SciClone Pharmaceuticals (6600 HK)

Market leader in China's thymalfasin market

- Market leader with a 57.5% market share in China's thymalfasin drug market
- Generic drugs pose new threats in 2021-22
- Licensed-in products and pipeline products that fortify coverage in oncology and infectious diseases will become new growth drivers
- Asset-light business model and Go-to-Patients (GTP) platform enhance profits. High profitability with ROAA/ROAE at 31.9%/82.1% in 2020

Leading market position of the Company in the China thymalfasin market is being challenged. The competition landscape has been changing to one that becomes less favorable to the Company. Two thymalfasin generic drugs have passed consistency evaluation in Dec-Jan posing threat to the market leading position of the Company's core product Zadaxin. The adverse impact has emerged as sales of Zadaxin dropped 23.3%YoY/25.3%QoQ in 4Q20. The Company is expanding the clinical adoptions of Zadaxin to mitigate the threats. We believe the government will commence bulk procurement soon, which may increase share price volatility. The stock has tumbled 15% from its IPO price HK$18.8 since HK listing in Mar. Market is pricing in the business risk of the Company.

New growth drivers. The licensed-in products Zometa (from Novartis) and Angiomax (from the Medicines Co.) are new revenue drivers in 2021. With the sales of promotional products from Pfizer and Baxter, the Company expands its product coverage in oncology and infectious diseases. Moreover, five pipeline products in the late clinical stages or under NDA filing will be the long-term growth drivers.

Asset-light business model and Go-to-Patients (GTP) platform to enhance shareholders' value. The Company outsources production to reputable contract manufacturing organizations (CMO), such as Patheon Italia SpA or Novartis. Resources are allocated to R&D and sourcing licensed-in or collaborated products to minimize development risk. R&D accounted for 3.9% of revenue in 2020. We believe the core value of a pharma company lies in its product pipeline and sales capability instead of fixed assets, such as production facilities. The Company's GTP platform enables it to widen its online and offline sales of product to end-users. In 2020, gross margin stabilized at 77.7% in 2020; ROAA eased to 31.9%, but ROAE advanced to 82.1%.

Business outlook. We predict revenue to grow by 20.5%/8.1% YoY in 2021E/22E due to increased demand for Zadaxin and first-time contributions from licensed-in products. We expect 2021E-22E net profit to be distorted by three factors: (1) competition landscape of Zadaxin, (2) the first full-year contribution from licensed-in products; (3) the increase in interest expenses and amortization cost of the acquired IP licenses, which will slash earnings.

Risk factors: (1) Product concentration risk, reliance on CMO in production;(2) failure of pipeline products; (3) market development risk in marketed products;(4) keen competition in marketed products; (4) share price risk due to increase in free-float shares

Results and Valuations

FY ended Dec 31	2017	2018	2019	2020	2021E	2022E
Revenue (RMBmn)	1,213.0	1,408.9	1,708.1	1,918.6	2,312.5	2,499.9
Chg (YoY)	-	16.2%	21.2%	12.3%	20.5%	8.1%
Net profit (RMB mn)	19.6	535.1	614.6	753.7	720.6	727.3
Chg (YoY)	-	2632.5%	14.9%	22.6%	(4.4%)	0.9%
FD EPS (RMB)	-	-	-	1.35	1.10	1.07
FD P/E (x)	-	-	-	10.03	12.34	12.59
NBV (RMB)	-	-	-	0.56	2.82	3.57
P/B (x)	-	-	-	24.05	4.79	3.78
DPS (RMB), post-listing	-	-	-	-	0.319	0.322
Yield	-	-	-	-	2.36%	2.38%
ROAE	1.7%	53.4%	47.9%	82.1%	64.8%	33.6%

Note: RMB0.8443/HK$1.0
Source(s): the Company; E: ABCI Securities estimates

Company Report Initiation
Apr 12, 2021
Rating: BUY
TP: HK$17.80

Analysts: Philip Chan/ Paul Pan
Tel: (852) 2147 8805 / 2147 8829
Email: philipchan@abci.com.hk
/paulpan@abci.com.hk

Price (HK$, 4/9/2021)	16.00
Est. share price return	11.25%
Est. dividend yield	2.36%
Est. total return	13.61%
Previous rating & TP	-

Key data

Year H/L (HK$)	19.38/ 14.28
Issued shares (mn)	677.87
Mkt cap (HK$mn)	10,846
20-day ADT (HK$mn)	33.3
Lock-up shares/total	91%
Lock-up expiry	9/3/2021

Controlling shareholder(s) (%):

Mr. Li Zhenfu (Chairman and non-executive director)	28.8%

Source(s): the Company, ABCI Securities

Revenue composition by products in 2020

	% total	2017-20 Sales CAGR
Zadaxin (proprietary)	81.7%	12.1%
Others	17.9%	59.4%
Discontinued product	0.4%	-

Clinical adoptions of Zadaxin: chronic hepatitis B and vaccine enhancement in patients with impaired immunity to sepsis, pancreatic cancer, liver cancer, and COVID-19

Source(s): the Company

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Highlights

According to our analysis, SciClone Pharmaceuticals (Holdings) Limited ("SciClone" or "the Company") has an array of competitive strengths and weaknesses.

Strength

- Its proprietary product Zadaxin is the leader in China's thymalfasin market. It captured 57.5% in value and 20.4% in volume of market share in the thymalfasin market in 2019. Gross profit margin of Zadaxin was at ~86% for the last few years
- Continued growth from the sales of promotional drug products in China from Pfizer and Baxter
- New marketed products from Novartis and The Medicines will become new growth drivers in 2021
- Collaboration with overseas biopharma or biotech companies helps expand the pipeline products and lower new product development risk
- Asset-light business model leads to high return on average assets and better allocation of financial resources

Weakness

- High product concentration risk. Zadaxin contributed 81.7% and 90.5% of total sales and total gross profit in FY20, respectively
- Rely heavily on third parties in production and distribution of Zadaxin
- Rely heavily on licensed-in products; this may constrain the development of self-proprietary research capability

Challenges & threats

- Competitive landscape of China's thymalfasin market is going to change as more generic products pass consistency evaluation.
- Sales of Zadaxin slowed down substantially in 4Q20 when a generic drug passed consistency evaluation during the quarter.
- During Dec 2020-Jan 2021, two thymalfasin generic drugs passed the evaluation. The latest situation will prompt the government to include thymalfasin into bulk purchase category, which will intensify the price war between Zadaxin and the generic drugs in the foreseeable future.
- Ongoing revenue diversification

Capital market reaction

- The Company completed the HK IPO and raised net proceeds of HK$2.04bn in early Mar 2021. The stock commences trading on Mar 3, 2021
- Stock market reacted negatively after the IPO. Share price has tumbled ~15% from IPO price (HK$18.8). We estimate 91% of the issued shares is subject to a six-month lock-up period (expiry on Sep 3, 2021)
- On Mar 26, 2021, the Company announced its annual results. Net profit was RMB 753.7mn, up 22.6%YoY. The annual results indicate sales of Zadaxin slowed down substantially in 4Q20. Since Mar 26, the stock price has tumbled ~7%
- Since the listing in Mar 2021, the share price has been trading in the range of HK$14.28-19.38 equivalent to the pro-forma fully diluted 2020 P/E of 10.84-14.71x (based on 677.87mn issued shares post-listing) or fully-diluted 2020 P/E of 8.74-11.86x (based on 555.2 mn issued shares at end-2020)
- Price performance and the P/E range of the counter are reflecting the business risks entailed in the Company's core product

Core Product and Product Pipeline Analysis

Exhibit 1: Marketed products (including products to be marketed within 2020)

Product name	Generic name in NMPA	MOA	Indications	Originator / Partner	Commercial rights	in NRDL	in NEDL
1. Proprietary:							
Zadaxin®	Thymalfasin for Injection	Immunomodulator of thymalfasin	Cancers / infectious diseases	-	Proprietary asset	Yes (part B)	No
2. License-in:							
Zometa®	Zoledronic Acid Concentrated Solution for Injection	Osteoclast-mediated bone resorption inhibitor	Bone metastases from solid tumors	Novartis (Switzerland)	Permanent right to commercialize in Mainland China; IP acquired or licensed	Yes	No
Angiomax® *(to be marketed)*	Bivalirudin for Injection	Anticoagulant for PCI	Percutaneous transluminal coronary angioplasty; Percutaneous coronary intervention	The Medicines Co. (USA)	Permanent right to commercialize in Mainland China; IP licensed; Commercialization expected in Q12021		
3. Promotion products for business partners							
Farlutal	Medroxyprogesterone Acetate Tablets	Gonadotropin inhibitor	Cancers	Pfizer (USA)	Promotion services and distribution through 2022 for renewal	Yes	No
Methotrexate	Methotrexate Injection	DHFR inhibitor; Nuclear estrogen receptors and DNA synthesis reducer	Acute leukemia / cancers			Yes	No
Estracyt	Estramustine Phosphate Capsules	DNA alkylator	Hormone resistant advanced prostate cancer			Yes	No
						Yes	No
Holoxan	Ifosfamide for Injection	DNA and protein synthesis inhibitor	Cancers	Baxter (USA)	Promotion services and distribution through 2022 for renewal	Yes	No
Mesna	Sodium-2-mercaptoethance Sulfonate	Organosulfur compound used as an adjuvant in cancer chemotherapy to detoxify urotoxic	Urotoxicity			Yes	No
Endoxan	Cyclophosphamide for Injection	Protein synthesis inhibitor through cross-linking of DNA and RNA	Cancers			Yes	Yes

Remark: Except Angiomax, other products in the list are marketed products
Abbreviations: DHFR = Dihydrofolate Reductase; DNA = Deoxyribonucleic Acid; PCI = Percutaneous Coronary Intervention; RNA = Ribonucleic Acid; MOA= Mechanism of Action
NRDL: National Reimbursement Drug List, NEDL: National Essential Drug List
Part B of NRDL refers to the corresponding reimbursement is limited to patients eligible for employment injury insurance

Source(s): The Company, NMPA

1. Proprietary product Zadaxin – market leader in China's thymalfasin market

The Company's proprietary product, Zadaxin, a thymalfasin drug, contributed to 79.0% and 81.7% of total revenue in FY19 and FY20, respectively. In our view, business prospects of the Company in the short-to-medium term will be sensitive to sales of Zadaxin. The worldwide revenue from Zadaxin grew at a CAGR of 10.1% in 2017-19 to RMB 1349 mn in 2019 and 16.2%YoY in FY20. The outbreak of COVID-19 in 1H20 had boosted sales of Zadaxin. The Company is a leader in China's thymalfasin market by sales revenue in 2019. According to Frost & Sullivan (F&S), market share of the Company's Zadaxin, in terms of sales revenue in China's thymalfasin market, increased from 44.1% in 2015 to 57.5% in 2019.

