



January 25, 2024

NA|Chinese New Economy II●Rating Change

Healthcare ● Innovative Drugs

RemeGen Co., Ltd. (SEHK: 9995/SSE: 688331)

Time to do some bottom fishing...UG2BUY

- We believe RemeGen has bottom fishing value because its Systemic Lupus Erythematosus (SLE) drug Telitacicept (RC18) has already been approved for sale in China. Earliest data read in US clinical trial for IgA Nephropathy is already available, with SLE data read available in C3Q24 and MS in C4Q24;
- We don't think a leading biotech from the wealthy city of Yantai will run out of cash. We assume RemeGen will be able to mitigate its liquidity problem.
- We thus upgrade RemeGen to BUY and keep TP of HK\$34 unchanged.

Why is RemeGen running out of cash?

Slow monetization of two selling drugs, RC18 and RC48 (Disitamab Vedotin) (ADC), amid high selling cost is the key reason. Before C1H22, RemeGen had the lowest sales marketing cost ratio in the industry, but after C1H22 the company chose, wrongly, to push sales through higher marketing, which failed. Further, RemeGen is slow to recognize the value of ex-China clinical data, which leads to its US clinical trials starting relatively late. But these are tactical issues.

Why are we positive on RC18?

Benlysta (Belimumab) (GSK), the main SLE treatment approved by FDA in 2011, had climbing sales in recently years, selling likely ~US\$1.7bn in 2023. *Saphnelo* (anifrolumab-fnia)(AstraZeneca), the SLE treatment approved in 2021, selling likely ~US\$230mn in 2023. *Benlysta* and *Saphnelo* are the only two SLE-treating competitors on the market today for a disease that affects 3-4mn people worldwide. SLE drugs have a high failure rate. Besides SLE, RC18 is also being clinical trialed for Myasthenia Gravis (MG).

How much can we expect if RC18 is licensed out?

We believe RemeGen likely needs to run a head-to-head clinical trial against *Benlysta* or *Saphnelo* to fetch a good sum for RC18. Without this happening, we pencil in a US\$100mn upfront, US\$500mn total value estimate for RC18. We do notice that standalone clinical trials showed RC18 had better efficacy than rivals.

Good time to accumulate shares

Trading at 10x 2024 PS, we expect RemeGen to achieve sustainable breakeven in 2029.

Summary financial data

Highlights	2021A	2022A	2023E	2024E	2025E
Revenues (RMB mn)	1,424	768	1,120	1,847	1,610
Non-IFRS operating income (RMB mn)	182	(1,142)	(1,277)	(875)	(848)
IFRS EPS (RMB)	0.68	(2.27)	(2.60)	(1.53)	(1.41)
Price to sales	7	14	9.3	5.7	6.5
EBITDA margin	21%	(123%)	(90%)	(28%)	(22%)
Free cash flow yield (%)	(3.6%)	(16.9%)	(11.1%)	(11.3%)	(14.2%)

Source: Source: Bloomberg, Blue Lotus (as of January 25, 2024)

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Blue Lotus Capital Advisors Limited

BUY

UR

SELL

Target Price: HK\$ 34.0

Current Price: HK\$ 21.2

RIC: (SEHK: 9995/SSE: 688331) BBG: 9995 HK/688331 CH

Market cap (HK\$ mn) 20,870.3

Average daily volume (HK\$ mn) 43.456

Shares out/float (m) 189.6/146.5

Source: Bloomberg, Blue Lotus (as of January 25, 2024)

Key Changes

	New	Old	Diff
BLRI Recommendation	BUY	SELL	UG
BLRI Target Price (HK\$)	34.0	34.0	-
CY2023E EPS (HK\$)	(2.84)	(2.55)	NM
CY2024E EPS (HK\$)	(1.67)	(1.14)	NM
CY2025E EPS (HK\$)	(1.54)	(0.61)	NM

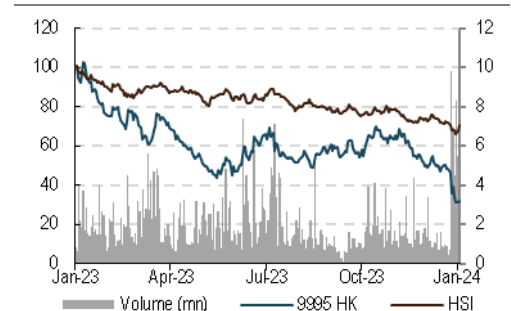
Source: Blue Lotus (as of January 25, 2024), non-IFRS

BLRI vs. The Street

No. of Bloomberg Recommendations	23
Target price vs. Bloomberg mean	(33%)
1-year-fwd EPS vs. Bloomberg mean	(8.6%)
Bloomberg recommendation	4.91

Source: Bloomberg Recommendation, Blue Lotus (1=SELL,5=BUY) (as of January 25, 2024) HKD/RMB = 0.9159

Price performance and volume data



Source: Bloomberg (as of January 25, 2024)

Research team



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RemeGen Co., Ltd.: Financial Summary

