

Innovent Biologics (1801 HK)

2025 EBITDA breakeven goal unchanged

- **Strong product sales growth continued.** In 1H24, Innovent recorded total revenue of RMB3.95bn, including RMB3.81bn product sales (+55% YoY, +17% HoH), representing 53% of our previous full-year estimate, surpassing our expectations. The strong product sales growth was mainly driven by the sintilimab and other new products. According to Eli Lilly, sales of sintilimab in 1H24 reached US\$240mn (or RMB1.71bn), +46% YoY, bolstered by expanded NRDL coverage and stable pricing. We forecast sales of sintilimab to reach RMB3.55bn in 2024E (+29% YoY).
- **EBITDA loss significantly narrowed thanks to improving cost efficiency.** The non-IFRS EBITDA loss narrowed significantly from RMB267mn in 1H23 to RMB161mn in 1H24. With fast-growing product sales and consistently improving operating efficiency, mgt. is confident to achieve breakeven on EBITDA in 2025E. Under IFRS, Innovent's gross margin on product sales increased by 3.5ppt to 82.2% in 1H24 (vs 79.5% in 1H23). SG&A ratio dropped to 55.6% in 1H24 from 63.5% in 1H23. R&D expenses were RMB1.40bn in 1H24, +7% HoH. The mgt. expects steady R&D expenses in 2H24. As of Jun 2024, Innovent reported a strong cash balance of RMB10.11bn.
- **To establish a strong CVM portfolio.** Innovent's portfolio now includes 10 marketed products, recently bolstered by the approval of fulzerasib, a KRAS G12C inhibitor for 2L NSCLC. We anticipate approval for talrectinib (ROS1 TKI) in 2H24 for 2L NSCLC, with an NDA for the 1L indication submitted in Mar 2024. In the cardiovascular and metabolic (CVM) space, we expect mazdutide (GLP-1R/GCGR) to receive approval for obesity in 1H25 (NDA in Feb 2024) and for diabetes in 2H25 (NDA in Aug 2024). We are optimistic about mazdutide's further development in adolescent obesity, MASH, OSA, and heart failure. The NDA for IBI311 (IGF-IR) for thyroid eye disease is currently under review. We expect Innovent to establish a strong portfolio in CVM sector, with its marketed product Sintbilo (PCSK9) and late-stage pipelines including mazdutide, IBI311 (IGF-IR), IBI128 (XOI), etc.
- **IBI363 has global blockbuster potential.** IBI363, a potential FIC PD-1/IL-2 bsAb, has demonstrated encouraging signals in IO-failed and cold tumors, especially in IO-resistant sq-NSCLC. For later-line IO-treated sq-NSCLC patients (n=37) receiving IBI363 at $\geq 0.3\text{mg/kg}$, the ORR reached 35.1% and the mPFS reached 5.5 months, much better than the SoC docetaxel's 12.7% ORR and 3.9 months of mPFS ([link](#)). We anticipate updated data to be presented at the upcoming WCLC meeting in September, particularly for the 3 mg/kg Q3W dosing regimen. Updated data in CRC will be presented at the coming ESMO meeting. Innovent also started a Ph2 basket trial of IBI363 in the US. Additionally, 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 at the 6mg/kg dose. IBI343 has received a fast track designation from the FDA. A Ph3 trial of IBI343 in 3L GC is in preparation, and Innovent plans to start Ph1 trials of IBI343 in the US. Furthermore, Innovent has multiple ADC assets at early clinical stage, targeting EGFR/B7H3, B7H3, TROP2, HER3, etc.
- **Maintain BUY.** We are confident towards Innovent's EBITDA breakeven target in 2025 and see FIC potential of the innovative PD-1/IL-2 asset. We revise our DCF-based TP from HK\$55.75 to HK\$55.21 (WACC: 10.0%, terminal growth rate: 3.5%).

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	4,556	6,206	8,080	9,757	14,462
YoY growth (%)	6.7	36.2	30.2	20.8	48.2
Net profit (RMB mn)	(2,179)	(1,028)	(697)	(42)	1,729
EPS (Reported) (RMB)	(1.43)	(0.66)	(0.43)	(0.03)	1.07
R&D expenses (RMB mn)	(2,871)	(2,228)	(2,747)	(2,927)	(3,037)
CAPEX (RMB mn)	(897)	(1,119)	(400)	(300)	(300)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$55.21
(Previous TP)	HK\$55.75)
Up/Downside	26.9%
Current Price	HK\$43.50

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Stock Data

Mkt Cap (HK\$ mn)	70,582.4
Avg 3 mths t/o (HK\$ mn)	231.3
52w High/Low (HK\$)	48.45/30.10
Total Issued Shares (mn)	1622.6
Source:	FactSet

Shareholding Structure

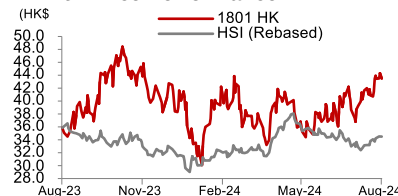
Temasek Holdings	8.0%
Yu De-Chao Michael	6.8%
Source:	HKEx

