

# InnoCare Pharma (9969 HK)

## Well prepared for the first product commercialization

- Orelabrutinib (ICP-022) to be approved in 4Q20E.** InnoCare has submitted NDAs of orelabrutinib for treating r/r-CLL/SLL and r/r-MCL in Nov 2019 and Mar 2020, respectively. We expect orelabrutinib to receive approvals from NMPA for treatment of r/r CLL/SLL and r/r MCL in 4Q20E, which will make it the third BTK inhibitor approved in China. Orelabrutinib is also under clinical trials for WM, DLBCL, FL, MZL and CNSL in China. The registrational Phase II trial of WM may be completed in 4Q20E. Additionally, the Company has completed first patient recruitment in a combinational basket trial with MIL-62, a next generation CD20 antibody. InnoCare has also received approval from the NMPA to initiate a Phase III trial of Orelabrutinib as a first-line treatment for CLL/SLL.
- Well prepared for commercialization.** In Jun 2020, InnoCare announced the appointment of Mr. Xiaodong Jin as Chief Commercial Officer (CCO), who has more than 24 years' solid experience in production commercialization in global pharmaceutical industry (Sanofi, Abbott and Novartis). As of Aug 2020, InnoCare already had over 40 sales and marketing personnel on board. By orelabrutinib's NDA approval, InnoCare aims to have a sales and marketing team of 120 to 140 personnel covering over 300 nationally leading oncology hospitals. Should Orelabrutinib be included in the NRDL, InnoCare will expand the commercialization team to 200 personnel covering over 800 top hospitals.
- Expanding pipeline portfolio.** ICP-192 (pan-FGFR inhibitor) had first patient dosed in phase II clinical trials for Urothelial Cancer (UC) and Cholangiocarcinoma (CCA) in Jun 2020 and Jul 2020, respectively. ICP-723, a second-generation pan-TRK inhibitor, received IND approval from the NMPA in May 2020. The Company plans to submit IND application of ICP-332 (TYK2 inhibitor) to the NMPA early next year. The Company disclosed two new IND-stage pipeline assets, including ICP-490, a CRL4<sup>CRBN</sup>-E3 ligase complex modulator and ICP-189, a potent oral allosteric inhibitor of SHP2. InnoCare aims to submit the IND applications of ICP-490 and ICP-189 in 2H21E.
- Drug sales to start from 2021E.** We forecast drug sales to start from 2021E and expect risk-adjusted revenue of RMB106mn/ RMB274mn/ RMB553mn in FY2021E/22E/23E. We also forecast ICP-192 and ICP-105 to receive NMPA's approval in 2023E and 2024E, respectively. Considering the global rights of these above-mentioned drug candidates, we expect meaningful sales from the US market from 2024E. By applying different probability of success (PoS) to drug candidates, we forecast a net loss of RMB549mn/RMB341mn/RMB168mn in FY2020E/21E/22E and expect net profit to break even in 2023E.
- Maintain BUY.** We maintain our DCF-based TP unchanged at HK\$16.21 (WACC: 10.0%, terminal growth rate: 5.0%).

### Earnings Summary

(YE 31 Dec) (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	2	1	2	106	274
Attributable net profit (loss)	(550)	(2,141)	(549)	(341)	(168)
R&D expense	(150)	(213)	(400)	(400)	(219)
ROA (%)	(25)	(82)	(12)	(11)	(6)
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	29	37	249	109	75

Source: Company data, CMBIS estimates

**BUY (Maintain)**

Target Price	HK\$16.21
(Previous TP)	HK\$16.21
Up/Downside	+40.93%
Current Price	HK\$11.50

### China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	14,413
Avg. 3mths t/o (HK\$ mn)	30.60
52W High/Low (HK\$)	16.80/9.31
Total Issued Shares (mn)	1,289

