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Ticker (08037.HK)

Recommendation	**Non-rated**
Current price (HKD)	1.00
Last 12 mth price range	0.86 - 2.20
Market cap (HKD, mn)	963.2

Source: Bloomberg, SBI China Capital

China Biotech Services (08037.HK)

Diversification via the introduction of BNCT and positive expectations for LY007 anticipated trial results

China Biotech Services(08037.HK) recorded a 66.0% drop in total revenue to approximately HKD130.6mn in 1Q23, as a result of weakened demand for rapid antigen test kits and COVID-19 RT-PCR testing services following Hong Kong government's swift relaxation of COVID-19 related quarantine prevention and control measures. This led to a revenue fall of approximately 99.9% and 20.7% to HKD0.3mn and HKD129.1mn in 1Q23, respectively, for the sale of health related and pharmaceutical products, and the provision of medical laboratory testing services and health check services. The Group has fallen into the red, reporting a net loss of HKD 7.8mn in 1Q23, compared to a net profit of HKD106.6mn in 1Q22.

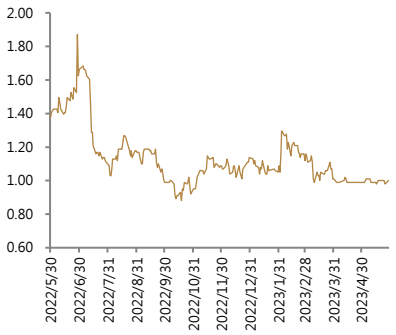
Adoption of Boron Neutron Capture Therapy(BNCT) from Japan into low-penetration PRC radiotherapy market

The Group initiated the construction of a BNCT center in Nov 22, located in the Hainan Boao Lecheng International Medical Tourism Pilot Zone of the Hainan Free Trade Port. The completion of the construction and equipment installation, as well as the subsequent testing phase, is anticipated to occur in late 2024 or early 2025. We estimate that after the ramp-up period, the BNCT center will be able to provide treatment at an optimized level to approximately 1,500 HNC patients per year, offering a stable revenue stream for the Group.

BNCT with borofalan(^{10}B) were approved by PMDA in 2020 based on the results of preclinical and phase I/II studies, and are currently being used in clinical practice for patients with recurrent/locally advanced HNC. According to the research article of K.Hirose et al. published in Radiotherapy and Oncology, the phase II trial of BNCT showed a 71.4% ORR with 50.0% CR rate in 8 R-SCC patients and 61.5% PR rate in 13 R/LA-nSCC patients. Adverse events such as alopecia, hyperamylasemia, and nausea were commonly observed.

On the other hand, the phase II clinical trial of BNCT for recurrent MG(primarily GB) showed a 1-year survival rate of 79.2% and an mOS of 18.9months and was submitted to PMDA for marketing approval.

Performance (08037.HK)



	1mth	3mth	12mth
Change	0.0%	-11.5%	-.28.6%
Relative change	6.1%	-5.9%	-16.3%

Source: Choice, SBI CHINA CAPITAL

Favourable expectations for LY007 trial outcomes

The LY007 Cellular Injection, a Class 1 IND with the built-in OX40 costimylatory molecule for the treatment of relapsed/refractory CD20-positive B-NHL, is currently undergoing a stage I trial that began in 1Q22. The initial group of four patients has completed the cell infusion treatment as part of the trial. The Group plans to enroll additional patients for the trial by the end of 2023.

We incline to take a more optimistic view towards the trial results of LY007. Notably, Mustang Bio has developed MB-106, a CAR-T cell therapy that also targets CD20 and has shown encouraging results in treating B-NHLs and CLL. Interim data from a phase I/II clinical trial involving 28 patients revealed an ORR of 96% and a CR rate of 75% across a broad range of hematologic malignancies, including FL, CLL, DLBCL, and WM, while also exhibiting a favorable safety profile. Of the 28 patients, 12 achieved CR for more than 12 months, including four patients with CR for more than two years and the longest patient with CR at 33 months.

Diversification via the introduction of BNCT and positive expectations for LY007 anticipated trial results

The overall performance of the Group in 1Q23 fell slightly short of our expectations, primarily due to weakened demand for rapid antigen test kits and COVID-19 RT-PCR testing services following Hong Kong government's swift relaxation of COVID-19 related quarantine prevention and control measures. However, the Group is broadening its diagnostic services in response to the challenges of the post-pandemic era, while simultaneously diversifying its revenue stream through the incorporation of BNCT radiotherapy to fortify its financial sustainability. In addition, the encouraging outcomes of other CD20-targeting CAR-T cell therapy provide a basis for our optimistic view towards the trial results of LY007.

