

Innovent Biologics (1801 HK)

Encouraging preliminary data on IBI110 (LAG-3 mAb) released at ASCO

Innovent has advanced the self-developed global-right drug candidates targeting LAG-3, CD47, TIGIT and VEGF/Complement to the PoC stage. At the 2022 ASCO Meeting, Innovent released promising preliminary data from the Ph1 study (NCT04085185) of IBI110 ([link1](#), [link2](#)).

- Initial antitumor activity observed in prior SoC failed NSCLC patients.** In the Ph1 study, patients with advanced solid tumors received IBI110 as a single agent or combo with sintilimab (PD-1). In the 39 evaluable SOC failed solid tumor patients who received IBI110 ($\geq 3\text{mg/kg}$) + sintilimab, 6 achieved PRs (ORR=15.4%) and 19 achieved SDs (DCR=64.1%). Of the 31 prior SoC failed advanced NSCLC patients, ORR was 19.4% and DCR was 74.2%. IBI110 alone or combined with sintilimab demonstrated an acceptable safety profile with no DLT observed.
- Promising efficacy of IBI110 + sintilimab + chemo in 1L sq-NSCLC.** At a median follow up of 3.3 months, in the 20 patients with advanced sq-NSCLC who received IBI110 + sintilimab + chemo as 1L treatment, 16 patients achieved PR, with a much higher ORR of 80%, compared to 44.7% ORR of sintilimab + chemo in Innovent's ORIENT-12 trial for 1L sq-NSCLC. The study is still ongoing with clinical benefits getting deeper for majority patients. The most common $\text{Gr} \geq 3$ TRAEs were neutrophil count decrease (30%) and white blood cell count decrease (20%).
- Encouraging preliminary results of IBI110 + sintilimab + XELOX in 1L advanced HER2- GAC/GEJAC.** As of Jan 2022, for the 15 evaluable GAC/GEJAC patients who received IBI110 + sintilimab + XELOX, the ORR and DCR were 60% (9 PRs) and 100% (6 SDs), respectively. As of 4 Jun 2022, the ORR reached 76.5% with most patients still on treatment. In comparison, the ORR of sintilimab + XELOX was 65.1% as per the ORIENT-16 trial.
- IBI110 is one of the most advanced LAG-3 mAbs in China.** LAG-3 is a de-risked target as nivolumab (PD-1) + relatlimab (LAG-3) from BMS has been approved by the FDA in Mar 2022 for melanoma. Regeneron and Merck are evaluating fianlimab (LAG-3) and favezelimab (LAG-3) + pembrolizumab (PD-1), respectively, in Ph3 studies. In Ph1 studies, IBI110 demonstrated encouraging efficacy and safety profile in NSCLC and GC. Innovent plans to start multiple Ph1b and Ph2 studies to explore the potential of IBI110 in different tumor types. In parallel, Innovent is also developing IBI323, a LAG-3/PD-L1 bispecific antibody, with the PoC data expected in 2H22.
- Maintain BUY.** The promising results of preclinical and Ph1 study of IBI302 (VEGF/C) for nAMD were recently published in the journal of Science Translational Medicine ([link](#)). Factoring in the changing competitive landscape of PD-1 drugs, we revised DCF-based TP from HK\$75.01 to HK\$58.32 (WACC: 10.6%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	3,844	4,270	5,076	6,470	9,131
YoY growth (%)	267%	11%	19%	27%	41%
Net loss (RMB mn)	(998)	(3,138)	(1,999)	(1,316)	227
EPS (RMB)	(0.74)	(2.16)	(1.36)	(0.90)	0.15
Consensus EPS (RMB)	N/A	N/A	(1.29)	(0.61)	0.02
R&D expenses (RMB mn)	(1,851)	(2,478)	(2,500)	(2,500)	(2,009)
Capex (RMB mn)	(489)	(1,066)	(300)	(300)	(300)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$58.32
(Previous TP)	HK\$75.01
Up/Downside	+140.01%
Current Price	HK\$24.30

China Healthcare Sector

Jill Wu, CFA

(852) 3900 0842

jillwu@cmbi.com.hk

Andy Wang

(852) 3657 6288

andywang@cmbi.com.hk

Mkt. Cap. (HK\$ mn)	35,633
Avg. 3mths t/o (HK\$ mn)	270.05
52W High/Low (HK\$)	94.75/18.06
Total Issued Shares (mn)	1,466

Source: Bloomberg

Shareholding Structure

Temasek Holdings	8.13%
Yu De-Chao Michael	7.22%
BlackRock	4.71%
FMR	4.65%
FIL	4.35%
Others	70.94%

Source: Bloomberg

Share performance

	Absolute	Relative
1-mth	4.1%	4.2%
3-mth	-27.2%	-22.5%
6-mth	-63.4%	-58.7%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Deloitte
Website: www.innoventbio.com