Zadaxin is the Company's synthetic preparation of thymalfasin, scientifically referred to as thymosin alpha1 ("Tα1"), a thymic peptide which circulates in the blood naturally. Currently, Zadaxin is approved for treatment of chronic hepatitis B and vaccine enhancement in patients with impaired immunity. Besides the official indications in the treatment guidelines issued by the NHC and professional associations, including the Chinese Medical Association and the CSCO, Zadaxin is also listed for the treatments of sepsis, pancreatic cancer, liver cancer, and COVID-19.

In our view, the success of Zadaxin in China's thymalfasin market can be attributed to the following factors.

I. Sustainable growth in China's thymalfasin market. According to F&S, the sales revenue of thymalfasin in China grew at a CAGR of 3.5% in 2015-19 to RMB 2.4bn in 2019. F&S predicts the market size will grow at a CAGR of 13.9% in 2019-24 to RMB 4.6bn in 2024 and at a CAGR of 5.8% in 2024-30 to RMB 6.4bn in 2030.

II.Strong brand recognition helps differentiate Zadaxin from the generic thymalfasin drugs. According to the information on the National Medical Products Administration (NMPA)'s website, NMPA has approved various generic thymalfasin drugs. As Zadaxin is not in the National Reimbursement Drug List (NRDL), we believe Zadaxin competes with various generic thymalfasin drugs in terms of brand recognition instead of price. According to F&S, the Company's Zadaxin is the first branded thymalfasin drug in China. It enjoys a first-mover advantage in the China market with better brand recognition and product loyalty over other generic thymalfasin drugs.

III.The Company has reputable business partners in the value chain of Zadaxin. The Company does not own the production facilities producing Zadaxin. Polypeptide Laboratories, a reputable contract manufacturing organization (CMO), supplies API for production of Zadaxin. Production of Zadaxin is contracted out to Patheon Italia, a CMO known for its industry reputation and technical know-how in aseptic manufacturing. The imported Zadaxin is solely distributed by Sinopharm, a nationwide pharma distributor in China. Sinopharm is not allowed to import, distribute, or sell any competing product of Zadaxin, including other products containing thymalfasin, in China. We believe Sinopharm plays an important role in helping Zadaxin gain market share in the China thymalfasin market. The Company sells Zadaxin to Sinopharm, who then sells the drug to medical institutions and pharmacies through its vast distribution network. The Company sells Zadaxin through Sinopharm to 31 provinces, municipalities, and autonomous regions in China as of Sep 30, 2020. The distribution network for Zadaxin reached ~1,130 class III hospitals, ~1,250 class II hospitals, ~720 pharmacies, and ~3,560 other medical institutions in China as of Sep 30, 2020.

IV.Proven ability to manage product lifecycle by expanding the scope of applications of Zadaxin. Zadaxin was approved by the NMPA for sales in China in 1996. The Company expands the use of Zadaxin from official indications to the treatments of sepsis, pancreatic cancer, liver cancer, and COVID-19. Based on the pre-clinical and clinical studies, the Company will expand new clinical indications of Zadaxin in the next 3-5 years. It plans to develop the application of Zadaxin in the treatments of acute pancreatitis, rheumatic immune diseases, bone marrow transplantation, and tumor immunotherapy combination with immune checkpoint inhibitors especially with PD-1/PD-L1. The Company also enlarges its field force to cover additional hospitals and areas and upgrades its digital marketing efforts and innovative patient-oriented programs to establish new business models.

V.The Company owns the IP of Zadaxin. Zadaxin is approved in multiple jurisdictions, primarily in China but also in countries such as Argentina, Cambodia, Indonesia, Italy, Singapore, South Korea, Thailand, and the Philippines. The Company holds five patents of Zadaxin in China, with expiry dates ranging from 2021-30, covering areas such as method of reducing side effects of chemotherapy in cancer patients, α thymosin peptides as cancer vaccine adjuvants, and α thymosin peptides as vaccine enhancers. The Company also holds 32 patents of Zadaxin in jurisdictions outside China, such as France, Germany, Italy, Japan, the US, and the UK.

The entry barrier built by the Company is lowering. The competition landscape of Zadaxin has been changing to one that becomes less favorable to the Company. We expect the Company's Zadaxin to encounter new challenges in coming years. Based on the annual results and interim results for FY19 and FY20, our analysis indicates the sales of Zadaxin declined significantly in 4Q20. We believe the sharp YoY decline in 4Q20 was due to the increase in competition. In 4Q20, a generic version of Zadaxin produced by Hainan ShuangCheng Pharmaceuticals (海南双成药业股份有限公司; 002693 CH) has passed consistency evaluation. Many generic versions of Zadaxin are in fact available in the market but the Zadaxin's generic drug

produced by ShuangCheng is the first to pass the consistency evaluation. In Jan 2021, another generic drug produced by Sinopep-Allsino Bio Pharma (江苏诺泰澳赛诺生物制药股份有限公司) has passed the consistency evaluation. The competition faced by Zadaxin will stiffen in 2021 and this will be reflected in the Company's results in 2021-22.

Exhibit 2: Sales of Zadaxin

(RMB mn)	2017	2018	2019	2020
Sales of Zadaxin	1,112.61	1,168.82	1,349.31	1,568.20
Chg (YoY)	-	5.1%	15.4%	16.2%
(RMB mn)	**1H19**	**2H19**	**1H20**	**2H20**
Sales of Zadaxin	708.8	640.6	1,002.6	565.6
Chg (YoY)	-	-	41.5%	(11.7%)
Chg (HoH)		(9.6%)	56.5%	(43.6%)
(RMB mn)	**3Q19**	**4Q19**	**3Q20**	**4Q20**
Sales of Zadaxin	326.3	314.2	323.8	241.9
Chg (YoY)	-	-	(0.8%)	(23.0%)
Chg (QoQ)	-	(3.7%)	-	(25.3%)

Source(s): The Company's annual results and prospectus

Business challenges ahead. Looking forward, we believe the sales growth of Zadaxin will be determined by four main factors.

1. Increasing competition imposed by Zadaxin's generic drugs passing the consistency evaluation;
2. The pace of the Company in expanding the clinical adoptions of Zadaxin. We believe this will differentiate Zadaxin from its generic drugs in the medium-to-long term;
3. The schedule of the government to include thymalfasin drug into volume-based procurement catalog, which will eventually drive down the price of the drug;
4. The high-base effect in 1H20 will negatively distort the sales performance of Zadaxin in 1H21.

Three of the four factors aforementioned will negatively affect business performance of the Company in the short-to-medium term.

2. Continuous growth from the sales of promotional drug products in China for Pfizer and Baxter

The Company currently has the rights to promote and sell six oncology drugs. in China - three granted by Pfizer and three others by Baxter. Total revenue from the sales of promotional drug products for business partners (Pfizer & Baxter) accounted for 18.4% and 17.5% of total revenue in 2019 and 2020. The Company promoted and sold these products via its sales network. The sales of Methotrexate Injection, one of the three Pfizer's products, boosted growth in this business segment in 2018 and 2019. Revenue in this business segment grew 268.2% YoY and 50.6% YoY in 2018 and 2019 before normalizing to 7.0% YoY in 2020. We expect the business segment to maintain a mid-single digit growth in the next two years.

This business segment recorded a gross profit margin of ~40% in the last three years, contributing to ~9% of total gross profit. Based on the size of the business segment, we estimate the segmental gross profit would not be able to cover fully for the sales & marketing costs due to the lack of economies of scale. We estimate the segmental gross profit to be ~RMB 134mn in 2020, which ran short to cover for the sales and marketing costs of RMB 216mn in the same year.

Exhibit 3: Distribution and revenue of sales of promotional drug products for business partners

As of	31/12/2017	31/12/2018	31/12/2019	30/9/2020
Number of distributors	62*	146	166	146
FY	**2017**	**2018**	**2019**	**9M20**
Revenue (RMBmn)	56.7	208.7	314.3	250.9
Change (YoY)	-	268.2%	50.6%	12.7%
Revenue/avg. distributors (RMBmn)	1.772	2.007	2.015	1.608

Remarks: The distribution network covered ~1,170 class III hospitals, ~2,020 class II hospitals, ~160 pharmacies and ~1,610 other medical institutions in China as of Sep 30, 2020. At end-Sep 2020, sales and marketing team had 616 members.
* At the beginning of 2017, it had two distributors
Source(s): The Company, ABCI Securities

3. New marketed products from Novartis and The Medicine will become new growth drivers in 2021

The Company commenced distribution of two imported drugs, Zometa from Novartis (Switzerland) and Angiomax from The Medicines Co. (USA), in Dec 2020. We expect contributions from these branded products to have a full-year effect on the 2021 results. The Company has the permanent right to commercialize these two products in Mainland China.

The indication of Zometa is bone metastases from solid tumors. According to F&S, market of bone metastases drugs in China grew at a CAGR of 2.4% in 2015-19 to RMB 1.3bn in 2019 and will grow at 19.1% and 20.5% CAGRs in 2019-24 and 2024-30 to RMB 3.1bn in 2024 and RMB 9.5bn in 2030. Zometa has been approved by NMPA in 2004; its sales reached RMB 205.7mn in 2019 in China, capturing a 15.9% market share, ranking third in the bone metastases drugs market in China, according to F&S. Zometa is in the NRDL.

The indication of Angiomax (generic name: Bivalirudin) is an anticoagulant used for patients undergoing percutaneous coronary intervention (“PCI”), including patients with heparin-induced thrombocytopenia and thrombosis syndrome. Angiomax directly inhibits thrombin by specifically binding both to the catalytic site and to the anion-binding exosite of circulating and clot-bound thrombin. NMPA approved Angiomax for sales in China in 2019. Currently, it is not in the NRDL. The demand for the drug is subject to the volume of PCI procedure. According to F&S, the volume of PCI procedure grew at a CAGR of 17.0% in 2015-19 to 1.064 mn in 2019, and will increase at a CAGR of 13.1% in 2019-24 to 1.968 mn in 2024.

