

Innovent Biologics (1801 HK)

Promising PoC results of the potential FIC asset

- IBI363 (PD-1/IL-2) demonstrated encouraging signals in IO-failed and cold tumors, especially in IO-resistant sq-NSCLC.** IBI363 is a potential FIC PD-1/IL-2 bsAb with a differentiated α -biased IL-2 arm, distinct from other IL-2 mAbs that eliminate the receptor α . IBI363 has shown broad-spectrum anti-tumor effects for IO-failed and cold tumors, including IO-resistant NSCLC, melanoma, and 3L+ CRC. Especially, for later-line IO-treated sq-NSCLC patients (n=37, 76% with ≥ 2 prior treatment) receiving IBI363 at ≥ 0.3 mg/kg, the ORR reached 35.1% and the mPFS reached 5.5 months, which were much better than the current SoC docetaxel's 12.7% ORR and 3.9 months of mPFS ([link](#)). We expect the 3mg/kg Q3W dose to deliver even better efficacy results with a preliminary 100% ORR observed in the 3mg/kg Q3W dose cohort (n=6) in sqNSCLC patients. In addition, for 3L+ CRC, the 15% ORR of IBI363 mono (1mg/kg Q2W) was better than that of fruquintinib (4.7% ORR in FRESCO trial). We think IBI363 has potential to combo with VEGF or chemo for treatment of CRC. Safety was overall tolerable. In the 3mg/kg Q3W cohort (n=38), rate of Gr ≥ 3 TRAEs was only 13.2% and there was no TRAE leading to treatment discontinuation. Two out of the 347 patients died due to TRAEs. Innovent has started a US Ph2 study (NCT06281678) of IBI363 and is considering the initiation of MRCT pivotal trials in NSCLC and melanoma.
- CLDN18.2 ADC showed good potential in PDAC.** IBI343 (CLDN18.2 ADC) demonstrated encouraging signals in the highly underserved PDAC, with 40.0% ORR observed in the 10 CLDN18.2 positive ($\geq 60\%$) PDAC patients receiving IBI343 at 6mg/kg. Only 25.7% Gr ≥ 3 TRAEs were observed, and the percentage of Gr ≥ 3 AEs of neutropenia, nausea and vomiting were lower than its peers. For GC, we expect the Company to release PoC results of IBI343 in 3L+ GC at ESMO GI in Jun. Innovent plans to start an MRCT Ph3 trial of IBI343 in GC (NCT06238843). Additionally, IBI389 (CLDN18.2/CD3) also demonstrated encouraging preliminary PoC results in GC and PDAC, while the safety profile requires further clinical follow-up given the 58.3% rate of Gr ≥ 3 TRAEs in the Ph1 study (n=120), in our view.
- Mazdutide (GLP-1/GCGR) released competitive Ph3 results in obesity.** In the Ph3 GLORY-1 trial ([link](#)), mazdutide demonstrated strong weight loss results, -14.84% (6mg) vs -12.05% (4mg) vs -0.47% (placebo) at week 48. Mazdutide also brought significant decreases in LDL-C, serum uric acid and ALT. Mazdutide (6mg) had 80.2% reduction in liver fat content (LFC) for subjects with baseline LFC $\geq 10\%$, indicating its potential in liver steatosis improvement. Mazdutide's weight loss results were better than semaglutide and comparable to tirzepatide, in our view. Recall that tirzepatide achieved -19.9% (15mg) vs -14.4% (10mg) vs -2.4% (placebo) weight loss in the China SURMOUNT-CN trial at week 52, and semaglutide had -12.8% (2.4mg) vs -3.0% (placebo) weight loss in the STEP 7 Asia trial at week 44. Additionally, mazdutide demonstrated better safety profile with AE leading discontinuation rate of 0.5% (6mg) vs 1.5% (4mg), compared to 7.0% of tirzepatide (15mg) and 2.8% of semaglutide. The results support mazdutide's NDA in China, with approval expected in 1H25. As a front-runner in dual-targeted GLP-1 drugs for obesity, we expect mazdutide to gain considerable market share in China.
- Maintain BUY.** We see the FIC potential of Innovent's innovative PD-1/IL-2 assets and look forward to the potential overseas out-licensing deals in the future. We revise our DCF-based TP from HK\$55.00 to HK\$55.75 (WACC: 10.0%, terminal growth rate: 4.0%)

