

# Kintor Pharmaceutical (9939 HK)

## Proxalutamide expects to deliver differentiated clinical results compared with molnupiravir

- Molnupiravir may not be a potential "cure" for COVID-19.** Merck/Ridgeback recently released interim results of a Phase 2/3 study evaluating orally administered molnupiravir in non-hospitalized patients with COVID-19. The results showed that molnupiravir reduced the risk of hospitalization or death by approximately 50%; 7.3% of patients who received molnupiravir were hospitalized/died through Day 29 following randomization (28/385), compared with 14.1% of placebo-treated patients (53/377);  $p=0.0012$ . Through Day 29, no deaths were reported in molnupiravir arm, as compared to 8 deaths in the placebo arm. Based on the results, Merck plans to seek EUA approval in the US and targets to produce 10mn courses of molnupiravir by the end of 2021. Although the interim results are positive, concerns are raised regarding 1) safety concerns on the drug's mutagenesis potential; 2) relatively lower efficacy in reducing hospitalization or death rate (50% for molnupiravir vs 70-80% for neutralizing antibodies, and 87% for remdesivir); 3) previous termination of a trial in hospitalized COVID-19 patients due to underwhelming data; 4) deficiencies in study design, such as exclusion of vaccinated patients, inclusion of only high risk patients (more likely to show positive results), no disclosure on baseline viral load (viral load influences efficacy for neutralizing antibodies). On the other hand, the most significant advantages of molnupiravir are 1) convenience of use given its oral dosing, 2) cheap costs (US\$705 per course for molnupiravir vs US\$2,100-2,400 per course for neutralizing antibodies and remdesivir), and 3) fast scalable manufacturing. Above all, we believe molnupiravir could play a role in fighting COVID-19, but will not substitute vaccines or neutralizing antibodies.
- Proxalutamide may deliver differentiated clinical results in COVID-19 treatment.** Proxalutamide prevents COVID-19 by inhibiting the androgen receptor competitively and activating Nrf2 pathway, which is a different MoA compared with molnupiravir and avoids mutagenesis risks. In IIT studies conducted in Brazil, for mild or moderate COVID-19 patients treated with proxalutamide, the hospitalization rate was reduced by 100% for male patients and 90% for females. In hospitalized COVID-19 patients, proxalutamide reduced the mortality rate by 92%, and the length of hospital stay was cut by 9 days (5 vs 14). Kintor is advancing three phase 3 MRCTs of proxalutamide for COVID-19 treatment, including two studies in outpatients, and one in inpatients. The outpatient MRCT firstly initiated in the US has enrolled half of the patients with interim results expected in 4Q21. In addition, first patient was dosed in the US for the Ph3 MRCT in COVID-19 inpatients on 1 Oct.
- Maintain BUY.** We maintain TP unchanged at HK\$98.07 based on 10-year DCF model (WACC: 10.0%, terminal growth rate: 3.0%). We believe Kintor's late-stage assets Proxalutamide and Pylrutamide have blockbuster potential.

### 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	(1.58)	17.15	10.89
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** +163.28%  
**Current Price** HK\$37.25

### China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	14,438
Avg. 3mths t/o (HK\$ mn)	241.89
52W High/Low (HK\$)	89.00/7.20
Total Issued Shares (mn)	388

Source: Bloomberg

### Shareholding Structure

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

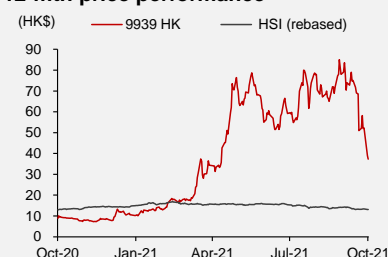
Source: HKEx, Bloomberg

### Share performance

	Absolute	Relative
1-mth	-50.1%	-46.3%
3-mth	-34.3%	-22.6%
6-mth	13.1%	36.1%

Source: Bloomberg

### 12-mth price performance



Source: Bloomberg

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

### Related report:

- Multiple out-license collaborations for Proxalutamide – 30 Aug 2021
- Encouraging real-world data of proxalutamide in COVID-19 treatment in Paraguay – 26 Jul 2021
- Proxalutamide may become an effective treatment for COVID-19 – 4 May 2021
- Fast clinical progress for Proxalutamide and other core assets – 29 Mar 2021

## Valuation

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)
<b>FCFF</b>	<b>(543)</b>	<b>5,126</b>	<b>4,673</b>	<b>3,077</b>	<b>2,476</b>	<b>2,192</b>	<b>2,096</b>	<b>2,151</b>	<b>2,249</b>	<b>2,436</b>
<b>Terminal value</b>										<b>35,894</b>
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									
<b>Equity value (HK\$ mn)</b>	<b>38,011</b>									
<b>Equity value (US\$ mn)</b>	<b>4,905</b>									
<b>Target price (HK\$)</b>	<b>98.07</b>									
<b>Terminal growth rate</b>										
<b>WACC</b>										
Cost of Equity	<b>3.0%</b>									
Cost of Debt	<b>10.0%</b>									
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%
Terminal growth rate	4.0%	123.94	114.03	105.75	98.71	92.66
	3.5%	117.57	108.94	101.61	95.31	89.83
	3.0%	112.27	104.63	<b>98.07</b>	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 10 Sep 2021)

