

# RemeGen (9995 HK)

## Strong sales performance in 2Q

In 2Q24, RemeGen recorded strong product sales, with revenue reaching RMB411mn (+77% YoY), mainly from the product sales of RC18 and RC48, compared to RMB330mn in 1Q24 (+24% QoQ) and RMB254mn in 2Q23 (+62% YoY). The total product sales were RMB729mn in 1H24 (+75% YoY), representing approximately 47% of our previous FY24 estimate, largely in line with our expectations. We are reassured that the Company is on track to meet its FY24 sales target of 50%+ YoY increase. The GP margin (vs product sales) improved slightly to 76.8% in 1H24 (vs 75.9% in FY23). RemeGen's SG&A expense ratio (vs product sales) decreased from 79% in 1Q24 to 67% in 2Q24. In 2Q24, the R&D expense was RMB475mn, vs RMB331mn in 1Q24, with the 43% QoQ increase mainly due to the ongoing pivotal studies, especially in the US. The Company recorded a wider net loss of RMB432mn in 2Q24 (vs RMB349mn in 1Q24). As of Jun 2024, RemeGen had a cash balance of RMB873mn (incl. financial assets), with RMB933mn short-term borrowings and RMB1,342mn long-term borrowings, indicating a need for additional financing. Additionally, RemeGen recently revised its plan to raise up to RMB1.95bn by issuing additional A-shares.

- Looking forward to RC18's global development.** The first stage of RC18's Ph3 global SLE trial (NCT05306574) has completed enrolment of 90 patients as of 1Q24. We expect the Company to unblind the first-stage study in 1Q25 after a 52-week treatment period for the enrolled patients. Concurrently, the enrollment for the second stage of the Ph3 study is underway. We anticipate the data release of the first stage could act as a significant catalyst for a potential out-licensing deal for RC18. A parallel global Ph3 study of RC18 in SLE (NCT06456567) has also been registered. Additionally, a global Ph3 trial of RC18 for MG is ongoing in the US with FPI in Aug 2024. The US FDA has also approved Ph3 trials of RC18 for pSS and IgAN. In China, RC18 was recently approved for RA in Jul. The China Ph3 trial of RC18 for MG met the primary endpoint in Aug 2024, with the sNDA expected to follow. The China Ph3 trials in pSS and IgAN also completed enrolment in May.
- Smooth clinical progress of RC48.** In China, RC48 has already been approved for use in 2L+ UC and 3L GC. A China Ph3 trial of RC48 in HER2-positive BC with liver metastasis met the primary endpoint in Jun 2024, with sNDA expected to be filed shortly. Additionally, a Ph3 trial of RC48 in HER2-low BC is currently ongoing. To expand RC48's use for front-line treatment, a Ph3 trial of RC48+toripalimab for 1L HER2-expressing UC has completed enrolment in Aug 2024. Furthermore, a Ph2/3 trial of RC48 + toripalimab + chemo or RC48 + toripalimab + trastuzumab in 1L GC is ongoing. Internationally, Seagen/Pfizer is conducting a pivotal Ph2 trial of RC48 as a monotherapy in 2L HER2-expressing UC and a Ph3 trial of RC48 + Keytruda in 1L HER2-expressing UC.
- Maintain BUY.** We expect RC18 and RC48 to maintain strong sales momentum in China. Nevertheless, considering the delayed progress of the international collaboration deal for RC18 and the risk of liquidity, we revise down our DCF-based TP from HK\$41.72 to HK\$19.59 (WACC: 12.93%, terminal growth rate: 2.0%).

### Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	768	1,076	1,667	2,709	3,797
YoY growth (%)	(46.1)	40.2	54.9	62.5	40.2
Net profit (RMB mn)	(999)	(1,511)	(1,609)	(1,146)	(434)
EPS (Reported) (RMB)	(1.88)	(2.80)	(2.96)	(2.11)	(0.80)
R&D expenses (RMB mn)	(982)	(1,306)	(1,693)	(1,600)	(1,519)
Admin expenses (RMB mn)	(273)	(314)	(350)	(488)	(570)

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

<b>Target Price</b>	<b>HK\$19.59</b>
(Previous TP)	HK\$41.72)
<b>Up/Downside</b>	<b>35.3%</b>
<b>Current Price</b>	<b>HK\$14.48</b>

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### Stock Data

Mkt Cap (HK\$ mn)	7,881.9
Avg 3 mths t/o (HK\$ mn)	40.1
52w High/Low (HK\$)	47.50/13.24
Total Issued Shares (mn)	544.3

Source: FactSet

### Shareholding Structure

HKSCC nominees limited	34.8%
Yantai Rongda	18.8%

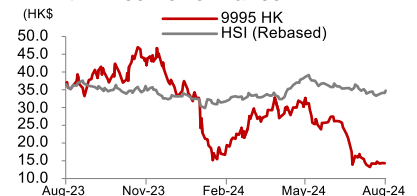
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-11.5%	-10.0%
3-mth	-55.7%	-50.7%
6-mth	-25.5%	-31.0%

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	(1,544)	(1,032)	(288)	327	1,187	2,137	2,881	3,419	3,956	4,042	3,795	3,738
Tax rate	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(1,544)	(1,032)	(288)	278	1,009	1,816	2,449	2,907	3,363	3,435	3,226	3,177
+ D&A	265	272	272	271	271	270	270	269	269	269	268	268
- Change in working capital	500	(290)	(287)	(369)	(333)	(298)	(263)	(175)	(185)	133	218	83
- Capex	(600)	(400)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)
<b>FCFF</b>	<b>(1,379)</b>	<b>(1,450)</b>	<b>(503)</b>	<b>(20)</b>	<b>747</b>	<b>1,589</b>	<b>2,256</b>	<b>2,801</b>	<b>3,247</b>	<b>3,637</b>	<b>3,512</b>	<b>3,328</b>
<b>Terminal value</b>												<b>31,062</b>
<b>FCF + Terminal value</b>	<b>(1,379)</b>	<b>(1,450)</b>	<b>(503)</b>	<b>(20)</b>	<b>747</b>	<b>1,589</b>	<b>2,256</b>	<b>2,801</b>	<b>3,247</b>	<b>3,637</b>	<b>3,512</b>	<b>34,390</b>
PV of enterprise (RMB mn)	11,555											
Net debt (RMB mn)	1,959											
<b>Equity value (RMB mn)</b>	<b>9,596</b>											
No. of shares (mn)	544											
<b>DCF per shares (RMB)</b>	<b>17.63</b>											
<b>DCF per share (HK\$)</b>	<b>19.59</b>											

<b>Terminal growth rate</b>	<b>2.0%</b>
<b>WACC</b>	<b>12.93%</b>
Cost of Equity	16.7%
Cost of Debt	5.0%
Equity Beta	1.3
Risk Free Rate	3.0%
Market Risk Premium	10.5%
Target Debt to Asset ratio	30.0%
Effective Corporate Tax Rate	15.0%

Source: CMBIGM estimates

**Figure 2: Sensitivity analysis (HK\$)**

Terminal growth rate	WACC				
	11.93%	12.43%	12.93%	13.43%	13.93%
3.0%	26.20	23.57	21.23	19.14	17.25
2.5%	25.04	22.57	20.37	18.39	16.60
2.0%	23.99	21.67	<b>19.59</b>	17.71	16.01
1.5%	23.04	20.85	18.87	17.09	15.47
1.0%	22.17	20.10	18.22	16.52	14.96

