

Henlius Biotech (2696 HK)

Strong product sales in 1Q

- **Strong sales maintained in 1Q24.** Henlius Biotech (Henlius) recorded total revenue of RMB1.349bn in 1Q24, up 35% YoY. Of this, HANQUYOU's sales in China was RMB671mn (+25% YoY, -4% QoQ), which accounted for 23% of our previous FY24 estimate. In 1Q24, serplulimab (PD-1) experienced robust growth, +34% YoY or +31% QoQ to RMB334mn, accounting for 23% of our previous FY24 estimate. We think HANQUYOU will not be affected by VBP risks in 2024 due to relatively moderate competition landscape in the Herceptin biosimilar market. Following a net profit of RMB546mn in FY23, driven by core product sales, we are confident that the profitability will be sustainable in 2024 and beyond.
- **Significant potential of serplulimab (PD-1) in SCLC and CRC.** Colorectal cancer (CRC) is the second most common cancer in China (link). 85% of CRC are cold tumors classified as MSS CRC (link), which currently has no I/O therapies available. However, the Ph2 data released early this year shows promising potential for serplulimab in this highly underserved MSS CRC patient population (CMBI report, link). The updated data will be released at ASCO in Jun (link). We look forward to the initiation of Henlius' Ph3 trial in Asia (PFS endpoint) for 1L mCRC, combining serplulimab + HLX04 + chemo, with a global Ph3 trial (OS endpoint) to follow. In addition, serplulimab holds large global potential, particularly for treating SCLC. The NDA of serplulimab for 1L ES-SCLC was accepted by the EMA in Mar 2023, with approval expected in 3Q24E. In the US, Henlius is conducting a bridging study of serplulimab for 1L ES-SCLC, with BLA submission expected by end-2024.
- **Innovative assets with global BD potential.** HLX22 (a novel HER2 mAb) in combination with HANQUYOU and chemo had demonstrated overwhelming PFS benefits in 1L GC compared with SoC (CMBI report, link). Henlius plans to initiate a global Ph3 trial to assess this combination in 1L GC in 2H24E. Henlius has developed a differentiated ADC platform leveraging MediLink's payload-linker technology which enables selective release of payload in tumor microenvironment. Based on this platform, HLX42 (EGFR ADC) has completed FPI in China, and received a fast track designation from FDA for EGFR-TKI resistant NSCLC. HLX42 showed promising potential in post osimertinib EGFRm NSCLC in preclinical studies. HLX43, an innovative PD-L1 ADC, entered Ph1 studies in China in late 2023, with US IND approval also obtained. We think Henlius is likely to achieve global BD deals for its innovative assets, such as HLX22, HLX42 and HLX43. Additionally, we expect Henlius to file NDAs in the US for its biosimilars HLX14 (denosumab) and HLX11 (pertuzumab) in 2H24E. HLX11 may become the first pertuzumab biosimilar in the US and EU markets. The Company's other biosimilars also hold global BD potentials, in our view, including HLX14 (daratumumab), HLX17 (pembrolizumab), HLX05 (cetuximab), etc.
- **Maintain BUY.** We anticipate continuously strong sales performance of Henlius in 2024 and beyond. We raised our DCF-based TP from HK\$18.67 to HK\$20.33 (WACC 10.3%, terminal growth 3.0%).

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	3,215	5,395	5,814	6,148	7,077
YoY growth (%)	91.1	67.8	7.8	5.8	15.1
Net profit (RMB mn)	(695.3)	546.0	559.7	619.8	960.6
YoY growth (%)	na	na	2.5	10.7	55.0
EPS (Reported) (RMB)	(1.28)	1.01	1.03	1.14	1.77
P/E (x)	ns	15.5	15.1	13.6	8.8
R&D expenses (RMB)	(1,395)	(1,119)	(1,100)	(1,100)	(1,000)
Admin expenses (RMB mn)	(354)	(384)	(418)	(439)	(508)
CAPEX (RMB mn)	(585)	(474)	(474)	(424)	(374)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$20.33
(Previous TP)	HK\$18.67
Up/Downside	21.2%
Current Price	HK\$16.78

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Stock Data

Mkt Cap (HK\$ mn)	9,119.8
Avg 3 mths t/o (HK\$ mn)	3.2
52w High/Low (HK\$)	16.78/9.70
Total Issued Shares (mn)	543.5

