Kelun-Biotech (6990 HK)

Data release at ASCO further confirmed SKB264's potential

- **Promising efficacy of SKB264+A167 in 1L NSCLC**. SKB264 (Q3W)+A167 (PD-L1)'s 15.4 months of mPFS in 1L NSCLC was much better than the SoC – 9.0 months mPFS of Keytruda+chemo in KEYNOTE189 and 9.7 months mPFS of tislelizumab+chemo in RATIONALE304. SKB264's Ph3 dose of Q2W could deliver even better efficacy, in our view. SKB264 (Q2W) +A167 also showed strong potential in PD-L1 negative NSCLC, with 63.2% ORR and 82.2% 6-mo PFS rate. Since Trodelvy+Keytruda delivered 13.1 months of mPFS in 1L NSCLC (TPS ≥50%), and Dato-DXd+Keytruda showed an mPFS of 11.1 months in its TROPION-Lung02 trial in 1L NSCLC, we see the BIC potential of SKB264 in NSCLC. With Trodelvy and Dato-DXd missing the OS endpoints in Ph3 trials for 2/3L NSCLC, we think SKB264 will enjoy a better positioning in the global TROP2 ADC market.
- **Expect SKB264's wide indication coverage in NSCLC**. SKB264 demonstrated more tolerable safety profiles than its peers, with <1% patients discontinuing SKB264 due to TRAE vs Dato-DXd's 29% and Trodelvy's 17% TEAE-related discontinuation rate. SKB264 is also free from the concern of severe ILD. We see the potential of SKB264+ PD-(L)1 to replace the current 1L NSCLC SoC upon the validation in Ph3 trials. MSD has already started/registered 5 global Ph3 trials of SKB264 in NSCLC. We expect Kelun Biotech and MSD to initiate additional Ph3 trials of SKB264+A167/Keytruda in 1L NSCLC without AGAs (both in PD-L1 TPS>1 and <1) in China/globally, which will provide a significant upside for SKB264's global commercial value, in our view.
- **Solid Ph3 results of SKB264 in 3L+ TNBC to support the approval in China**. SKB264 demonstrated 43.8% ORR and 5.7 months of mPFS in the Ph3 trial for 3L+ TNBC, which were better than the 35% ORR and 5.6 months mPFS of Trodelvy in Ph3 ASCENT study, and much better than the 32% ORR and 4.4 months mPFS of Dato-DXd in a Ph1 study. Additionally, SKB264 had lower rate of grade ≥3 TRAEs from neutropenia (32% vs 51%) compared to Trodelvy. The Ph3 results of SKB264 in 3L+ TNBC support its current BLA in China (filed in Dec 2023 with priority review). Kelun-Biotech has started a Ph3 China trial of SKB264 in 1L TNBC, and MSD has registered a global trial of SKB264 + Keytruda in adjuvant TNBC.
- **Maintain BUY**. Given the promising data of SKB264 in 1L NSCLC and in late-line TNBC, we are more confident about SKB264's global development and the approval in China. We raise our DCF-based TP from HK$200.77 to HK$246.13 (WACC: 10.31%, terminal growth rate: 4.0%).

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	804	1,540	918	1,082	1,642
YoY growth (%)	2,387.3	91.6	(40.4)	17.8	51.7
Net profit (RMB mn)	(616)	(574)	(659)	(786)	(726)
EPS (Reported) (RMB)	(5.74)	(2.84)	(3.01)	(3.59)	(3.31)
R&D expenses (RMB mn)	(846)	(1,031)	(1,083)	(1,137)	(1,193)
Admin expenses (RMB mn)	(95)	(182)	(218)	(262)	(314)
CAPEX (RMB mn)	(34)	(81)	(200)	(150)	(150)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$246.13**
(Previous TP	HK$200.77)
Up/Downside	**35.8%**
Current Price	**HK$181.30**

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Stock Data

Mkt Cap (HK$ mn)	39,740.1
Avg 3 mths t/o (HK$ mn)	67.9
52w High/Low (HK$)	NA/NA
Total Issued Shares (mn)	219.2

