

# Ascentage Pharma (6855 HK)

## Collaboration with MSD for development of APG-115

On 6 Jul, Ascentage announced it has entered into a clinical collaboration with MSD (MRK US, NR) to evaluate the combination of APG-115 (MDM2-p53 inhibitor) with KEYTRUDA® (pembrolizumab, a PD-1 inhibitor) for advanced solid tumors, marking the second collaboration with an MNC within the past month. We maintain BUY with unchanged TP at HK\$70.7.

- APG-115 combined with pembrolizumab for advanced solid tumors.** Initially, Ascentage and MSD will cooperate in a Phase Ib/II clinical trial evaluating the combination of APG-115 and pembrolizumab for several solid tumors including NSCLC, melanoma, UC, liposarcoma, MPNST and ATMm/Tp53wt tumors (NCT03611868). The Phase II portion of this study has already started in the US which is planned to enroll 80 patients.
- Promising results of Phase Ib trial published in ASCO 2020.** APG-115 is a selective inhibitor of the MDM2-p53 PPI, which can block MDM2-p53 PPI to resume p53 tumor suppression activity. Pre-clinical data had already showed positive activity in improving pro-inflammatory cytokines production in T cells, enhancing CD4+ T cell activation and increasing PD-L1 expression in tumor cells. Combination with PD-1 blockade also exhibited enhanced antitumor activity in different tumor models. Importantly, in ASCO 2020, results of the phase Ib trial demonstrated that APG-115 in combination with pembrolizumab is well-tolerated, with encouraging anti-tumor effects in several tumor types. As the first MDM2-p53 inhibitor entered into clinical stage in China, APG-115 is also under a Phase I trial for solid tumors and a Phase Ib trial for AML and MDS in China.
- Solid pipelines endorsed by MNCs.** Last month, Ascentage announced clinical collaboration of APG-2575 (Bcl-2 inhibitor) with AstraZeneca (AZN US, NR)'s acalabrutinib for r/r CLL/SLL. PoC data of venetoclax + ibrutinib make such combination (Bcl2 + BTK) with large potential in NHL. Ascentage's clinical collaboration with MNCs has proved the Company's strong R&D capabilities and solid pipeline quality.
- Maintain BUY with unchanged TP at HK\$70.7.** We remain long-term positive on the Company given its excellent clinical execution and advanced R&D ability. Considering APG-115 is still in early clinical trials, we forecast APG-115 to start commercialization in 2024E. Maintain BUY with unchanged TP at HK\$70.7 based on an 8-year DCF valuation (WACC: 10.98%, terminal growth of 3.0%).

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	7	15	7	7	152
YoY growth (%)	8	113	(52)	0	2,073
Net profit (RMB mn)	(345)	(1,481)	(729)	(794)	(822)
EPS (RMB)	NA	(12.69)	(3.49)	(3.80)	(3.94)
Consensus EPS (RMB)	N/A	N/A	(3.97)	(3.42)	(2.18)
R&D expenses (RMB mn)	(250)	(464)	(600)	(600)	(600)
Capex (RMB mn)	(48)	(77)	(400)	(450)	(100)
Current ratio	9.4	4.5	0.5	0.1	0.1

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price	HK\$70.7
(Previous TP)	HK\$70.7)
Up/Downside	+40.8%
Current Price	HK\$50.2

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### Stock Data

Mkt. Cap. (HK\$ mn)	10,487
Avg. 3mths t/o (HK\$ mn)	23.51
52W High/Low (HK\$)	53.60/ 19.80
Total Issued Shares (mn)	209

Source: Bloomberg

### Shareholding Structure

Management	32.17%
Collected Mind (3SBio)	4.85%
Sino Biopharma	2.2%
Institution investors	26.28%
Free float	34.5%

Source: SZSE

### Share Performance

	Absolute	Relative
1-mth	61.7%	57.9%
3-mth	111.7%	93.9%
6-mth	55.6%	74.4%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: Ernst & Young**

### Related reports

Collaboration with AstraZeneca for development of APG-2575 – 22 Jun 2020  
 HQP-1351 NDA submitted in China – 19 Jun 2020

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Figure 1: Revenue forecast of APG-115 and key assumptions

	2024E	2025E	2026E	2027E	2028E	2029E	2030E
APG-115 sales in AML (RMB mn)	363	723	936	1,148	1,286	1,352	1,418
Probability of success for AML	30%	30%	30%	30%	30%	30%	30%
APG-115 sales in Liposarcoma (RMB mn)	93	187	280	372	428	446	464
Probability of success for liposarcoma	30%	30%	30%	30%	30%	30%	30%
APG-115 sales in ACC (RMB mn)	66	130	193	255	291	300	310
Probability of success for ACC	30%	30%	30%	30%	30%	30%	30%
APG-115 sales in Ovarian cancer (RMB mn)	-	88	173	255	336	413	488
Probability of success for ovarian cancer	15%	15%	15%	15%	15%	15%	15%
<b>Total risk-adjusted APG-115 sales (RMB mn)</b>	<b>157</b>	<b>325</b>	<b>449</b>	<b>571</b>	<b>652</b>	<b>691</b>	<b>730</b>
% of royalties paid to University of Michigan	5%	5%	5%	5%	5%	5%	5%
<b>Attributable risk-adjusted APG-115 sales (RMB mn)</b>	<b>149</b>	<b>309</b>	<b>426</b>	<b>542</b>	<b>619</b>	<b>657</b>	<b>694</b>

