



Mycenax Biotech (4726.TWO/4726 TT)

Fully devoted to biologics CDMO

Not rated

Price as of October 2 (NT\$)	38.30
12M target price (NT\$)	N/A
Previous target price (NT\$)	N/A
Unchanged / Revised up (down) (%)	N/A
Upside/downside (%)	N/A

Key message

Mycenax Biotech is fully devoted to its biologics CDMO business, with Japanese and South Korean clients accounting for the largest sales weighting. Conventional biologics make up 90% of total sales. Several drugs are set to receive drug licenses and launch. The firm is also aggressively expanding into the allogeneic therapy CDMO and ADC businesses.

Trading data

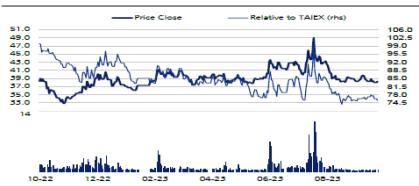
Mkt cap (NT\$bn/US\$m)	7.88 / 245.4
Outstanding shares (mn)	205.8
Foreign ownership (mn)	44.02
3M avg. daily trading (mn)	1.15
52-week trading range (NT\$)	32.90 -49.00

Performance	3M	6M	12M
Absolute (%)	-10.6	-2.3	1.1
Relative (%)	-8.5	-6.6	-22.2

Quarterly EPS

NT\$	1Q	2Q	3Q	4Q
2021	0.85	(0.45)	(0.52)	(0.38)
2022	0.12	(0.76)	(1.12)	(1.10)
2023	(1.17)	(0.82)	N.A.	N.A.

Share price chart



Source: TEJ

Event

Mycenax Biotech is the sole dedicated biologics CDMO in Taiwan, with foreign countries accounting for the largest sales weighting. The firm currently has three clients, and their drugs are in post-phase III clinical trial stages of development, with one from a Japanese firm and one from Sam Chun Dang Pharmaceutical (KR). Mycenax will likely receive commercial scale orders once the drugs are launched. The firm is also aggressively expanding into the allogeneic therapy CDMO and ADC businesses.

Impact

Fully devoted to biologics CDMO business. Mycenax currently has four plants in Taiwan, with one for process development for mammalian cells and cell therapy, one for microbial process development, a cell therapy CDMO pilot factory, a continuous manufacturing and antibody drug complex center, and another for GMP 1 and 2. GMP 1 provides pre-clinical, as well as phase I and II products, including product lines for mammalian cells (2,000L) and microbial (200L) process development, while GMP 2 offers phase III products and commercial-scale mass production, as well as three lots of 2,000L with filling lines for additional 12k liters. Mycenax became a fully dedicated biologics CDMO after selling its self-developed LusiNex. About 70% of its sales are to foreign countries, with Japan and South Korea accounting for more than 60%. In 2022, JCR Pharmaceuticals (JP) invested NT\$1.365bn in Mycenax, making it the largest shareholder, and currently has 2-4 projects with Mycenax.

Conventional biologics CDMO business to bear fruit. The firm currently has three Japanese and South Korean clients with drugs in post-phase III clinical trial stages of development. Biosimilar Eylea, which was developed by South Korea's Sam Chun Dang Pharmaceutical for age-related macular degeneration (AMD), has been licensed to Apotex (CA), and is likely to obtain a drug license in 2024. The Japanese client's biosimilar, which was previously produced in the US but transferred to Mycenax, is scheduled to be launched in 2025. Mycenax will likely receive commercial-scale orders once the drugs are launched. 1H23 CDMO revenue arrived up 35.6% YoY.

Valuation & Action

Mycenax is not rated by KGI. Nevertheless, re-rating hinges on the progress of Japanese and South Korean CDMO projects.

Risks

Denial of approval for Japanese and South Korean drugs.