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	4,556	6,206	7,612	9,456	13,354
YoY growth (%)	6.7	36.2	22.6	24.2	41.2
Net profit (RMB mn)	(2,179)	(1,028)	(1,283)	(109)	1,320
EPS (Reported) (RMB)	(1.43)	(0.66)	(0.79)	(0.07)	0.81
R&D expenses (RMB mn)	(2,871)	(2,228)	(2,512)	(2,458)	(2,804)
CAPEX (RMB mn)	(897)	(1,119)	(400)	(300)	(300)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$55.75
(Previous TP)	HK\$55.00
Up/Downside	46.5%
Current Price	HK\$38.05

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Stock Data

Mkt Cap (HK\$ mn)	61,739.3
Avg 3 mths t/o (HK\$ mn)	267.2
52w High/Low (HK\$)	48.45/28.70
Total Issued Shares (mn)	1622.6

Source: FactSet

Shareholding Structure

Temasek Holdings	8.5%
Yu De-Chao Michael	6.6%

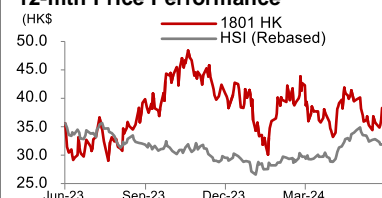
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	-5.0%	3.6%
3-mth	-10.8%	-16.8%
6-mth	-9.8%	-15.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	-1,358	-186	1,452	3,762	6,224	8,108	9,037	9,699	9,872	10,018	9,939	9,758
Tax rate	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	-1,358	-186	1,234	3,198	5,291	6,892	7,681	8,244	8,391	8,515	8,449	8,294
+ D&A	318	319	320	321	321	322	323	324	324	325	326	326
- Change in working capital	31	317	-504	-499	-526	-409	-263	-201	-12	-2	79	98
- Capex	-400	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300
FCFF	-1,409	150	750	2,720	4,786	6,506	7,441	8,067	8,403	8,538	8,554	8,418
Terminal value												146,311
FCF + Terminal value	-1,409	150	750	2,720	4,786	6,506	7,441	8,067	8,403	8,538	8,554	154,729

PV of enterprise (RMB mn)	74,761
Net debt (RMB mn)	-6,647
Equity value (RMB mn)	81,408
Equity value (HK\$ mn)	90,453
No. of outstanding shares (mn)	1,623
DCF per share (HK\$)	55.75

Terminal growth rate	4.0%
WACC	10.0%
Cost of equity	13.3%
Cost of debt	4.5%
Equity beta	1.0
Risk-free rate	2.8%
Market risk premium	10.5%
Target debt to asset ratio	35.0%
Effective corporate tax rate	15.0%

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

		WACC				
		9.0%	9.5%	10.0%	10.5%	11.0%
Terminal growth rate	5.0%	79.39	70.02	62.53	56.42	51.35
	4.5%	73.13	65.26	58.83	53.49	48.99
	4.0%	68.12	61.36	55.75	51.01	46.96
	3.5%	64.03	58.12	53.14	48.88	45.21
	3.0%	60.62	55.38	50.90	47.04	43.68