Peers comparison

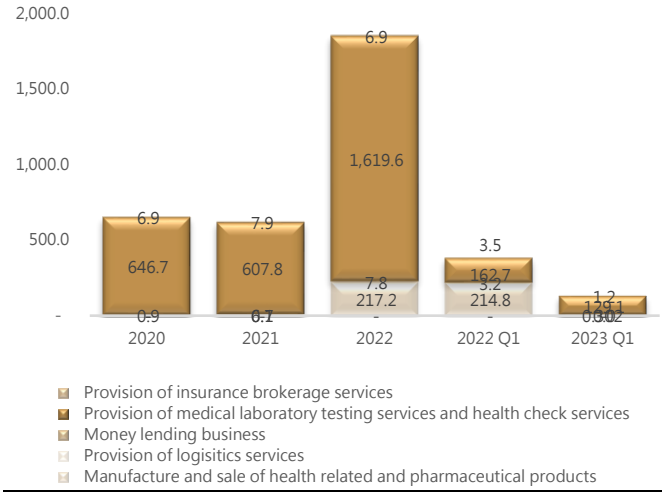
		Market Cap (HKD,mn)	PE (X)	Fw PE (X)	PB (X)	PS (X)	Revenue (HKD,mn)	GM (%)	ROE (%)
02126.HK	JW Therapeutics	1,192.8	-	-	0.5	7.4	69.7	40.3	(32.9)
06978.HK	Immunotech Biopharm	1,924.5	-	-	3.4	-	-	-	(47.8)
02171.HK	CARsgen Therapeutics	6,246.2	-	-	0.8	-	-	-	(32.6)
01548.HK	Genscript Biotech	36,854.2	-	-	4.6	7.4	4,899.6	48.6	(22.1)
LEGN.US	Legend Biotech	84,345.7	-	-	22.2	194.3	916.2	44.1	(112.8)
GRCL.US	Gracell Biotechnologies	1,485.4	-	-	1.0	-	-	-	(37.9)
MBIO US	Mustang Bio	331.8	-	-	1.4	-	-	-	(117.1)
	Average - Biotech	*18,911.5*	-	-	*4.8*	*89.2*	*1,002.8*	*44.4*	*(57.6)*
300676 CH	BGI Genomics	26,893.7	47.6	13.4	2.4	3.7	8,204.8	52.4	5.3
603882 CH	Kingmed Diagnostics	36,841.5	16.2	25.6	3.8	2.5	18,020.9	43.1	25.7
002030 CH	Daan Gene	19,427.0	4.7	-	1.5	1.9	14,027.0	72.8	37.0
300244 CH	Dian Diagnostics	18,673.5	19.8	11.4	2.2	0.9	23,617.6	37.2	11.9
688068 CH	Beijing Hotgen Biotech	4,368.5	9.9	-	1.2	1.6	4,141.4	53.7	30.6
688298 CH	Orient Gene	9,805.9	-	1.3	1.0	2.0	10,209.7	73.8	53.7
300463 CH	Maccura Biotechnology	11,453.1	16.4	-	1.6	-	4,201.8	54.2	10.0
300685 CH	Amoy Diagnostics	11,666.1	39.7	62.6	6.8	-	980.7	82.4	18.1
	Average-Lab testing services	*17,391.2*	*22.1*	*22.9*	*2.6*	*2.1*	*10,425.5*	*58.7*	*24.0*
8037 HK	China Biotech Services	963.2	3.7	-	1.6	0.5	1,851.5	59.5	51.7

Source: Bloomberg, SBI China Capital

Risk factor

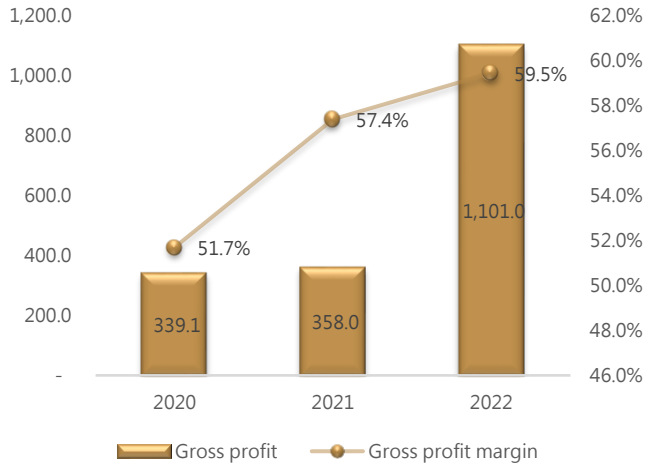
- LY007 fails to demonstrate safety and efficacy in clinical trials
- Insufficient funding to develop its drug pipelines
- Fierce competition in the area of cellular immunotherapy
- Uncertainty acceptance of BNCT radiotherapy in the PRC