Source: CMBIGM estimates

**Figure 3: CMBIGM estimates revision**

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	1,667	2,709	3,797	1,601	2,695	3,954	4%	1%	-4%
Gross profit	1,288	2,115	2,978	1,225	2,094	3,123	5%	1%	-5%
Operating profit	(1,544)	(1,032)	(288)	(1,386)	(959)	(230)	N/A	N/A	N/A
Net profit	(1,609)	(1,146)	(434)	(1,451)	(1,070)	(362)	N/A	N/A	N/A
EPS (RMB)	(2.96)	(2.11)	(0.80)	(2.67)	(1.97)	(0.66)	N/A	N/A	N/A
Gross margin	77.29%	78.09%	78.42%	76.52%	77.72%	78.98%	+0.77 ppt	+0.37 ppt	-0.56 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	1,667	2,709	3,797	1,641	2,515	3,440	2%	8%	10%
Gross profit	1,288	2,115	2,978	1,298	2,070	2,848	-1%	2%	5%
Operating profit	(1,544)	(1,032)	(288)	-1,326	-796	-333	N/A	N/A	N/A
Net profit	(1,609)	(1,146)	(434)	-1,291	-768	-262	N/A	N/A	N/A
EPS (RMB)	(2.96)	(2.11)	(0.80)	(2.34)	(1.55)	(0.53)	N/A	N/A	N/A
Gross margin	77.29%	78.09%	78.42%	79.12%	82.30%	82.78%	-1.83 ppt	-4.21 ppt	-4.36 ppt

Source: Company data, Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Revenue</b>	<b>1,424</b>	<b>768</b>	<b>1,076</b>	<b>1,667</b>	<b>2,709</b>	<b>3,797</b>
Cost of goods sold	(67)	(270)	(253)	(379)	(593)	(820)
<b>Gross profit</b>	<b>1,357</b>	<b>498</b>	<b>823</b>	<b>1,288</b>	<b>2,115</b>	<b>2,978</b>
<b>Operating expenses</b>	<b>(1,080)</b>	<b>(1,497)</b>	<b>(2,334)</b>	<b>(2,897)</b>	<b>(3,261)</b>	<b>(3,412)</b>
Selling expense	(263)	(441)	(775)	(867)	(1,138)	(1,253)
Admin expense	(220)	(273)	(314)	(350)	(488)	(570)
R&D expense	(711)	(982)	(1,306)	(1,693)	(1,600)	(1,519)
Others	113	199	61	13	(36)	(70)
<b>Operating profit</b>	<b>282</b>	<b>(992)</b>	<b>(1,488)</b>	<b>(1,544)</b>	<b>(1,032)</b>	<b>(288)</b>
Interest income	(5)	(7)	(23)	(65)	(114)	(146)
<b>Pre-tax profit</b>	<b>276</b>	<b>(999)</b>	<b>(1,511)</b>	<b>(1,609)</b>	<b>(1,146)</b>	<b>(434)</b>
Income tax	0	0	0	0	0	0
Minority interest	0	0	0	0	0	0
<b>Net profit</b>	<b>276</b>	<b>(999)</b>	<b>(1,511)</b>	<b>(1,609)</b>	<b>(1,146)</b>	<b>(434)</b>
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>2,300</b>	<b>3,212</b>	<b>2,229</b>	<b>1,904</b>	<b>2,271</b>	<b>2,549</b>
Cash & equivalents	1,757	2,069	727	784	723	576
Account receivables	7	281	420	313	508	713
Inventories	280	523	742	467	699	921
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	256	339	340	340	340	340
<b>Non-current assets</b>	<b>1,859</b>	<b>2,809</b>	<b>3,295</b>	<b>3,713</b>	<b>3,924</b>	<b>3,936</b>
PP&E	1,578	2,407	2,833	3,235	3,425	3,416
Right-of-use assets	149	205	252	271	291	311
Intangibles	13	17	24	21	23	24
Financial assets at FVTPL	12	80	94	94	94	94
Other non-current assets	108	100	92	92	92	92
<b>Total assets</b>	<b>4,159</b>	<b>6,021</b>	<b>5,524</b>	<b>5,618</b>	<b>6,195</b>	<b>6,485</b>
<b>Current liabilities</b>	<b>616</b>	<b>892</b>	<b>1,138</b>	<b>1,255</b>	<b>1,393</b>	<b>1,532</b>
Short-term borrowings	0	0	286	286	286	286
Account payables	159	222	139	257	394	533
Other current liabilities	405	610	653	653	653	653
Lease liabilities	52	60	58	58	58	58
<b>Non-current liabilities</b>	<b>96</b>	<b>149</b>	<b>953</b>	<b>2,453</b>	<b>3,953</b>	<b>4,453</b>
Long-term borrowings	0	0	841	2,341	3,841	4,341
Deferred income	46	44	37	37	37	37
Other non-current liabilities	51	105	76	76	76	76
<b>Total liabilities</b>	<b>713</b>	<b>1,041</b>	<b>2,091</b>	<b>3,708</b>	<b>5,346</b>	<b>5,985</b>
Share capital	490	544	544	544	544	544
Other reserves	2,957	4,436	2,893	1,370	309	(39)
<b>Total shareholders equity</b>	<b>3,446</b>	<b>4,980</b>	<b>3,437</b>	<b>1,914</b>	<b>854</b>	<b>505</b>
<b>Total equity and liabilities</b>	<b>4,159</b>	<b>6,021</b>	<b>5,528</b>	<b>5,622</b>	<b>6,200</b>	<b>6,490</b>

