

Company Report

China Biotech Services (8037 HK)

1st CAR-T approval a boost of confidence for CG&T

- China CDE's recent NDA approval of Fosun Kite's Yescarta, showing its supportive stance for the burgeoning CAR-T industry
- Co. has started the Ph1 trial following CDE's IND approval on Jan 21 on Co's LY007 (an αCD20 CAR-T w/ OX40 co-stimulatory design)
- 1Q21 bottom line recorded a net profit of HKD27mn (vs -HKD 25mn in 1Q20), mainly attri. to compulsory COVID-19 testing

Yescarta's CN approval a boost of confidence

Fosun Kite's αCD19 CAR-T product Yescarta (axicabtagene ciloleuce) received regulatory approval from the NMPA for 2L/2L+ r/r LBCL on June 22, 2021. Yescarta was reportedly priced at ~RMB1.2mn (~USD200K/bag) in China, lower than US (~USD370K) and Japan (~USD310K). Despite a hefty price tag for CAR-T as each dose is custom-made, we think the approval reflects NMPA's supportive stance for encouraging development of new modalities and innovative medicines to address unmet medical need. Late-stage CAR-T candidates in China include: 1) JW Therapeutics' JWCAR029 (China BLA accepted in 1H20), 2) Carsgen's CT053 (ph2/3, potential CN/US BLA filings in 22E/23E) and 3) Innovent's IBI326 (pivotal ph2 for r/r MM).

Advancing unique CAR-T asset into clinical stage

CDE on Jan 21st granted Co IND approval for LY007, a differentiated CAR-T medicine, for r/r B-cell nHL indication. Per literature research in Science Translational Medicine, LY007 targets against CD20 with a full-length OX40 co-stimulatory signal design incorporated, which enhances the cytotoxicity toward tumors cells and maintains therapeutic functions under immunosuppressive tumour microenvironment. With the unique MoA, Co. believes LY007 has the potential to yield a positive signal for solid tumour treatment, which most of existing CAR-T cell therapy remains ineffective in solid tumors.

COVID-19 testing continued to drive 1Q21 growth

1Q21 revenue grew nearly 11x yoy and recorded a net profit of HKD27mn (vs HKD25mn loss in 1Q20) mainly attributable to COVID-19 testing in HK (i.e. airport rapid testing).

Valuation

Co. now trades at ~USD0.2bn mkt cap, vs HK-listed clinical-stage CAR-T peers trades at a range of USD1.2bn-2.2bn while NASDAQ-listed domestic peers now trades at USD5.6bn. Future major catalysts include LY007's Ph1 clinical data readout.

HKD mn	2017	2018	2019	2020	1Q21
Consolidated revenue	105	70	59	656	154
yoy change	21%	-33%	-16%	1007%	1114%
Adj. Net profit (NP)	(77)	(69)	(107)	168	27
Adj. NP attri. to shareholders	(63)	(37)	(86)	35	2
yoy change	-26%	-42%	135%	-141%	-108%
EPS Fully diluted (HKD)	(0.08)	(0.07)	(0.10)	0.03	0.00
PSR (x)*	12.8	20.9	26.4	2.4	2.6
PBR (x)	5.4	4.6	5.0	3.1	n.a.

Sources: Company data, CMS (HK), stock price as of Jul 2, 2021; *note: PSRs for 1Q21 is annualized

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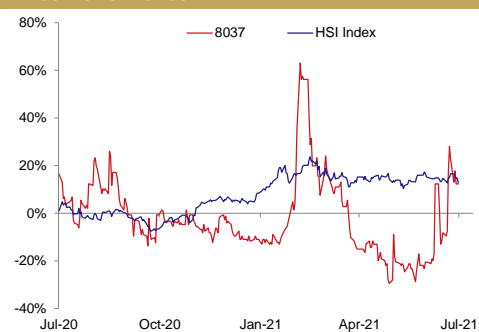
WHAT'S NEW

Co. updates

NON-RATED

Price (Jul 2, 2021) HKD1.64

Price Performance



%	1m	6m	12m
8037 HK	41.4	29.1	12.3
HSI	(3.4)	3.0	11.6

Sector: Pharmaceutical & Healthcare

Hang Seng Index (Jul 2, 2021)	28,310
HSCEI (Jul 2, 2021)	10,416

Key Data

52-week range (HKD)	0.99-2.60
Market cap (HKD mn)	1,583
Avg. daily traded value (HKD mn)	3.5
BVPS (HKD)	0.5