Source: FactSet

Shareholding Structure

Kelun Pharma	68.5%
MSD	6.1%

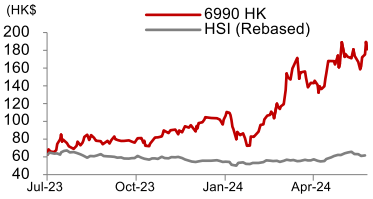
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	10.5%	10.9%
3-mth	55.2%	36.2%
6-mth	90.9%	69.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

SKB264+A167 in 1L NSCLC (ASCO Oral abstract)

Data summary:

The initial Ph2 (OptiTROP-Lung01, NCT05351788) results of SKB264+A167 (PD-L1) in 1L NSCLC without actionable genomic alterations (AGAs) have been released (link). As of Jan 2024, 40 and 63 pts had been enrolled in cohort 1A (Q3W, SKB264 5mg/kg + A167 1200mg) and cohort 1B (Q2W, SKB264 5mg/kg + A167 900mg). In the two cohorts, 30.0%/33.3%, 32.5%/30.2% and 37.5%/36.5% of pts had PD-L1 expression < 1%, 1%–49% and ≥ 50%, respectively.

In cohort 1A (median follow up of 14.0 months), the ORR was 48.6% (18/37), and mPFS was 15.4 mos (95% CI: 6.7, NE) with 6-mo PFS rate of 69.2%.

In cohort 1B (median follow up of 6.9 months), the ORR was 77.6% (45/58), and mPFS was not reached with 6-mo PFS rate of 84.6%. Additional subgroup analyses of cohort 1B are shown in the table below.

Figure 1: Ph2 outcomes of SKB264+A167 in 1L NSCLC without AGAs

	Cohort 1A Sac-TMT (5 mg/kg Q3W) + KL-A167 (1200 mg Q3W) N = 40	Cohort 1B Sac-TMT (5 mg/kg Q2W) + KL-A167 (900 mg Q2W) N = 63
Median follow-up, mo	14.0	6.9
ORR,[a] n/N (%) [95% CI]	18/37 (48.6) [31.9, 65.6]	45/58 (77.6) [64.7, 87.5]
PR, n (%)	18 (48.6)	45 (77.6)
Confirmed PR, n (%)	16 (43.2)	40 (69.0)
SD, n (%)	17 (45.9)	13 (22.4)
PD, n (%)	2 (5.4)	0
DCR,[b] n/N (%)	35/37 (94.6)	58/58 (100.0)
Median DOR (95% CI), mo	NR (8.3, NE)	NR (6.6, NE)
Median PFS (95% CI), mo	15.4 (6.7, NE)	NR (8.4, NE)
6-mo PFS rate (95% CI), %	69.2 (51.2, 81.6)	84.6 (71.4, 92.1)

Data cutoff date: Jan 02, 2024
[a] Including confirmed PR/CR or response pending confirmation. ORR was calculated based on response evaluable population defined as ≥1 on-study scan.
[b] DCR was defined as BOR of CR + PR + SD ≥6 weeks.

Source: Company data, CMBIGM

Figure 2: Clinical outcomes of cohort 1B

	PD-L1 Expression[a]			Histology	
	TPS <1% N = 21	TPS 1%–49% N = 19	TPS ≥50% N = 23	Non-squamous N = 34	Squamous N = 29
ORR,[b] n/N (%)	12/19 (63.2)	13/16 (81.3)	20/23 (87.0)	24/33 (72.7)	21/25 (84.0)
Confirmed PR, n (%)	11 (57.9)	11 (68.8)	18 (78.3)	21 (63.6)	19 (76.0)
DCR,[c] n/N (%)	19/19 (100.0)	16/16 (100.0)	23/23 (100.0)	33/33 (100.0)	25/25 (100.0)
6-mo PFS rate (95% CI), %	82.2 (54.3, 93.9)	76.6 (41.2, 92.3)	91.3 (69.5, 97.8)	93.8 (77.3, 98.4)	73.5 (49.9, 87.2)

Data cutoff date: Jan 02, 2024.
[a] PD-L1 expression was assessed at a central lab with PD-L1 IHC 22C3 pharmDx.
[b] Including confirmed PR/CR or response pending confirmation. ORR was calculated based on response evaluable population defined as ≥1 on-study scan.
[c] DCR was defined as BOR of CR + PR + SD ≥6 weeks.

