



Rating
Buy

Asia
China

Health Care
Pharmaceuticals /
Biotechnology

Company
Hengrui Medicine

Reuters 600276.SS Bloomberg 600276 CH Exchange SHH Ticker 600276

Date
25 August 2017

Company Update

Price at 24 Aug 2017 (CNY)	54.79
Price target - 12mth (CNY)	58.50
52-week range (CNY)	60.22 - 42.67
Shanghai Composite	3,288

Pyrotinib NDA filed; expect approval in 2H18

Another blockbuster launch highly likely; with peak sales of RMB2-2.8bn by DBE

As of today, public database indicated that Hengrui had filed for new drug application (NDA, marketing and manufacturing approval) for pyrotinib. In our recently published deep dive report for Hengrui pipeline, we estimated peak sales opportunity of RMB2-2.8bn for this compound. We spoke with management recently, and anticipate that the indications oncologists would use in practice would include mBC and mGC (gastric), while there is a reasonable likelihood for adjuvant therapy, just like neratinib. We remind investors that Herceptin had a run rate of RMB2.2bn by YE16, with PRDL coverage in 15 provinces. While Herceptin price had 53% price cuts in China recently, we still believe high end of our estimates (RMB2.8bn) for pyrotinib is achievable as P2 data might be comparable to that of neratinib, but much better than lapatinib.

Valuation & Risks

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Key indicators (FY1)	
ROE (%)	22.9
Net debt/equity (%)	-39.5
Book value/share (CNY)	5.45
Price/book (x)	10.1
Net interest cover (x)	-
Operating profit margin (%)	26.7

Source: Deutsche Bank

Phase I data reported at SABCS 2015; phase 2 data to be reported at SABCS 2017

Pyrotinib is a novel small molecule irreversible pan-ErbB receptor TKI (tyrosine kinase inhibitor), similar to neratinib. ORR of 53% and DCR of 81% were reported from a phase I dose finding study with 38 2L or above mBC patients in China. PFS was 35-40 weeks. The MTD was 480mg while grade III diarrhea was observed, similar to AE profile of neratinib. While the company has not articulated details of phase 2 study, we believe the NDA was based on a phase 1/2 study (CTR20150279) with 128 patients that compared pyrotinib/capecitabine vs. lapatinib/capecitabine in 2L her2+ mBC. We noticed that there is an ongoing phase 3 study with exactly the same design. As such, we believe this might be the requirement from CFDA if the pyrotinib were to gain CFDA approval based on P2 data. Lastly, the company indicated that P2 data would be presented in December.

US strategy; changes to our model

Management indicated that pyrotinib is in phase I study in US. However the target indication for future development is NSCLC with her 2 mutation, different from China pathway. It is estimated that 2-3% of the NSCLC patients have her 2 mutation according to the company. For our model, we increase revenue estimates to RMB300/900m from RMB100/450m respectively for 2019/2020 as we now expect approval in 2H18 vs. 1H19 before. Our EPS estimates increased 0.9% and 1.7% for 2019/2020 respectively. TP is unchanged; reiterate Buy.



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Hengrui Medicine	600276.SS	54.79 (CNY) 24 Aug 2017	NA

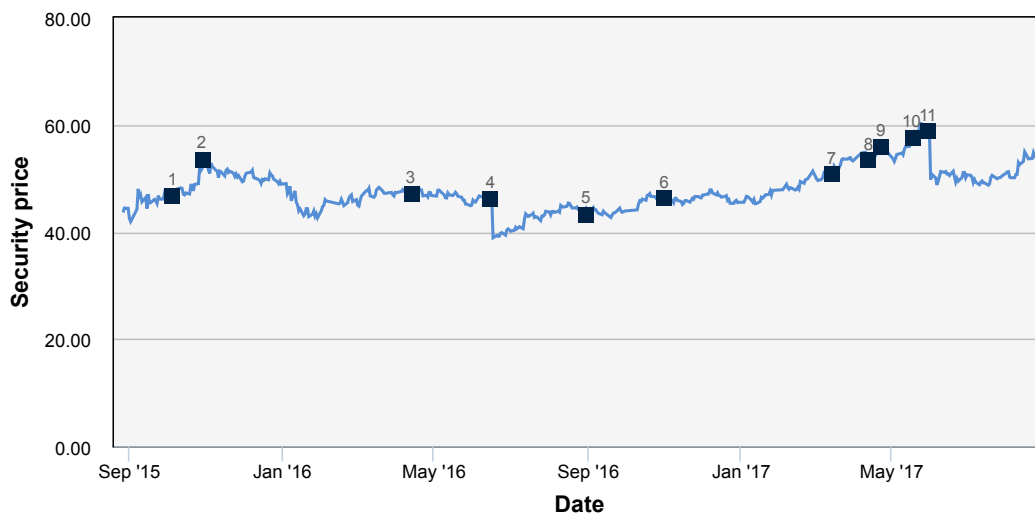
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Historical recommendations and target price. Hengrui Medicine (600276.SS)

(as of 08/24/2017)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

** Analyst is no longer at Deutsche Bank

1.	10/06/2015	Buy, Target Price Change CNY 55,00	Jack Hu, Ph.D	7.	03/15/2017	Buy, Target Price Change CNY 60,00	Jack Hu, Ph.D
2.	10/30/2015	Buy, Target Price Change CNY 60,00	Jack Hu, Ph.D	8.	04/13/2017	Buy, Target Price Change CNY 63,50	Jack Hu, Ph.D
3.	04/14/2016	Buy, Target Price Change CNY 59,50	Jack Hu, Ph.D	9.	04/23/2017	Buy, Target Price Change CNY 65,00	Jack Hu, Ph.D
4.	06/16/2016	Buy, Target Price Change CNY 49,50	Jack Hu, Ph.D	10.	05/18/2017	Buy, Target Price Change CNY 70,00	Jack Hu, Ph.D
5.	08/31/2016	Buy, Target Price Change CNY 50,00	Jack Hu, Ph.D	11.	05/31/2017	Buy, Target Price Change CNY 58,50	Jack Hu, Ph.D
6.	11/01/2016	Buy, Target Price Change CNY 55,00	Jack Hu, Ph.D				



Equity Rating Key

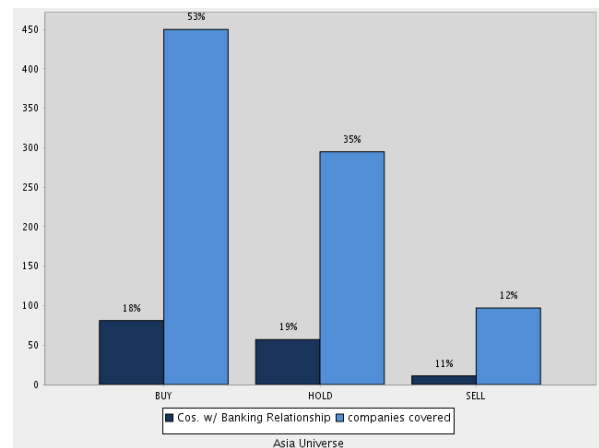
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