



September 2, 2022

NA | Chinese New Economy • Target Price Change

Healthcare • Pharma & biotech

Zai LAB (NasdaqGS: ZLAB)

About to enter into fast revenue growth period

- Zai Lab reported 2Q22 revenue of US\$ 48mn, in line with consensus and (3.24%) lower than our estimate, mainly due to lockdown impact and lowered selling prices of QINLOCK and NUZYRA.
- Efgartigimod has already submitted BLA for the treatment of gMG domestically in July and is expected to be approved in 2023, SUL-DUR is expected to submit BLA at the end of 2022 as well.
- Considering lockdown lifting, possible NRDL inclusion in 2H22 and positive data read-outs, we raise TP from US\$ 43 to US\$ 58.

Q2 revenue slightly lower than expectation, improvement in 2H

Zai Lab reported 2Q22 revenue of US\$ 48mn, with 1) ZEJULA sales growing by 15.1% QoQ and 45.7% YoY, missing our est. by (2.79%), mainly due to lockdown impact; 2) QINLOCK sales decreasing by (78.9%) QoQ and (84.6%) YoY, missing our est. by (82.8%), mainly due to lowered selling price; 3) OPTUNE sales decreasing by (9.42%) QoQ and increasing by 21.6% YoY, beating our est. by 13.2%; 4) NUZYRA sales increasing by 76.2% QoQ, beating our est. by 44.2%. We expect total revenue to see improvement in 2H22, due to lockdown lifting and possible expanded NRDL inclusion.

Blockbuster drug upcoming, multiple catalysts in pipelines

As the most anticipated innovative drug in 2022, Efgartigimod (whose exclusive license agreement in Greater China is owned by Zai LAB) generated 1H22 revenue of US\$ 96mn in the U.S. after approval by FDA early this year, much higher than market expectation. In China, its BLA has already been submitted for the treatment of gMG and it is expected to be launched in 2023. Also, SUL-DUR expects to submit BLA at the end of 2022 domestically. Other catalysts include Phase III data read-out of KarXT and the TTF NSCLC therapy. Self-developed ZL-1102 is also about to launch an international multi-center Phase II clinical trial.

Maintain BUY and raise TP from US\$43 to US\$58

We increase 2022E revenue growth estimate from 51% to 59% and raise TP to US\$ 58. We maintain BUY rating to reflect: 1) lifting lockdown impact in 2H22; 2) possible inclusion of QINLOCK and NUZYRA into NRDL to improve product accessibility; 3) positive read-outs of multiple products.

Summary financial data

Highlights	2021A	2022E	2023E	2024E	2025E
Revenues (USD mn)	144	230	695	1,156	1,594
Drug sales (USD mn)	144	230	695	1,156	1,594
Operating income (USD mn)	(700)	(408)	(596)	(153)	339
Net income (USD mn)	(703)	(410)	(596)	(153)	288
EPS (USD)	(7.58)	(4.29)	(6.06)	(1.51)	2.76

Source: Zai LAB, Blue Lotus (as of 2022/09/02)

See the last page of the report for important disclosures

Blue Lotus Capital Advisors Limited

BUY **HOLD** **SELL**

Target Price: US\$ 58	Current Price: US\$ 46.29
RIC: (NasdaqGS: ZLAB)	BBG: ZLAB US
Market cap (USD mn)	4,532
Average daily volume (USD mn)	37
Shares out/float (m)	97.9/NA

Source: Bloomberg, Blue Lotus (as of 2022/09/02)

Key Changes

	New	Old	Diff
BLRI Recommendation	BUY	BUY	-
BLRI Target Price (US\$)	58	43	34.9%
2022E EPS (US\$)	(4.29)	(4.63)	NM
2023E EPS (US\$)	(6.06)	(6.01)	NM
2024E EPS (US\$)	(1.51)	(3.45)	NM

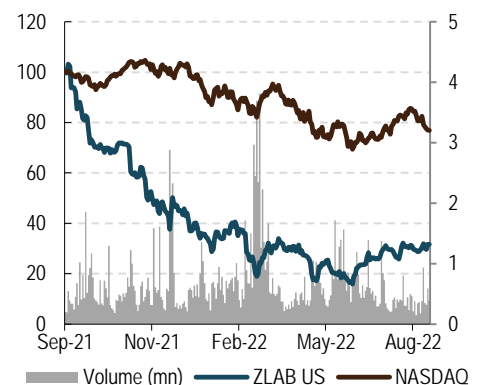
Source: Blue Lotus (as of 2022/09/02)