Source: Company data, CMBIGM

In cohorts 1A/1B, the most common Grade≥3 TRAEs were neutrophil count decreased (30.0%/30.2%), white blood cell count decreased (5.0%/17.5%), anemia (5.0%/15.9%), rash (5.0%/6.3%) and drug eruption (7.5%/0). TRAE leading to discontinuation of SKB264 occurred in 1 patient of cohort 1B due to drug hypersensitivity, and there were no treatment-related deaths.

Figure 3: Overall safety summary

	Cohort 1A Sac-TMT (5 mg/kg Q3W) + KL-A167 (1200 mg Q3W) N = 40 n (%)	Cohort 1B Sac-TMT (5 mg/kg Q2W) + KL-A167 (900 mg Q2W) N = 63 n (%)
TRAEs[a]	38 (95.0)	61 (96.8)
Grade ≥3 TRAEs	17 (42.5)	34 (54.0)
TRAEs leading to sac-TMT dose reduction	7 (17.5)	20 (31.7)
TRAEs leading to treatment interruption	10 (25.0)	32 (50.8)
TRAEs leading to discontinuation of any drug	1 (2.5)	2 (3.2)
TRAEs leading to sac-TMT discontinuation[b]	0	1 (1.6)
Treatment-related SAEs	4 (10.0)	14 (22.2)
TRAEs leading to death	0	0

Data cutoff date: Jan 02, 2024. Median treatment duration in cohorts 1A and 1B was 8.8 months and 7.0 months, respectively.
[a] TRAEs were determined as related to either sac-TMT or KL-A167.
[b] Discontinuation of sac-TMT occurred in only 1 patient in cohort 1B due to drug hypersensitivity.

Source: Company data, CMBIGM

CMBI comments:

Promising efficacy of SKB264+A167 in all subgroups of 1L NSCLC. In cohort 1A (Q3W), the 15.4 months of mPFS was very promising compared with the current SoC of PD-1+chemo for 1L NSCLC. The mPFS of cohort 1B (Q2W) was immature at the follow up, while this higher-dose cohort represented even better results with higher 6-mo PFS rate (84.6% in 1B vs 69.2% in 1A) and higher ORR (77.6% in 1B vs 48.6% in 1A). For 1L nsq-NSCLC, Keytruda+chemo delivered 9.0 months of mPFS in the global trial KEYNOTE-189, and tislelizumab+chemo delivered 9.7 months of mPFS in the China trial RATIONALE304. The 15.4 months of mPFS of SKB264+A167 and the 48.6% ORR in cohort 1A were much better than the SoC. In cohort 1B, the 72.7% ORR of the SKB264+A167 in nsq-NSCLC patients was much better than the 48.3% ORR of Keytruda+chemo and the 57.4% ORR of tislelizumab+chemo, and the 93.8% 6-mo PFS rate could indicate a much longer mPFS. Especially, for patients with PD-L1 TPS<1% in cohort 1B, the ORR was 63.2% and the 6-mo PFS rate was 82.2%, indicating the strong potential of SKB264+A167 in PD-L1 negative NSCLC patients.