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Figure 1: Cross-trial efficacy comparison of first-line treatment

Indication	Regimen	Trial	ORR	No. of patients	Source
1L sq-NSCLC	IBI110 + sintilimab + chemo (paclitaxel+carboplatin)	NCT04085185	80.0%	20	Link
	Sintilimab + chemo (platinum+gemcitabine)	ORIENT-12	44.7%	357	Link
1L GAC/GEJAC	IBI110 + sintilimab + XELOX	NCT04085185	76.5%	15	Link
	Sintilimab + XELOX	ORIENT-16	65.1%	327	Link

Source: Company data, CMBIGM

Figure 2: Competitive landscape of clinical-stage LAG-3 antibodies (as of Jun 2022)

Drug name	Company	Target	Format	China status	Global status
Relatlimab	Ono Pharmaceutical, BMS	LAG3	mAb	Ph3 in MEL, CRC; Ph2 in liver cancer Ph1/2 in solid tumors	Approved in MEL; Ph3 in CRC; Ph2 in GC, GEJC, SCCHN, liver cancer, AML, kidney cancer; Ph1/2 in HI, NHL, esophageal cancer
Favezelimab+ pembrolizumab	Merck & Co.	LAG3,PD1	mAb	Ph3 in CRC	Ph3 in CRC; Ph2 in RCC; Ph1/2 in SCLC, ESCC
Fianlimab	Regeneron Pharmaceuticals	LAG3	mAb	N/A	Ph3 in MEL; Ph2 in HR+, HER2+ breast cancer, TNBC; Ph1 in DLBCL
Tebotelimab	MacroGenics,ZAI Lab	LAG3,PD1	BsAb	Ph1/2 in HCC, ICC; Ph1 in MEL	Ph2/3 in GC, GEJC; Ph2 in SCCHN; Ph1/2 in HCC, ICC; Ph1 in MEL, DLBCL, endometrial cancer, TNBC, OVC, NSCLC, SCLC, cervical cancer
GSK2831781	Immutep(Prima BioMed),GSK	LAG3	mAb	N/A	Ph2 in UC; Ph1 in psoriasis
IBI110	Innovent Biologics	LAG3	mAb	Ph2 in SCLC; Ph1 in DLBCL, NSCLC	Ph2 in SCLC, SCCHN; Ph1 in DLBCL, NSCLC
INCAGN2385	Incyte,Agenus	LAG3	mAb	N/A	Ph2 in SCCHN; Ph1/2 in MEL; Ph1 in DLBCL, UCC, TNBC, RCC, SCLC, OVC, NSCLC, CRC, mesothelioma, MCC, MEL, HCC, esophageal cancer, GC, GEJC, MSI-H or dMMR solid tumors, cervical cancer
RO7247669	Roche	PD1,LAG3	BsAb	IND	Ph2 in ESCC; Ph1/2 in liver cancer, MEL
SHR1802	Hengrui Medicine	LAG3	mAb	Ph1/2 in solid tumor	Ph2 in solid tumor
Eftilagimod alpha	WuXi AppTec,EOC PHARMA,Immutep(Prima BioMed)	LAG3	Fusion protein	Ph2 in HR+ BC	Ph2 in HR+ BC, NSCLC, SCCHN, COVID-19; Ph1 in MEL, pancreatic cancer
Favezelimab	Merck & Co.	LAG3	mAb	N/A	Ph2 in NSCLC; Ph1/2 in RCC, DLBCL, HL
Ieramilimab	Novartis, Immutep(Prima BioMed)	LAG3	mAb	N/A	Ph2 in esophagogastric cancer, OVC, DLBCL, prostate cancer, sarcoma, NET, SCLC, TNBC, MEL
Miptenalimab	Boehringer Ingelheim	LAG3	mAb	N/A	Ph2 in GEJC, GC; Ph1 in esophageal cancer
DNV3	Shimai Pharmaceutical	LAG3	mAb	Ph1/2 in solid tumor, lymphoma	Ph1/2 in solid tumor, lymphoma
EMB-02	EpimAb Biotherapeutics	PD1,LAG3	BsAb	Ph1/2 in solid tumor	Ph1/2 in solid tumor
LBL-007	BeiGene, Leads Biolabs	LAG3	mAb	Ph1 in solid tumor, lymphoma	Ph1/2 in solid tumor, lymphoma
89Zr-DFO-REGN3767	Memorial Sloan Kettering Cancer Center (MSKCC)	LAG3	89Zr-labeled PET agent	N/A	Ph1 in DLBCL
ABL501	ABL Bio	PDL1,LAG3	BsAb	N/A	Ph1 in solid tumor
FS118	F-star Therapeutics	LAG3,PDL1	BsAb	N/A	Ph1 in cancer
HLX26	Henlius Biotech	LAG3	mAb	Ph1 in solid tumor, lymphoma	Ph1 in solid tumor, lymphoma
IBI323	Innovent Biologics	PDL1,LAG3	BsAb	Ph1 in cancer	Ph1 in cancer
Kelun-A289	AMP Source,kelun-biotech	LAG3	mAb	Ph1 in solid tumor	Ph1 in solid tumor
MIL98	Mabworks Biotech	LAG3	mAb	N/A	Ph1 in breast cancer, MEL
Sym022	Sino Biopharmaceutical,Symphogen(Servier)	LAG3	mAb	N/A	Ph1 in cancer
Encelimirab	TESARO(GSK),Anapty sBio	LAG3	mAb	N/A	Ph1 in solid tumor