Drug Candidate	Target / Mechanism	Indication	Country/Region	Pre-Clinical	IND Filing (Filed)(Accepted)	Phase I	Phase II	Phase III	NDA
Proxalutamide (GT0918)	Second generation AR antagonist	COVID-19 (Outpatients)	US & Intl		Completed first patient enrolment on Apr 24, 2021				
		COVID-19 (Inpatients)	US, China & Intl		FDA greenlighted to conduct on May 17, 2021				
		COVID-19 (Outpatients)	China, Brazil & Intl		IND was approved by ANVISA on Jun 11, 2021				
		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		Completed patients enrolment on Aug 25, 2021				
		Androgenetic alopecia	China		Announced primary endpoint was met on Sep 8, 2021				
		Androgenetic alopecia	US		FDA greenlighted to conduct on Jul 7, 2021				
Pyrilutamide (KX-826)	AR antagonist (for external use)	Acne vulgaris	China		Completed FPI on Apr 16, 2021				
		Acne vulgaris	US						
		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 & Intl		IND was approved on Feb 18, 2021				
ALK-1 (GT90001)	Angiogenesis inhibitor	HCC (1 <sup>st</sup> -line combination therapy)	China		Preparing for IND				
		Combination therapy with KN046 (PD-L1/CTLA-4) for HCC, GC, GEJ adenocarcinoma, UC, ESCC	Taiwan						
Detorsertib (GT0486)	mTOR kinase inhibitor	Metastatic solid tumours	China						
GT1708F	Hedgehog/ SMO inhibitor	Leukaemia	China						
		Basal-cell carcinoma	US						
GT20029	AR-PROTAC compound	AGA and acne vulgaris	China		First batch of patients were dosed on Jul 28, 2021				
		AGA and acne vulgaris	US		IND clearance granted on Jul 8, 2021				
GT90008	PD-L1 / TGF- $\beta$ dual targeting antibody	Multiple types of solid tumours	China		IND was accepted on Aug 16, 2021				
Pre-Clinical	Other AR-PROTAC compounds	Multiple indications							
	c-Myc inhibitor	Blood cancer							
	ALK-1/VEGF bispecific antibody	Solid tumours							


  
 HCC = hepatocellular carcinoma, GC = gastric carcinoma, GEJ = gastroesophageal junction, UC = urothelial carcinoma, ESCC = esophageal squamous cell carcinoma.

Source: Company data, CMBIS

Figure 4: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	0	10,132	8,351	0	15,947	10,747	N/A	-36%	-22%
Gross Profit	0	8,106	6,764	0	13,651	9,300	N/A	-41%	-27%
Operating Profit	(441)	6,949	5,927	(609)	7,788	9,612	N/A	-11%	-38%
Net profit	(450)	5,899	5,030	(607)	6,580	4,184	N/A	-10%	20%
EPS (RMB)	(1.16)	15.22	12.98	(1.58)	17.15	10.89	N/A	-11%	19%
Gross Margin	N/A	80.00%	81.00%	85.00%	85.60%	86.54%	N/A	-5.60 ppt	-5.54 ppt
Operating Margin	N/A	68.58%	70.97%	N/A	48.84%	89.44%	N/A	+19.74 ppt	-18.47 ppt
Net Margin	N/A	58.22%	60.23%	N/A	41.26%	38.93%	N/A	+16.96 ppt	+21.30 ppt

