Healthcare - China (H/A)

China pharma/biotech: three partnerships reinforce sector momentum

Price Objective Change

AZ's investment validates ivonescimab's global potential

On Sep 28th, Summit Therapeutics (Akeso's ivonescimab overseas partner) and AstraZeneca (AZ) entered into an agreement under which AZ will invest US$2.0bn in Summit through convertible preferred shares. We view AZ's US$2.0bn strategic equity investment in Summit, alongside plans to develop ivonescimab clinically with its Claudin18.2 ADC and potentially other oncology assets, as an endorsement of ivonescimab's differentiated PD-1/VEGF bispecific profile. The collaboration could accelerate the asset's expansion beyond lung cancer into gastrointestinal and other tumor types, while leveraging AstraZeneca's leading ADC portfolio to broaden its addressable market and long-term commercial potential. Although no direct additional economics for Akeso have been disclosed, we believe the transaction materially strengthens ivonescimab's validation, global development visibility and strategic value, and is therefore positive for Akeso. We maintain Buy on Akeso and HKD136 PO.

Hengrui secures Novo partnership for oral GLP-1/GIP

Yesterday, Hengrui announced that it would license ex-China rights to HRS-1596, its potential once-weekly oral GLP-1/GIP dual agonist, to Novo Nordisk for up to US$2.6bn. The consideration comprises US$300mn upfront, up to US$2.3bn in development, regulatory and commercial milestones, plus royalties on net sales. Hengrui retains rights in Mainland China, Hong Kong, Macau and Taiwan. We view the partnership as strong external validation of Hengrui's metabolic drug discovery capabilities, particularly given Novo's leadership in obesity and diabetes. The sizeable upfront payment provides near-term earnings and cash-flow support, while Novo Nordisk's global development and commercial infrastructure should improve HRS-1596's overseas execution prospects. The deal reinforces Hengrui's global innovation strategy and broader pipeline potential, although HRS-1596 is only entering clinical development and future milestones remain subject to development and regulatory risks. We incorporate the upfront payment into our model, lift our PO to RMB67.0 from RMB65.8 and reiterate Buy.

SBP extends globalization into biosimilars

SBP announced that it had entered into a strategic biosimilars partnership with STADA, granting STADA exclusive commercialization rights to pembrolizumab biosimilar TQB3570 in the EU, Switzerland, the UK and CIS markets. SBP will receive an upfront payment and is eligible for up to €53mn in development, regulatory and sales milestones, together with a double-digit profit share. It will retain responsibility for development, manufacturing and commercial supply. The agreement also includes options for up to three additional oncology and immunology biosimilars, and potential expansion into the US and GCC markets. We view the partnership as strategically positive for SBP as it extends its globalization strategy beyond innovative-drug licensing into biologics manufacturing and international supply. We incorporate around RMB120mn upfront payment (assuming c.30% of total deal value) into our DCF model (based on recent similar collaborative deals in the sector). We lift our PO to HKD7.4 from HKD7.3 and reiterate Buy on SBP Group.

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Refer to important disclosures on page 7 to 10. Analyst Certification on page 4. Price Objective Basis/Risk on page 3.
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Exhibit 1: PO changes
We lift PO for Hengrui and SBP

	Curr	Old	New	% Chg
Hengrui	RMB	65.8	67.0	2%
SBP	HKD	7.3	7.4	1%

Source: BofA Global Research

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ADC: Antibody-drug conjugate