<b>CASH FLOW</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
Profit before taxation	276	(999)	(1,511)	(1,609)	(1,146)	(434)
Depreciation & amortization	65	121	174	198	210	209
Tax paid	0	0	0	0	0	0
Change in working capital	(168)	(524)	(358)	500	(290)	(287)
Others	90	138	194	217	262	294
<b>Net cash from operations</b>	<b>264</b>	<b>(1,264)</b>	<b>(1,502)</b>	<b>(694)</b>	<b>(965)</b>	<b>(217)</b>
<b>Investing</b>						
Capital expenditure	(615)	(756)	(769)	(600)	(400)	(200)
Acquisition of subsidiaries/ investments	0	(1,905)	(1,039)	0	0	0
Net proceeds from disposal of short-term investments	0	1,846	974	0	0	0
Others	(23)	(27)	17	(83)	(83)	(83)
<b>Net cash from investing</b>	<b>(638)</b>	<b>(842)</b>	<b>(818)</b>	<b>(683)</b>	<b>(483)</b>	<b>(283)</b>
<b>Financing</b>						
Dividend paid	0	0	0	0	0	0
Net borrowings	(108)	0	1,126	1,500	1,500	500
Proceeds from share issues	(14)	2,520	0	0	0	0
Share repurchases	(449)	(41)	(99)	0	0	0
Others	(55)	(52)	(82)	(65)	(114)	(146)
<b>Net cash from financing</b>	<b>(627)</b>	<b>2,427</b>	<b>944</b>	<b>1,435</b>	<b>1,386</b>	<b>354</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	2,769	1,757	2,069	727	784	723
Exchange difference	(10)	(9)	(1)	0	0	0
<b>Cash at the end of the year</b>	<b>1,757</b>	<b>2,069</b>	<b>692</b>	<b>784</b>	<b>723</b>	<b>576</b>
<b>GROWTH</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Revenue	na	(46.1%)	40.2%	54.9%	62.5%	40.2%
Gross profit	na	(63.3%)	65.3%	56.5%	64.2%	40.8%
<b>PROFITABILITY</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Gross profit margin	95.3%	64.8%	76.5%	77.3%	78.1%	78.4%
Operating margin	19.8%	(129.2%)	(138.3%)	(92.6%)	(38.1%)	(7.6%)
Return on equity (ROE)	7.8%	(23.7%)	(35.9%)	(60.1%)	(82.8%)	(63.9%)
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
Current ratio (x)	3.7	3.6	2.0	1.5	1.6	1.7
<b>VALUATION</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>YE 31 Dec</b>						
P/E	23.5	ns	ns	ns	ns	ns

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

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