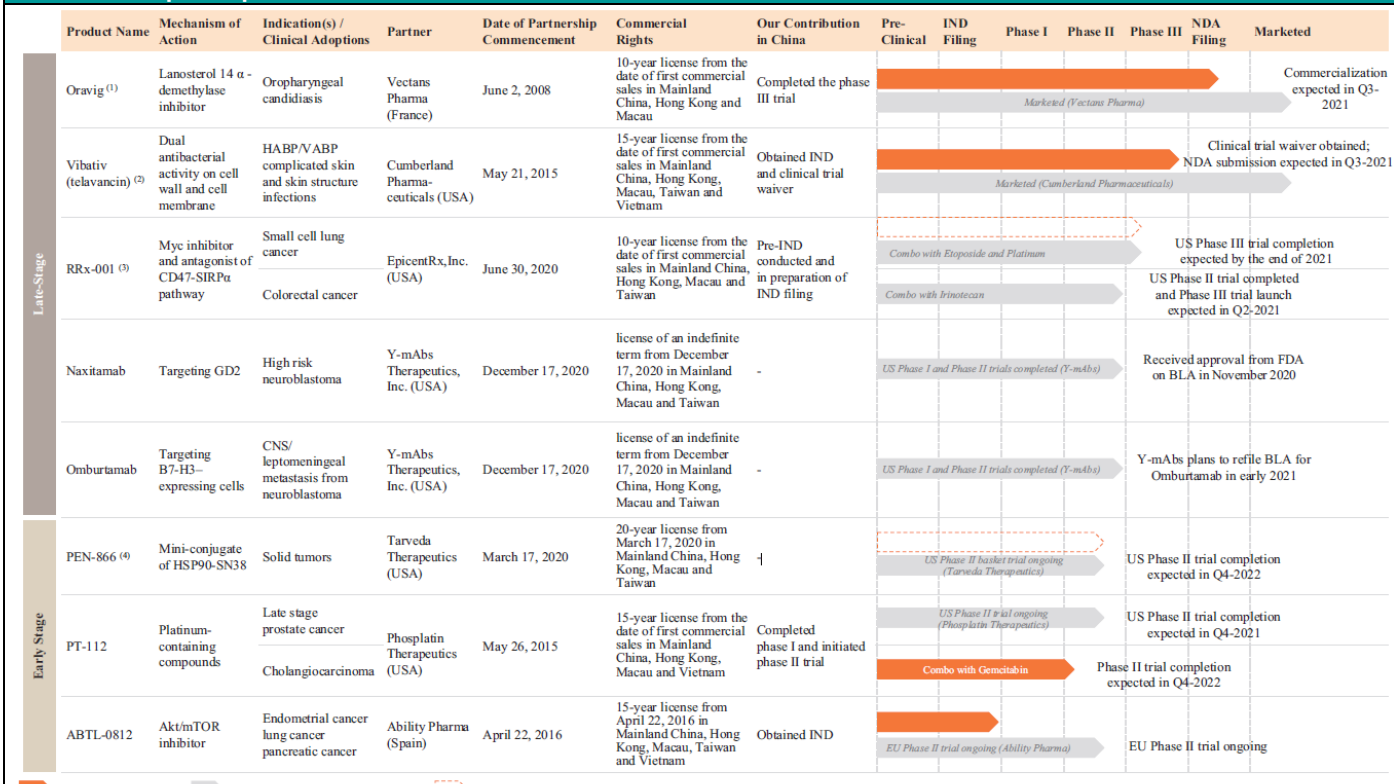
In our view, the inclusion of Zometa and Angiomax in the Company’s marketed product list will strengthen its distribution power in the long term. With growing credibility, the Company will be able to source more foreign branded drugs for distribution through its in-house sales network.

4. Long-term growth drivers: Collaboration with overseas biopharma or biotech companies helps expand the pipeline products and lowers new product development risk

The Company has eight developing products in the pipeline, of which five are in the late stage of development and the rest are in the early stage. The Company is collaborating with foreign business partners to develop new products. In our view, this collaboration strategy will enhance the pace of product development and share related risks. SciClone takes advantage of the regulatory change in China to use foreign clinical data to expedite clinical trials of the pipeline products in China. In our view, some of the late-stage products in development will begin to commercialize after 2021.

Exhibit 4: Pipeline products

	Product Name	Mechanism of Action	Indication(s) / Clinical Adoptions	Partner	Date of Partnership Commencement	Commercial Rights	Our Contribution in China
Late-Stage	Oravig (1)	Lanosterol 14 α -demethylase inhibitor	Oropharyngeal candidiasis	Vectans Pharma (France)	June 2, 2008	10-year license from the date of first commercial sales in Mainland China, Hong Kong and Macau	Completed the phase III trial
	Vibativ (telavancin) (2)	Dual antibacterial activity on cell wall and cell membrane	HABP/VABP complicated skin and skin structure infections	Cumberland Pharma-ceuticals (USA)	May 21, 2015	15-year license from the date of first commercial sales in Mainland China, Hong Kong, Macau, Taiwan and Vietnam	Obtained IND and clinical trial waiver
	RRx-001 (3)	Myc inhibitor and antagonist of CD47-SIRPα pathway	Small cell lung cancer Colorectal cancer	EpicentRx,Inc. (USA)	June 30, 2020	10-year license from the date of first commercial sales in Mainland China, Hong Kong, Macau and Taiwan	Pre-IND conducted and in preparation of IND filing
	Naxitamab	Targeting GD2	High risk neuroblastoma	Y-mAbs Therapeutics, Inc. (USA)	December 17, 2020	license of an indefinite term from December 17, 2020 in Mainland China, Hong Kong, Macau and Taiwan	-
	Omburtamab	Targeting B7-H3–expressing cells	CNS/ leptomeningeal metastasis from neuroblastoma	Y-mAbs Therapeutics, Inc. (USA)	December 17, 2020	license of an indefinite term from December 17, 2020 in Mainland China, Hong Kong, Macau and Taiwan	-
Early Stage	PEN-866 (4)	Mini-conjugate of HSP90-SN38	Solid tumors	Tarveda Therapeutics (USA)	March 17, 2020	20-year license from March 17, 2020 in Mainland China, Hong Kong, Macau and Taiwan	-
	PT-112	Platinum-containing compounds	Late stage prostate cancer Cholangiocarcinoma	Phosplatin Therapeutics (USA)	May 26, 2015	15-year license from the date of first commercial sales in Mainland China, Hong Kong, Macau and Vietnam	Completed phase I and initiated phase II trial
	ABTL-0812	Akt/mTOR inhibitor	Endometrial cancer lung cancer pancreatic cancer	Ability Pharma (Spain)	April 22, 2016	15-year license from April 22, 2016 in Mainland China, Hong Kong, Macau, Taiwan and Vietnam	Obtained IND



China status (5) Partner's overseas status (5) Intend to utilize overseas clinical data for the NDA application in China

Abbreviations: Akt = Protein Kinase B; HABP = Hospital-acquired Bacterial Pneumonia; HSP90 = Heat Shock Protein 90; mTOR= Mammalian Target of Rapamycin; SN38 = 7-ethyl-10-hydroxycamptothecin; VABP = Ventilator-associated Bacterial and Pneumonia

Note:
(1) The Company conducted Phase III of the clinical trials, and its partner conducted the earlier phases of the clinical trials.
(2) The Company's partner conducted Phase III and the earlier phases of the clinical trials. The Company obtained clinical waiver for clinical trials in China, and intends to conduct a bridging study for approval.
(3) The Company expects to participate in the China portion of Phase III MRCT (Multi-Regional Clinical Trials) for Small Cell Lung Cancer in 2021 with EpicentRx.
(4) The Company intends to join China portion of Phase III MRCT with Tarveda.
(5) The Company is responsible for the clinical trials in China. Its partners are responsible for the clinical trials overseas.
Source(s): The Company

Exhibit 5: Market potential of the pipeline products

Late-stage products		Market potential
Oravig	Oropharyngeal candidiasis is a common endogenous, opportunistic infection caused, in most cases, by the fungus Candida albicans. Cancer patients are at a higher risk for oropharyngeal candidiasis infection due to the immunosuppressive nature following their cancer treatments. Treatment for oropharyngeal candidiasis infection is usually antifungal medicine, which includes Oravig, a buccal tablet to apply topically to the gum that releases miconazole. Miconazole is an imidazole anti-fungal agent that acts by inhibiting ergosterol synthesis, a major component of fungal cell membranes. For Oravig, which has a greater potential demand from patients through retail channels, the Company intends to utilize its existing retail sales channels in its target markets and provide one-stop consultation and prescription services to the patients through its GTP model. Payments: The Company paid Vectans non-refundable and non-creditable upfront fee. The Company will pay milestone payment based on the obtention of the Market Authorization in Mainland China. The Company will pay a non-refundable, non-creditable payment based on sales performance. The Company will pay a percentage-wise royalty fee based on net sales of product.	F&S predicts the market of anti-fungal drugs in China, in terms of sales revenue will grow at CAGR 3.3% from RMB 25.5bn in 2019 to RMB 30.0bn in 2024, further grow at CAGR 4.1% from 2024 to RMB 38.0bn in 2030.