PD-1: Programmed cell death protein 1

VEGF: Vascular endothelial growth factor

GLP-1: Glucagon-like peptide-1

GIP: Glucose-dependent insulinotropic polypeptide

CIS: Commonwealth of Independent States

GCC: Gulf Cooperation Council

Estimate change

Hengrui

Exhibit 2: Key estimate change
We lift 2027E revenue estimate by 5.4%

	New			Old			% Change (New vs Old)		
(RMB mn)	2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
Total Revenue	32,817	39,248	40,866	32,817	37,238	40,866	0.0%	5.4%	0.0%
COGS	(4,579)	(5,132)	(5,764)	(4,579)	(5,132)	(5,764)	0.0%	0.0%	0.0%
Gross profit	28,238	34,116	35,101	28,238	32,106	35,101	0.0%	6.3%	0.0%
Various taxes	(325)	(357)	(354)	(325)	(357)	(354)	0.0%	0.0%	0.0%
Selling and distribution costs	(9,681)	(10,985)	(12,055)	(9,681)	(10,985)	(12,055)	0.0%	0.0%	0.0%
Administrative expenses	(3,019)	(3,426)	(3,760)	(3,019)	(3,426)	(3,760)	0.0%	0.0%	0.0%
R&D expense	(7,384)	(8,379)	(9,195)	(7,384)	(8,379)	(9,195)	0.0%	0.0%	0.0%
Operating income	7,829	10,970	9,737	7,829	8,960	9,737	0.0%	22.4%	0.0%
Profit Before Tax	8,468	11,680	10,520	8,468	9,670	10,520	0.0%	20.8%	0.0%
Tax expense	(847)	(1,168)	(1,052)	(847)	(967)	(1,052)	0.0%	20.8%	0.0%
Net Income	7,621	10,512	9,468	7,621	8,703	9,468	0.0%	20.8%	0.0%
Net Income to Owners of the parent	7,606	10,428	9,392	7,606	8,633	9,392	0.0%	20.8%	0.0%
Basic EPS	1.19	1.64	1.47	1.19	1.36	1.47	0.0%	20.8%	0.0%
Fully diluted EPS	1.19	1.64	1.47	1.19	1.36	1.47	0.0%	20.8%	0.0%
							(changes in percentage point)		
Gross margin (%)	86.0%	86.9%	85.9%	86.0%	86.2%	85.9%	0.0	0.7	0.0
Selling expense % of sales	-29.5%	-28.0%	-29.5%	-29.5%	-29.5%	-29.5%	0.0	1.5	0.0
G&A % of sales	-9.2%	-8.7%	-9.2%	-9.2%	-9.2%	-9.2%	0.0	0.5	0.0
R&D expenses as % of sales	-22.5%	-21.3%	-22.5%	-22.5%	-22.5%	-22.5%	0.0	1.2	0.0
Operating margin (%)	23.9%	27.9%	23.8%	23.9%	24.1%	23.8%	0.0	3.9	0.0
Tax rate (%)	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	-10.0%	0.0	0.0	0.0
Net margin (%)	23.2%	26.6%	23.0%	23.2%	23.2%	23.0%	0.0	3.4	0.0
%yoy Growth									
Revenue	3.8%	19.6%	4.1%	3.8%	13.5%	9.7%	0.0	6.1	-5.6
Net income	-1.2%	37.9%	-9.9%	-1.2%	14.2%	8.8%	0.0	23.7	-18.7
Net Income to Owners of the parent	-1.4%	37.1%	-9.9%	-1.4%	13.5%	8.8%	0.0	23.6	-18.7

Source: BofA Global Research estimates

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SBP

Exhibit 3: Key estimate change
We lift 2027E revenue estimate by 0.3%

	New			Old			% Change (New vs Old)		
(RMB mn)	2026E	2027E	2028E	2026E	2027E	2028E	2026E	2027E	2028E
Total Revenue	37,264	40,530	44,008	37,264	40,410	44,008	0.0%	0.3%	0.0%
COGS	(6,292)	(6,989)	(7,687)	(6,292)	(6,989)	(7,687)	0.0%	0.0%	0.0%
Gross profit	30,972	33,542	36,321	30,972	33,422	36,321	0.0%	0.4%	0.0%
Selling and distribution costs	(10,193)	(10,932)	(11,562)	(10,193)	(10,932)	(11,562)	0.0%	0.0%	0.0%
Administrative expenses	(2,004)	(2,108)	(2,141)	(2,004)	(2,108)	(2,141)	0.0%	0.0%	0.0%
R&D expense	(6,468)	(7,223)	(7,879)	(6,468)	(7,223)	(7,879)	0.0%	0.0%	0.0%
Operating income	11,288	12,067	13,497	11,288	11,947	13,497	0.0%	1.0%	0.0%
Other income and gains	550	550	550	550	550	550	0.0%	0.0%	0.0%
Financing expenses	423	439	472	423	439	472	0.0%	0.0%	0.0%
Share of profits and losses of associates	-2.2	62	101	-2.2	62	101	0.0%	0.2%	0.0%
Profit Before Tax	12,259	13,118	14,620	12,259	12,998	14,620	0.0%	0.9%	0.0%
Tax expense	(1,998)	(2,138)	(2,383)	(1,998)	(2,119)	(2,383)	0.0%	0.9%	0.0%
Net Income	10,261	10,980	12,237	10,261	10,879	12,237	0.0%	0.9%	0.0%
Adjusted net income	5,619	6,641	7,379	5,619	6,581	7,379	0.0%	0.9%	0.0%
Net Income To Attributable shareholders	5,520	6,588	7,342	5,520	6,528	7,342	0.0%	0.9%	0.0%
Basic EPS	29.41	35.10	39.12	29.41	34.78	39.12	0.0%	0.9%	0.0%
Fully diluted EPS	29.41	35.10	39.12	29.41	34.78	39.12	0.0%	0.9%	0.0%
							(changes in percentage points)		
Gross margin (%)	83%	83%	83%	83%	83%	83%	0.0	0.1	0.0
Selling expense % of sales	-27%	-27%	-26%	-27%	-27%	-26%	0.0	0.1	0.0
G&A % of sales	-5%	-5%	-5%	-5%	-5%	-5%	0.0	0.0	0.0
R&D expenses as % of sales	-17%	-18%	-18%	-17%	-18%	-18%	0.0	0.1	0.0
Operating margin (%)	30%	30%	31%	30%	30%	31%	0.0	0.2	0.0
Tax rate (%)	-16%	-16%	-16%	-16%	-16%	-16%	0.0	0.0	0.0

