

Henlius Biotech (2696 HK)

Strong sales powered by expanding production capacity

- Strong revenue growth and improving operating margins.** Henlius's 2021 revenue increased 186% YoY to RMB1.68bn, mainly driven by the strong sales growth of HANQUYOU (trastuzumab biosimilar) and HANLIKANG (rituximab biosimilar), recording RMB930mn (+584% YoY) and RMB543mn (+88% YoY) in revenue, respectively. Selling expense ratio decreased from 41.5% in 2020 to 30.9% in 2021, and administration expense ratio decreased from 32.8% in 2020 to 16.7% in 2021, showing the Company's improving operating efficiency and strong economy of scale. R&D expense was RMB1.76bn, and net loss was RMB984mn in 2021. As of the end of 2021, Henlius had RMB707.3mn cash on hand.
- Remarkable commercial progress of the four marketed biosimilar products.** HANQUYOU (trastuzumab), marketed by the Company's in-house team in China, recorded RMB930mn revenue in 2021, including RMB62mn sales from overseas. For the global market, HANQUYOU is the only Chinese biosimilar approved in the EU and has been marketed in nearly 20 European countries. Henlius also partners with Intas in North America, with the US FDA filing of HANQUYOU expected this year. In addition to NHL and CLL, HANLIKANG (rituximab) was approved for the treatment of rheumatoid arthritis (RA) in China, for which the originator rituximab has not been approved in China, and recorded RMB543mn revenue in 2021. HANDAYUAN (adamumab) realized RMB22mn sales in 2021. HANBEITAI (bevacizumab) was approved in Nov 2021 for mCRC and NSCLC.
- Serplulimab (PD-1) to be commercialized in the near future.** We expect serplulimab to be approved in China for MSI-H solid tumors in 2Q22. Serplulimab has passed the GMP on-site inspection, and its commercial team is ready (team size to reach 200 in 1Q22). The NDA of serplulimab for 1L sq-NSCLC was accepted by NMPA in Sep 2021 and is expected to be approved in 2H22. Additionally, the phase 3 trial for ES-SCLC has met the primary endpoint in Dec 2021 with encouraging OS data, with NDAs in China and EU expected in 2022.
- To break the bottleneck in manufacturing.** Xuhui Facility (24,000L) has received dual GMP certification from China and EU, and completed 350+ batches productions with over 98% success rate. Songjiang First Plant (24,000L) has completed construction and equipment verification, and has received the manufacturing certificate for HANQUYOU. We expect the Plant to be officially in use by mid-2022, which will bring the total capacity to 48,000L. Additionally, Songjiang Second Plant stage 1&2 (36,000L) is expected to complete the first batch production by the end of 2022, with potential to add additional 60,000L (stage 3) in the future.
- Maintain BUY.** We revised our DCF-based TP to HK\$29.85 based on a DCF valuation (WACC: 12.23%, terminal growth rate: 2%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	588	1,682	3,009	3,342	4,287
YoY growth (%)	546%	186%	79%	11%	28%
Net profit (RMB mn)	(994)	(984)	467	558	1,386
YoY growth (%)	N/A	N/A	N/A	20%	148%
EPS (RMB)	N/A	N/A	0.86	1.03	2.55
ROE (%)	N/A	N/A	16.9	16.8	29.4
Net gearing (%)	22	83	76	57	14
Current ratio (x)	1.0	0.6	0.5	0.6	0.7

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$29.85
Up/Downside	+54.8%
Current Price	HK\$19.28

China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	10,479
Avg. 3mths t/o (HK\$ mn)	1.68
52W High/Low (HK\$)	46.45/14.90
Total Issued Shares (mn)	163

Source: Bloomberg

Shareholding Structure

Management team	31.74%
Fosun Pharma	14.81%
Al-Rayyan Holding	8.70%
Baron Capital	2.58%
Free float	42.17%

Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	-28.8%	-12.4%
3-mth	-44.0%	-34.5%
6-mth	-35.6%	-20.9%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Ernst & Young
Web-site: <https://www.henlius.com>

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	623	761	1,701	2,137	2,331	2,467	2,647	2,754	2,842
Less: Tax	(52)	(98)	(245)	(310)	(339)	(359)	(386)	(402)	(416)
Depreciation and amortisation	196	214	228	233	237	240	244	207	209
CAPEX (incl. intangible assets)	(800)	(580)	(400)	(400)	(350)	(300)	(300)	(300)	(300)
Change in working capital	(34)	5	4	(22)	22	35	34	44	42
FCF	(66)	302	1,289	1,638	1,901	2,082	2,239	2,302	2,378
Terminal value									23,720

Present value of enterprise (RMB mn)	15,392
Debt & Preferred Stock (RMB mn)	2,623
Bank deposit and pledged cash (RMB mn)	536
Equity value (RMB mn)	13,305
Value per share (RMB)	24.48
Value per share (HK\$)	29.85

Terminal growth rate	2.0%
WACC	12.2%
Cost of Equity	14.6%
Cost of Debt	6.0%
Equity Beta	1.20
Risk Free Rate	2.0%
Market Risk Premium	10.5%
Target Debt to Asset ratio	25.0%
Effective Corporate Tax Rate	15.0%

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

		WACC				
		11.2%	11.7%	12.2%	12.7%	13.2%
Terminal growth rate	3.0%	37.49	34.64	32.10	29.83	27.79
	2.5%	35.91	33.27	30.92	28.80	26.89
	2.0%	34.49	32.05	29.85	27.87	26.07
	1.5%	33.22	30.94	28.89	27.02	25.32
	1.0%	32.08	29.94	28.01	26.24	24.63

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	3,009	3,342	4,287	3,015	4,687	6,232	(0.21%)	(28.70%)	(31.22%)
Operating profit	623	761	1,701	834	1,758	2,897	(25.29%)	(56.71%)	(41.28%)
Netprofit	467	558	1,386	650	1,450	2,448	(28.18%)	(61.52%)	(43.40%)
EPS (RMB)	0.86	1.03	2.55	1.20	2.67	4.50	(28.18%)	(61.52%)	(43.40%)
Operating margin	20.72%	22.78%	39.68%	37.34%	44.28%	52.82%	-16.62 ppt	-21.50 ppt	-13.14 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	3,009	3,342	4,287	2,515	3,714	4,938	19.63%	(10.02%)	(13.19%)
Operating profit	623	761	1,701	(359)	162	(614)	N/A	371.33%	(377.00%)
Netprofit	467	558	1,386	(672)	(249)	140	N/A	N/A	892.07%
EPS (RMB)	0.86	1.03	2.55	(1.16)	(0.28)	0.49	N/A	N/A	425.65%
Operating margin	20.72%	22.78%	39.68%	-14.25%	4.35%	-12.43%	+34.97 ppt	+18.43 ppt	+52.11 ppt
NetMargin	15.51%	16.69%	32.32%	-26.74%	-6.69%	2.83%	+42.25 ppt	+23.39 ppt	+29.50 ppt