Further confirmed SKB264's BIC potential. In Trodelvy's Ph2 EVOKE-02 trial, Trodelvy in combo with Keytruda had an ORR of 67% and mPFS of 13.1 months in PD-L1 TPS ≥50% 1L NSCLC patients (n=30) (link), and 44% ORR in patients with PD-L1 TPS <50% (n=32) (link). SKB264+A167 delivered 87.0% ORR in TPS ≥50% patients, 81.3% ORR in TPS 1-49% patients, and 63.2 ORR in TPS<1% patients, which were much better that Trodelvy's results. Trodelvy+Keytruda's mPFS of 13.1 months in TPS≥50% NSCLC patients could fall short compared to SKB264+A167 which delivered 15.4 months mPFS in cohort 1A regardless of PD-L1 expression, and may expect even longer mPFS in the cohort 1B. In the Ph2 TROPION-Lung02 trial (link), Dato-DXd+Keytruda demonstrated the mPFS of 11.1 months and ORR of 52% in 1L NSCLC, also falling short compared to SKB264+A167. We are confident of SKB264's BIC potential in the global TROP2 ADC space. Additionally, for 2/3L NSCLC, after Trodelvy missed the OS endpoint in the EVOKE-01 trial (link), Dato-DXd also missed the OS endpoint at the final analysis in the TROPION-Lung01 study (link).That said, we think SKB264 will enjoy a better positioning in the global TROP2 ADC market.

Tolerable safety profile. SKB264 has demonstrated a more tolerable safety profile than its peers. In the SKB264+A167 trial, grade≥3 TRAEs were observed in 54% patients in the

cohort 1B. In comparison, tislelizumab+chemo had 63% grade ≥3 TRAEs in the RATIONALE304 trial. In the SKB264+A167 trial, TRAE leading to discontinuation of SKB264 occurred in just 1 patient (<1%) of cohort 1B, and there were no treatment-related deaths. In comparison, TEAEs associated with Dato-DXd discontinuation occurred in 29% of patients (link), much higher than that of SKB264. Additionally, in Dato-DXd's TROPION-Lung02 trial, drug-related ILD was observed in 10% of the patients (2.5% grade 3, link), which again indicated the safety concern of Dato-DXd. Notably, in a pooled analysis of Dato-DXd, with 484 NSCLC patients, 6.8% pts had ILD, among which 2.5% were grade 3-5 and 1.7% were grade 5 (link). In Trodelvy's 1L NSCLC (TPS ≥50%) EVOKE-02 trial, TEAEs leading to discontinuation occurred in 17% patients and 3% treatment-related deaths due to neutropenic sepsis were observed (link).

Regarding neutropenia, SKB264+A167 had 30.2% grade≥3 TRAEs from neutropenia in cohort 1B and 30.0% in cohort 1A. In Trodelvy's Ph3 ASCENT trial in 3L+ TNBC and the Ph3 TROPiCS-02 trial in 3L+ HR+/HER2- BC, the incidence of grade≥3 AEs of neutropenia was 51% (TRAEs) and 53% (TEAEs), leading to an FDA boxing warning of life-threatening neutropenia. In the Ph2 EVOKE-02 trial in 1L NSCLC, Trodelvy+Keytruda recorded 32% of any rate of neutropenia TEAEs (link). We notice that MSD adopted a lower dose in its global Ph3 studies, i.e. 4mg/kg Q2W, which will bring more manageable safety profile, in our view.

Expect wide indication coverage in NSCLC. SKB264+A167 has demonstrated very promising Ph2 efficacy data in 1L NSCLC patients without AGAs, with a consistently tolerable safety profile. We see the potential of SKB264 + PD-(L)1 to replace the current SoC in 1L NSCLC upon the validation in Ph3 trials. Kelun Biotech plans to initiate Ph3 trials in China of SKB264+A167/Keytruda in 1L NSCLC patients without AGAs, both in PD-L1 TPS>1 and <1 groups. We think MSD is also likely to initiate additional global Ph3 trials in the similar settings. Additionally, MSD has already started/registered 5 global Ph3 trials in NSCLC, including 3L EGFR-m NSCLC, 2L EGFR-m NSCLC, 1L sq-NSCLC maintenance after Keytruda+chemo induction, 1L TPS≥50% NSCLC, and adjuvant NSCLC. The potential initiation of Ph3 trials in 1L nsq-NSCLC patients without AGAs will provide a significant upside for SKB264's global commercial value, in our view.