Share Performance

	Absolute	Relative
1-mth	16.3%	12.7%
3-mth	21.5%	26.2%
6-mth	2.7%	-4.6%

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	-937	-296	1,730	4,447	7,116	8,891	9,724	10,234	10,256	10,207	10,033	9,680
Tax rate	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	-937	-296	1,470	3,780	6,049	7,557	8,265	8,699	8,718	8,676	8,528	8,228
+ D&A	318	319	320	321	321	322	323	324	324	325	326	326
- Change in working capital	-24	342	-606	-456	-549	-352	-237	-109	51	71	115	154
- Capex	-400	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300	-300
FCFF	-1,043	64	884	3,345	5,521	7,228	8,052	8,614	8,794	8,771	8,669	8,408
Terminal value												134,275
FCF + Terminal value	-1,043	64	884	3,345	5,521	7,228	8,052	8,614	8,794	8,771	8,669	142,684

PV of enterprise (RMB mn)	73,454
Net debt (RMB mn)	-7,178
Equity value (RMB mn)	80,632
Equity value (HK\$ mn)	89,591
No. of outstanding shares (mn)	1,623
DCF per share (HK\$)	55.21

Terminal growth rate	3.5%
WACC	10.0%
Cost of equity	13.5%
Cost of debt	4.0%
Equity beta	1.05
Risk-free rate	2.5%
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	4.5%	75.30	67.38	60.91	55.52	50.98
	4.0%	70.29	63.48	57.82	53.04	48.96
	3.5%	66.20	60.24	55.21	50.92	47.20
	3.0%	62.79	57.50	52.98	49.08	45.67
	2.5%	59.90	55.15	51.05	47.47	44.32

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	8,080	9,757	14,462	7,612	9,456	13,354	6%	3%	8%
Gross profit	6,706	8,098	12,076	6,241	7,801	11,084	7%	4%	9%
Operating profit	164	951	3,283	(413)	851	2,730	N/A	N/A	20%
Net profit	(697)	(42)	1,729	(1,282)	(109)	1,320	N/A	N/A	31%
EPS (RMB)	(0.43)	(0.03)	1.07	(0.79)	(0.07)	0.81	N/A	N/A	31%
Gross margin	83.00%	83.00%	83.50%	82.00%	82.50%	83.00%	+1.00 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	8,080	9,757	14,462	7,718	10,170	13,240	5%	-4%	9%
Gross profit	6,706	8,098	12,076	6,357	8,418	11,028	5%	-4%	10%
Operating profit	164	951	3,283	(913)	34	1,498	N/A	N/A	119%
Net profit	(697)	(42)	1,729	(724)	217	1,449	N/A	N/A	19%
EPS (RMB)	(0.43)	(0.03)	1.07	(0.45)	0.12	0.89	N/A	N/A	20%
Gross margin	83.00%	83.00%	83.50%	82.37%	82.77%	83.29%	+0.63 ppt	+0.23 ppt	+0.21 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	8,080	9,757	14,462
Cost of goods sold	(505)	(931)	(1,136)	(1,374)	(1,659)	(2,386)
Gross profit	3,764	3,625	5,070	6,706	8,098	12,076
Operating expenses	(6,406)	(5,796)	(6,214)	(7,403)	(8,140)	(10,042)
Selling expense	(2,620)	(2,591)	(3,101)	(3,797)	(3,903)	(5,062)
Admin expense	(806)	(835)	(750)	(646)	(781)	(1,157)
R&D expense	(2,323)	(2,871)	(2,228)	(2,747)	(2,927)	(3,037)
Others	(657)	502	(136)	(212)	(530)	(786)
Pre-tax profit	(2,642)	(2,170)	(1,144)	(697)	(42)	2,034
Income tax	(87)	(9)	116	0	0	(305)
Minority interest	0	0	0	0	0	0
Net profit	(2,729)	(2,179)	(1,028)	(697)	(42)	1,729

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	11,551	11,507	13,428	13,335	14,068	16,742
Cash & equivalents	8,377	9,163	10,052	9,886	10,873	12,717
Account receivables	968	575	1,006	919	976	1,446
Inventories	1,347	1,429	968	1,129	818	1,177
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	20,617	21,331	23,985
Current liabilities	3,050	3,499	4,477	4,526	4,614	4,837
Short-term borrowings	365	888	1,195	1,195	1,195	1,195
Account payables	195	326	373	422	510	733
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	8,155	8,247	8,476
Share capital	0	0	0	0	0	0
Other reserves	10,330	10,730	12,527	12,462	13,084	15,509
Total shareholders equity	10,330	10,730	12,528	12,463	13,084	15,509
Minority interest	0	0	0	0	0	0
Total equity and liabilities	16,244	17,589	20,627	20,617	21,331	23,985

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(2,555)	(2,162)	(1,261)	(697)	(42)	2,339
Depreciation & amortization	165	245	276	283	284	285
Tax paid	(87)	(9)	116	0	0	(305)
Change in working capital	(90)	295	403	(24)	342	(606)
Others	542	(327)	511	431	449	127
Net cash from operations	(2,025)	(1,958)	46	(6)	1,032	1,840
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	349	363	413
Net cash from investing	(1,139)	(790)	(999)	(51)	63	113
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	9,886	10,873
Exchange difference	(197)	119	(7)	0	0	0
Cash at the end of the year	8,377	9,163	10,052	9,886	10,873	12,717
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	11.1%	6.7%	36.2%	30.2%	20.8%	48.2%
Gross profit	8.9%	(3.7%)	39.8%	32.3%	20.8%	49.1%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	88.2%	79.6%	81.7%	83.0%	83.0%	83.5%
Return on equity (ROE)	(28.6%)	(20.7%)	(8.8%)	(5.6%)	(0.3%)	12.1%
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	2.9	3.0	3.5
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	37.3
P/B	5.6	5.7	4.9	5.2	4.9	4.2

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

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