Shareholding Structure

Xiaolin Liu	68.0%
Free float	32.0%

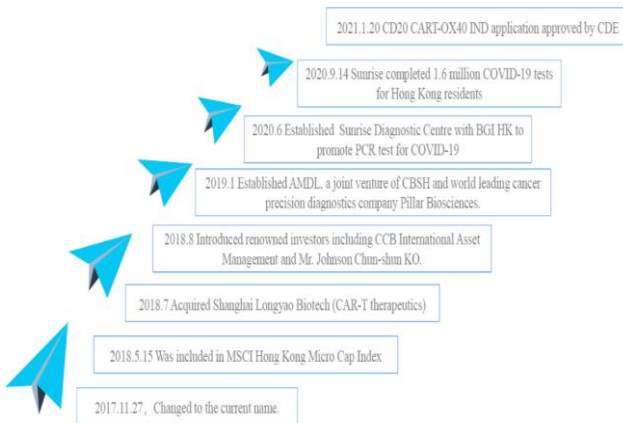
Source: Bloomberg

Related Research

1. China Pharmaceutical & Healthcare (NEUTRAL) – Navigating 2021: staying innovation course (Dec 22, 2020)
2. China Biotech Services (8037 HK) (NON-RATED) – Turns profit for 3Q20; watch upcoming IND results (Nov 20, 2020)
3. China Pharmaceutical & Healthcare (NEUTRAL) – Upbeat vaccine news but some questions remain (Nov 10, 2020)
4. China Biotech Services (8037 HK) (NON-RATED) – A precision focused biotech ready to setting sail (Sep 21, 2020)

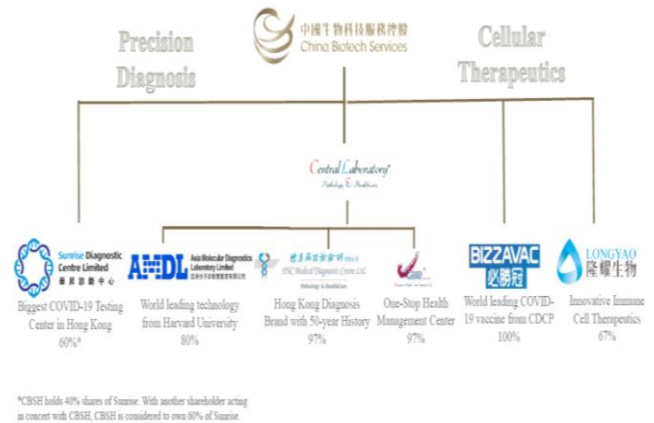
Focus charts

Figure 1: Company's history and milestones.



Source: Company

Figure 2: Company's business focuses



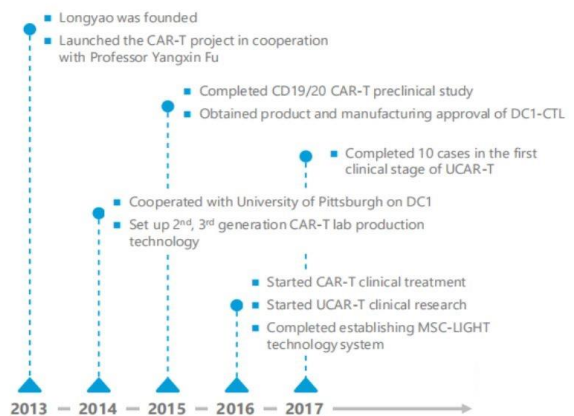
Source: Company

Figure 3: Company's pipelines



Source: Company

Figure 4: Shanghai Longyao research progress



Source: Company

Figure 5: Company's science & management team

Prof. Xuanning Yang

- Chief Scientific Officer
- The 12th "Recruitment Program of Young Professionals Plan" expert
- Assistant Professor at Shanghai Jiao Tong University
- Postdoc in pathology, University of Chicago
- PhD at Center for Infection and Immunity, Chinese Academy of Sciences
- Shanghai Pujiang Program Scholar

Mr. Xian He

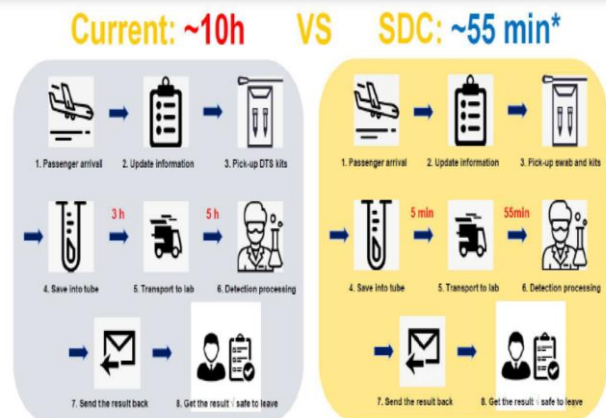
- Executive Director
- Legal Representative of Longyao Biotech
- Bachelor in Chemical Engineering & Master in Biochemistry, Tsinghua University
- EMBA at National University of Singapore
- Deputy president of Beijing Simbiostry Group Co., Ltd
- Founding chairman of Shenzhen Life Science and Biotechnology Association
- Current CEO of Shenzhen Wanning Xiangping Biomedical Co. Ltd.