Exhibit 3: Key estimate change
We lift 2027E revenue estimate by 0.3%

	New			Old			% Change (New vs Old)		
Net margin (%)	15%	16%	17%	15%	16%	17%	0.0	0.1	0.0
%yoy Growth									
Revenue	*17%*	*9%*	*9%*	*17%*	*8%*	*9%*	0.0	0.3	-0.3
Adjusted net income	*24%*	*18%*	*11%*	*24%*	*17%*	*12%*	0.0	1.1	-1.0
Net income attributable	*136%*	*19%*	*11%*	*136%*	*18%*	*12%*	0.0	1.1	-1.0

Source: BofA Global Research estimates

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Exhibit 4: Stocks mentioned
Rating and price summary

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AKESF	9926 HK	Akeso	HK$ 106.3	C-1-9
XMOKF	600276 CH	Hengrui Medicine	CNY 45.62	B-1-7
SBMFF	1177 HK	Sino Biopharm	HK$ 5.55	B-1-7

Source: BofA Global Research

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Price objective basis & risk

Akeso (AKESF)

We use DCF methodology to assess Akeso's equity value. We assume a 10% debt-to-asset ratio, given the company's current debt position. Besides, we adopt 4.0% risk-free rate, 7.0% market premium, 15% tax rate, and 3.5% terminal growth rate in our DCF model. Additionally, we use a beta of 1.15 from Bloomberg, resulting in 12.1% cost of equity and 11.3% WACC. Our DCF model for Akeso derives a PO of HK$136.0.

Downside risks to our PO are: uncertainty on future clinical outcomes and regulatory timelines for ivonescimab, intensifying global competition, potential domestic pricing pressure from NRDL and US price cut. Upside risks to our PO are: better-than-expected clinical results, new license-out deal, higher-than-expected product sales.

Hengrui Medicine (XMOKF)

Our PO of RMB67.0 is based on a DCF model. Our assumption of the DCF model includes a 0% debt-to-asset ratio, a 2.0% risk free rate, 7.0% market premium, and 5.1% cost of debt. We apply beta of 0.69 and arrive at 6.8% cost of equity. We estimate a 3.5% terminal growth for the company.

Downside risks to our PO are (1) setback in drug development and a delay in product approvals, (2) slow sales ramp-up of new products, (3) increasing pricing risk from VBP (4) stiffer competition for PD-1 and other drugs, and (5) slow overseas expansion.

Upside risks to our PO are: (1) higher-than-expected net profit margin and (2) faster-than-expected progress of pipeline candidates.

Sino Biopharm (SBMFF)

Our PO of HK$7.4 is based on a DCF model. Our DCF assumptions include an 18% debt-to-asset ratio, a 4.0% risk-free rate, a 7.0% market premium, and a 5.4% cost of debt. We apply beta of 0.9 (in line with Bloomberg 6-month beta) and arrive at 10.3% cost of equity and 9.4% WACC. We estimate a 3.5% terminal growth for the company.

Downside risks to our PO are (1) higher-than-expected generic/innovative drug pricing pressure, (2) heightened competition resulting in loss of market share, (3) setbacks in drug development, (4) healthcare policy risk, and (5) VBP on biosimilars with significant

price cut. Upside risks: (1) Better-than-expected drug launch and sales (2) faster-than expected progress on pipeline.

Analyst Certification

We, David Li and Ethan Cui, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