Key financials and valuations

	Dec-18A	Dec-19A	Dec-20A	Dec-21A	Dec-22A
Revenue (NT\$m)	211	391	665	774	732
Gross profit (NT\$m)	14	133	187	138	(114)
Operating profit (NT\$m)	(323)	(230)	35	(85)	(445)
Net profit (NT\$m)	(274)	(218)	31	(90)	(454)
EPS (NT\$)	(2.50)	(1.74)	0.24	(0.61)	(2.74)
Cash DPS (NT\$)	-	-	-	-	-
EPS growth (%)	45.6	(30.5)	0.0	(350.3)	353.4
PE (x)	N.A.	N.A.	158.4	N.A.	N.A.
PB (x)	4.6	4.4	4.1	3.1	2.5
EV/EBITDA (x)	N.A.	N.A.	22.9	68.3	N.A.
Net debt to equity (%)	Net cash	Net cash	Net cash	15.3	Net cash
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Return on average equity (%)	(26.8)	(21.7)	2.7	(5.8)	(18.1)

Source: Company data, KGI Research estimates

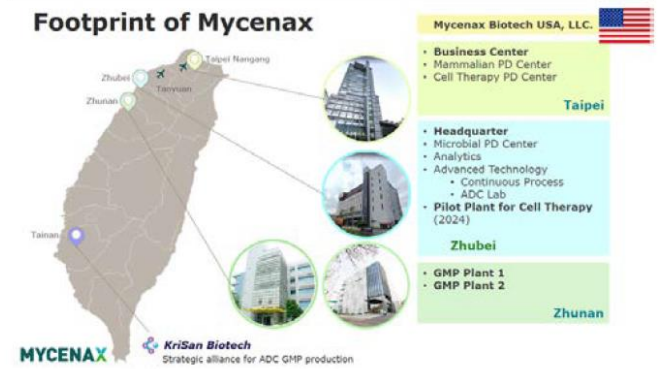
The “big D & medium M” strategy. As patient counts decline in the precision medicine era, increasing drug efficacy will likely lead to lower dosage and frequency of medication intake. Hence, the main focus will no longer be capacity expansion for manufacturing, but rather drug development. Mycenax’s biologics CDMO business will drive its future sales. Their allogeneic cell pilot plant will commence operations in 3Q24F, as Mycenax becomes a shareholder of Krisan (TW; unlisted) with Center Laboratories (4123 TT, NT\$46.05, NR). Mycenax will receive orders and manufacture the ADC drug, and will produce protein drugs when approaching GMP level. On the other hand, Krisan is responsible for payload and linker of antibody-drug conjugates, and has started to execute projects from their Japanese client.

Figure 1: Company profile

Mycenax is fully devoted to its biologics CDMO business, providing a variety of biopharmaceutical development services, including recombinant proteins, enzymes, antibodies, antibody-drug complexes, and gene and cell therapy products. The firm currently has four plants in Taiwan, with one for process development for mammalian cells and cell therapy, one for microbial process development, a cell therapy CDMO pilot factory, a continuous manufacturing and antibody drug complex center, and another for GMP 1 and 2. GMP 1 provides pre-clinical, as well as phase I and II products, including product lines for mammalian cells (2,000L) and microbial (200L) process development, while GMP 2 offers phase III products and commercial-scale mass production, as well as three lots of 2,000L with filling lines for an additional 12k liters.