Source: PharmCube, CMBIGM

Figure 3: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	(1,994)	(1,300)	283	2,282	4,654	6,930	8,622	10,156	11,281	12,403	12,363	12,649	12,986	13,252
Tax rate	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(1,994)	(1,300)	240	1,940	3,956	5,890	7,328	8,632	9,589	10,542	10,509	10,752	11,038	11,264
+ D&A	191	198	205	212	218	224	229	234	239	243	248	252	256	259
- Change in working capital	679	(148)	(303)	(829)	(708)	(701)	(529)	(486)	(231)	(203)	141	(6)	(27)	4
- Capex	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)	(300)
FCFF	(1,424)	(1,550)	-158	1,022	3,166	5,113	6,728	8,080	9,297	10,283	10,598	10,698	10,967	11,227
Terminal value														152,206
FCF + Terminal value	(1,424)	(1,550)	-158	1,022	3,166	5,113	6,728	8,080	9,297	10,283	10,598	10,698	10,967	163,433
PV of enterprise (RMB mn)	66,712													
Net debt (RMB mn)	(5,128)													
Equity value (RMB mn)	71,840													
Equity value (HK\$ mn)	85,524													
No. of outstanding shares (mn)	1,466													
DCF per share (HK\$)	58.32													
Terminal growth rate	3.0%													
WACC	10.6%													
Cost of Equity	13.5%													
Cost of Debt	4.5%													
Equity Beta	1.0													
Risk Free Rate	3.0%													
Market Risk Premium	10.5%													
Target Debt to Asset ratio	30.0%													
Effective Corporate Tax Rate	15.0%													

Source: CMBIGM estimates

Figure 4: Sensitivity analysis (HK\$)

		WACC				
		9.6%	10.1%	10.6%	11.1%	11.6%
Terminal growth rate	4.0%	77.44	69.73	63.23	57.68	52.90
	3.5%	73.38	66.49	60.60	55.53	51.12
	3.0%	69.94	63.70	58.32	53.65	49.55
	2.5%	66.98	61.28	56.32	51.98	48.15
	2.0%	64.42	59.16	54.56	50.50	46.90

Source: Company data, CMBIGM estimates

Figure 5: CMBIGM estimates revision

RMBmn	New			Old			Diff(%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	5,076	6,470	9,131	5,902	6,993	9,682	-14%	-7%	-6%
GrossProfit	4,365	5,564	7,853	5,075	6,014	8,327	-14%	-7%	-6%
OperatingProfit	(1,468)	(868)	757	(1,337)	(755)	789	N/A	N/A	-4%
Netprofit	(1,999)	(1,316)	227	(1,934)	(1,230)	235	N/A	N/A	-4%
EPS(RMB)	(1.36)	(0.90)	0.15	(1.32)	(0.84)	0.16	N/A	N/A	-3%
GrossMargin	86.00%	86.00%	86.00%	86.00%	86.00%	86.00%	0.00ppt	0.00ppt	0.00ppt

Source: Company data, CMBIGM estimates

Figure 6: CMBIGM estimates vs consensus

RMBmn	CMBIGM			Consensus			Diff(%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	5,076	6,470	9,131	5,662	7,621	9,864	-10%	-15%	-7%
Gross Profit	4,365	5,564	7,853	4,893	6,547	8,506	-11%	-15%	-8%
Operating Profit	(1,468)	(868)	757	(2,002)	(1,071)	47	N/A	N/A	N/A
Net Profit	(1,999)	(1,316)	227	(1,969)	(1,045)	(105)	N/A	N/A	N/A
EPS (RMB)	(1.36)	(0.90)	0.15	(1.29)	(0.61)	(0.02)	N/A	N/A	N/A
Gross Margin	86.00%	86.00%	86.00%	86.42%	85.91%	86.23%	-0.42 ppt	+0.09 ppt	-0.23 ppt