Source: FactSet

Shareholding Structure

Management	26.8%
Fosun	21.7%

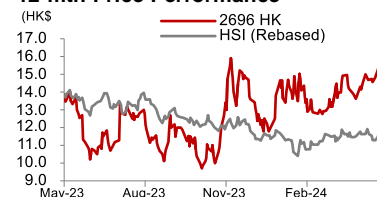
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	23.2%	14.8%
3-mth	16.9%	5.9%
6-mth	39.6%	36.9%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (RMB mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	754	816	1,208	1,523	1,733	1,995	2,193	2,165	2,064	1,953	1,843	1,732
Less: Tax	(99)	(109)	(170)	(218)	(250)	(289)	(319)	(314)	(299)	(283)	(266)	(250)
Depreciation and amortisation	377	447	472	490	500	505	423	416	409	403	398	393
CAPEX (incl. intangible assets)	(1,000)	(1,011)	(861)	(711)	(561)	(388)	(388)	(388)	(388)	(388)	(388)	(388)
Change in working capital	283	40	36	(72)	(28)	16	(21)	27	28	31	31	31
FCF	374	357	853	1,172	1,573	1,757	1,881	1,899	1,808	1,712	1,613	1,515
Terminal value												15,138
PV of enterprise (RMB mn)	12,882											
Debt & Preferred Stock (RMB mn)	3,793											
Deposit and pledged cash (RMB mn)	966											
Equity value (RMB mn)	10,055											
Value per share (RMB)	18.50											
Value per share (HK\$)	20.33											
Terminal growth rate	3.0%											
WACC	10.3%											
Cost of Equity	12.9%											
Cost of Debt	5.0%											
Equity Beta	1.10											
Risk Free Rate	3.0%											
Market Risk Premium	9.0%											
Target Debt to Asset ratio	30.0%											
Effective Corporate Tax Rate	15.0%											

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

		WACC				
		9.3%	9.8%	10.3%	10.8%	11.3%
Terminal growth rate	4.0%	23.72	21.98	20.42	19.01	17.72
	3.5%	23.66	21.93	20.38	18.97	17.68
	3.0%	23.60	21.88	20.33	18.93	17.65
	2.5%	23.55	21.83	20.29	18.88	17.61
	2.0%	23.49	21.78	20.24	18.84	17.57

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	NEW			OLD			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	5,814	6,148	7,077	5,888	6,208	7,128	-1%	-1%	-1%
Gross Profit	4,113	4,260	4,896	4,076	4,180	4,774	1%	2%	3%
Operating Profit	754	816	1,208	823	858	1,251	-8%	-5%	-3%
Net profit	560	620	961	598	635	970	-6%	-2%	-1%
EPS (RMB)	1.03	1.14	1.77	1.10	1.17	1.79	-6%	-2%	-1%
Gross Margin	70.75%	69.28%	69.19%	69.23%	67.33%	66.98%	+1.52 ppt	+1.95 ppt	+2.21 ppt
Net Margin	9.63%	10.08%	13.57%	10.15%	10.24%	13.61%	-0.53 ppt	-0.15 ppt	-0.03 ppt

Source: Bloomberg, CMBIGM estimates.

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	5,814	6,148	7,077	5,978	6,613	7,706	-3%	-7%	-8%
Gross Profit	4,113	4,260	4,896	4,336	4,744	5,590	-5%	-10%	-12%
Operating Profit	754	816	1,208	711	785	1,058	6%	4%	14%
Net profit	560	620	961	611	702	942	-8%	-12%	2%
EPS (RMB)	1.03	1.14	1.77	1.12	1.25	1.69	-8%	-9%	5%
Gross Margin	70.75%	69.28%	69.19%	72.54%	71.74%	72.54%	-1.79 ppt	-2.46 ppt	-3.35 ppt
Net Margin	9.63%	10.08%	13.57%	10.21%	10.62%	12.22%	-0.59 ppt	-0.53 ppt	+1.35 ppt

