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Hidden Dragon? Investors Return To New China Biotech Reality

by [Brian Yang](#)

Several Chinese biotech developments during the Lunar New Year break have put investors on high alert, namely the continued share price slide of Chinese biotech bellwether WuXi Apptec, Lianbio ceasing operations and I-Mab divesting its China business to become a fully US-focused company.

While hundreds of millions around the world were celebrating the Lunar New Year of the wood dragon, a quiet shift and new reality was settling in in the Chinese biotech sector.

The country's largest contract research and manufacturing organization, [WuXi AppTec](#), has seen continued downward pressure on its share price despite the company's diligent efforts to clarify alleged ties to the concept of "military-civilian fusion" in China, as cited by the US House of Representatives' Select Committee on the Chinese Communist Party's draft BIOSECURE bill. (Also see "[US Draft Bill Highlights Perceived China Biotech Threat](#)" - Scrip, 30 Jan, 2024.)

Shanghai-listed WuXi Apptec's shares have slumped by 30% since the unveiling of the draft US bill on 25 January, when the company was trading at CNY73.30 (\$10.20) per share; as of market opening on 20 February, they were at CNY49.85.

Shares in Hong Kong-listed [WuXi Biologics](#), the biologics contract development and manufacturing organization, have declined even further, from HKD30 (\$3.84) on 25 January to HKD17.12 as of opening on 20 February, a 43% fall. (Also see "[Bellwether Wuxi Biologics' Plunge Indicative Of China Biotech Challenges](#)" - Scrip, 6 Dec, 2023.)

By comparison, shares in major US biotech CROs/CDMOs such as [Charles River Laboratories International, Inc.](#), [Medpace Inc.](#), and [Catalent, Inc](#) have been soaring, driven largely by mergers and acquisitions. Medpace, for example, which serves largely small biotech companies, has seen its stock surge by over 30% over the same period.

Charles River, which in April 2020 made a \$1.6bn bid for WuXi Apptec - scrapped months later due to shareholders opposition - has risen 14%.

In a sign of the interest in the sector elsewhere, on 5 February [Novo Nordisk A/S](#) announced an agreement to acquire Catalent in an all-cash transaction valuing the CDMO at \$16.5bn on an enterprise value basis. The per share offer of \$63.5 represented a 16.5% premium to Catalent's closing price as of 2 February. (Also see "[Novo Splashes Out Again To Solve Semaglutide Supply Problem](#)" - Scrip, 5 Feb, 2024.)

This drastic gap between the performance of US and Chinese biotech CROs/CDMOs, usually an indicator of the well-being of the overall sector, reflects a new reality, observers say. "Biotech represents one of the leading high-tech sectors and global competition is fierce. Our [China's] gap with the US [in biotech] was once narrowing but now it is widening," noted a blogger nicknamed Akimide in a 15 February post on Chinese social media platform WeChat.

Lianbio To Wind Down Operations

Another significant biotech development that caught investors surprises during the Lunar New Year festivities was [LianBio](#)'s shocking announcement that it is ceasing operations, delisting from Nasdaq and returning a special cash dividend of \$4.80 per ordinary share for an aggregate payment of \$525m to shareholders.

The decision to wind down activities, to be completed within this year, came after a lengthy strategic review, noted the company.

Established with the goal of bringing in new drugs to Chinese patients, Lianbio's strategy has been to license in candidates from Western partners including [MyoKardia, Inc.](#) (later acquired by [Bristol Myers Squibb Company](#)), from which it acquired rights to mavacamten in mainland China, Hong Kong SAR, Macau SAR, Taiwan, Singapore and Thailand.

Three years since the original deal, Lianbio had developed the symptomatic obstructive hypertrophic cardiomyopathy drug, which is now pending approval with priority review in China and approved in Singapore and Macau.

Key Takeaways:

- China-focused biotechs face increasing geopolitical tensions and US-China decoupling challenges.
- US Congress's perception of a China biotech threat is creating additional pressure and some biotechs are divesting their China business from their US operations.
- These developments could lead to a further widening gap between the US and China in the biotech sector.

Last October, however, the company returned China rights to BMS in a \$350m deal. (Also see "[LianBio Eyes 'Strategic Review' As It Hands Camzyos Asia Rights Back To MyoKardia Parent BMS](#)" - Scrip, 24 Oct, 2023.)

The move was seen at the time as the China-focused biotech's first major step towards scaling back its active out-licensing activities, amid geopolitical tensions and the decoupling of US and China.

"This [Lianbao's dissolution] is rare for a biotech trading way below cash to distribute the net cash and a positive outcome, given it's a China-focused biotech with challenging dynamics for early-stage companies," noted Jefferies analysts in a 13 February note to investors. "There may be other assets to sell but not likely to be significant material."

I-Mab Splits Out China Business

Amid the challenging environment, another Nasdaq-listed Chinese biotech, [I-Mab Biopharma Co., Ltd](#), has announced the spin-off of its China-based business to become a more US-focused company.

Unlike Lianbio, I-Mab, founded by former [GSK plc](#) China executive Jingwu Zang, has been developing novel antibodies and bispecific antibodies for cancer. On 7 February, the firm said it would separate its China business, including clinical-stage assets targeting CLDN18.2, CD73 and PD-1, its Shanghai R&D organization and Hangzhou manufacturing facilities.

100% of the outstanding equity interest in wholly-owned subsidiary and China operating entity I-Mab Biopharma in Shanghai will be transferred to unconsolidated affiliate I-Mab Biopharma (Hangzhou), for an aggregate consideration of around \$80m, contingent on certain future milestone events.

I-Mab retains right of first negotiation outside of greater China to three of the most advanced pipeline assets (givastomig, uliledlimab and TJ-L14B) and intends to develop itself into a US-focused operation, and going forward will have the freedom to explore potential in-licensing opportunities outside of its China R&D efforts.

The company as an independent US operation confirmed all upcoming catalysts across all three of the R&D programs to be on track, but Jefferies analysts lowered the price target and noted in a 9 February note that "after removing all China revenues, we expect future BD [business development] activities to expand the pipeline."

I-Mab has encountered some setbacks in licensing its assets to global partners, including [AbbVie Inc.](#)'s August 2022 decision to halt work on the antibody lemozoparlimab in certain indications. (Also see "[AbbVie Halts Another Trial With I-Mab Antibody, Slashes Deal Size](#)" - Scrip, 17 Aug,

2022.)