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Late-stage products		Market potential
Vibativ (telavancin)	It is used for treating MRSA (methicillinresistant Staphylococcus aureus) infection. Among all bacterial infection cases, multi-drug resistant bacteria impose severe threat to public health worldwide. Within the list of 12 families of bacteria, Staphylococcus aureus, also known as S.aureus, is a genus of multi-drug resistant bacteria. Among which, there is a strain called MRSA. This is a bacterium that causes infections in different parts of the body and is more difficult to treat than other strains of S. aureus due to its resistance to some commonly used antibiotics. MRSA infection may cause diseases including HABP (hospital-acquired bacterial pneumonia) and VABP (ventilator-associated bacterial pneumonia). For Vibativ, whose potential demand will be from patients with severe infections, especially those from the ICU, the Company intends to market through its existing hospital coverage to fast-track its recognition in the target market. Payments: The Company paid Theravance (and as assumed by Cumberland) a one-time, non-refundable and non-creditable upfront licensing fee. The Company will pay milestone payments subject to obtaining marketing authorization approval in Mainland China, Hong Kong, Macau and Taiwan. The Company will pay transfer price for the supply of products ordered for sale.	F&S predicts the market size of anti-MRSA infection antibacterial drug in China, in terms of sales revenue will grow at a10.4% CAGR from RMB 4.1 bn in 2019 to RMB 6.8 bn in 2024, further grow at a 7.4% CAGR from 2024 to RMB 10.4 bn in 2030.
RRx-001	RRx-001 treats various solid tumors. RRx-001 is a well-tolerated next generation small molecule immunotherapeutic that targets the CD47 -SIRPα axis and repolarizes tumor associated macrophages (TAMs) and other immunosuppressive cells in the tumor microenvironment to an immunostimulatory phenotype as well as improves tumor blood flow to enhance oxygen supply and drug delivery. RRx-001 has the potential to convert treatment-resistant tumors into treatment sensitive tumors, RRx-001 may be used as monotherapy or in combination with chemotherapy, immunotherapy, radiation and targeted agents. Payments: The Company paid EpicentRx an undisclosed upfront payment and conditionally agrees to invest in EpicentRx in 2020. EpicentRx is eligible to receive an aggregate amount of up to USD 120mn upon achieving certain development, approval, and commercial milestones. EpicentRx is eligible to receive royalties within the range of 10% to 20% of sales of RRx-001 in Mainland China, Hong Kong, Macau, and Taiwan.	The anti-CD47 therapy is one of immunotherapies. The immunotherapy market accounted for 4.0% of the total oncology drug market in China in 2019. With favorable policies, technology advancement, and increasing affordability of patients, immunotherapy is expected to account for 35.7% of the total oncology drug market in China in 2030, demonstrating strong potential in the future.
Naxitamab	In the U.S., Naxitamab (an anti-GD2 antibody) is indicated in combination with granulocyte-macrophage colony-stimulating factor (“GM-CSF”) for the treatment of pediatric patients one year of age and older and adult patients with relapsed or refractory high-risk neuroblastoma in the bone or bone marrow who have demonstrated a partial response, minor response, or stable disease to prior therapy. Naxitamab works through targeting GD2, a tumor antigen on the cell surface of neuroblastoma. Payments: The Company shall pay Y-mAbs (Ticker: YMAB US) (i) an upfront fee in the low eight figures in USD(ii) separate regulatory milestone payments in the low eight figures in USD for obtaining regulatory approval and the BLA approval in Mainland China, (iii) commercial milestone payments in the mid seven figures or low eight figures in USDs, based on cumulative total net sales and (iv) a percentage-wise royalty fee of low double digits based on net sales of Naxitamab on a region-by-region basis.	The anti-GD2 therapy is one of immunotherapies. Competitive edge: Naxitamab prevails other GD2 targeting antibody-based therapies with its modest toxicity, shorter infusion time and ability to be administered in outpatient setting.
Omburtamab	Omburtamab (an anti-B7-H3 antibody), used to treat CNS/ leptomeningeal metastasis from neuroblastoma. Omburtamab targets B7-H3–expressing cells in human solid tumors, including embryonal tumors, carcinomas, sarcomas, and brain tumors, and binds to an FG loopdependent conformation on the B7-H3 molecule, a domain critical for its biologic function. Payments: The Company shall pay Y-mAbs (i) an upfront fee in the mid seven figures in USD, (ii) separate regulatory milestone payments in the mid seven figures in USD for obtaining the BLA approval in the first and second indication for Omburtamab in Mainland China, (iii) commercial milestone payments in the mid seven figures or low eight figures in USD, based on our cumulative total net sales and (iv) a percentage-wise royalty fee of low double digits based on net sales of Omburtamab on a region-by region basis	The anti-B7-H3 therapy is one of immunotherapies. According to Y-mAbs’s public disclosure in the presentation on Jan 5, 2021, there is no approved product for patients with R/R NB who have CNS/LM from NB.

Continue on next page

Early-stage product		Market Potential
PEN-866	PEN-866 is indicated to treat solid tumors. It is a new class of selective precision oncology medicines - penetrating solid tumors while minimizing damage to healthy tissue. Payments: The Company paid Tarveda a one-time, non-refundable and non-creditable upfront fee. The Company shall have an upfront one-time right to invest in Tarveda in an equity financing. The Company shall pay Tarveda the one-time non-refundable, non-creditable payments subject to completion of project milestones. pay Tarveda non-creditable. The Company shall pay non-refundable royalties on net sales and a one-time non-refundable, non-creditable payment on achieving certain commercial milestone events.	As a Small Molecule Drug Conjugates ("SMDCs") product, PEN-866 currently demonstrates strong potential, as currently the SMDCs market in China is largely undeveloped. According to F&S, as of June 30, 2020, there had been no approved SMDCs or ongoing clinical trials in China.

Source(s): The Company, F&S, Y-mAbs Therapeutics, Inc.

Analysis of the asset-light business model

5. Asset-light business model enables high return rate of average assets and better allocation of financial resources

The Company adopts an asset-light business model for its operation. It outsources the production of proprietary product and in-licensed products to reputable CMOs, including Patheon Italia, for the production of Zadaxin and Angiomax, and Novartis for the production of Zometa. The distribution of its proprietary product Zadaxin is contracted to Sinopharm. In such case, management is able to concentrate the focus on new product development and expansion of clinical adoptions of existing products. Production outsourcing strategy helps save capex on production facilities and allows more resources to be allocated to R&D and acquisition of licensed products.

Exhibit 6: Analysis of the asset-light model of the Company

FY	2018	2019	2020
Net profit margin	38.0%	36.0%	39.3%
Revenue/average assets	1.03	1.09	0.81
ROAA	**39.3%**	**39.1%**	**31.9%**
Dividend declared (RMB mn)	563.4	211.6	2,230.4
Equity (RMB mn)	1,042.9	1,525.2	3,11.9
ROAE	**53.4%**	**47.9%**	**82.1%**

ROAE in 2021 was substantially lifted by the reduction of equity after dividend declared in 2020
In Feb 2021, the Company declared dividend of US$120mn to its shareholders as of Dec 31, 2020
Source(s): ABCI Securities

Exhibit 7: Asset-light model lowers capex burden, hence more resources can be allocated to acquisition of licensed-in products and R&D

FY	2018	2019	9M20	2020
Total capex (RMBmn)	24.8	32.6	317.0*	469.4
Capex/revenue	1.8%	1.9%	20.0%	24.5%
R&D(RMBmn)	77.5	87.7	48.7	75.4
R&D/revenue	5.5%	5.1%	3.1%	3.9%

*The amount primarily consisted of the milestone payment of US$ 35.0 mn for the in-licensing of Zometa from Novartis.
Source(s): The Company, ABCI Securities

The drawback of asset-light business model is that financial resources are usually tied up in working capital. The Company is shortening working capital cycle to enhance operating cash flow. We estimate the cash conversion cycle was reduced from 243.1 days in 2018 to 180.8 days in 2019 and 130.4 days in 2020.

Exhibit 8: Analysis of working capital management of the Company

FY	2018	2019	2020
Trade receivables turnover days	123.6	103.2	65.4
Inventories turnover days	174.2	132.6	132.9
Trade payables turnover days	54.7	55.1	67.9
Cash conversion cycle (days) (note 1)	**243.1**	**180.8**	**130.4**

Note: Cash conversion cycle = Trade receivables turnover days add inventories turnover days minus trade payable turnover days
Source(s): The Company, ABCI Securities

Exhibit 9: Shortening cash conversion cycle leading to better operating cash flow and earnings quality

FY	2018	2019	2020E
Net cash flow from operating activities	167.4	1,031.6	980.5
Net profit	535.1	614.6	753.7
Earnings quality= Operating net cash flow / net profit	**0.31**	**1.68**	**1.30**

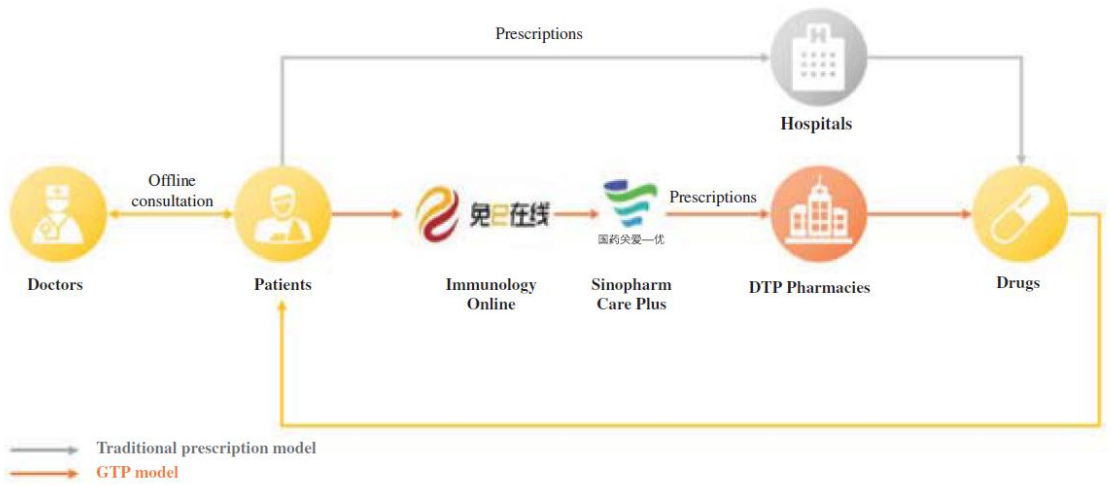
Remark: Cash flow statement for FY20 has not released.
Source(s): The Company, ABCI Securities estimates

Go-To-Patient (GTP) Strategy: An Internet-plus strategy to expand sales coverage

6. The GTP model to expand sales coverage

We consider the GTP model adopted by the Company an Internet-Plus strategy - one that succeeds in expanding sales coverage via online and offline delivery of the products to patients. In our view, this GTP model will become the business norm in the pharma industry.