Dr. Song Huang

- Executive Director
- Deputy Director of National Institute of Biological Sciences (NIBS) Peifeng
- Director of Synthetic Biology, NIBS
- PhD in Biochemistry from University of Texas
- Bachelor of Biology from Peking University

Sources: Company

Figure 6: Co.'s HK airport COVID-19 rapid testing



Sources: Company

Financial Summary

Balance Sheet

HKD mn	2018	2019	2020
Non-current assets	120	330	458
PP&E	23	24	129
Right-of-use assets	-	13	19
Goodwill	0	115	118
Intangible assets	43	95	88
Financial assets	48	83	99
Current assets	218	86	446
Inventories	3	3	6
Trade and other receivables	33	20	42
Loan and interest receivable	24	16	13
Held for trading securities	3	1	1
Income tax recoverable	0	0	0
Bank balances and cash	154	46	385
Total assets	338	417	904
Current liabilities	16	54	272
Trade and other payables	13	17	213
Bank and other borrowings	-	24	11
Loan from subsidiary	3	5	-
Lease liabilities	-	7	13
Non-current liabilities	3	49	120
Deferred tax liabilities	1	12	11
Lease liabilities	-	6	7
Contingent consideration	-	31	26
Shareholders' funds	324	289	343
Minorities	(5)	24	169
Total liab & shareholders' equity	338	417	904

Cashflow Statement

HKD mn	2018	2019	2020
CF from operating	(15)	(30)	422
Pretax profit	(69)	(110)	203
OP before WC chgs	(50)	(55)	244
Net WC chgs	33	23	173
Income tax paid	(1)	(0)	(1)
Others	3	2	6
CF from investing	(37)	(100)	(126)
Purchase of PPE	(6)	(7)	(127)
Others	(30)	(93)	0
CF from financing	133	23	44
Interest paid	(3)	(2)	(6)
Proceeds from issue of shares	132	12	-
Repayment of borrowings	(5)	(6)	(24)
Borrowings raised	10	24	10
Others	(1)	(5)	63
Beginning cash	73	154	46
Forex	(0)	(1)	(1)
End cash	154	46	385

Sources: Company data, CMS (HK)

Profit & Loss Statement

HKD mn	2018	2019	2020	1Q20	1Q21
Consolidated revenue	70	59	656	13	154
COGS	(42)	(37)	(317)	(10)	(79)
Gross profit	28	22	339	3	75
(-) Total SG&A expense	(96)	(106)	(144)	(28)	(37)
Administrative expenses	(79)	(94)	(132)	(25)	(33)
Selling and distribution costs	(17)	(12)	(12)	(3)	(3)
(-) Stock-based comp	(28)	(13)	(5)	-	-
Adj. EBITDA	(31)	(51)	245	(25)	39
Total depr. & amort.	(8)	(20)	(40)	-	-
Adj EBIT	(40)	(71)	205	(25)	39
(+/-) Finance (expense)/income	(3)	(2)	(6)	(0)	(2)
(+/-) Profit from JV&Asso.	(0)	(1)	-	-	-
(+/-) Other income/expense G&L	2	(23)	9	-	-
Profit before tax	(69)	(110)	203	(25)	37
(-) Tax	(0)	2	(35)	0	(9)
Net profit (NP)	(69)	(107)	168	(25)	27
(+/-) Minority interest	(5)	(9)	137	(3)	25
NP attributable to shareholders	(64)	(99)	30	(22)	2
Adj. NP attri. to shareholders	(37)	(86)	35	(22)	2
Adj. EPS fully diluted (HKD)	(0.04)	(0.09)	0.04	(0.02)	0.00
EPS fully diluted (HKD)	(0.07)	(0.10)	0.03	(0.02)	0.00

Financial Ratios

	2018	2019	2020	1Q20	1Q21
Growth					
Consolidated revenue	-33%	-16%	1007%	(10%)	1114%
Gross profit	-44%	-13%	760%	(35%)	2410%
Adjusted net profit	-42%	135%	-141%	n.a.	n.a.
Profitability					
Gross margin	40%	38%	52%	24%	49%
Adj. net profit margin	-52%	-146%	5%	(174%)	1%
Return on equity (ROE)	-20%	-34%	9%	n.a.	n.a.
Return on asset (ROA)	-19%	-24%	3%	n.a.	n.a.
Efficiency					
Inventory days	44	34	5	n.a.	n.a.
Receivable days	303	162	17	n.a.	n.a.
Payable days	134	148	133	n.a.	n.a.
Cash conversion cycle days	92	(15)	(216)	n.a.	n.a.
Liquidity					
Quick ratio	2	(5)	(0)	n.a.	n.a.
Net gearing (%)	-47%	-5%	-73%	n.a.	n.a.

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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