Figure 4: SKB264's Ph3 trials conducted by MSD (as of Jun 2024)

Indication	Indication details	Trial ID	Regimen	SKB264 dose	Primary endpoint	Start date	Primary completion date (est)
3L+ EGFR-m NSCLC	Previously treated nsq-NSCLC with EGFR mutations or other genomic alterations (ALK, ROS1, BRAF, NTRK, MET, RET, etc) (pre-treated with TKI, and chemo)	NCT06074588	Mono vs chemo (docetaxel or pemetrexed)	Q2W	PFS，OS	Nov 2023	May 2027
2L EGFR-m NSCLC	post EGFR-TKI nsq-NSCLC (pre-treated with TKI)	NCT06305754	Mono vs chemo (pemetrexed + carboplatin)	Q2W	PFS，OS	Jun 2024 (est)	Sep 2028
1L sq-NSCLC	Maintenance treatment for 1L sq-NSCLC (pts have 4 cycles of prior Keytruda+chemo treatment)	NCT06422143	SKB264+Keytruda vs Keytruda	Q2W	OS	Jul 2024 (est)	Jan 2029
1L NSCLC TPS⩾50%	1L PD-L1 TPS ⩾50% NSCLC	NCT06170788	+ Keytruda vs Keytruda mono	Q2W	OS	Dec 2023	Jan 2028
Adjuvant NSCLC	Adjuvant NSCLC (Stage II, IIIA, IIIB resectable NSCLC not achieving pCR)	NCT06312137	SKB264+Keytruda vs Keytruda	Q2W	DFS	Apr 2024 (est)	Feb 2034
Endometrial carcinoma	Endometrial carcinoma (post chemo and PD(L)-1)	NCT06132958	Mono vs chemo	Q2W	PFS，OS	Dec 2023	Jan 2028
HR+/HER2- BC	HR+/HER2- BC (post endocrine therapies with one in combo with a CDK4/6 inhibitor)	NCT06312176	SKB264 mono vs SKB264+Keytruda vs chemo	Q2W	PFS	Mar 2024 (est)	Jul 2027
TNBC	TNBC (who received neoadjuvant therapy and did not achieve pCR at surgery)	NCT06393374	SKB264+Keytruda vs Keytruda mono or Keytruda + capecitabine	Q2W	iDFS (invasive disease-free survival)	May 2024 (est)	Dec 2030
3L+ GC	3L+ GC	NCT06356311	Mono vs chemo	Q2W	OS	May 2024 (est)	Jan 2027

Source: Company data, CMBIGM.

SKB264 mono in 3L+ TNBC (ASCO Clinical Science Symposium)

Data summary:

The results of a Ph3 trial of SKB264 in 3L+ advanced TNBC was released at ASCO meeting (link, OptiTROP-Breast01). Pts were randomised to receive SKB264 mono (n = 130) or chemo (n = 133). 87% had visceral metastases; 26% received prior PD-(L)1; 48% received 3+ prior lines of chemo.

As of Jun 2023, the primary endpoint of PFS was met, with mPFS of 5.7 vs 2.3 months (HR=0.31, P<0.00001). PFS at 6 months was 43.4% vs 11.1%. In the subset of pts with TROP2 expression H-score > 200, the mPFS was 5.8 vs 1.9 months (HR 0.28; 95% CI 0.17 to 0.48). As of Nov 2023, OS was statistically significant in favor of SKB264 (mOS NE vs 9.4 months, HR 0.53, P =0.0005). The ORR was 43.8% vs 12.8%.

Most common grade≥3 TRAEs were neutrophil count decreased (32.3% vs 47.0%), anemia (27.7% vs 6.1%) and white blood cell count decreased (25.4% vs 36.4%).

CMBI Comments:

Solid Ph3 results to support the approval in China. In the Ph3 trial, SKB264 demonstrated 43.8% ORR and 5.7 months of mPFS in heavily pre-treated TNBC, consistent with the Ph1/2 results. The results were better than the 35% ORR and 5.6 months mPFS of Trodelvy in Ph3 study, and much better than the 32% ORR and 4.4 months mPFS of Dato-DXd in a Ph1 study. Additionally, SKB264 had lower rate of grade ≥3 TRAEs from neutropenia (32% vs 51%) compared to Trodelvy, with the latter having an FDA boxed warning. Meanwhile, SKB264 has higher rates of leukopenia, anemia and platelet count decrease compared to Trodelvy and Dato-DXd. The Ph3 results of SKB264 in 3L+ TNBC should support its current BLA in China (BLA filed in Dec 2023 with priority review). Kelun-Biotech has started a Ph3 trial of SKB264 in 1L TNBC in China (NCT06279364) in Feb 2024, and MSD has registered a global trial of SKB264 + Keytruda

in TNBC who received neoadjuvant therapy and did not achieve pCR at surgery (NCT06393374).