Exhibit 10: Illustration of the flow in the GTP model



DTP Pharmacies: Direct-to-patient pharmacies
Source(s): The Company

In the traditional prescription model, patients go to hospitals to consult doctors and purchase Zadaxin by prescription. In the GTP model, after registration on the Company's Immunology Online portal, patients can choose between: (i) uploading their prescriptions obtained during doctor consultations, ordering Zadaxin online, and having direct-to-patient (DTP) pharmacies deliver Zadaxin to them; or (ii) purchasing and picking up Zadaxin from DTP pharmacies. In 2015, the Company piloted its GTP platform, which has since enhanced Zadaxin's accessibility to patients by extending the sales of Zadaxin beyond hospitals into pharmacies. The Company has generated sales through this platform since 2018. In 9M20, sales volume through the GTP model contributed to more than 50% of the Company's total sales volume of Zadaxin.

Non-traditional R&D

In our view, R&D expenses of the Company have not been significant. The item accounted for 5.5%/5.1%/3.9% of revenue in 2018/19/20, with testing and clinical trial fees and staff costs accounting for most of the expenses.

The business model and product development strategy adopted help lower the overall R&D expenses. Since the Company acquires IP of licensed-in products, the consideration paid for these licenses will not be debited into the R&D expenses. Also, the Company collaborates with foreign pharma or biotech companies to develop pipeline products, which will also reduce costs for R&D.

Exhibit 11: R&D composition

R&D expenses (RMBmn)	2017	2018	2019	9M19	9M20
Testing and clinical trial fees	(57.1)	(44.2)	(45.4)	(28.7)	(17.3)
Staff costs	(21.5)	(22.8)	(29.9)	(22.0)	(25.2)
Travel & meeting	(1.8)	(3.5)	(4.8)	(3.9)	(2.4)
ROU amortization	(1.5)	(2.4)	(2.3)	(1.7)	(1.7)
Others	(0.8)	(4.5)	(5.3)	(3.1)	(2.1)
Total R&D expenses	(82.7)	(77.5)	(87.7)	(59.4)	(48.7)
R&D expenses (% to revenue)					
Testing and clinical trial fees	4.7%	3.1%	2.7%	2.2%	1.1%
Staff costs	1.8%	1.6%	1.8%	1.7%	1.6%
Travel & meeting	0.1%	0.2%	0.3%	0.3%	0.2%
ROU* amortization	0.1%	0.2%	0.1%	0.1%	0.1%
Others	0.1%	0.3%	0.3%	0.2%	0.1%
Total R&D expenses	6.8%	5.5%	5.1%	4.6%	3.1%

*ROU: Right of use of assets
Source(s): The Company, ABCI Securities

In our view, one of the most important factors in the collaboration strategy leading to successful expansion of pipeline products with a high market potential is the Company's ability to identify the right product candidates from the collaboration partners. As of Sep 30, 2020, the Company had 797 full-time employees, of which 659 (82.7%) were engaged in marketing, promotion and sales, 79 (9.9%) in product development. At end- 2020, its full-time employees exceeded 790. The Company's business focus will help identify unmet medical needs in the end-user market; such market intelligence will in turn help the Company identify potential products from the collaboration partners to fulfill market needs.

In Dec 2020, the Company in-licensed two neuroblastoma oncology drugs (Naxitamab and Omburtamab) from the US-listed Y-mAbs Therapeutics, Inc. The former has obtained the FDA approval; the latter is submitting the business license application to FDA. According to the Company, the NMPA has given the green light to the Company's Naxitamab in the China market in Feb. The Company can use the clinical trial data in the US for the NDA application to NMPA.

Profit Outlook

We expect sales of Zadaxin to be the major revenue contributor despite the launch of licensed-in products. The outbreak of COVID-19 distorted sales performance of Zadaxin in 1H20. Sales volume of Zadaxin increased by 9% YoY in 2019 compared to 28%YoY in 9M20, but we believe the growth had normalized in 2H20. According to F&S, sales revenue of thymalfasin in China will grow at a CAGR of 13.9% in 2019-24E.

We expect reliance on Zadaxin to reduce as more marketed products commence contribution in coming years. Considering the launch of licensed-in products Zometa and Angiomax, we predict the proportion of sales of Zadaxin to total revenue will reduce from 81.7% in 2020 to 61.2% in 2022E. In our profit forecast model, we predict gross profit margin of Zadaxin will stay at ~86% in 2020-22E (actual: 85.9%/86.3% in 2018/2019). We assume gross profit margin of promotion products will be at ~39% in 2020-22E (actual: 39.0%/39.3%in 2018/2019).

Exhibit 12: Half-year sales volume of Zadaxin

Sales volume:	1H19	2H19	1H20	2H20
Zadaxin (mn units)	1.9	1.7	2.7 (boosted by COVID-19)	Our est. 1.7 (1.0mn in 3Q, 0.7mn in 4Q) (Sales normalize)

Source(s): The Company, ABCI Securities estimates

Exhibit 13: Sales volume and ASP forecast of Zadaxin

Sales volume:	2017	2018	2019	9M20	2020	2021E	2022E
Zadaxin (mn units)	3.1	3.3	3.6	3.7*	4.4	4.0	4.2
Chg (YoY)		6%	9%	28%*	21%	(8%)	6%
Zadaxin ASP (RMB)	355	349	375	360	360	360	360
Chg (YoY)		(2%)	7%	(1%)	(4%)	0%	0%
Revenue from sales of Zadaxin (RMBmn)	1,112.6	1,168.8	1,349.3	1,326.3	1,568.2	1,442.7	1,529.3
Chg (YoY)		5.1%	15.4%	28.1%	16.2%	(8.0%)	6.0%
Sales of Zadaxin (% to total revenue)	91.7%	83.0%	79.0%	83.7%	81.7%	62.4%	61.2%

* The growth was largely due to an increase in demand and usage of Zadaxin, primarily for the prevention and clinical treatment of COVID-19 in China
Note: Our base case scenario in 2021-22E has not factored into the potential change of competitive landscape and the potential impacts of government bulk purchase of thymalfasin drugs due to uncertainties at this stage. We may revise our assumptions for 2021E-22E subsequently when more information is available
Source(s): The Company, ABCI Securities estimates

Exhibit 14: Revenue and gross profit projections for 2020E-22E

(RMBmn)	2017	2018	2019	2020	2021E	2022E
Product sales:						
Zadaxin (Chinese name:日达仙)	1,112.6	1,168.8	1,349.3	1,568.2	1,442.7	1,529.3
Zometa (Chinese name:择泰)	-	-	-	4.7	320.0	380.8
Angiomax (Chinese name: 安其思)	-	-	-	1.3	200.0	226.0
Promotion products for business partners	56.7	208.7	314.3	336.3	349.8	363.8
DC Bead (discontinued on Apr 30, 2020)	15.8	28.7	44.4	8.1	0.0	0.0
Total product sales	1,185.1	1,406.2	1,708.1	1,918.6	2,312.5	2,499.9
Promotion service revenue	27.8	2.7	0.0	0.0	0.0	0.0
Total revenue	1,213.0	1,408.9	1,708.1	1,918.6	2,312.5	2,499.9
Revenue composition by products & service						
Product sales:						
Zadaxin	91.7%	83.0%	79.0%	81.7%	62.4%	61.2%
Zometa	0.0%	0.0%	0.0%	0.2%	13.8%	15.2%
Angiomax	0.0%	0.0%	0.0%	0.1%	8.6%	9.0%
Promotion products for business partners	4.7%	14.8%	18.4%	17.5%	15.1%	14.6%
DC Bead (discontinued on Apr 30, 2020)	1.3%	2.0%	2.6%	0.4%	0.0%	0.0%

(RMBmn)	2017	2018	2019	2020	2021E	2022E
Total product sales	97.7%	99.8%	100.0%	100.0%	100.0%	100.0%
Promotion service revenue	2.3%	0.2%	0.0%	0.0%	0.0%	0.0%
Total revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit margin:						
Overall gross margin	85.1%	78.5%	77.0%	77.7%	67.7%	67.1%
By products:						
Zadaxin	87.9%	85.9%	86.3%	86.0%	86.0%	86.0%
Zometa	-	-	-	-	40.0%	40.0%
Angiomax	-	-	-	-	30.0%	30.0%
Promotion products for business partners	29.2%	39.0%	39.3%	40.0%	39.0%	39.0%
Gross profit amount						
By products:						
Zadaxin	977.4	1,004.6	1,164.6	1,348.7	1,240.8	1,315.2
Zometa	-	-	-	2.0	128.0	152.3
Angiomax	-	-	-	0.6	60.0	67.8
Promotion products	16.5	81.3	123.4	139.4	136.4	141.9
DC Bead	37.8	20.0	26.9	(0.1)	0.0	0.0
Total	1,031.8	1,105.9	1,314.9	1,490.5	1,565.2	1,677.2
Gross profit composition						
Zadaxin	94.7%	90.8%	88.6%	*90.5%*	*79.3%*	*78.4%*
Zometa	0.0%	0.0%	0.0%	*0.1%*	*8.2%*	*9.1%*
Angiomax	0.0%	0.0%	0.0%	*0.0%*	*3.8%*	*4.0%*
Promotion products	1.6%	7.4%	9.4%	*9.4%*	*8.7%*	*8.5%*
DC Bead	3.7%	1.8%	2.0%	*0.0%*	*0.0%*	*0.0%*
Total	100.0%	100.0%	100.0%	*100.0%*	*100.0%*	*100.0%*

Remark: Gross profit margin by products in 2020-22E estimated by ABCI
Source(s): The Company, ABCI Securities estimates

We expect profits in 2021E-22E to be eroded by sharp increase in amortization cost and interest expenses. The Company acquired the IP license for permanent right to commercialize Zometa in Mainland China from Novartis in Feb 2020 for a consideration of US$ 60mn. The Company will amortize this intangible on a straight-line basis in five years from Feb 2020. We estimate the annual amortization cost to be US$ 12mn (~RMB 84mn). In order to offset the amortization cost, the Company has to derive sufficient operating profit from the sales of Zometa in coming years. The inclusion of Zometa in NRDL facilitates marketing in the hospital and pharmacy markets. However, the high amortization cost in 2020-25 will offset most of the gross profit derived from this product.

