn)	5,566
Avg. 3mths t/o (US\$ mn)	45.65
52W High/Low (US\$)	85.40/32.62
Total Issued Shares (mn)	77

Source: Bloomberg

Shareholding Structure

Founders	3%
Pre-IPO investors	68%
Other public shareholders	29%

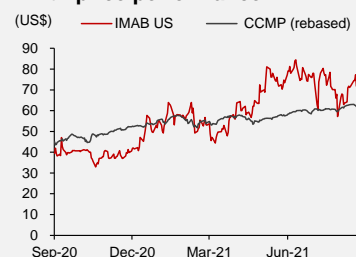
Source: Bloomberg

Share performance

	Absolute	Relative
1-mth	21.0%	21.0%
3-mth	-1.5%	-6.1%
6-mth	36.5%	22.6%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: PWC

Web-site: www.i-mabbiopharma.com

Related report:

1. Diversified and highly-differentiated pipeline – 2 Sep 2021
2. I-Mab expands portfolio through cutting-edge mRNA and AI technology platforms – 14 Jul 2021
3. Uliledlimab disclosed promising data from the US phase I study – 21 May 2021

Valuation

Figure 1: 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	(1,515)	(515)	(706)	130	2,340	3,267	4,880	5,788	6,398	7,199	7,762	8,228	8,572	8,794	9,083
Tax rate	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(1,515)	(515)	(706)	110	1,989	2,777	4,148	4,920	5,438	6,119	6,598	6,994	7,287	7,475	7,721
+ D&A	51	70	83	92	98	101	104	106	107	107	108	108	108	109	109
- Change in working capital	(330)	(338)	92	(400)	(762)	(482)	(362)	(321)	(159)	(234)	(165)	(144)	(132)	(119)	(106)
- Capex	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
FCFF	(1,894)	(882)	(631)	(298)	1,225	2,297	3,790	4,604	5,286	5,892	6,440	6,858	7,163	7,365	7,624
Terminal value															116,590
FCF + Terminal value	(1,894)	(882)	(631)	(298)	1,225	2,297	3,790	4,604	5,286	5,892	6,440	6,858	7,163	7,365	124,214
PV of enterprise (RMB mn)	47,274														
Net debt (RMB mn)	(2,859)														
Equity value (RMB mn)	50,133														
Equity value (US\$ mn)	7,797														
No. of ADS	76,916,392														
DCF per share (US\$)	101.37														
Terminal growth rate	3.0%														
WACC	9.74%														
Cost of Equity	12.5%														
Cost of Debt	4.0%														
Equity Beta	0.90														
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 2: Sensitivity analysis (US\$)

		WACC				
		8.74%	9.24%	9.74%	10.24%	10.74%
Terminal growth rate	2.0%	113.59	102.69	93.31	85.16	78.04
	2.5%	119.27	107.28	97.06	88.26	80.61
	3.0%	125.95	112.61	101.37	91.78	83.52
	3.5%	133.89	118.87	106.37	95.82	86.82
	4.0%	143.52	126.32	112.24	100.51	90.61

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	322	1,874	1,518	747	1,202	1,266	-56.91%	55.91%	19.88%
Gross Profit	322	1,714	1,426	731	1,136	1,145	-55.94%	50.93%	24.54%
Operating Profit	(1,479)	(527)	(713)	(913)	(774)	(891)	N/A	N/A	N/A
Net profit	(1,405)	(515)	(706)	(913)	(759)	(811)	N/A	N/A	N/A
EPS (RMB)	(19.70)	(6.70)	(9.17)	(8.88)	(7.11)	(7.00)	N/A	N/A	N/A
Gross Margin	100.00%	91.43%	93.97%	97.80%	94.48%	90.42%	+2.20 ppt	-3.02 ppt	+3.52 ppt