Source: Company data, 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	FY21A	FY22E	FY23E	FY24E
Revenue	3,844	4,270	5,076	6,470	9,131	Profit before tax	(859)	(3,051)	(1,999)	(1,316)	267
Cost of sales	(388)	(573)	(711)	(906)	(1,278)	Depreciation and amortization	86	202	191	198	205
Gross profit	3,456	3,697	4,365	5,564	7,853	Changes in working capital	(334)	(90)	679	(148)	(303)
Administrative expenses	(437)	(884)	(863)	(1,035)	(1,370)	Tax paid	(140)	(26)	0	0	(40)
R&D expenses	(1,851)	(2,478)	(2,500)	(2,500)	(2,009)	Others	939	941	682	829	991
Selling and marketing expenses	(1,341)	(2,728)	(2,690)	(3,105)	(3,926)	Net cash from operating activities	(308)	(2,025)	(446)	(437)	1,119
Other income	247	197	220	209	209	Capex	(489)	(1,066)	(300)	(300)	(300)
Other gains and losses	(480)	(73)	0	0	0	Placement of term deposits with maturity dates over 3 mo	(7,126)	(8,091)	0	0	0
Operating profit	(406)	(2,269)	(1,468)	(868)	757	Other investing activities	2,431	6,459	620	109	109
Listing expenses	0	0	0	0	0	Net cash from investing activities	(5,185)	(2,698)	320	(191)	(191)
Finance costs	(68)	(62)	(125)	(125)	(125)	Net proceeds from shares	4,657	3,940	0	0	0
Royalties and other related	(384)	(719)	(406)	(323)	(365)	New borrowings raised	372	1,463	0	0	0
Pre-tax profit	(859)	(3,051)	(1,999)	(1,316)	267	Repayment of borrowings	(17)	(255)	0	0	0
Income tax	(140)	(87)	0	0	(40)	Other financing activities	(100)	(145)	(125)	(125)	(125)
Minority interests	0	0	0	0	0	Net cash from financing activities	4,912	5,003	(125)	(125)	(125)
Net profit (Net loss)	(998)	(3,138)	(1,999)	(1,316)	227	Net change in cash	(580)	280	(251)	(753)	803
						Fx Changes	(569)	(197)	0	0	0
						Cash at the year beginning	2,426	1,276	1,359	1,108	355
						Cash at the end of the year	1,276	1,359	1,108	355	1,158
						Cash & bank balances	7,764	8,377	7,626	6,872	7,676

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	2,368	4,693	4,802	4,904	4,999	Profit & loss ratios (%)					
PP&E	1,584	2,693	2,820	2,939	3,052	Gross margin	90	87	86	86	86
Right-of-use assets	327	397	379	362	344	EBITDA margin	N/A	N/A	N/A	N/A	5.3
Intangible assets	33	772	772	772	772	Net margin	N/A	N/A	N/A	N/A	2.5
Deposits for acquisition of PP&E	272	286	286	286	286	Effective tax rate (%)	N/A	N/A	N/A	N/A	15
Other non-current assets	152	545	545	545	545						
Current assets	9,467	11,551	10,121	9,569	10,778	Balance sheet ratios					
Inventories	706	1,347	779	744	700	Current ratio (x)	6	4	3	3	3
Trade receivables	475	968	858	1,094	1,544	Trade receivables turnover	34	62	62	62	62
Deposits, prepayments and other	165	213	213	213	213	Trade payables turnover days	96	101	101	101	101
Other financial assets	357	645	645	645	645	Total debt to asset ratio (%)	26	36	40	41	38
Cash and bank balances	7,764	8,377	7,626	6,872	7,676						
Current liabilities	1,486	3,050	3,051	3,104	3,207	Returns (%)					
Borrowings	255	365	365	365	365	ROE	(11)	(30)	(22)	(15)	2
Lease liabilities	16	22	22	22	22	ROA	(8)	(19)	(13)	(9)	1
Trade payables	121	195	196	249	352						
Other payables and accrued	974	2,052	2,052	2,052	2,052	Per share data					
Contract liabilities	120	356	356	356	356	EPS (RMB)	(0.74)	(2.16)	(1.36)	(0.90)	0.15
Non-current liabilities	1,569	2,863	2,864	2,865	2,866	DPS (RMB)	0.0	0.0	0.0	0.0	0.0
Contract liabilities	588	459	459	459	459	BVPS (RMB)	6.5	7.1	6.1	5.8	6.6
Borrowings	925	2,023	2,023	2,023	2,023						
Lease liabilities	10	86	87	88	89						
Government grants	46	295	295	295	295						
Total net assets	8,780	10,330	9,008	8,503	9,703						
Minority interest	0	0	0	0	0						
Shareholders' equity	8,780	10,330	9,008	8,503	9,703						

Source: Company data, CMBIGM estimates

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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