The Company will displace Novartis to market Zometa in China after the completion of the transfer of IDL, but it will continue to source Zometa from Novartis in the future. According to F&S, sales revenue of Zometa in China was RMB 205.7mn in 2019, representing 15.9% of the bone metastases market in China. F&S predicts the market of bone metastases drugs in China will grow at a CAGR of 19.1% in 2019-24E. In our profit forecast model, we predict gross profit margin of Zometa to reach 40% in 2021E while the associated amortization cost would be RMB 77.7mn/RMB 85.0mn in 2020E/21E.

The Company paid dividends of RMB 2230.4mn in 2020 and acquired an IP license of Zometa from Novartis for US$ 60mn. To meet the cash flow for dividend payment and operations, the Company raised a five-year term loan of US$ 300mn at LIBOR+2.3% p.a. from China Minsheng Banking in June 2020. Subsequent to the dividend payment and the borrowing of the term loan, the equity of the Company fell from RMB 1,525.2mn at end-2019 to RMB 311.9mn at end-2020 and net debt (excluding restricted cash) reached RMB 844mn at end-2020. As the US$ 300mn loan was raised in June 2020, we estimate interest expenses will sharply increase in 2021.

In Feb 2021, the Company declared dividends of US$120mn to shareholders as of Dec 31, 2020. The dividends were paid ahead of the IPO listing. In early Mar 2021, the Company completed the IPO (offering 115.9845mn shares @HK$18.80/share), raising a total of HK$ 2,039.5mn.

Financial Forecasts

Consolidated income statement projections

FY ended Dec 31 (RMB mn)	2017	2018	2019	2020	2021E	2022E
Revenue	1,213.0	1,408.9	1,708.1	1,918.6	2,312.5	2,499.9
Cost of revenue	(181.2)	(303.0)	(393.1)	(428.1)	(747.4)	(822.7)
Gross profit	1,031.8	1,105.9	1,314.9	1,490.5	1,565.2	1,677.2
Sales & mktg expenses	(396.0)	(389.0)	(460.3)	(456.4)*	67.7%	67.1%
Admin expenses	(332.2)	(143.5)	(118.4)	(216.2)	(490.3)	(530.0)
R&D expenses	(82.7)	(77.5)	(87.7)	(75.4)	(145.7)	(157.5)
Other income	13.3	37.1	6.8	139.2	(97.1)	(127.5)
Other expenses	0.0	0.0	0.0	(75.2)^	9.0	9.0
Other net gains	26.5	(38.6)	(5.1)	28.5	(85.0)	(85.0)
Operating profit	260.8	494.4	650.2	834.9	756.2	786.3
Net finance costs	(0.2)	0.9	11.0	(18.1)	22.9	0.0
Pre-tax profit	260.5	495.3	661.2	816.8	779.0	786.3
Tax	(240.9)	39.8	(46.6)	(63.1)	(58.4)	(59.0)
Net profit	19.6	535.1	614.6	753.7	720.6	727.3
Dividends	0.0	563.4	211.6	2,230.4 plus US$120mn	216.2	218.2
Fully diluted EPS (RMB)	0.04	0.99	1.13	1.35	1.10	1.07
Wt avg diluted issued shares (mn)	543.14	543.14	543.14	559.41	657.99	677.87
Pro-forma FD EPS (RMB)				1.11	1.06	1.07
Pro-forma FD issued shares (mn)				677.87	677.87	677.87

*Admin expenses in 2020E include fund raising costs (est. RMB25.7mn) and impairment losses of intangible assets (est. RMB21.0mn)
#Other income in 2020E includes licensing income from Zometa and US$7.3mn compensation from early termination of distribution of DC Bead; ^Other expenses mainly includes amortization of intangible assets associated with licensing
E: ABCI Securities estimates
Source(s): the Company, ABCI Securities estimates

Financial ratios summary

FY ended Dec 31 (RMBmn)	2017	2018	2019	2020	2021E	2022E
Profitability ratios						
Gross profit margin	85.1%	78.5%	77.0%	77.7%	67.7%	67.1%
Operating profit margin	21.5%	35.1%	38.1%	43.5%	32.7%	31.5%
Pre-tax profit margin	21.5%	35.2%	38.7%	42.6%	33.7%	31.5%
Net profit margin	1.6%	38.0%	36.0%	39.3%	31.2%	29.1%
ROAA	1.3%	39.3%	39.1%	31.9%	23.5%	20.5%
ROAE	1.7%	53.4%	47.9%	82.1%	66.2%	33.6%
Dividend payout ratio (post-listing)					30.0%	30.0%
Operating efficiency (% to revenue)						
Sales & mktg expenses	32.6%	27.6%	27.0%	23.8%	21.2%	21.2%
Admin expenses	27.4%	10.2%	6.9%	11.3%	6.3%	6.3%
R&D expenses	6.8%	5.5%	5.1%	3.9%	4.2%	5.1%
Total staff costs	29.8%	19.9%	19.4%	0.0%	16.1%	15.5%
Effective tax rate	92.5%	-8.0%	7.0%	7.7%	7.5%	7.5%
Growth momentum						
Revenue		16.2%	21.2%	12.3%	20.4%	8.1%
Gross profit		7.2%	18.9%	13.3%	4.8%	7.2%
Net profit		2632.5%	14.9%	22.6%	-7.5%	0.9%
Liquidity ratios						
Current ratio	2.6	4.6	5.1	1.4	3.6	4.2
Net debt (cash)/equity	(46.1%)	(22.7%)	(58.6%)	270.6%	(36.6%)	(60.2%)
Liab/assets	32.8%	19.5%	17.4%	89.2%	45.9%	32.1%
Trade receivables turnover days	96.2	123.6	103.2	65.4	67.0	67.0
Inventories turnover days	260.7	174.2	132.6	132.9	100.0	100.0
Trade payables turnover days	64.0	54.7	55.1	67.9	55.0	55.0
Business practice						
5 largest suppliers (% of total purchase)	50.7%	61.9%	63.4%			
Largest supplier (% of total purchase)	20.7%	23.1%	30.3%			
5 largest customers (% to total revenue)	98.2%	88.5%	81.3%			
Largest customers (% to total revenue)	87.5%	77.9%	71.6%			

Source(s): the Company, ABCI Securities estimates

Consolidated financial position projections

As of Dec 31 (RMBmn)	2017	2018	2019	2020	2021E	2022E
Non-current assets						
ROU assets	38.5	39.1	26.1	8.8	0.0	0.0
PPE	9.3	13.3	9.0	5.5	0.0	0.0
Intangibles	127.1	143.5	169.3	652.7	463.2	378.3
Fin assets at FVPL	5.1	15.9	25.0	55.9	25.2	25.2
Fin assets at FVOCI	17.5	19.3	37.5	232.4	166.0	166.0
Others	87.1	9.4	7.0	18.5	3.0	3.0
Total non-current assets	**284.6**	**240.4**	**273.8**	**973.7**	**657.4**	**572.5**
Current assets						
Inventories	143.8	145.4	140.2	171.6	292.4	158.4
Trade receivables	351.3	603.2	362.9	324.8	506.9	410.9
Other current asses	36.7	22.6	25.7	60.4	33.9	33.9
Fin assets at FVPL	129.5	8.7	123.8	70.0	100.0	100.0
Cash & equivalents	481.6	276.0	919.5	1,119.0	1,941.6	2,291.9
Restricted cash	0.0	0.0	0.0	163.1	0.0	0.0
Total current assets	**1,143.0**	**1,055.8**	**1,572.0**	**1,908.9**	**2,874.7**	**2,995.1**
Total assets	**1,427.7**	**1,296.3**	**1,845.8**	**2,882.6**	**3,532.2**	**3,567.6**
Non-current liabilities						
Borrowings	0.0	0.0	0.0	1,171.5	814.5	406.1
Deferred tax	3.0	4.9	6.2	9.3	10.0	15.0
Lease	19.6	17.4	7.0	2.1	5.0	5.0
Others	0.6	0.8	0.8	0.2	0.8	0.8
Total non-current liabilities	**23.2**	**23.1**	**14.0**	**1,183.0**	**830.3**	**426.9**
Current liabilities						
Trade & other payables	171.7	165.7	224.3	514.1	287.6	210.3
Lease	19.1	22.2	19.5	6.4	15.0	15.0
Borrowings	0.0	0.0	0.0	783.0	408.5	408.5
Tax liabilities	253.7	42.4	62.8	84.3	80.0	85.0
Total current liabilities	**444.6**	**230.3**	**306.6**	**1,387.8**	**791.1**	**718.8**
Total liabilities	**467.8**	**253.4**	**320.6**	**2,570.8**	**1,621.4**	**1,145.6**
Total equity attributable to shareholders	**959.9**	**1,042.9**	**1,525.2**	**311.9***	**1,910.8***	**2,421.9**

Note: The reduction of equity in 2020 was due to dividend payment of RMB2,230.4mn. The Company paid US$120mn dividend in Feb 2021 and raised net proceeds of HK$2.04bn from HK IPO in Mar 2021.
Source(s): the Company, ABCI Securities estimates

Consolidated cash flow projections

FY ended Dec 31 (RMBmn)	2017	2018	2019	2020E	2021E	2022E
Pre-tax profit (loss)	260.5	495.3	661.2	816.8	779.0	786.3
Adjustments	71.4	47.3	56.8	283.3	154.4	199.8
Movements in working capital	(165.2)	(193.4)	328.6	(18.1)	(223.0)	152.7
Cash generated from operations	**166.7**	**349.2**	**1,046.5**	**1,026.9**	**710.3**	**1,138.8**
Interest and tax paid, net	(12.9)	(181.7)	(14.9)	(101.5)	(39.3)	(58.8)
Net cash from operating activities	153.8	167.4	1,031.6	980.5	671.0	1,080.0
Net cash (used in)/from investing activities	(4.7)	174.7	(152.5)	(671.0)	68.3	(82.0)
Net cash (used in)/from financing activities	(476.5)	(542.6)	(234.6)	(53.0)	83.3	(647.6)
Net increase in cash and cash equivalents	**(327.4)**	**(200.5)**	**644.5**	**256.5**	**822.6**	**350.3**
Opening cash balance	795.6	481.6	276.0	919.5	1,119.0	1,941.6
Forex effect	13.4	(5.2)	(1.0)	(57.0)	0.0	0.0
Closing cash balance	**481.6**	**276.0**	**919.5**	**1,119.0**	**1,941.6**	**2,291.9**

Remark: The Company has yet to release cash flow statement for 2020
Source(s): the Company, ABCI Securities estimates

Valuation Analysis

Combined the DCF and comparative methods, we determine the TP of the stock at HK$17.80 which is equivalent to 13.72x/14.01x pro-forma fully diluted estimated P/E for 2021/2022E.