Source: Bloomberg

### Shareholding Structure

Management	36.39%
Pre-IPO and Cornerstone investors	43.95%
Free float	19.67%

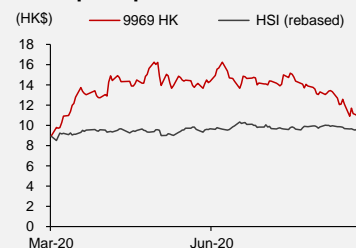
Source: Bloomberg

### Share performance

	Absolute	Relative
1-mth	-16.7%	-15.2%
3-mth	-15.4%	-18.6%
6-mth	N/A	N/A

Source: Bloomberg

### 12-mth price performance



Source: Bloomberg

### Auditor: Ernst & Young

Web-site: [www.innocarepharma.com](http://www.innocarepharma.com)

### Related report:

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**Figure 1: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	2	106	274	2	106	274	0%	0%	0%
Gross Profit	2	87	230	2	87	230	0%	0%	0%
Operating Profit	(407)	(341)	(168)	(373)	(286)	(128)	N/A	N/A	N/A
Net profit	(549)	(341)	(168)	(373)	(286)	(128)	N/A	N/A	N/A
EPS (RMB)	(0.43)	(0.26)	(0.13)	(0.29)	(0.22)	(0.10)	N/A	N/A	N/A
Gross Margin	80.00%	82.00%	84.00%	80.00%	82.00%	84.00%	0.00 ppt	0.00 ppt	0.00 ppt

Source: Company, CMBIS estimates

**Figure 2: CMBIS estimates vs consensus**

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	2	106	274	14	180	550	-86%	-41%	-50%
Gross Profit	2	87	230	12	141	461	-87%	-38%	-50%
Operating Profit	(407)	(341)	(168)	(487)	(481)	(365)	N/A	N/A	N/A
Net profit	(549)	(341)	(168)	(540)	(511)	(269)	N/A	N/A	N/A
EPS (RMB)	(0.43)	(0.26)	(0.13)	(0.55)	(0.55)	(0.30)	N/A	N/A	N/A
Gross Margin	80.00%	82.00%	84.00%	84.95%	78.35%	83.78%	-4.95 ppt	+3.65 ppt	+0.23 ppt

Source: Company, CMBIS estimates

## Financial Statements

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>106</b>	<b>274</b>	<b>Profit before tax</b>	<b>(554)</b>	<b>(2,150)</b>	<b>(549)</b>	<b>(341)</b>	<b>(168)</b>
Orelabrutinib - risk adjusted	0	0	0	106	274	Depreciation and amortization	5	9	4	4	4
ICP-192 - risk adjusted	0	0	0	0	0	Change in working capital	47	21	(13)	(12)	(20)
ICP-105 - risk adjusted	0	0	0	0	0	Others	484	2,040	110	(32)	(10)
R&D services	2	2	2	0	0	Net income tax paid	0	0	0	0	0
Cost of sales	0	0	(0)	(19)	(44)	<b>Net operating cash flow</b>	<b>(18)</b>	<b>(80)</b>	<b>(448)</b>	<b>(381)</b>	<b>(194)</b>
<b>Gross profit</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>87</b>	<b>230</b>	Interest received	0	0	78	78	56
Other income	31	104	182	182	90	Purchases of PP&E	(4)	(45)	(250)	(100)	(50)
Selling & distribution expenses	(1)	(3)	(50)	(100)	(137)	Purchases of other intangible assets	(16)	(0)	0	0	0
R&D expenses	(150)	(213)	(400)	(400)	(219)	Net purchases of financial assets	(160)	85	0	0	0
Administrative expenses	(18)	(64)	(90)	(60)	(82)	Others	(708)	8	4	4	4
Other expenses	(28)	(160)	(50)	(50)	(50)	<b>Net investing cash flow</b>	<b>(888)</b>	<b>47</b>	<b>(168)</b>	<b>(18)</b>	<b>10</b>
<b>Operating profit (loss)</b>	<b>(163)</b>	<b>(334)</b>	<b>(407)</b>	<b>(341)</b>	<b>(168)</b>	Net proceeds from shares issued	1,165	422	2,255	0	0
Fair value changes of convertible redeemable preferred shares	(388)	(1,814)	(142)	0	0	Bank borrowing, net	873	(50)	0	(1,200)	0
Finance costs	(3)	(2)	0	0	0	Acquisition of non-controlling interests	0	0	0	0	0
<b>Pre-tax profit (loss)</b>	<b>(554)</b>	<b>(2,150)</b>	<b>(549)</b>	<b>(341)</b>	<b>(168)</b>	Others	63	(9)	0	0	0
Income tax	0	0	0	0	0	<b>Net financing cash flow</b>	<b>2,101</b>	<b>363</b>	<b>2,255</b>	<b>(1,200)</b>	<b>0</b>
Minority interests	4	9	0	0	0	FX changes	13	18	0	0	0
<b>Attributable net profit (loss)</b>	<b>(550)</b>	<b>(2,141)</b>	<b>(549)</b>	<b>(341)</b>	<b>(168)</b>	Net change in cash	1,196	331	1,639	(1,598)	(184)
						Cash at the beginning	37	1,245	2,292	3,931	2,332
						<b>Cash at the end</b>	<b>1,245</b>	<b>1,594</b>	<b>3,931</b>	<b>2,332</b>	<b>2,148</b>