Fiscal year ends-31-Dec

Exhibit 1. Income statement

(RMB mn)	2022A	2023E	2024E
Revenues	768	1,120	1,847
Cost of sales	(270)	(257)	(409)
Gross profit	498	862	1,438
operating expense	(1,695)	(2,225)	(2,424)
Selling and distribution expenses	(441)	(724)	(946)
Administrative expenses	(273)	(327)	(369)
Research and development expenses	(982)	(1,174)	(1,108)
Operating income (IFRS)	(1,197)	(1,363)	(986)
Other income and gains	232	215	151
Other expenses	(16)	(29)	(46)
Impairment losses on financial assets, net	(11)	(5)	-
Finance costs	(7)	(8)	(5)
Loss/Profit before income tax	(999)	(1,190)	(886)
Income tax expense	-	-	-
Profit/Loss for the year, IFRS	(999)	(1,190)	(886)
Loss/profit attr to SH	(999)	(1,190)	(886)
Loss per share, IFRS	(2.27)	(2.60)	(1.53)

Source: RemeGen Co., Ltd., Blue Lotus (January 25, 2024)

Exhibit 2. Balance sheet

(RMB mn)	2022A	2023E	2024E
Property, plant and equipment	2,407	2,672	3,191
Right-of-use assets	205	136	172
Other intangible assets	17	26	40
Equity investments	81	-	-
Other non-current assets	99	149	179
Inventories	523	515	613
Trade and bills receivables	281	156	282
Prepayments	221	260	282
Pledged deposits	118	-	-
Cash and cash equivalents	2,069	1,028	845
Total assets	6,021	4,942	5,604
Trade and bills payables	222	257	306
Other payables and accruals	586	1,030	1,226
Lease liabilities	60	78	124
Deferred income	15	39	61
Other current liabilities	9	25	35
Lease liabilities	105	133	212
Deferred tax liabilities	44	-	-
Deferred income	44	66	104
Total liabilities	1,085	1,628	2,069
Share capital	544	544	544
Treasury shares	(463)	(939)	167
Paid-in capital	-	-	-
Reserves	4,899	3,709	2,823
Total equities and liabilities	6,021	4,942	5,604

Source: RemeGen Co., Ltd., Blue Lotus (January 25, 2024)

Company Description

RemeGen was founded in 2008 in Yantai, Shandong Province of China. It focuses on Antibody Drug Conjugate (ADC), Bispecific Antibody (BsAb) and Fusion Protein drugs in Autoimmune, Oncology and Ophthalmology. Its first drug Telitacicept (RC18), a fusion protein for Systemic Lupus Erythematosus (SLE) was approved in China in March 2021 and contributed 3.3% of revenues in 2021. Its 2nd drug, Disitamab Vedotin (RC48), an ADC for solid tumors, was approved in July 2021 in China and contributed 6.1%. License-out revenue contributed 91%.

Industry View

We estimate China's total biologics market to grow to US\$68 bn in 2021, and will grow to US\$200 bn by the end of 2030. We expect that the global total biologics market to grow to US\$345 bn in 2021, and will reach US\$768 mn in 2030. We expect the global ADC market to grow from US\$5.8nm in 2021 to US\$23bn in 2030

Exhibit 3. Cash flow statement

(RMB mn)	2022A	2023E	2024E
Pre-tax profit	(999)	(1,190)	(886)
Adjustment			
Finance costs	7	8	5
D&A	196	267	360
Share-based payment expenses	56	86	111
Increase in inventories	(242)	8	(98)
Decrease in bills receivable	(274)	125	(126)
Increase in prepayments,	(44)	(39)	(22)
Increase in trade and bills payables	62	36	49
Increase in other payables and accruals	193	444	196
(Increase)/decrease in pledged deposits	39	(118)	-
Others	23	(2)	162
Net cash used in operating activities	(983)	(375)	(249)
Purchases of items of PPE	(738)	(728)	(845)
Increase in pledged deposits	(39)	118	-
Others	(41)	(56)	(88)
Net cash used in investing activities	(818)	(666)	(934)
Proceeds from issue of common shares	4,000	-	-
Interest paid for bank borrowings	-	-	-
Others	-	-	-
Net cash used in financing activities	4,000	-	-
Net change in cash	2,199	(1,041)	(1,183)
Effects of foreign exchange rate changes	-	-	-
Cash and equivalent at beginning	1,757	2,069	1,028
Cash and equivalent at end	2,069	1,028	845

Source: RemeGen Co., Ltd., Blue Lotus (January 25, 2024)

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Good value emerging, UG2BUY

Exhibit 4. RemeGen C2H23 preview

(mn RMB)	2H23E	2H21C	BL vs cons	1H23A	HoH	2H22A	YoY	1H24E
Revenue	704	719	(2.2%)	419	68%	419	68%	600
Product sales	624			416	50%	410	52%	600
Upfront and milestone payments	80			-	NA	9	746%	-
Cost of sales	(155)	(160)	(3.4%)	(103)	51%	(168)	NM	(150)
Gross profit	549	559	(1.8%)	316	73%	251	118%	450
Gross margin	78%	78%	0.28ppt	76%	2.5ppt	60%	18.0ppt	75%
Operating expense	(792)		NA	(1,059)	(25.2%)	(486)	63%	(1,140)
Selling and distribution expenses	(374)			(350)	6.9%	(61)	515%	(360)
Administrative expenses	(158)			(169)	(6.1%)	(99)	61%	(150)
Research and development expenses	(633)			(540)	17.2%	(327)	94%	(630)
Operating loss, GAAP	(243)	(557)	NM	(743)	NM	(235)	NM	(690)
EBIT, GAAP	(484)			(703)	NM	(444)	NM	(650)
Net loss, GAAP	(484)	(631)	NM	(703)	NM	(444)	NM	(649)

Source: RemeGen Co., Ltd., Blue Lotus (January 25, 2024)

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