DCF methodology

In our earnings forecast model, we predict the ROAE will fall from 47.9% in 2019 to 33.6% in 2022E. Based on our assessment by DCF method, the fair equity valuation range of the Company is at RMB14.25-16.19/share (or HK$16.77-19.05/share), representing 13.41-15.23x of FY21E net profit or 13.28-15.09x of FY22E net profit.

Exhibit 15: Valuation: DCF Approach

		Base-case range			
LT growth scenarios	1.5%	2.0%	2.5%	3.0%	3.5%
Corresponding business value (RMB mn)	8,417	8,963	9,579	10,278	11,079
Add: estimate net cash at end 2021 (RMB mn)	699	699	699	699	699
Equity value (RMB mn)	9,116	9,662	10,277	10,976	11,777
Shares (mn)	677.9	677.9	677.9	677.9	677.9
Equity value (RMB/share)	13.45	14.25	15.16	16.19	17.37
Equity value (HK$/share)	**15.82**	**16.77**	**17.84**	**19.05**	**20.44**
Implied equity value/reported 2020 net profit	12.09	12.82	13.64	14.56	15.63
Implied equity value/estimated 2021 net profit	12.65	13.41	14.26	15.23	16.34
Implied equity value/estimated 2022 net profit	12.53	13.28	14.13	15.09	16.19

Note: the valuation is based on a (1) risk-free rate: of 3.113% of China's 10-year government bond yield; (2) country risk premium of 8.37%; (3) beta of 0.868; (4) cost of equity at 10.38%
Source(s): ABCI Securities estimates

Comparative methodology

Shuangcheng Pharma produces the generic thymalfasin drug, which competes with the Company's Zadaxin; Sino Biopharm produces generic zoledronic acid concentration for injection, which competes with Zometa; Hansoh Pharm produces generic bivalirudin for injection, which competes with Angiomax. A number of listed pharma companies (e.g. Luye Pharma, 3SBio, Lee's Pharma) also have proprietary or licensed-in products in oncology and anti-infection therapeutic areas comparable to the Company's. According to Bloomberg on Apr 9, 2021, Hainan Shuangcheng Pharma A-share (002693 CH, RMB 4.47/shr) was trading at a 12-mth rolling P/E of 81.01x ended Sep 20, 2020. In terms of business scale of the Company, its peers in comparative valuation should be the mid-sized pharma companies (e.g. Luye Pharma, 3SBio, Lee's Pharma).

Exhibit 16: Market valuations of the Company's comparable competitors listed in HK

Stock Code	Stock	Price HK$	FY20 P/E	FY21E P/E	FY22E P/E	FY2020 Gross margin (%)	FY2020 Revenue (RMB mn)	FY2020 Net profit (RMB mn)
	Large-sized:							
1093	CSPC PHARM	9.49	18.56	18.17	15.44	74.9	24,942	5,160
1177	SINO BIOPHARM	8.10	46.40	35.43	30.13	78.1	23,647	2,771
3692	HANSOH PHARM	36.40	69.85	51.65	42.22	90.8	8,690	2,569
	Average		**44.94**	**35.08**	**29.26**			
	Mid-sized:							
2186	LUYE PHARM	4.62	17.59	9.70	8.91	72.0	5,540	707
1530	3SBIO INC	7.19	18.40	10.96	9.67	81.0	5,587	836
950	LEE'S PHARM	6.17	28.06	14.59	12.85	64.2	1,217	129
	Average		**21.35**	**11.75**	**10.48**			
6600	**SCICLONE PHARM (our estimate; fully diluted basis)**	**16.00**	**10.03**	**12.34**	**12.59**	**77.7**	**1,919**	**754**

*: Pro-forma fully diluted, based on total issued shares of 677.87mn shares immediate upon completion of HK IPO
Price dated at Apr 9, 2021; Source(s): Bloomberg consensus, ABCI Securities estimates

Risk factors

Product concentration risk

The Company derived 79.0%/83.7% of total revenue and 88.6%/91.9% of total gross profit from the sales of Zadaxin in 2019/9M20. Business performance of the Company will be sensitive to sales of the drug. Zadaxin is competing with other generic thymalfasin drugs. Any factors that reduce demand for Zadaxin will adversely affect the business performance of the Company. Substantial decline in Zadaxin's price, such as aggressive price cut to gain or defend market share of Zadaxin in the thymalfasin drug market, will adversely affect business performance.

The change of competitive landscape in China's thymalfasin drug market may negatively affect business. As of the latest practicable date (Aug 31, 2020), only one generic drug to Zadaxin (Jitai, the generic thymalfasin drug manufactured by ShuangCheng Pharmaceuticals) had passed the consistency evaluation for quality and efficacy; four generic drugs of Zadaxin were awaiting consistency evaluation results. The competition is going to intensify in the future if more generic drugs of Zadaxin pass the consistency evaluation.

Reliance on CMO and supply from third parties

The Company does not own production facilities of its marketed products and outsourced the production of its marketed products. Any factors that cause disruption or reduction of supply of products, deterioration of quality of products, or unexpected increase in production and delivery costs will adversely affect business performance.

Reliance on Sinopharm to distribute Zadaxin

Sinopharm is the sole distributor of Zadaxin in China. Business results will be affected by the distribution capability of Sinopharm and the business relationship between the two.

Market development risk

The Company will encounter market development risks from sales of licensed-in products Zometa and Angiomax and sales of pipeline products in the future. The sales results may be lower than the initial expectations and fall short to cover for the license cost and corresponding marketing costs. Business performance of the Company will be adversely affected by market development risks from sales of new products.

Product failure risk

The Company plans to expand the clinical adoptions to Zadaxin to extend the life cycle of the product. The outcomes may be below expectations. Moreover, the pipeline products may fail to commercialize in the future or have lower-than-expected economic values after commercialization. In 2020, the Company recorded an impairment loss of RMB 21.0mn in connection with the impairment of intangible assets related to SGX-942, one of potential drug candidates which failed to achieve its Phase III clinical endpoint in Dec 2020.

The Company also relies on collaboration partners to provide research and technical supports on the pipeline products. The relationship and the research capability of collaboration partners will affect the development of pipeline products. The failure of expansion of clinical adoptions or developments of the pipeline products will adversely affect business performance of the Company.

Increase in amortization cost

The Company acquired the permanent IP right to commercialize Zometa in Mainland China for US$ 60mn in Feb 2020. The Company will amortize this intangible asset in five years. Amortization cost will increase accordingly in coming years. Profit derived from the sales of Zometa may not be able to fully offset the amortization cost, which in turn will affect the profitability of the Company. The amortization cost may increase faster or higher than expected due to payments of new licensed-in products. The profitability of the Company will be adversely affected on the higher-than-expected increase in amortization cost of intangible assets.

Increase in interest expenses
The Company raised a five-year term loan of US$ 300mn at LIBOR+2.3% in June 2020. The interest expenses will increase accordingly in 2H20 and years after that, which will affect profitability.

Failure to retain key staff
Product development relies on experienced R&D and management teams. Departure of key staff members in these departments will adversely affect the product and business developments of the Company.

Business sustainability risk
The Company declared dividends of RMB 2.23 bn in 9M20. Equity of the Company fell to RMB 311.9 mn at end-Dec 2020 from RMB 1.53 bn at end-Dec 2019. Financial position of the Company also changed significantly. Total borrowings of the Company increased from RMB 26.5mn at end Dec 2019 to RMB 1,962.9 mn at end Dec 2020. In Feb 2021, the Company declared US$120 mn in dividends; the amount was paid prior to its HK listing. In Mar 2021, the Company raised net proceeds of HK$2.04 bn from the IPO. After deducting the US$120mn dividends, the adjusted net proceeds of new issues fell to HK$ 1.11bn. The generous dividend payments in 2020-21 have reduced financial resources and will constrain the Company's ability to implement its product and market development plans.

Cumulated dividend declared for FY17-20 is larger than cumulated net profits over the same period
The Company has declared and paid a total dividend of RMB 3,785 mn (or US$582 mn, @RMB6.50/US$1.0) for FY17-20, which included the US$120mn dividends declared in Feb 2021 for FY20 to shareholders as of Dec 31, 2020. The total cumulated net profit for FY17-20 was RMB 1,923 mn, while the cumulated dividend in FY17-20 was 1.97x of cumulated net profit over the same period. In 2017, SciClone US was privatized at a consideration equivalent to ~US$ 607mn. Hence, shareholders of SciClone prior to HK IPO (mainly shareholders involved in the privatization of SciClone US in 2017) have mostly been paid back by the dividends in the last few years. We are cautious against such dividend schemes as the generous payment declared in last several years is unsustainable

Free-float shares will substantially increase after the lockup period; share price volatility may enlarge when supply of free-float shares increases
The ordinary shares of the Company have commenced trading in HK on Mar 3, 2021. We estimate 90% of total issued shares of the Company has been subject to trading restriction for six months after listing ("locked-up period"). Please refer to the Appendix II-Shareholding Structure. The no. of free-float shares (excluding Post-IPO RSU Plan) currently stands at 60.85mn (or 9.0% of total issued shares). The lockup period will expire on Sep 3, 2021. Hence, share transaction price prior to the expiry of the lockup period is distorted by the limited supply of free-float shares. Once the supply of shares increases after lockup period, volatility will increase and investors may bear a higher share price risk.

Share price below IPO price and thin trading volume
Based on the closing price of HK$ 16.00 on Apr 9, 2021, the closing price of SciClone is 15% below its IPO price of HK$18.80. The Company reported a net profit of RMB753.7mn for FY20. The closing price represented a pro-forma fully diluted FY20 P/E of 12.2x (assuming pro-forma fully diluted issued shares of 677.87mn shares). The undemanding P/E indicates investors are cautious on the profit growth of SciClone in coming years. We believe this phenomenon is the result of the growth risk of its core product Zadaxin over the next few years. Given the counter's short trading history, average daily turnover in the last 20 days was HK$ 33.26mn/day (or 1.777 mn shares/day or 2.92% of estimated free-float shares). Thin trading volume will result in higher price risk and liquidity risk for stock investors.