Source: Bloomberg, CMBIGM estimates

Financial Statements

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec (RMB mn)	FY20A	FY21E	FY22E	FY23E	FY24E
Revenue	588	1,682	3,009	3,342	4,287	Profit before tax	(994)	(957)	518	656	1,630
Drug sales	425	1,495	2,697	2,981	3,894	Depreciation and amortization	85	132	157	174	188
BD sales	-	-	162	211	242	Change in working capital	116	587	(34)	5	4
Other income	162	188	150	150	150	Income tax paid	-	(27)	(52)	(98)	(245)
						Others	183	125	140	140	106
Cost of sales	(182)	(523)	(574)	(620)	(676)	Net cash from operating activities	(610)	(140)	728	877	1,684
Gross profit	405	1,160	2,435	2,722	3,611	Purchases of PP&E	(557)	(400)	(300)	(280)	(200)
Distribution expenses	(244)	(520)	(695)	(837)	(1,030)	Additions to intangible assets	(956)	(600)	(500)	(300)	(200)
Administrative expenses	(193)	(281)	(216)	(224)	(280)	Other	0	(74)	-	-	-
R&D expenses	(894)	(1,024)	(900)	(900)	(600)	Net cash from investing activities	(1,512)	(1,074)	(800)	(580)	(400)
Operating profit	(925)	(665)	623	761	1,701	Loan to related party	-	-	-	-	-
Net finance income / (expenses)	(44)	(85)	(100)	(100)	(66)	Net proceeds from shares issued	-	-	-	-	-
Exceptional	(25)	(207)	(5)	(5)	(5)	Bank borrowing	1,050	900	-	-	(900)
Pre-tax profit	(994)	(957)	518	656	1,630	Acquisition of non-controlling interests	-	-	-	-	-
Profit tax	-	(27)	(52)	(98)	(245)	Interest paid	(28)	(85)	(100)	(100)	(66)
Minority interest	-	-	-	-	-	Net cash from financing activities	1,022	815	(100)	(100)	(966)
Net profit	(994)	(984)	467	558	1,386	Net change in cash	(1,100)	(399)	(171)	197	318
						Cash at the beginning of the year	2,301	1,114	707	536	733
						Exchange difference	(61)	-	-	-	-
						Cash at the end of the year	1,141	715	536	733	1,051

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	4,529	5,526	6,129	6,495	6,667	Sales mix (%)					
Fixed asset	985	1,229	1,406	1,545	1,591	Drug sales	72.4	88.8	89.6	89.2	90.8
Intangible assets	2,942	3,635	4,101	4,368	4,534	BD sales	-	-	5.4	6.3	5.7
Other non-current assets	602	662	622	582	542	Other income	27.6	11.2	5.0	4.5	3.5
						Total	100.0	100.0	100.0	100.0	100.0
Current assets	1,910	1,647	1,502	1,723	2,073	Profit & loss ratios (%)					
Cash	1,114	707	536	733	1,051	Gross margin	69	69	81	82	84
Inventories	305	420	367	362	358	EBITDA margin	N/A	N/A	27	29	45
Trade and bills receivables	196	296	375	404	441	Pre-tax margin	N/A	N/A	17	20	38
Prepayments, deposits and other receivables	294	224	224	224	224	Net margin	N/A	N/A	16	17	32
						Effective tax rate	N/A	N/A	10	15	15
Current liabilities	1,980	2,960	2,951	2,981	3,017	Balance sheet ratios					
Borrowings	1,188	1,571	1,571	1,571	1,571	Current ratio (x)	1.0	0.6	0.5	0.6	0.7
Trade and other payables	299	383	375	404	441	Trade receivables turnover days	60	60	60	60	60
Other current liabilities	492	1,006	1,006	1,006	1,006	Trade payables turnover days	238	238	238	238	238
						Inventory turnover days	233	213	193	173	153
Non-current liabilities	1,261	1,862	1,862	1,862	962	Net debt to total equity ratio (%)	22.5	83.4	75.5	56.9	14.3
Borrowings	645	1,052	1,052	1,052	152						
Other non-current liabilities	616	810	810	810	810	Returns (%)					
						ROE	N/A	N/A	16.9	16.8	29.4
Total net assets	3,199	2,351	2,818	3,376	4,761	ROA	N/A	N/A	6.1	6.8	15.9
Minority interest	-	-	-	-	-						
Shareholders' equity	3,199	2,297	2,763	3,321	4,707	Per share data					
						EPS (RMB)	N/A	N/A	0.86	1.03	2.55
						BVPS (RMB)	6.0	4.3	5.1	6.1	8.7

Source: Company data, CMBIGM estimates

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