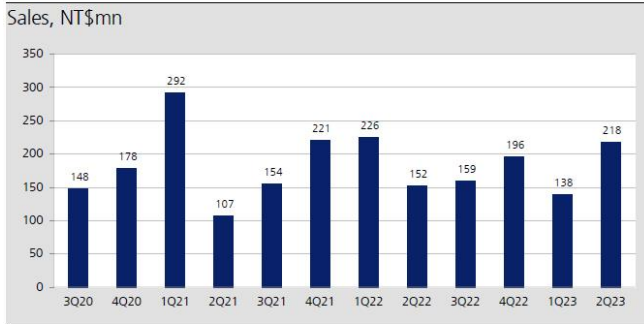
Source: KGI Research

Figure 2: Company overview



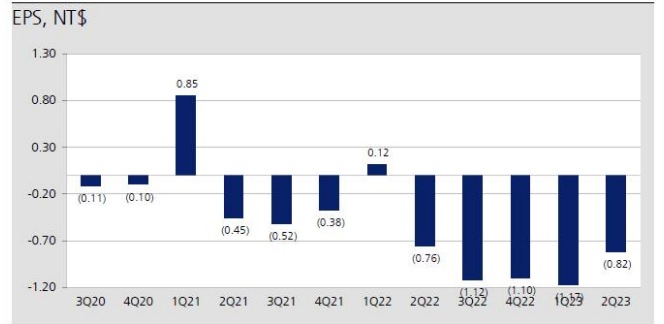
Source: Company data

Figure 3: Sales



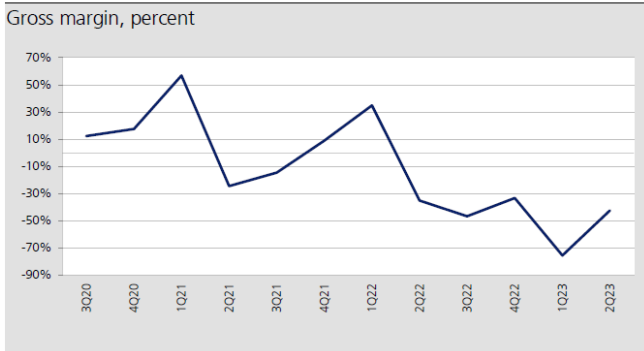
Source: KGI Research

Figure 4: EPS



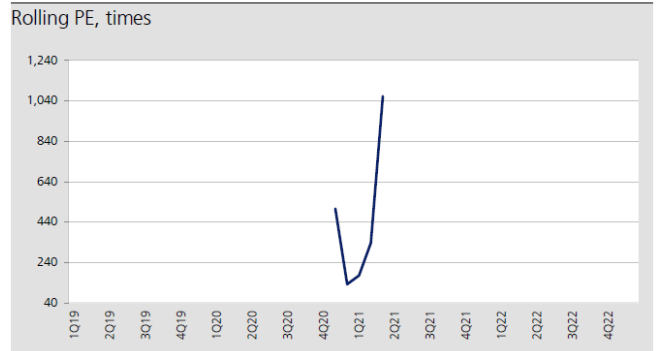
Source: KGI Research

Figure 5: Gross Margin



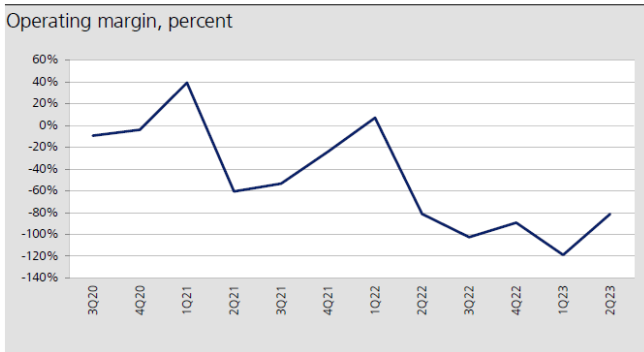
Source: KGI Research

Figure 6: Rolling PE



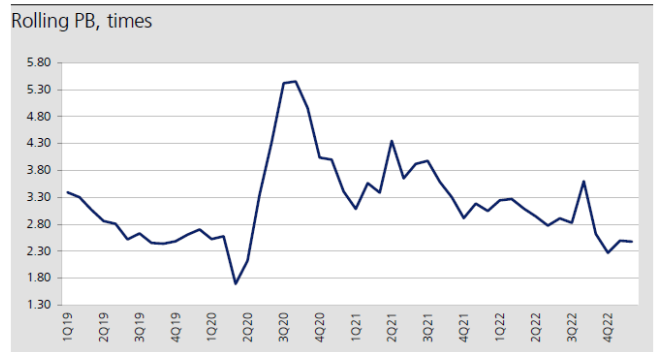
Source: KGI Research

Figure 7: Operating Margin



Source: KGI Research

Figure 8: Rolling PB



Source: KGI Research

Income statement

	Quarterly								Annually		
	Sep-21A	Dec-21A	Mar-22A	Jun-22A	Sep-22A	Dec-22A	Mar-23A	Jun-23A	Dec-20A	Dec-21A	Dec-22A
Income statement (NT\$m)											
Revenue	154	221	226	152	159	196	138	218	665	774	732
Cost of goods sold	(177)	(201)	(147)	(205)	(233)	(261)	(243)	(310)	(479)	(637)	(846)
Gross profit	(22)	20	79	(53)	(74)	(65)	(104)	(92)	187	138	(114)
Operating expenses	(60)	(73)	(63)	(70)	(89)	(110)	(60)	(85)	(151)	(223)	(331)
Operating profit	(82)	(53)	16	(123)	(163)	(175)	(164)	(177)	35	(85)	(445)
Depreciation of fixed assets	(36)	(40)	(46)	(57)	(74)	(78)	(77)	(75)	(121)	(146)	(255)
Amortisation of intangible assets	(7)	(7)	(7)	(7)	(7)	(7)	(4)	(3)	(16)	(22)	(28)
EBITDA	(39)	(6)	68	(59)	(82)	(90)	(83)	(99)	173	82	(162)
Interest income	0	0	0	0	0	4	4	4	1	0	4
Investment income	-	-	-	-	0	-	-	-	-	-	0
Other non-op income	0	1	1	2	1	1	2	1	4	2	6
Non-operating income	0	1	1	2	2	5	6	5	5	2	9
Interest expense	(1)	(1)	(2)	(3)	(6)	(8)	(7)	(7)	(1)	(3)	(19)
Investment loss	-	-	-	-	-	-	(0)	(2)	-	-	(1)
Other non-op expenses	3	(1)	4	7	(8)	(11)	(83)	15	(12)	(2)	(7)
Non-operating expenses	3	(2)	2	4	(15)	(19)	(90)	5	(13)	(4)	(27)
Pre-tax profit	(79)	(55)	19	(117)	(176)	(189)	(248)	(166)	28	(88)	(463)