Source: Company data, CMBIS

Figure 2: CMBIS estimates vs consensus

(RMB mn)	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	7	7	152	11	133	416	-34%	-95%	-63%
Gross profit	7	7	106	10	126	353	-32%	-94%	-70%
Operating profit	(713)	(747)	(739)	(732)	(798)	(732)	N/A	N/A	N/A
Net profit	(729)	(794)	(822)	(721)	(698)	(527)	N/A	N/A	N/A
EPS (RMB)	(3.49)	(3.80)	(3.94)	(3.97)	(3.42)	(2.18)	N/A	N/A	N/A

Source: Company data, CMBIS estimates

Figure 3: Peers comparison

Company	Ticker	TP (HKD)	Rating	Current Px (HKD)	Mkt Cap (USD mn)	Px Change (%)			AVG Trading Turnover (HKD mn)			IPO Date	IPO Px (HKD)
						30 d	60 d	90 d	30 d	60 d	90 d		
Ascentage	6855.HK	70.7	BUY	50.20	1,353	73%	60%	101%	60	33	25	2019-10-28	34.20
InnoCare	9969.HK	16.2	BUY	52.00	3,647	28%	17%	37%	11	7	6	2019-09-25	49.60
Henlius	2696.HK	57.2	BUY	13.68	2,276	-6%	-3%	2%	45	54	67	2020-03-23	8.95
Beigene	6160.HK	N/A	NR	119.00	15,588	14%	39%	37%	28	22	19	2018-08-08	108.00
Innovent	1801.HK	N/A	NR	55.65	9,643	20%	46%	66%	237	200	184	2018-10-31	13.98
Junshi	1877.HK	N/A	NR	55.95	1,319	29%	45%	68%	79	65	57	2018-12-24	19.38
CanSino	6185.HK	N/A	NR	218.80	6,286	19%	40%	62%	363	448	411	2019-03-28	22.00
AkesoBio	9926.HK	N/A	NR	33.85	3,438	24%	36%	N/A	141	165	245	2020-04-24	16.18
AlphaMab	9966.HK	N/A	NR	17.66	2,127	-6%	4%	13%	105	65	51	2019-12-12	10.20
CStone	2616.HK	N/A	NR	10.72	1,423	18%	50%	29%	20	20	17	2019-02-26	12.00
Kintor	9939.HK	N/A	NR	15.30	729	-5%	N/A	N/A	24	110	110	2020-05-22	20.15

Source: Bloomberg, CMBIS

Figure 4: Key pipeline of Ascentage

Candidate	Mechanism	Lead Indications	Preclinical	Ph I	Ph II	Countries
HQP1351	BCR-ABL mutant	Resistant CML			pivotal phase II	China ★ NDA Submitted
	KIT	GIST				China
APG-2575	Bcl-2 Selective	CLL/SLL				China, U.S. & Australia
		WM				U.S. & Australia
APG-1252	Bcl-2/Bcl-xL	AML				China
		SCLC/NSCLC				China, U.S. & Australia
APG-115	MDM2-p53	NSCLC (Combo)				China
		Solid tumors(IO combo)				China & U.S.
APG-1387	IAP Dimer	AML				China & U.S.
		Solid tumors(IO combo)				China & U.S.
AT-101	Bcl-2/Bcl-xL/Mcl-1	Hepatitis B				China
APG-2449	FAK/ALK/ROS1	CLL				China & U.S.
APG-2449	FAK/ALK/ROS1	NSCLC				China
HQP8361	c-Met selective	Cancer (c-Met+)				China
Bcl-2 related Strategic relationship with Unity to develop senolytic drugs.						U.S.