Source: Bloomberg, CMBIGM estimates.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	1,682	3,215	5,395	5,814	6,148	7,077
Cost of goods sold	(523)	(845)	(1,476)	(1,700)	(1,888)	(2,180)
Gross profit	1,160	2,370	3,919	4,113	4,260	4,896
Selling expense	(520)	(1,049)	(1,754)	(1,841)	(1,905)	(2,181)
Admin expense	(281)	(354)	(384)	(418)	(439)	(508)
R&D expense	(1,024)	(1,395)	(1,119)	(1,100)	(1,100)	(1,000)
Operating profit	(665)	(428)	662	754	816	1,208
Other gains/(losses)	(292)	(266)	(92)	(96)	(87)	(78)
EBITDA	(500)	(163)	1,015	1,201	1,288	1,697
EBIT	(665)	(428)	662	754	816	1,208
Pre-tax profit	(957)	(694)	570	659	729	1,130
Income tax	(27)	(1)	(24)	(99)	(109)	(170)
After tax profit	(984)	(695)	546	560	620	961
Minority interest	0	0	0	0	0	0
Net profit	(984)	(695)	546	560	620	961

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	1,647	2,192	2,676	2,293	2,249	2,446
Cash & equivalents	707	680	988	966	936	1,123
Restricted cash	0	0	0	0	0	0
Account receivables	296	456	648	466	492	538
Inventories	420	757	757	578	538	502
Other current assets	224	298	283	283	283	283
Non-current assets	5,526	6,733	7,228	7,792	8,181	8,403
PP&E	1,229	1,817	2,238	2,488	2,663	2,770
Right-of-use assets	438	412	415	341	268	194
Intangibles	3,635	4,332	4,511	4,899	5,187	5,375
Other non-current assets	224	171	64	64	64	64
Current liabilities	2,960	5,002	5,067	4,689	4,414	4,160
Short-term borrowings	1,571	2,522	2,800	2,500	2,200	1,900
Account payables	383	714	545	466	492	538
Other current liabilities	867	1,443	1,255	1,255	1,255	1,255
Contract liabilities	138	322	467	467	467	467
Non-current liabilities	1,916	2,286	2,644	2,644	2,644	2,644
Long-term borrowings	1,052	1,155	1,293	1,293	1,293	1,293
Deferred income	156	193	230	230	230	230
Other non-current liabilities	708	938	1,121	1,121	1,121	1,121
Total liabilities	4,876	7,288	7,711	7,332	7,058	6,804
Share capital	543	543	543	543	543	543
Retained earnings	1,753	1,093	1,649	2,209	2,828	3,501
Total shareholders equity	2,297	1,636	2,192	2,752	3,372	4,044
Minority interest	0	0	0	0	0	0
Total equity and liabilities	2,297	1,636	2,192	2,752	3,372	4,044

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(957)	(694)	570	659	729	1,130
Depreciation & amortization	166	265	353	447	472	490
Tax paid	0	(1)	(21)	(99)	(109)	(170)
Change in working capital	511	1,101	61	283	40	36
Others	370	311	85	114	105	96
Net cash from operations	90	982	1,048	1,403	1,236	1,582
Investing						
Capital expenditure	(460)	(585)	(474)	(474)	(424)	(374)
Others	(1,221)	(774)	(531)	(538)	(438)	(338)
Net cash from investing	(1,681)	(1,359)	(1,004)	(1,011)	(861)	(711)
Financing						
Dividend paid	0	0	0	0	0	(288)
Net borrowings	800	1,074	365	(300)	(300)	(300)
Proceeds from share issues	0	0	0	0	0	0
Others	(152)	(216)	(220)	(114)	(105)	(96)
Net cash from financing	648	858	144	(414)	(405)	(684)
Net change in cash						
Cash at the beginning of the year	1,114	155	673	988	966	936
Exchange difference	(17)	38	6	0	0	0
Cash at the end of the year	707	680	868	966	936	1,123
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	186.3%	91.1%	67.8%	7.8%	5.8%	15.1%
Gross profit	186.0%	104.4%	65.3%	5.0%	3.6%	14.9%
Operating profit	na	na	na	13.9%	8.2%	48.0%
EBITDA	na	na	na	18.3%	7.2%	31.8%
EBIT	na	na	na	13.9%	8.2%	48.0%
Net profit	na	na	na	2.5%	10.7%	55.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	68.9%	73.7%	72.6%	70.7%	69.3%	69.2%
Operating margin	(39.5%)	(13.3%)	12.3%	13.0%	13.3%	17.1%
EBITDA margin	(29.7%)	(5.1%)	18.8%	20.7%	21.0%	24.0%
Return on equity (ROE)	(35.8%)	(35.4%)	28.5%	22.6%	20.2%	25.9%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	0.6	0.4	0.5	0.5	0.5	0.6
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	15.5	15.1	13.6	8.8
P/B	3.6	5.1	3.9	3.1	2.5	2.1

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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