Current taxation	(0)	(1)	(1)	0	3	7	7	(1)	3	(2)	9
Minorities	-	-	-	-	-	-	-	-	-	-	-
Normalised net profit	(79)	(56)	18	(116)	(173)	(183)	(241)	(167)	31	(90)	(454)
Extraordinary items	(0)	0	0	(0)	0	0	0	0	-	0	(0)
Net profit	(79)	(56)	18	(116)	(173)	(183)	(241)	(167)	31	(90)	(454)
EPS (NT\$)	(0.52)	(0.38)	0.12	(0.76)	(1.12)	(1.10)	(1.17)	(0.82)	0.24	(0.61)	(2.74)
Margins (%)											
Gross profit margin	(14.4)	9.0	34.8	(35.1)	(46.5)	(33.2)	(75.3)	(42.2)	28.0	17.8	(15.5)
Operating margin	(53.3)	(24.0)	7.1	(81.1)	(102.5)	(89.2)	(118.8)	(81.2)	5.3	(11.0)	(60.8)
EBITDA margin	(25.6)	(2.6)	30.3	(38.8)	(51.4)	(46.0)	(60.2)	(45.2)	25.9	10.7	(22.2)
Pretax profit margin	(51.3)	(24.7)	8.4	(76.9)	(110.6)	(96.5)	(179.3)	(76.3)	4.2	(11.3)	(63.2)
Net profit margin	(51.3)	(25.3)	8.1	(76.8)	(108.6)	(93.2)	(174.1)	(76.8)	4.7	(11.6)	(61.9)
Sequential growth (%)											
Revenue growth	44.7	43.0	2.1	(32.8)	5.1	23.0	(29.3)	57.6			
Gross profit growth	(14.3)		293.7	(167.6)	39.5	(12.4)	60.4	(11.6)			
Operating profit growth	27.3	(35.6)		(871.0)	32.7	7.1	(6.0)	7.7			
EBITDA growth	54.5	(85.2)		(186.1)	39.1	10.0	(7.6)	18.5			
Pretax profit growth	14.6	(31.1)		(711.9)	51.1	7.3	31.2	(33.0)			
Net profit growth	14.7	(29.4)		(735.8)	48.6	5.5	32.0	(30.5)			
YoY growth (%)											
Revenue growth	4.1	24.0	(22.8)	42.0	3.1	(11.3)	(38.6)	43.8	70.2	16.4	(5.4)
Gross profit growth	(221.3)	(36.2)	(52.7)	104.1	232.2	(425.6)	(232.7)	73.4	40.8	(26.2)	(182.6)
Operating profit growth	492.6	662.3	(86.1)	90.2	98.2	229.7	(1130.4)	43.9		(341.1)	421.5
EBITDA growth	(287.3)	(118.7)	(55.4)	130.6	107.5	1446.5	(221.8)	67.5		(52.2)	(296.9)
Pretax profit growth	388.3	381.9	(83.5)	68.8	122.5	246.8	(1402.3)	42.6		(412.9)	428.9
Net profit growth	477.9	351.4	(84.0)	68.5	118.3	226.5	(1415.8)	43.8		(390.4)	404.8