Source: Company data, CMBIS

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>7</b>	<b>15</b>	<b>7</b>	<b>7</b>	<b>152</b>
License fee income	0	11	0	0	0
Provision of R&D services	7	4	7	7	7
Cost of sales	0	(2)	0	0	(46)
<b>Gross profit</b>	<b>7</b>	<b>12</b>	<b>7</b>	<b>7</b>	<b>106</b>
Other income	61	49	19	19	19
Selling & distribution expenses	0	0	0	0	(76)
Milestone payment	0	0	0	(20)	(20)
Administrative expenses	(90)	(162)	(139)	(153)	(168)
R&D expenses	(250)	(464)	(600)	(600)	(600)
<b>Operating profit</b>	<b>(272)</b>	<b>(564)</b>	<b>(713)</b>	<b>(747)</b>	<b>(739)</b>
Other expenses	(38)	(914)	0	0	0
Finance costs, net	(37)	(4)	(16)	(48)	(84)
<b>Pre-tax profit</b>	<b>(347)</b>	<b>(1,482)</b>	<b>(729)</b>	<b>(794)</b>	<b>(822)</b>
Income tax	2	2	0	0	0
Minority interests	0	0	0	0	0
<b>Net profit (Net loss)</b>	<b>(345)</b>	<b>(1,481)</b>	<b>(729)</b>	<b>(794)</b>	<b>(822)</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Profit before tax</b>	<b>(347)</b>	<b>(1,482)</b>	<b>(729)</b>	<b>(794)</b>	<b>(822)</b>
Depreciation & amortization, etc.	18	26	24	63	102
Change in working capital	27	15	(13)	0	(30)
Tax paid	0	0	0	0	0
Others	64	980	16	48	84
<b>Net cash from operating</b>	<b>(238)</b>	<b>(460)</b>	<b>(702)</b>	<b>(684)</b>	<b>(666)</b>
Capex	(48)	(77)	(400)	(450)	(100)
(Purchases of)/proceeds from retrieval of other financial assets, net	376	20	0	0	0
Other investing activities	(35)	(143)	0	0	0
<b>Net cash from investing</b>	<b>293</b>	<b>(201)</b>	<b>(400)</b>	<b>(450)</b>	<b>(100)</b>
Net proceeds from shares issued	911	432	0	0	0
Bank borrowing	35	50	600	1,000	800
Capital repurchase	(76)	0	0	0	0
Interests paid	(2)	(4)	(16)	(48)	(84)
<b>Net cash from financing</b>	<b>860</b>	<b>442</b>	<b>584</b>	<b>952</b>	<b>716</b>
FX changes	27	1	0	0	0
<b>Net change in cash</b>	<b>915</b>	<b>(219)</b>	<b>(517)</b>	<b>(182)</b>	<b>(50)</b>
Cash at the beginning of the year	15	957	882	365	183
<b>Cash at the end of the year</b>	<b>957</b>	<b>739</b>	<b>365</b>	<b>183</b>	<b>133</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>239</b>	<b>296</b>	<b>672</b>	<b>1,059</b>	<b>1,057</b>
PP&E	27	94	484	886	897
Right-of-use assets	40	49	40	31	22
Other intangible assets	75	72	66	61	56
Goodwill	25	25	25	25	25
Equity investment measured at FVTPL	60	32	32	32	32
Other non-current assets	12	25	25	25	25
<b>Current assets</b>	<b>990</b>	<b>909</b>	<b>392</b>	<b>210</b>	<b>197</b>
Inventories	0	0	0	0	13
Trade receivables	0	0	0	0	25
Prepayments, other receivables	19	27	27	27	27
Other financial assets	14	0	0	0	0
Cash and bank balances	957	882	365	183	133
<b>Current liabilities</b>	<b>105</b>	<b>202</b>	<b>789</b>	<b>1,789</b>	<b>2,596</b>
Bank loans	38	92	692	1,692	2,492
Trade payables	5	13	0	0	8
Other payables and accruals	63	97	97	97	97
Contract liabilities	0	0	0	0	0
<b>Non-current liabilities</b>	<b>2,136</b>	<b>113</b>	<b>113</b>	<b>113</b>	<b>113</b>
Bank loans	4	9	9	9	9
Deferred tax liabilities	19	17	17	17	17
Convertible redeemable preferred shares	2,076	0	0	0	0
Other non-current liabilities	0	0	0	0	0
Others	37	86	86	86	86
<b>Total net assets</b>	<b>(1,012)</b>	<b>890</b>	<b>162</b>	<b>(633)</b>	<b>(1,455)</b>
<b>Minority interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Shareholders' equity</b>	<b>(1,012)</b>	<b>890</b>	<b>162</b>	<b>(633)</b>	<b>(1,455)</b>

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
License fee income	1	73	0	0	0
Provision of R&D services	99	27	100	100	5
Total	100	100	100	100	5
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	100	86	100	100	70
EBITDA margin	N/A	N/A	N/A	N/A	N/A
Pre-tax margin	N/A	N/A	N/A	N/A	N/A
Net margin	N/A	N/A	N/A	N/A	N/A
Effective tax rate (%)	0	0	0	0	0
<b>Balance sheet ratios</b>					
Current ratio (x)	9	4	0	0	0
Trade receivables turnover	N/A	N/A	N/A	N/A	N/A
Trade payables turnover days	N/A	N/A	N/A	N/A	N/A
Net debt to total equity ratio (%)	N/A	N/A	N/A	N/A	N/A
Total debt to asset ratio (%)	182	26	85	150	216
<b>Returns (%)</b>					
ROE	N/A	N/A	N/A	N/A	1
ROA	N/A	N/A	N/A	N/A	(1)
<b>Per share data</b>					
EPS (RMB)	N/A	(12.69)	(3.49)	(3.80)	(3.94)
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	N/A	Net	1.61	7.27	11.34

Source: Company data, CMBIS estimates

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