Figure 5: Cross-trial comparison of ADC drugs for late-line TNBC

Drug	SKB264		Trodelvy	Dato-DXd
Company	Kelun-Biotech		Gilead	Daiichi Sankyo / AstraZeneca
Trial ID	NCT05347134	NCT04152499	ASCENT	TROPION-PanTumor01
Trial stage	Ph3	Ph1/2	Ph3	Ph1
Regimen	SKB264 vs chemo	SKB264, single arm	Trodelvy vs chemo	Dato-DXd, single arm
Primary endpoint	PFS		PFS	Safety
n (efficacy evaluable)	130 vs 133	59	468 (235 vs 233) pts without brain metastases	44
Baseline	87% had visceral metastases; 26% received prior PD-(L)1; 48% received 3+ prior lines of chemo	88% pts had >=3 prior treatment	All >= 2 prior treatment	Median of 3 prior treatment (range 1-10)
Median follow-up		22.8 months	17.7 months	16.6 months
PFS (month)	5.7 vs 2.3 HR=0.31, P<0.00001	5.7	5.6 vs 1.7 HR=0.41, P<0.001	4.4
OS (month)		16.8	12.1 vs 6.7 HR=0.48, P<0.001	13.5
ORR	43.8% vs 12.8%	42.4%	35% vs 5%	32%
CR		--	--	2%
mDoR (month)		11.5	6.3 vs 3.6	16.8
Key Grade>=3 TRAEs				
diarrhea		*0*	*11% vs 1%*	*0*
stomatitis		--	--	*11%*
decreased neutrophil count (neutropenia)	*32.3% vs 47.0%*	*25.4%*	*51% vs 33%*	*2.3%*
platelet count decreased		*16.9%*	*1.2% vs 2.7%*	--
leukopenia (decreased in total white blood cell)	*25.4% vs 36.4%*	*23.7%*	*10% vs 5%*	*0*
anemia	*27.7% vs 6.1%*	*22%*	*8% vs 5%*	*2%*
ILD		0%	1 case with grade 3 ILD in Trodelvy arm	0% (2% discontinued due to pneumonitis, not ILD)
AE leading to dose reduction		15.2%	--	18%
AE leading to discontinuation		6.8%	5% vs 5%	2% (due to pneumonitis)
Approval status	BLA accepted in Dec 2023 in China		Approved in China (3L+ TNBC) and the US (3L+ TNBC)	Not approved yet
Source	Link	Link	Link1 Link2	Link1, Link2, Link3

Source: Company data, CMBIGM.

Given the promising data of SKB264 in 1L NSCLC and in late-line TNBC, we are more confident about SKB264's global development and the approval in China. We raise our DCF-based TP from HK$200.77 to HK$246.13 (WACC: 10.31%, terminal growth rate: 4.0%). Maintain BUY.

Figure 6: Risk-adjusted DCF valuation

DCF Valuation (RMB mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	**-677**	**-783**	**-698**	**11**	**1,812**	**2,965**	**4,299**	**5,767**	**7,087**	**7,974**	**8,375**	**8,254**
Tax rate	*0%*	*0%*	*0%*	*0%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*	*15%*
EBIT*(1-tax rate)	-677	-783	-698	11	1,540	2,520	3,655	4,902	6,024	6,778	7,119	7,016
+ D&A	35	40	44	51	58	59	61	63	64	66	67	69
- Change in working capital	-208	-67	-167	-283	-253	-258	-199	-106	-21	35	87	82
- Capex	-200	-150	-150	-200	-200	-100	-100	-100	-100	-100	-100	-100
FCFF	**-1,051**	**-960**	**-971**	**-421**	**1,145**	**2,221**	**3,417**	**4,760**	**5,967**	**6,778**	**7,173**	**7,067**
Terminal value												**116,547**
FCF + terminal value	**-1,051**	**-960**	**-971**	**-421**	**1,145**	**2,221**	**3,417**	**4,760**	**5,967**	**6,778**	**7,173**	**123,614**