Source: Company data, KGI Research estimates

Balance sheet

NT\$m	Dec-18A	Dec-19A	Dec-20A	Dec-21A	Dec-22A
Total assets	1,119	1,408	1,753	3,139	4,453
Current assets	466	495	577	897	1,924
Cash & ST securities	304	278	292	295	1,341
Inventory	60	56	85	173	247
Accounts receivable	51	104	67	130	69
Other current assets	50	57	132	298	267
Non-current assets	653	913	1,176	2,242	2,529
LT investments	138	149	192	110	200
Net fixed assets	425	545	690	1,147	1,887
Other assets	91	219	294	985	443
Total liabilities	212	306	541	1,232	1,347
Current liabilities	180	232	425	540	635
Accounts payable	40	25	40	55	53
Interest bearing ST liabilities	-	-	100	66	206
Other current liabilities	140	207	284	420	376
Non-current liabilities	32	74	116	692	713
Long-term debt	29	37	37	512	656
Other L-T liabilities	3	4	7	4	-
Total equity	907	1,102	1,212	1,907	3,106
Share capital	1,100	1,280	1,283	1,533	2,053
Retained earnings reserve	(520)	(473)	(207)	(254)	(407)
Minority interests	-	-	-	-	-
Preferred shareholders funds	-	-	-	-	-

Key ratios

	Dec-18A	Dec-19A	Dec-20A	Dec-21A	Dec-22A
Growth					
Revenue growth	(33.6%)	84.9%	70.2%	16.4%	(5.4%)
Operating profit growth	165.5%	(28.6%)		(341.1%)	421.5%
EBITDA growth	318.2%	(55.9%)		(52.2%)	(296.9%)
Net profit growth	45.7%	(20.5%)		(390.4%)	404.8%
EPS growth	45.6%	(30.5%)		(350.3%)	353.4%
Profitability					
Gross profit margin	6.7%	33.9%	28.0%	17.8%	(15.5%)
Operating margin	(152.5%)	(58.9%)	5.3%	(11.0%)	(60.8%)
EBITDA margin	(114.7%)	(27.4%)	25.9%	10.7%	(22.2%)
Net profit margin	(129.8%)	(55.8%)	4.7%	(11.6%)	(61.9%)
Return on average assets	(22.6%)	(17.3%)	2.0%	(3.7%)	(12.0%)
Return on average equity	(26.8%)	(21.7%)	2.7%	(5.8%)	(18.1%)
Stability					
Gross debt to equity	3.1%	3.4%	11.3%	30.3%	27.8%
Net debt to equity	Net cash	Net cash	Net cash	15.3%	Net cash
Interest coverage (x)	(964.5)	(118.7)	33.3	(33.6)	(23.1)
Interest & ST debt coverage (x)	1.0	1.0	0.2	4.1	1.9
Cash flow interest coverage(x)	(609.0)	(73.3)	201.4	(57.8)	(7.8)
Cash flow/int. & ST debt (x)	(609.0)	(73.3)	1.7	(2.1)	(0.7)
Current ratio (x)	2.6	2.1	1.4	1.7	3.0
Quick ratio (x)	2.3	1.9	1.2	1.3	2.6
Net debt (NT\$m)	(187)	(157)	(154)	291	(461)
Per share data					
EPS (NT\$)	(2.50)	(1.74)	0.24	(0.61)	(2.74)
CFPS (NT\$)	(1.64)	(1.12)	1.36	(0.98)	(0.91)
BVPS (NT\$)	8.25	8.61	9.44	12.43	15.13
Adj BVPS (NT\$)	8.25	8.76	9.47	12.84	18.78
SPS (NT\$)	1.92	3.11	5.20	5.21	4.43
EBITDA/share (NT\$)	(2.21)	(0.85)	1.35	0.56	(0.98)
Cash DPS (NT\$)	-	-	-	-	-
Activity					
Sales / avg assets	0.17	0.31	0.42	0.32	0.19
Days receivable	87.7	96.9	37.0	61.4	34.6
Days inventory	111.8	79.3	64.9	99.4	106.5
Days payable	73.8	34.9	30.8	31.3	22.7
Cash cycle	125.7	141.3	71.0	129.4	118.4