Appendix I – Company Business Milestones

Exhibit 17: The Company's business milestones

1992	SciClone US was listed on NASDAQ
1993	Zadaxin approved in Italy
1996	Zadaxin approved in China market
2003	Zadaxin played an important role in anti-SARS treatment Zadaxin approved in over 30 countries
2011	Acquired NovaMed and assumed its business partnership with Baxter and Pfizer Expanded into the therapeutic area of oncology Expanded into sales of in-licensed products and promotion products for business partners
2013	New China management team onboard to enhance the multi-national corporation infrastructure and compliance systems
2015	Launched DC Beads, a microbead used in Transarterial Chemo-Embolization (TACE) for liver cancer treatment
2017	Privatization led by GL Capital and joined by CDH Investments, Ascendent Capital Partners, Ocean Falcon Limited and Boying Investments Limited
2018	Expanded cooperation with Baxter and granted exclusive rights to promote its designated products in hospitals in Mainland China
2019	Acquired the commercial rights of Angiomax for Mainland China
2020	Tα1 (Zadaxin) listed for the treatment of severe and critical cases of COVID-19, which was released by NHC and National Administration of Traditional Chinese Medicine Acquired commercial rights of Zometa for Mainland China In-licensed RRx-001 from EpicentRX and PEN-866 from Tarveda In-licensed Naxitamab and Omburtamab from Y-mAbs
2021	Commenced HK listing in Mar 2021

Source(s): the Company

Appendix II – Shareholding structure

Exhibit 18: Shareholding structure of the Company at the latest practicable date

Issued shares:	mn shares	Prop	
Shares issued at end 2020:			
GL Trade Investment L.P.	104.97	15.5%	Lock-up expiry on Sep 3, 2021
GL Glee Investment Ltd	90.14	13.3%	Lock-up expiry on Sep 3, 2021
Avengers Ltd	106.54	15.7%	Lock-up expiry on Sep 3, 2021
Ascendent Silver (Cayman) Ltd	103.50	15.3%	Lock-up expiry on Sep 3, 2021
Ocean Falcon Ltd	84.52	12.5%	Lock-up expiry on Sep 3, 2021
Boying Investments Ltd	53.47	7.9%	Lock-up expiry on Sep 3, 2021
Covergence Int'l Hldgs Ltd	11.98	1.8%	Lock-up expiry on Sep 3, 2021
Corto Co., Ltd	0.08	0.0%	Lock-up expiry on Sep 3, 2021
Shares issued at end 2020	555.20	81.9%	
Shares issued in Feb 2021 to SCLN ESOP Mgt Ltd (For Post-IPO RSU Plan)	6.69	1.0%	
Sub-total (shares issued prior to HK listing)	561.89	82.9%	
Shares issued in global offering in Mar 2021	115.98	17.1%	
to cornerstone investors	55.13	8.1%	Lock-up expiry on Sep 3, 2021
to other investors	60.85	9.0%	
Total issued shares immediate after HK listing	**677.87**	**100.0%**	

(1) GL Trade Investment L.P. was an exempted limited partnership registered in Canada on March 25, 2015. Its general partner was GL Capital Management GP II B.C. I Ltd., a company incorporated in Canada which was wholly owned by GL Capital Management Ltd, which was held by GL Partners Capital Management Ltd as to 51% and Lion River I N.V.as to 49%. Lion River I N.V. was a company incorporated in Netherlands and was wholly owned by Assicurazioni Generali S.p.A, a company listed on Italian Stock Exchange. GL Partners Capital Management Ltd, one of the holding entities within GL Capital Group, was a limited liability company incorporated in the Cayman Islands and was controlled by Mr. Li Zhenfu, a non-executive director of our Company and the founder, president and chief executive officer of GL Capital Group as to 70% and an Independent Third Party as to 30%.

(2) GL Glee Investment Limited was a limited liability company incorporated in the Cayman Islands on March 10, 2011 and was wholly owned by GL China Opportunities Fund L.P., a limited partnership registered in Cayman Islands whose general partner was GL Capital Management GP L.P., a limited partnership registered in Cayman Islands, whose general partner was GL Capital Management GP Limited, which was held by GL Partners Capital Management Ltd as to 51% and Lion River I N.V. as to 49%. Lion River I N.V. was a company incorporated in Netherlands and was wholly owned by Assicurazioni Generali S.p.A, a company listed on Italian Stock Exchange. GL Partners Capital Management Ltd, one of the holding entities within GL Capital Group, was a limited liability company incorporated in the Cayman Islands and was controlled by Mr. Li Zhenfu as to 70% and an independent third party as to 30%.

(3) Avengers Limited was a limited liability company incorporated in the Cayman Islands and was wholly owned by CDH Fund V, L.P., a limited partnership registered in the Cayman Islands. Its general partner was CDH V Holdings Company Limited, a limited liability company incorporated in the Cayman Islands which was held by China Diamond Holdings V Limited as to 80%, a limited liability company incorporated in the British Virgin Islands which in turns was wholly owned by China Diamond Holdings Company Limited, a limited liability company incorporated in British Virgin Islands which in turns was indirectly held by Mr.Wu Shangzhi, a founder and the chairman of China Diamond Holdings Company Limited, as to 33.2% and nine Independent Third Parties as to 66.8%.

(4) Ascendent Silver (Cayman) Limited was a limited liability company incorporated in the Cayman Islands and was wholly owned by Ascendent Capital Partners II, L.P., an exempted limited partnership registered under the laws of the Cayman Islands whose general partner was Ascendent Capital Partners II GP, L.P., an exempted limited partnership registered under the laws of the Cayman Islands whose general partner was Ascendent Capital Partners II GP Limited, a limited liability company incorporated in the Cayman Islands and was wholly owned by Mr. Meng Liang, the founding managing partner of Ascedent Capital Partners.

(5) Ocean Falcon Limited was a limited company incorporated in Hong Kong on March 15, 2017 and was wholly owned by Bank of China Group Investment Limited, a limited company incorporated in Hong Kong which in turn was wholly owned by Bank of China Limited, a joint stock company established in the PRC with limited liability which in turn was held by Central Huijin Investment Ltd. as to 64.02%, a limited liability company established in the PRC which in turn was wholly owned by China Investment Corporation, a limited liability company which was wholly owned by the State Council of the People's Republic of China.

(6) Boying Investments Limited was a limited liability company incorporated in the British Virgin Islands and was wholly owned by Mr. Zhu Weihang, the chairman of Guangdong Pearl Investment Holding Group Co., Ltd. (廣東珠江投資控股集團有限公司) and an Independent Third Party.

(7) Convergence was a limited liability company incorporated in the British Virgin Islands and was wholly owned by Beijing Convergence.

(8) Corto was a limited liability company incorporated in the British Virgin Islands and was wholly owned by Zang Ying Qin.

Source(s): the Company

Appendix III – Management profile

Exhibit 19: Board of Directors

Name	Age	Position	Responsibilities
Executive directors			
Mr. ZHAO Hong	57	Executive Director, Chief Executive Officer and President	In charge of overall operations, strategies and decision making of the Group
Non-executive directors (N.E.D)/Independent N.E.D. (INED)			
Mr. LI Zhenfu	57	N.E.D and Chairman	Participating in the formulation of business plans, strategies and major decisions of the Group through the Board
Dr. VASELLA Daniel Luzius	67	N.E.D	Participating in the formulation of business plans, strategies and major decisions of the Group through the Board
Ms. LIN Shirley Yi-Hsien	38	N.E.D	Participating in the formulation of business plans, strategies and major decisions of the Group through the Board
Mr. SHI Cen (石岑)	45	N.E.D	Participating in the formulation of business plans, strategies and major decisions of the Group through the Board
Ms. WANG Xiaozhuo (王晓卓)	42	N.E.D	Participating in the formulation of business plans, strategies and major decisions of the Group through the Board
Ms. LI Quan (李泉)	40	N.E.D	Participating in the formulation of business plans, strategies and major decisions of the Group through the Board
Dr. LIU Guoen (刘国恩)	63	INED	Providing independent opinion and judgment to the Board
Dr. CHEN Ping	62	INED	Providing independent opinion and judgment to the Board
Mr. GU Alex Yushao	51	INED	Providing independent opinion and judgment to the Board
Ms. HAYES Wendy	50	INED	Providing independent opinion and judgment to the Board

Source(s): the Company , ABCI Securities

Profile of Mr, Zhao Hong

Mr. ZHAO Hong (赵宏), aged 57, is our executive Director, chief executive officer and president. Mr. Zhao has more than 30 years of experience in the medical and pharmaceutical industry. Prior to joining the Company, he served as a lecturer of Nanjing Medical University (南京医科大学) from July 1986 to Sep 1992, and served in Xian Janssen Pharmaceutical Ltd. (西安杨森制药有限公司) from Dec 1992 to July 1995, a regional sales manager, national sales director and senior vice president of Beijing Novartis Pharmaceutical Co., Ltd. (北京诺华制药有限公司) from July 1995 to Feb 2011, and an executive vice president of Simcere Pharmaceutical Group (先声药业集团) from February 2011 to April 2013. Mr. Zhao joined SciClone US in April 2013 and served as its CEO (China Operations), in charge of its operations in China before the incorporation of the Company. Mr. Zhao received his bachelor's degree in clinical medicine from Nanjing Medical University (南京医科大学) (formerly known as Nanjing Medical College (南京医学院)) in July 1986, in Jiangsu province, the PRC. He obtained his Executive Master of Business Administration ("EMBA") from China Europe International Business School (中欧国际工商学院) in April 2002, in Shanghai, the PRC.

Disclosures

Analyst Certification

We, Chan Sung Yan and Pan Hongxing, Paul, being the persons primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensations was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. We and/or our associates have no financial interests in relation to the listed company (ies) covered in this report, and We and/or our associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with SciClone Pharmaceuticals (Holdings) Limited.

Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate (~10%)
Hold	- Market return (~-10%) ≤ Stock return < Market return rate (~10%)
Sell	Stock return < - Market return (~-10%)

Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2008 (HSI total return index 2008-20 CAGR at 9.2%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.
Tel: (852) 2868 2183