Source: Company data, 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
<b>Revenue</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10,132</b>	<b>8,351</b>	<b>Profit before tax</b>	<b>(233)</b>	<b>(508)</b>	<b>(450)</b>	<b>6,940</b>	<b>5,918</b>
Proxalutamide China sales - risk adjusted	0	0	0	29	183	Depreciation and amortization, etc.	5	7	12	16	20
Proxalutamide US sales - risk adjusted	0	0	0	10,058	8,038	Change in working capital	0	(13)	0	(661)	(185)
Pyrilutamide China sales - risk adjusted	0	0	0	46	123	Others	(0)	134	(1)	(1,042)	(888)
Pyrilutamide US sales - risk adjusted	0	0	0	0	6	Net income tax paid	0	(0)	0	(1,041)	(888)
ALK-1 China sales - risk adjusted	0	0	0	0	0	<b>Operating cash flow</b>	<b>(228)</b>	<b>(381)</b>	<b>(439)</b>	<b>5,254</b>	<b>4,864</b>
Others	0	0	0	0	0	Purchase of PP&E	(67)	(69)	(90)	(80)	(80)
Cost of sales	0	0	0	(2,026)	(1,587)	Purchase of land use right	0	0	0	0	0
<b>Gross profit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8,106</b>	<b>6,764</b>	Purchases of financial assets at FV through profit or loss	0	(253)	0	0	0
Other income	19	25	39	81	155	Purchases of financial assets measured at amortized cost	(55)	0	0	0	0
Selling & distribution expenses	(33)	(77)	(80)	(608)	(501)	Others	115	(118)	0	0	0
R&D expenses	(214)	(329)	(400)	(600)	(400)	<b>Investing cash flow</b>	<b>(7)</b>	<b>(440)</b>	<b>(90)</b>	<b>(80)</b>	<b>(80)</b>
Administrative expenses	(0)	(9)	0	(30)	(92)	Proceeds from borrowings	59	239	0	0	0
Other expenses	(1)	(116)	0	0	0	Repayments of borrowings	(65)	(79)	0	0	0
<b>Operating profit (loss)</b>	<b>(229)</b>	<b>(505)</b>	<b>(441)</b>	<b>6,949</b>	<b>5,927</b>	Capital contribution from equity holders	348	1,653	950	0	0
Finance costs	(4)	(3)	(9)	(9)	(9)	Others	(46)	(32)	0	0	0
<b>Pre-tax profit (loss)</b>	<b>(233)</b>	<b>(508)</b>	<b>(450)</b>	<b>6,940</b>	<b>5,918</b>	<b>Financing cash flow</b>	<b>296</b>	<b>1,780</b>	<b>950</b>	<b>0</b>	<b>0</b>
Income tax	0	(0)	0	(1,041)	(888)	FX changes	(3)	(91)	0	0	0
Minority interests	0	0	0	0	0	Net change in cash	61	960	421	5,174	4,784
<b>Attributable net profit (loss)</b>	<b>(233)</b>	<b>(508)</b>	<b>(450)</b>	<b>5,899</b>	<b>5,030</b>	Cash at the beginning year	138	196	1,066	1,487	6,661
						<b>Cash at the end</b>	<b>196</b>	<b>1,065</b>	<b>1,487</b>	<b>6,661</b>	<b>11,445</b>

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>333</b>	<b>431</b>	<b>510</b>	<b>574</b>	<b>634</b>	<b>Sales mix (%)</b>					
PP&E	98	175	255	320	382	Proxalutamide China sales adjusted	0	0	0	0	2
Intangible assets	179	210	210	209	209	Proxalutamide US sales	0	0	0	99	96
Right-of-use assets	14	12	11	10	9	Pyrilutamide China sales - adjusted	0	0	0	0	1
Other non-current assets	41	34	34	34	34	Pyrilutamide US sales	0	0	0	0	0
<b>Current assets</b>	<b>221</b>	<b>1,421</b>	<b>1,840</b>	<b>8,261</b>	<b>13,086</b>	ALK-1 China sales -	0	0	0	0	0
Inventories	0	0	0	167	174	Others	0	0	0	0	0
Trade receivables	0	0	0	833	915	Total	100	100	100	100	100
Other receivables and prepayments	25	32	30	278	229	<b>Profit &amp; loss ratios (%)</b>					
Financial assets at FV through P&L	0	0	0	0	0	Gross margin	N/A	N/A	80	80	81
Cash and cash equivalents	196	1,066	1,487	6,661	11,445	EBITDA margin	N/A	N/A	N/A	68	70
Restricted cash	0	0	0	0	0	Pre-tax margin	N/A	N/A	N/A	68	71
<b>Non-current liabilities</b>	<b>41</b>	<b>174</b>	<b>174</b>	<b>174</b>	<b>174</b>	Net margin	N/A	N/A	N/A	58	60
Borrowings	0	135	135	135	135	Effective tax rate	0	0	0	15	15
Lease liabilities	2	0	0	0	0	<b>Balance sheet ratios</b>					
Deferred income tax liabilities	39	39	39	39	39	Current ratio (x)	2	8	11	11	21
<b>Current liabilities</b>	<b>143</b>	<b>169</b>	<b>168</b>	<b>754</b>	<b>610</b>	Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Trade and other payables	80	81	80	666	522	<b>Returns (%)</b>					
Borrowings	59	84	84	84	84	ROE	-63	-34	-22	75	39
Lease liabilities	3	3	3	3	3	ROA	-42	-27	-19	67	37
Deferred income	1	0	0	0	0	<b>Per share value</b>					
Amounts due to related parties	0	1	1	1	1	EPS (RMB)	N/A	(1.64)	(1.16)	15.22	12.98
<b>Total net assets</b>	<b>370</b>	<b>1,508</b>	<b>2,008</b>	<b>7,907</b>	<b>12,937</b>	DPS (RMB)	N/A	0.00	0.00	0.00	0.00
Minority interest	0	0	0	0	0	BVP (RMB)	N/A	4.87	5.18	20.40	33.38
<b>Shareholders' equity</b>	<b>370</b>	<b>1,508</b>	<b>2,008</b>	<b>7,907</b>	<b>12,937</b>						

Source: Company data, CMBIS estimates

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