Revenue breakdown by business segments (HKD, mn)



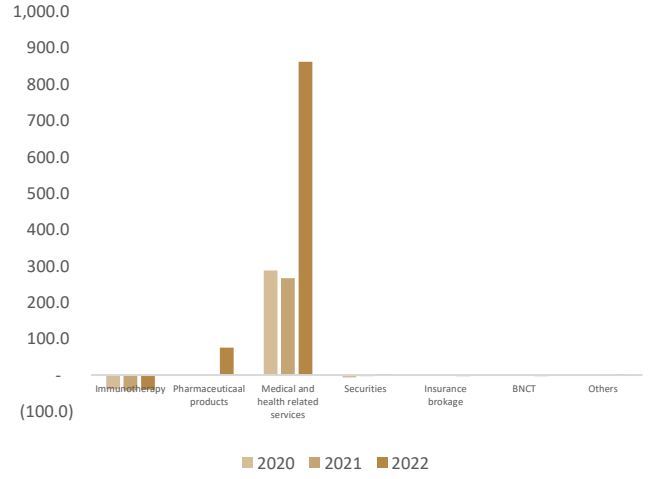
Source: Company data, SBI CHINA CAPITAL

Gross profit and Gross Margin(HKD, mn)



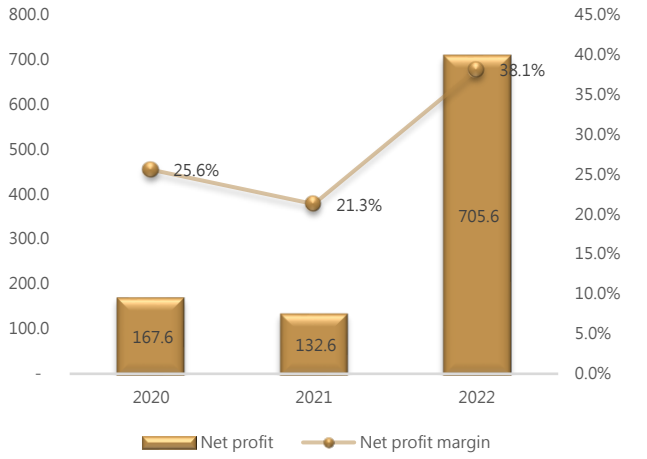
Source: Company data, SBI CHINA CAPITAL

Segment profit/(loss) (HKD, mn)



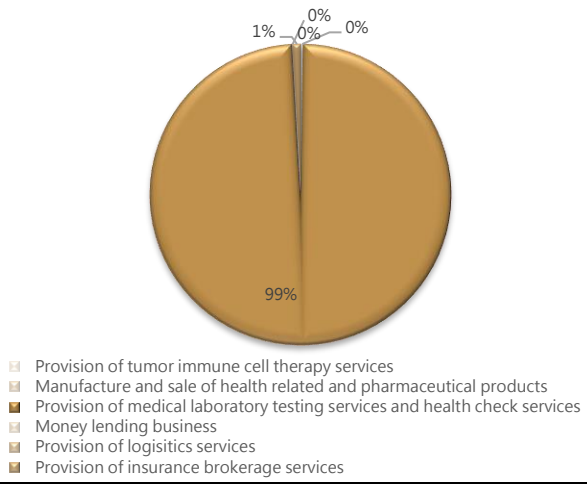
Source: Company data, SBI CHINA CAPITAL

Net profit and Net profit margin(HKD, mn)



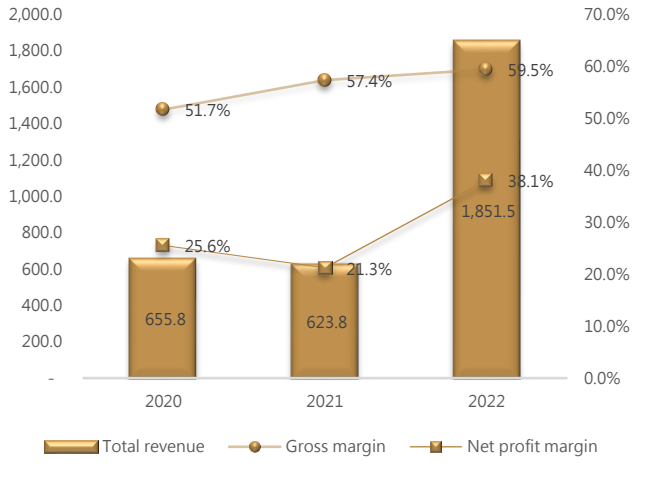
Source: Company data, SBI CHINA CAPITAL

Revenue breakdown by segments in 1Q23



Source: Company data, SBI CHINA CAPITAL

Business figures(HKD, mn)