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>138</b>	<b>207</b>	<b>453</b>	<b>549</b>	<b>595</b>	<b>Sales mix (%)</b>					
PP&E	5	48	297	396	444	Orelabrutinib - risk adjusted	0	0	0	100	100
Goodwill	3	3	3	3	3	ICP-192 - risk adjusted	0	0	0	0	0
Other intangible assets	37	37	37	36	36	ICP-105 - risk adjusted	0	0	0	0	0
Right-of-use assets	13	86	84	82	80	R&D services	100	100	100	0	0
Investment in JVs	1	1	1	1	1	Total	100	100	100	100	100
Other non-current assets	78	31	31	31	31						
<b>Current assets</b>	<b>2,064</b>	<b>2,409</b>	<b>4,011</b>	<b>2,431</b>	<b>2,275</b>	<b>Profit &amp; loss ratios (%)</b>					
Inventories	0	0	0	4	8	Gross margin	100	100	80	82	84
Trade receivables	0	0	0	12	30	EBITDA margin	NA	NA	NA	NA	NA
Prepayments, other receivables & other assets	18	37	0	3	7	Pre-tax margin	NA	NA	NA	NA	NA
Cash and cash equivalents	1,877	2,292	3,931	2,332	2,148	Net margin	NA	NA	NA	NA	NA
Others	169	80	80	80	80	Effective tax rate	0	0	0	0	0
<b>Current liabilities</b>	<b>72</b>	<b>66</b>	<b>16</b>	<b>22</b>	<b>30</b>	<b>Balance sheet ratios</b>					
Trade payables	2	8	0	5	12	Current ratio (x)	29	37	249	109	75
Loans and borrowings	50	0	0	0	0	Trade receivables turnover days	NA	NA	40	40	40
Other payables and accruals	5	42	0	1	2	Trade payables turnover days	NA	NA	100	100	100
Lease liabilities	5	6	6	6	6	Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Loans from a related party	9	9	9	9	9						
Others	0	1	1	1	1	<b>Returns (%)</b>					
<b>Non-current liabilities</b>	<b>2,967</b>	<b>5,498</b>	<b>5,690</b>	<b>4,540</b>	<b>4,590</b>	ROE	NA	NA	NA	NA	NA
Convertible redeemable preferred shares	1,935	4,214	4,356	4,356	4,356	ROA	(25)	(82)	(12)	(11)	(6)
Convertible loan	957	1,117	1,167	17	67						
Loans and borrowings	0	0	0	0	0						
Others	75	167	167	167	167						
<b>Total net assets</b>	<b>(838)</b>	<b>(2,948)</b>	<b>(1,242)</b>	<b>(1,582)</b>	<b>(1,750)</b>						
Minority interest	66	57	57	57	57						
<b>Shareholders' equity</b>	<b>(904)</b>	<b>(3,005)</b>	<b>(1,299)</b>	<b>(1,639)</b>	<b>(1,807)</b>						

Source: Company data, CMBIS estimates

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