Present value of enterprise (RMB mn)	48,619
Net debt (RMB mn)	-477
Equity value (RMB mn)	**49,096**
No. of shares (mn)	219
DCF per share (RMB)	**223.98**
DCF per share (HK$)	**246.13**
Terminal growth rate	**4.0%**
WACC	**10.31%**
Cost of equity	14.0%
Cost of debt	4.0%
Equity beta	1.05
Risk-free rate	3.0%
Market risk premium	10.5%
Target debt to asset ratio	35.0%
Effective corporate tax rate	15.0%

Source: CMBIGM estimates

Figure 7: Sensitivity analysis (HK$)

	WACC				
Terminal growth rate	**9.31%**	**9.81%**	**10.31%**	**10.81%**	**11.31%**
5.0%	369.49	321.11	282.13	250.09	223.36
4.5%	337.33	296.29	262.58	234.45	210.65
4.0%	311.23	275.74	**246.13**	221.10	199.69
3.5%	289.63	258.45	232.10	209.58	190.13
3.0%	271.45	243.71	219.99	199.53	181.72

Source: CMBIGM estimates

Figure 8: CMBIGM estimates revision

	New			Old			Diff (%)		
RMB mn	**FY24E**	**FY25E**	**FY26E**	**FY24E**	**FY25E**	**FY26E**	**FY24E**	**FY25E**	**FY26E**
Revenue	918	1,082	1,642	918	1,079	1,638	0%	0%	0%
Gross profit	645	821	1,349	645	819	1,346	0%	0%	0%
Operating profit	-656	-772	-686	-656	-772	-687	0%	0%	0%
Net profit	-659	-786	-726	-659	-786	-727	0%	0%	0%
EPS (RMB)	(3.01)	(3.59)	(3.31)	(3.01)	(3.59)	(3.31)	0%	0%	0%
Gross margin	70.24%	75.93%	82.16%	70.24%	75.92%	82.17%	0.00 ppt	+0.01 ppt	-0.01 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 9: CMBIGM estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMB mn	**FY24E**	**FY25E**	**FY26E**	**FY24E**	**FY25E**	**FY26E**	**FY24E**	**FY25E**	**FY26E**
Revenue	918	1,082	1,642	1,181	1,468	2,500	-22%	-26%	-34%
Gross profit	645	821	1,349	742	1,062	1,877	-13%	-23%	-28%
Operating profit	-656	-772	-686	-659	-718	-209	0%	8%	228%
Net profit	-659	-786	-726	-650	-707	-294	1%	11%	147%
EPS (RMB)	(3.01)	(3.59)	(3.31)	(2.94)	(3.67)	(1.24)	2%	-2%	166%
Gross margin	70.24%	75.93%	82.16%	62.87%	72.33%	75.07%	+7.37 ppt	+3.60 ppt	+7.09 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**32**	**804**	**1,540**	**918**	**1,082**	**1,642**
Cost of goods sold	(21)	(277)	(781)	(273)	(260)	(293)
Gross profit	**12**	**527**	**759**	**645**	**821**	**1,349**
Operating expenses	**(789)**	**(946)**	**(1,143)**	**(1,301)**	**(1,594)**	**(2,035)**
Selling expense	0	0	(20)	(41)	(226)	(559)
Admin expense	(96)	(95)	(182)	(218)	(262)	(314)
R&D expense	(728)	(846)	(1,031)	(1,083)	(1,137)	(1,193)
Others	35	(4)	90	41	31	32
Operating profit	**(777)**	**(419)**	**(383)**	**(656)**	**(772)**	**(686)**
Net Interest income/(expense)	**(113)**	**(149)**	**(84)**	**(3)**	**(14)**	**(40)**
Pre-tax profit	**(890)**	**(567)**	**(468)**	**(659)**	**(786)**	**(726)**
Income tax	0	(49)	(106)	0	0	0
After tax profit	**(890)**	**(616)**	**(574)**	**(659)**	**(786)**	**(726)**
Minority interest	0	0	0	0	0	0
Net profit	**(890)**	**(616)**	**(574)**	**(659)**	**(786)**	**(726)**