Source: Company data, SBI CHINA CAPITAL

Financial Statement

PnL	2020	2021	2022	1Q22	1Q23
(HKD, mn)	(A)	(A)	(A)	(A)	(A)
Revenue	**655.8**	**623.8**	**1,851.5**	**384.1**	**130.6**
YoY growth	*1007.5%*	*-4.9%*	*196.8%*	*149.1%*	*-66.0%*
COGS	(316.7)	(265.7)	(750.6)	(194.4)	(81.4)
Gross profit	**339.1**	**358.0**	**1,101.0**	**189.7**	**49.2**
Other income	5.8	0.2	4.6	(0.2)	(1.8)
Operating expenses	(145.5)	(168.6)	(253.9)	(56.3)	(48.4)
Operating profit	**199.4**	**189.7**	**851.7**	**133.3**	**(1.1)**
Finance income	(6.5)	(6.5)	(3.5)	(1.2)	(1.4)
JV & Asso.	-	-	(4.2)	-	(1.5)
Other gain/(loss), net	9.9	(2.5)	18.8	-	(0.0)
Profit before tax	**202.8**	**180.7**	**862.8**	**132.0**	**(4.0)**
Tax	(35.2)	(48.1)	(157.3)	(25.5)	(3.8)
Net profit	**167.6**	**132.6**	**705.6**	**106.6**	**(7.8)**
YoY growth	*-256.0%*	*-20.9%*	*432.2%*	*291.3%*	*-107.3%*

Balance Sheet	2020	2021	2022
(HKD, mn)	(A)	(A)	(A)
PPE	128.8	94.7	96.1
Intangible assets	88.1	80.9	67.3
Others	329.0	334.3	489.7
Non-current assets	**457.8**	**429.0**	**585.7**
Inventories	5.5	4.7	18.7
Trade receivables	30.3	92.1	700.1
Cash & cash equivalents	384.5	150.6	92.8
Others	25.9	30.4	73.1
Current assets	**446.3**	**277.8**	**884.8**
Total assets	**904.1**	**706.8**	**1,470.5**
LT borrowings	-	-	-
Others	119.7	13.5	95.3
Non-current liabilities	**119.7**	**13.5**	**95.3**
Trade payables	213.0	54.9	290.0
ST borrowings	10.7	17.4	5.6
Others	48.6	155.1	253.0
Current liabilities	**272.3**	**227.4**	**548.7**
Total liabilities	**392.0**	**240.9**	**644.0**
Non-controlling interests	168.8	70.5	223.8
Controlling interests	343.3	395.4	602.7
Total equities	**512.1**	**465.9**	**826.5**

Cash Flow	2020	2021	2022
(HKD, mn)	(A)	(A)	(A)
Profit before tax	202.8	180.7	862.8
Finance expenses	6.5	6.5	3.5
Finance income	(0.0)	(0.0)	(0.2)
Depreciation&Amortization	40.3	68.1	66.4
Others	(0.3)	10.7	(16.5)
Change in working capital	172.6	(225.5)	(433.3)
CFO	**422.0**	**40.5**	**482.7**
CAPEX	(126.6)	(12.2)	(121.5)
Others	0.4	4.1	(134.8)
CFI	**(126.2)**	**(8.1)**	**(256.3)**
Share subscription	-	-	-
Net borrowings	(13.7)	10.2	(4.1)
Interest paid	(5.7)	(3.3)	(3.8)
Dividend paid	-	(216.0)	(300.0)
Others	63.3	(57.6)	25.9
CFF	**43.9**	**(266.6)**	**(282.0)**
FCFE	**276.0**	**32.7**	**351.8**
FCFF	**295.6**	**26.4**	**361.1**

Financial Ratio	2020	2021	2022
	(A)	(A)	(A)
Gross margin	51.7%	57.4%	59.5%
Operating margin	30.4%	30.4%	46.0%
Net profit margin	25.6%	21.3%	38.1%
Adj. EBITDA profit margin	35.7%	41.3%	46.8%
Return on Equity	40.6%	27.1%	109.2%
Return on Asset	25.4%	16.5%	64.8%
Current ratio	163.9%	122.2%	161.3%
Quick ratio	157.6%	120.1%	157.8%
Cash ratio	141.2%	66.2%	16.9%
Debt-to-Equity ratio	2.1%	3.4%	5.5%
Net Debt-to-Equity ratio	-73.0%	-28.6%	-10.5%
Inventory turnover days	5.2	7.1	5.7
Receivable turnover days	11.5	35.8	78.1
Payable turnover days	132.7	184.0	83.9

Source: Company data、SBI CHINA CAPITAL

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