Source: Company data, CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	New			Old			Diff(%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	7,612	9,456	13,354	6,867	9,787	13,617	11%	-3%	-2%
Gross profit	6,241	7,801	11,084	5,597	8,025	11,234	12%	-3%	-1%
Operating profit	(413)	851	2,730	(331)	878	2,764	N/A	-3%	-1%
Net profit	(1,282)	(109)	1,320	(1,126)	(112)	1,330	N/A	N/A	-1%
EPS (RMB)	(0.79)	(0.07)	0.81	(0.69)	(0.07)	0.82	N/A	N/A	-1%
Gross margin	82.00%	82.50%	83.00%	81.50%	82.00%	82.50%	+0.50 ppt	+0.50 ppt	+0.50 ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff(%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	7,612	9,456	13,354	7,570	10,050	13,090	1%	-6%	2%
Gross profit	6,241	7,801	11,084	6,234	8,317	10,931	0%	-6%	1%
Operating profit	(413)	851	2,730	(928)	(30)	1,424	N/A	N/A	92%
Net profit	(1,282)	(109)	1,320	(727)	200	1,498	N/A	N/A	-12%
EPS (RMB)	(0.79)	(0.07)	0.81	(0.45)	0.11	0.95	N/A	N/A	-14%
Gross margin	82.00%	82.50%	83.00%	82.35%	82.75%	83.50%	-0.35 ppt	-0.25 ppt	-0.50 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	4,270	4,556	6,206	7,612	9,456	13,354
Cost of goods sold	(505)	(931)	(1,136)	(1,370)	(1,655)	(2,270)
Gross profit	3,764	3,625	5,070	6,241	7,801	11,084
Operating expenses	(6,406)	(5,796)	(6,214)	(7,524)	(7,910)	(9,531)
Selling expense	(2,620)	(2,591)	(3,101)	(3,501)	(3,688)	(4,407)
Admin expense	(806)	(835)	(750)	(875)	(1,040)	(1,402)
R&D expense	(2,323)	(2,871)	(2,228)	(2,512)	(2,458)	(2,804)
Others	(657)	502	(136)	(635)	(724)	(918)
Pre-tax profit	(2,642)	(2,170)	(1,144)	(1,282)	(109)	1,553
Income tax	(87)	(9)	116	0	0	(233)
Minority interest	0	0	0	0	0	0
Net profit	(2,729)	(2,179)	(1,028)	(1,282)	(109)	1,320
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	11,551	11,507	13,428	12,749	13,414	15,644
Cash & equivalents	8,377	9,163	10,052	9,355	10,251	11,788
Account receivables	968	575	1,006	865	945	1,335
Inventories	1,347	1,429	968	1,126	816	1,120
Financial assets at FVTPL	645	3	918	918	918	918
Other current assets	213	337	484	484	484	484
Non-current assets	4,693	6,082	7,199	7,282	7,263	7,243
PP&E	2,693	3,411	4,290	4,407	4,423	4,437
Intangibles	772	1,198	1,270	1,270	1,270	1,270
Other non-current assets	1,228	1,472	1,639	1,605	1,570	1,536
Total assets	16,244	17,589	20,627	20,030	20,677	22,888
Current liabilities	3,050	3,499	4,477	4,525	4,613	4,802
Short-term borrowings	365	888	1,195	1,195	1,195	1,195
Account payables	195	326	373	421	508	697
Tax payable	61	3	0	0	0	0
Other current liabilities	2,429	2,282	2,909	2,909	2,909	2,909
Non-current liabilities	2,863	3,360	3,623	3,628	3,634	3,639
Long-term borrowings	2,023	2,215	2,327	2,327	2,327	2,327
Obligations under finance leases	86	99	73	79	84	89
Other non-current liabilities	754	1,046	1,223	1,223	1,223	1,223
Total liabilities	5,913	6,859	8,100	8,153	8,246	8,441
Share capital	0	0	0	0	0	0
Other reserves	10,330	10,730	12,527	11,877	12,431	14,447
Total shareholders equity	10,330	10,730	12,528	11,877	12,431	14,447
Minority interest	0	0	0	0	0	0
Total equity and liabilities	16,244	17,589	20,627	20,030	20,677	22,888

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(2,555)	(2,162)	(1,261)	(1,282)	(109)	1,785
Depreciation & amortization	165	245	276	283	284	285
Tax paid	(87)	(9)	116	0	0	(233)
Change in working capital	(90)	295	403	31	317	(504)
Others	542	(327)	511	596	626	403
Net cash from operations	(2,025)	(1,958)	46	(373)	1,118	1,736
Investing						
Capital expenditure	(1,066)	(897)	(1,119)	(400)	(300)	(300)
Acquisition of subsidiaries/ investments	(38)	(79)	0	0	0	0
Net proceeds from disposal of short-term investments	(2,000)	(583)	(358)	0	0	0
Others	1,964	768	478	184	186	209
Net cash from investing	(1,139)	(790)	(999)	(216)	(114)	(91)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	1,208	715	418	0	0	0
Proceeds from share issues	3,951	2,131	2,255	0	0	0
Others	(155)	46	(86)	(109)	(109)	(109)
Net cash from financing	5,003	2,892	2,587	(109)	(109)	(109)
Net change in cash						
Cash at the beginning of the year	1,276	1,359	1,016	10,052	9,355	10,251
Exchange difference	(197)	119	(7)	0	0	0
Cash at the end of the year	8,377	9,163	10,052	9,355	10,251	11,788
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	11.1%	6.7%	36.2%	22.6%	24.2%	41.2%
Gross profit	8.9%	(3.7%)	39.8%	23.1%	25.0%	42.1%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	88.2%	79.6%	81.7%	82.0%	82.5%	83.0%
Return on equity (ROE)	(28.6%)	(20.7%)	(8.8%)	(10.5%)	(0.9%)	9.8%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)
Current ratio (x)	3.8	3.3	3.0	2.8	2.9	3.3
Receivable turnover days	61.7	61.8	46.5	41.5	36.5	36.5
Inventory turnover days	741.4	544.2	385.0	300.0	180.0	180.0
Payable turnover days	114.0	102.1	112.1	112.1	112.1	112.1
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	ns	ns	ns	43.5
P/B	5.0	5.0	4.4	4.8	4.6	4.0

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

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