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**298**	**332**	**2,807**	**1,572**	**1,148**	**903**
Cash & equivalents	82	93	1,529	497	933	535
Restricted cash	37	26	40	40	40	40
Account receivables	79	99	215	7	61	220
Inventories	79	53	63	67	54	48
Financial assets at FVTPL	0	0	634	634	34	34
Other current assets	23	62	327	327	27	27
Non-current assets	**515**	**661**	**702**	**867**	**978**	**1,083**
PP&E	432	530	608	773	883	989
Right-of-use assets	42	117	85	85	85	85
Intangibles	0	3	1	1	1	1
Other non-current assets	40	10	8	8	8	8
Total assets	**813**	**993**	**3,510**	**2,439**	**2,126**	**1,987**
Current liabilities	**3,445**	**4,167**	**1,110**	**698**	**1,172**	**1,758**
Short-term borrowings	2,388	2,891	0	0	500	1,100
Account payables	185	243	523	112	85	72
Other current liabilities	761	787	21	21	21	21
Lease liabilities	2	82	54	54	54	54
Contract liabilities	109	164	511	511	511	511
Non-current liabilities	**12**	**52**	**70**	**70**	**70**	**70**
Deferred income	11	11	65	65	65	65
Other non-current liabilities	1	41	6	6	6	6
Total liabilities	**3,457**	**4,219**	**1,180**	**768**	**1,242**	**1,828**
Share capital	107	107	219	219	219	219
Other reserves	(2,751)	(3,334)	2,110	1,452	665	(61)
Total shareholders equity	**(2,644)**	**(3,226)**	**2,329**	**1,671**	**884**	**158**
Total equity and liabilities	**813**	**993**	**3,510**	**2,439**	**2,126**	**1,987**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**(890)**	**(567)**	**(468)**	**(659)**	**(786)**	**(726)**
Depreciation & amortization	23	67	75	35	40	44
Tax paid	0	(49)	0	0	0	0
Change in working capital	279	35	276	(208)	(67)	(167)
Others	102	195	177	3	14	40
Net cash from operations	**(486)**	**(320)**	**60**	**(829)**	**(799)**	**(809)**
Investing						
Capital expenditure	(94)	(34)	(81)	(200)	(150)	(150)
Net proceeds from disposal of short-term investments	0	1	(623)	0	600	0
Others	(1)	1	(321)	0	300	0
Net cash from investing	**(94)**	**(32)**	**(1,025)**	**(200)**	**750**	**(150)**
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	155	318	(394)	0	500	600
Proceeds from share issues	534	0	1,482	0	0	0
Others	(42)	(5)	1,294	(3)	(14)	(40)
Net cash from financing	**647**	**313**	**2,382**	**(3)**	**486**	**560**
Net change in cash						
Cash at the beginning of the year	16	82	93	1,529	497	933
Exchange difference	(1)	1	19	0	0	0
Cash at the end of the year	**82**	**44**	**1,529**	**497**	**933**	**535**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	na	2,387.3%	91.6%	(40.4%)	17.8%	51.7%
Gross profit	na	4,368.1%	44.0%	(15.1%)	27.4%	64.2%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	36.5%	65.6%	49.3%	70.2%	75.9%	82.2%
Operating margin	(2,404.6%)	(52.1%)	(24.9%)	(71.5%)	(71.4%)	(41.8%)
Return on equity (ROE)	na	na	na	(32.9%)	(61.6%)	(139.3%)

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	0.1	0.1	2.5	2.3	1.0	0.5

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	ns	ns	ns	ns
P/B	ns	ns	13.3	22.1	41.7	232.8

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

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