BLRI vs. The Street

No. of Bloomberg Recommendations	12
Target price vs. Bloomberg mean	(40.3%)
1-year-fwd EPS vs. Bloomberg mean	NM
Bloomberg recommendation	5.0

Source: Bloomberg Recommendation, Blue Lotus (as of 2022/09/02)

Price performance and volume data



Source: Bloomberg (as of 2022/09/02)

Research team



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Zai LAB: Financial Summary

Fiscal year ends-31-Dec

Exhibit 1. Income statement

(mn USD)	2021A	2022E	2023E
Revenues	144	230	695
Cost of sales	(52)	(73)	(139)
Gross profit	92	157	556
operating expense	(792)	(565)	(1,152)
Selling and distribution expenses	(219)	(277)	(318)
Research and development expenses	(573)	(288)	(833)
Operating income (non-GAAP)	(700)	(408)	(596)
Other income (expense), net	(3)	(2)	-
Loss/Profit before income tax	(703)	(410)	(596)
Income tax expense	-	-	-
Profit/Loss for the year, GAAP	(703)	(410)	(596)
Loss/profit attr to SH	(703)	(410)	(596)
EPS (USD)	(7.58)	(4.29)	(6.06)

Source: Zai LAB, Blue Lotus (as of 2022/09/02)

Exhibit 2. Balance sheet

(mn USD)	2021A	2022E	2023E
Cash and cash equivalents	964	1103	651
Short-term investments	445	0	0
Accounts receivable	47	68	185
Note receivable	7	0	0
Inventories	19	21	32
Other current assets	18	13	13
Property and equipment, net	43	95	143
Operating lease right-of-use assets	14	18	18
Land use rights, net	8	8	7
Intangible assets, net	2	2	2
Value added tax recoverable	24	26	29
Other non-current assets	18	1	1
Total assets	1610	1354	1081
Accounts payable	126	167	303
Current operating lease liabilities	6	5	5
Other current liabilities	61	121	245
Non-current liabilities	37	38	35
Additional paid-in capital	2,826	2,850	2,917
Accumulated deficit	(1,418)	(1,828)	(2,424)
Accumulated other comprehensive income (loss)	(24)	-	-
Other equity	(4)	-	-
Total liabilities and shareholders' equity	1,610	1,354	1,081

Source: Zai LAB, Blue Lotus (as of 2022/09/02)

Company Description

Zai Lab is an innovative commercial-stage biopharmaceutical company focused on bringing transformative medicines for cancer, infectious and autoimmune diseases to patients in China and around the world. Zai Lab can not only generate a broad pipeline through building partnerships with leading global biopharma companies but also have an in-house team with strong drug discovery and translation research capabilities.

Industry View

We estimate China's total biologics market to grow to USD68 bn in 2021, and will grow to USD200 bn by the end of 2030. We expect that the global total biologics market to grow to USD345 bn in 2021, and will reach USD768mn in 2030.

Exhibit 3. Cash flow statement

(mn USD)	2021A	2022E	2023E
Net loss	(704)	(410)	(596)
Depreciation and amortization	6	12	18
Share-based compensation	41	51	64
Accounts receivable	(42)	(20)	(117)
Inventories	(7)	(2)	(11)
Value added tax recoverable	(2)	(2)	(3)
Prepayments and other current assets	(7)	5	-
Accounts payable	64	41	136
Other current liabilities	19	61	124
Other net cash provided by operating activities	(549)	(263)	(386)
Purchases of short-term investments	(445)	-	-
Proceeds from maturity of short-term investments	744	445	-
Purchase of property and equipment	(18)	(44)	(67)
Purchase of intangible assets	(1)	-	-
Net cash provided by investing activities	250	401	(67)
Proceeds from issuance of ordinary shares upon public offerings	819	-	-
Payment of public offering costs	(2)	-	-
Net cash provided by financing activities	820	-	-
Effect of exchange rate	1	-	-
Net decrease (increase) in cash and cash equivalents	521	138	(453)
Cash and cash equivalents at beginning of the year	443	964	1,103
Cash and cash equivalents at end of the year	964	1,103	651

Source: Zai LAB, Blue Lotus (as of 2022/09/02)

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