Source: Company data, Bloomberg, CMBIS estimates

Financial Statements

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	30	1,543	322	1,874	1,518	Profit before tax	(1,452)	471	(1,515)	(515)	(706)
Cost of sales	0	0	0	(161)	(91)	Depreciation and amortization, etc.	16	22	51	70	83
Gross profit	30	1,543	322	1,714	1,426	Change in working capital	185	(241)	(330)	(338)	92
Administrative expenses	(655)	(402)	(650)	(550)	(633)	Tax paid	0	0	0	0	0
R&D expenses	(840)	(985)	(1,100)	(1,155)	(1,213)	Others	384	182	0	0	0
Selling expenses	0	0	(50)	(535)	(294)	Net cash from operating activities	(868)	434	(1,794)	(782)	(531)
Fair value change of warrants	6	0	0	0	0	Capex	(12)	(8)	(100)	(100)	(100)
Operating profit	(1,459)	156	(1,479)	(527)	(713)	Net proceeds from disposal of short-term investments	(32)	12	0	0	0
Finance costs, net	28	23	18	11	8	Other investing activities	257	(206)	0	0	0
Other income (expenses), net	(20)	413	55	0	0	Net cash from investing activities	212	(202)	(100)	(100)	(100)
Pre-tax profit	(1,452)	592	(1,405)	(515)	(706)	Net proceeds from shares	184	3,518	0	0	0
Income tax	0	(12)	0	0	0	Net bank borrowing	(30)	(50)	0	0	0
Minority interests	0	0	0	0	0	Proceeds from issuance of convertible promissory notes	0	0	0	0	0
Net profit (Net loss)	(1,452)	580	(1,405)	(515)	(706)	Other financing activities	(1)	(28)	0	0	0
						Net cash from financing activities	153	3,440	0	0	0
						FX changes	15	(107)	0	0	0
						Net change in cash	(503)	3,672	(1,894)	(882)	(631)
						Cash at the beginning of the year	1,681	1,193	4,759	2,864	1,982
						Cash at the end of the year	1,193	4,759	2,864	1,982	1,351

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	376	990	1,039	1,069	1,086	Profit & loss ratios (%)					
PP&E	30	25	83	122	147	Gross margin	100	100	100	85	86
Operating lease right of use assets	16	15	6	(3)	(12)	EBITDA margin	N/A	N/A	(461.17)	(24.34)	(41.51)
Intangible assets	149	120	120	120	120	Net margin	N/A	N/A	(471.24)	(27.48)	(46.49)
Goodwill	163	163	163	163	163	Effective tax rate (%)	N/A	N/A	N/A	N/A	N/A
Other non-current assets	18	667	667	667	667						
Current assets	1,361	5,344	3,319	2,753	1,997	Balance sheet ratios					
Inventories	0	0	0	53	30	Current ratio (x)	2	9	29	29	33
Trade and bills receivables	0	130	0	264	161	Trade receivables turnover	N/A	N/A	90	90	90
Prepayments, other receivables	136	195	195	195	195	Trade payables turnover days	N/A	N/A	180	180	180
Other financial assets	0	0	0	0	0	Total debt to asset ratio (%)	38	11	6	6	6
Cash and bank balances	1,137	4,759	2,864	1,982	1,351						
Current liabilities	588	576	116	95	61	Returns (%)					
Short-term borrowings	50	0	0	0	0	ROE	(136)	8	(37)	(14)	(24)
Advance from customers	0	0	0	0	0	ROA	(84)	7	(35)	(13)	(23)
Other payables and accruals	274	561	100	79	45						
Operating lease liabilities, current	7	8	8	8	8	Per share data					
Other current liabilities	258	8	8	8	8	EPS (RMB)	N/A	8.1	(19.7)	(6.7)	(9.2)
Non-current liabilities	80	131	131	131	131	DPS (RMB)	0.0	0.0	0.0	0.0	0.0
Convertible promissory notes	68	0	0	0	0	BVPS (RMB)	N/A	96.5	53.5	46.8	37.6
Onshore convertible loans	7	6	6	6	6						
Deferred subsidy income	4	0	0	0	0						
Total net assets	1,069	5,627	4,112	3,597	2,891						
Minority interest	0	0	0	0	0						
Shareholders' equity	1,069	5,627	4,112	3,597	2,891						

Source: Company data, CMBIS estimates

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