

RemeGen (9995 HK)

Strong sales in Q3, with a narrowed net loss

In 3Q24, RemeGen achieved robust product sales, with revenue reaching a record high of RMB467mn (+14% QoQ, +35% YoY), driven by product sales of RC18 (~RMB270mn, +43% YoY) and RC48 (~RMB200mn, +25% YoY). Total revenue in 9M24 was RMB1,209mn (+57% YoY), representing approximately 73% of our previous FY24 estimate, aligning with our expectations. We are reassured that the Company will meet its FY24 sales target of a 50%+ YoY increase, and expect the strong sales momentum to continue in 4Q24 and beyond. GP margin improved to 82.1% in 3Q24 (vs 78.3% in 1H24). RemeGen's SG&A expense ratio decreased to 68.5% in 3Q24 from 72.4% in 1H24. In 3Q24, the R&D expense was RMB347mn, down 27% QoQ vs RMB475mn in 2Q24, due to pipeline optimization and R&D team restructuring. The Company narrowed its net loss to RMB291mn in 3Q24, vs RMB432mn in 2Q24. In 3Q24, net cash spending from operations narrowed to RMB15mn, vs RMB394mn in 2Q24. As of Sep 2024, RemeGen had a cash balance of RMB925mn (incl. financial assets), RMB1,027mn of short-term borrowings, and RMB1,341mn of long-term borrowings, which were largely consistent with the balance as of end-Jun 2024, indicating a proper cash control in 3Q, though there was a need for further financing.

- Looking forward to RC18's global development.** We expect RemeGen to unblind the first-stage of RC18's Ph3 global SLE trial (NCT05306574) in 1H25 after a 52-week treatment period for the 90 enrolled patients. Concurrently, the enrolment for the second stage of the Ph3 study is underway with FPI expected in 4Q24. A parallel global Ph3 study of RC18 in SLE (NCT06456567) has also been registered. RemeGen is conducting a global Ph3 trial of RC18 for MG in the US with FPI in Aug 2024. In China, approved for SLE and RA already, the BLA for MG was submitted in Oct 2024 with priority review, and the Ph3 trials for pSS and IgAN also completed enrolment with BLA submission expected in 2025. The Ph3 trial in IgAN is expected to read out the UPCR data in 1H25. We anticipate that RC18 holds potential for global collaboration, albeit with some uncertainties.
- Smooth clinical progress of RC48 globally.** Pfizer is actively conducting a pivotal Ph2 trial of RC48 monotherapy in 2L HER2-expressing UC and a Ph3 trial of RC48 + Keytruda in 1L HER2-expressing UC. The timeline of BLA submission of the Ph2 pivotal trial is tied to the progress of the Ph3 trial. In China, RC48 has already been approved for 2L+ UC and 3L GC with NRDL coverage. The BLA of RC48 for HER2-positive BC with liver metastasis was submitted in Oct 2024 and detailed data of the Ph3 study are to be released at the SABCS meeting in Dec 2024. A Ph3 trial of RC48 in HER2-low BC is currently ongoing with data readout expected in 1Q25. To expand RC48's use for front-line treatment, a Ph3 trial of RC48+toripalimab for 1L HER2-expressing UC is ongoing with data readout in 1H25. RemeGen is planning a Ph3 trial of RC48 in 1L GC.
- Maintain BUY.** We believe that the rapid growth in product revenue will help to alleviate the Company's cash flow risks. We revise up our DCF-based TP from HK\$19.59 to HK\$21.09 (WACC: 12.93%, terminal growth rate: 2.0%).

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	768	1,076	1,740	2,635	3,952
YoY growth (%)	(46.1)	40.2	61.7	51.4	50.0
Net profit (RMB mn)	(998.8)	(1,511.2)	(1,268.4)	(967.1)	(275.2)
EPS (Reported) (RMB)	(1.88)	(2.80)	(2.33)	(1.78)	(0.51)
R&D expenses (RMB mn)	(982)	(1,306)	(1,450)	(1,450)	(1,502)
Admin expenses (RMB mn)	(273)	(314)	(336)	(429)	(526)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$21.09
(Previous TP)	HK\$19.59)
Up/Downside	28.0%
Current Price	HK\$16.48

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Stock Data

Mkt Cap (HK\$ mn)	8,970.6
Avg 3 mths t/o (HK\$ mn)	42.5
52w High/Low (HK\$)	47.50/10.62
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	-3.6%	-0.1%
3-mth	24.3%	3.7%
6-mth	-41.0%	-48.6%

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	-1,203	-853	-129	468	1,225	2,026	2,833	3,495	3,958	3,918	3,694	3,645
Tax rate	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	-1,203	-853	-129	397	1,042	1,722	2,408	2,971	3,364	3,330	3,140	3,099
+ D&A	265	272	272	271	271	270	270	269	269	269	268	268
- Change in working capital	506	-233	-351	-284	-333	-309	-247	-184	-210	143	201	75
- Capex	-600	-400	-200	-200	-200	-200	-200	-200	-200	-200	-200	-200
FCFF	-1,032	-1,214	-408	185	780	1,483	2,231	2,856	3,224	3,542	3,410	3,241
Terminal value												30,248
FCF + Terminal value	-1,032	-1,214	-408	185	780	1,483	2,231	2,856	3,224	3,542	3,410	33,490
PV of enterprise (RMB mn)	11,944											
Net debt (RMB mn)	1,612											
Equity value (RMB mn)	10,332											
No. of shares (mn)	544											
DCF per shares (RMB)	18.98											
DCF per share (HK\$)	21.09											
Terminal growth rate	2.0%											
WACC	12.93%											
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%	27.57	24.99	22.69	20.63	18.78
2.5%	26.43	24.01	21.85	19.91	18.15
2.0%	25.41	23.13	21.09	19.24	17.57
1.5%	24.48	22.33	20.39	18.64	17.04
1.0%	23.64	21.60	19.76	18.08	16.55