Source: Company data, KGI Research estimates

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Profit & loss

NT\$m	Dec-18A	Dec-19A	Dec-20A	Dec-21A	Dec-22A
Revenue	211	391	665	774	732
Cost of goods sold	(197)	(258)	(479)	(637)	(846)
Gross profit	14	133	187	138	(114)
Operating expenses	(337)	(363)	(151)	(223)	(331)
Operating profit	(323)	(230)	35	(85)	(445)
Non-operating income	27	12	5	2	9
Interest income	5	4	1	0	4
Investment income	-	-	-	-	0
Other non-op income	22	8	4	2	6
Non-operating expenses	10	(12)	(13)	(4)	(27)
Interest expense	(0)	(2)	(1)	(3)	(19)
Investment loss	-	-	-	-	(1)
Other non-op expenses	10	(10)	(12)	(2)	(7)
Pre-tax profit	(286)	(230)	28	(88)	(463)
Current taxation	11	12	3	(2)	9
Minorities	-	-	-	-	-
Extraordinary items	-	0	0	0	(0)
Net profit	(274)	(218)	31	(90)	(454)
EBITDA	(243)	(107)	173	82	(162)
EPS (NT\$)	(2.50)	(1.74)	0.24	(0.61)	(2.74)

Cash flow

NT\$m	Dec-18A	Dec-19A	Dec-20A	Dec-21A	Dec-22A
Operations cash flow	(180)	(141)	174	(146)	(150)
Net profit	(274)	(218)	31	(90)	(454)
Depreciation & amortisation	80	123	137	168	283
Decrease in working capital	26	(75)	13	(120)	(62)
Other operating cash flow	(12)	30	(7)	(104)	83
Investing cash flow	54	(266)	(169)	(1,031)	(745)
Sale of ST investment	171	4	106	83	93
New investments	-	-	-	-	(200)
Capital expenditure	(118)	(178)	(260)	(1,098)	(627)
Others investing cashflow	2	(92)	(14)	(16)	(11)
Free cash flow	(324)	(363)	(87)	(1,160)	(870)
Financing cash flow	-	385	92	1,174	1,932
Increase in short term debt	-	-	100	(50)	50
Increase in long term loans	-	-	-	490	272
New ordinary shares issued	-	401	-	761	1,625
Ordinary dividends paid	-	-	-	-	-
Other financing cashflow	-	(17)	(8)	(27)	(15)
Forex effects	-	-	-	-	-
Total cash generated	(126)	(22)	97	(4)	1,036

ROIC

	Dec-18A	Dec-19A	Dec-20A	Dec-21A	Dec-22A
1 - COGS/revenue					
- Operating exp./revenue	159.2%	92.8%	22.7%	28.8%	45.2%
= Operating margin	(152.5%)	(58.9%)	5.3%	(11.0%)	(60.8%)
1 / (Working capital/revenue	(0.1)	(0.0)	(0.1)	0.2	0.2
+ Net PPE/revenue	2.0	1.4	1.0	1.5	2.6
+ Other assets/revenue)	0.0	0.0	0.1	0.8	0.3
= Capital turnover	0.5	0.7	0.9	0.4	0.3
Operating margin	(152.5%)	(58.9%)	5.3%	(11.0%)	(60.8%)
x Capital turnover	0.5	0.7	0.9	0.4	0.3
x (1 - tax rate)	96.0%	94.9%	110.7%	102.7%	98.0%
= After-tax ROIC	(74.8%)	(40.0%)	5.6%	(4.6%)	(19.4%)

Source: Company data, KGI Research estimates

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