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	1,740	2,635	3,952	1,667	2,709	3,797	4%	-3%	4%
Gross profit	1,397	2,138	3,193	1,288	2,115	2,978	8%	1%	7%
Operating profit	-1,203	-853	-129	-1,544	-1,032	-288	N/A	N/A	N/A
Net profit	-1,268	-967	-275	-1,609	-1,146	-434	N/A	N/A	N/A
EPS (RMB)	(2.33)	(1.78)	(0.51)	(2.96)	(2.11)	(0.80)	N/A	N/A	N/A
Gross margin	80.31%	81.15%	80.81%	77.29%	78.09%	78.42%	+3.02 ppt	+3.06 ppt	+2.39 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	1,740	2,635	3,952	1,662	2,392	3,262	5%	10%	21%
Gross profit	1,397	2,138	3,193	1,312	1,943	2,667	6%	10%	20%
Operating profit	-1,203	-853	-129	-1,479	-967	-339	N/A	N/A	N/A
Net profit	-1,268	-967	-275	-1,529	-1,070	-507	N/A	N/A	N/A
EPS (RMB)	(2.33)	(1.78)	(0.51)	(2.78)	(1.81)	(0.59)	N/A	N/A	N/A
Gross margin	80.31%	81.15%	80.81%	78.96%	81.22%	81.75%	+1.35 ppt	-0.07 ppt	-0.94 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	1,424	768	1,076	1,740	2,635	3,952
Cost of goods sold	(67)	(270)	(253)	(343)	(497)	(758)
Gross profit	1,357	498	823	1,397	2,138	3,193
Operating expenses	(1,080)	(1,497)	(2,334)	(2,666)	(3,105)	(3,468)
Selling expense	(263)	(441)	(775)	(896)	(1,199)	(1,383)
Admin expense	(220)	(273)	(314)	(336)	(429)	(526)
R&D expense	(711)	(982)	(1,306)	(1,450)	(1,450)	(1,502)
Others	113	199	61	16	(27)	(58)
Operating profit	282	(992)	(1,488)	(1,203)	(853)	(129)
Interest income	(5)	(7)	(23)	(65)	(114)	(146)
Pre-tax profit	276	(999)	(1,511)	(1,268)	(967)	(275)
Income tax	0	0	0	0	0	0
Minority interest	0	0	0	0	0	0
Net profit	276	(999)	(1,511)	(1,268)	(967)	(275)

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	2,300	3,212	2,229	2,221	2,726	3,188
Cash & equivalents	1,757	2,069	727	1,131	1,306	1,254
Account receivables	7	281	420	327	495	742
Inventories	280	523	742	422	585	852
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	256	339	340	340	340	340
Non-current assets	1,859	2,809	3,295	3,713	3,924	3,936
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
Total assets	4,159	6,021	5,524	5,934	6,650	7,124
Current liabilities	616	892	1,138	1,231	1,328	1,492
Short-term borrowings	0	0	286	286	286	286
Account payables	159	222	139	232	330	494
Other current liabilities	405	610	653	653	653	653
Lease liabilities	52	60	58	58	58	58
Non-current liabilities	96	149	953	2,453	3,953	4,453
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
Total liabilities	713	1,041	2,091	3,684	5,282	5,945
Share capital	490	544	544	544	544	544
Other reserves	2,957	4,436	2,893	1,710	829	639
Total shareholders equity	3,446	4,980	3,437	2,254	1,373	1,183
Total equity and liabilities	4,159	6,021	5,528	5,938	6,654	7,128

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	276	(999)	(1,511)	(1,268)	(967)	(275)
Depreciation & amortization	65	121	174	198	210	209
Tax paid	0	0	0	0	0	0
Change in working capital	(168)	(524)	(358)	506	(233)	(351)
Others	90	138	194	217	262	294
Net cash from operations	264	(1,264)	(1,502)	(347)	(728)	(122)
Investing						
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)
Net cash from investing	(638)	(842)	(818)	(683)	(483)	(283)
Financing						
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)
Net cash from financing	(627)	2,427	944	1,435	1,386	354
Net change in cash						
Cash at the beginning of the year	2,769	1,757	2,069	727	1,131	1,306
Exchange difference	(10)	(9)	(1)	0	0	0
Cash at the end of the year	1,757	2,069	692	1,131	1,306	1,254
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	na	(46.1%)	40.2%	61.7%	51.4%	50.0%
Gross profit	na	(63.3%)	65.3%	69.8%	53.0%	49.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	95.3%	64.8%	76.5%	80.3%	81.2%	80.8%
Operating margin	19.8%	(129.2%)	(138.3%)	(69.2%)	(32.4%)	(3.3%)
Return on equity (ROE)	7.8%	(23.7%)	(35.9%)	(44.6%)	(53.3%)	(21.5%)
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	3.7	3.6	2.0	1.8	2.1	2.1
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	26.7	ns	ns	ns	ns	ns

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

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