

# InnoCare Pharma (9969 HK)

## Strong sales of orelabrutinib in 3Q22

InnoCare recorded total revenue of RMB196mn in 3Q22, including RMB183mn sales from orelabrutinib (+64% QoQ, +147 YoY). Sales of orelabrutinib during 9M22 reached RMB400mn, representing +129% YoY growth. The strong sales growth was mainly driven by the increasing market penetration after NRDL inclusion effective since Jan 2022. InnoCare was able to improve its cost efficiency in 3Q22. The selling costs/ R&D costs/ admin costs as a percentage of product sales decreased to 57%/ 108% / 23% in 3Q22, from 86%/ 126%/ 36% in 1H22, respectively. The R&D costs in 9M22 were RMB475mn, representing +30% YoY growth after excluding upfront payment to Incyte to license-in tafasitamab (CD19 mAb). The net loss was RMB444mn in 9M22 after excluding foreign exchange impact, flat compared with RMB414mn in 9M21. InnoCare recorded unrealized loss of RMB399mn due to foreign exchange in 9M22. In Sep 2022, InnoCare was successfully listed on the STAR Board, and raised RMB2.8bn net cash in the IPO. As of Sep 2022, the Company has RMB7.7bn net cash, sufficient to support the Company's R&D and operations for multiple years.

■ **Orelabrutinib recorded strong sales growth in 3Q, and had multiple late-stage trials on track.** Orelabrutinib sales increased +64% QoQ and reached RMB183mn in 3Q22, with the strong sales primarily driven by the NRDL inclusion, commercial reinforcement, and somehow COVID ease. In comparison, BeiGene's zanubrutinib recorded China sales of ~RMB278mn in 3Q22. For indication expansions, orelabrutinib is under CDE review for r/r WM (BLA in Mar 2022) and r/r MZL (BLA in Aug 2022). Additionally, multiple registrational trials of orelabrutinib are ongoing in China (1L CLL/SLL, 1L DLBCL-MCD and 1L MCL). InnoCare has also filed the BLA of orelabrutinib for r/r CLL/SLL and r/r MCL in Singapore. For SLE treatment, with positive Ph2a data released, InnoCare has started a potentially registrational Ph2b trial of orelabrutinib in China, which would enroll ~200 patients with a treatment period of 48 weeks. In terms of overseas development, the global Ph2 trial for MS in collaboration with Biogen is ongoing with data readout expected in 3Q23E. The pivotal single-arm Ph2 trial of orelabrutinib in r/r MCL in the US is about to complete enrolment, and InnoCare expects to file the US BLA based on the ORR results by end-2023E. In parallel, the Company is in discussions with the US FDA regarding the initiation of a Ph3 trial in r/r MCL.

■ **Near-term commercialization of tafasitamab.** The bridging study of tafasitamab in mainland China was initiated in 1H22, with 20% of the targeted patients enrolled as of Nov 2022. InnoCare expects to file the BLA of tafasitamab in mainland China by end-2023E. BLA of tafasitamab in HK was accepted in 1H22, with the approval expected in the next few months, which would enable the pilot use of tafasitamab in the China Greater Bay Area. The Company plans to file in Macau and Taiwan as well in 2023E.

■ **Maintain BUY.** We expect orelabrutinib to continue its strong sales momentum. Backed by the strong cash balance, we expect the Company to accelerate the development of multiple pipeline assets, including ICP-192 (FGFR), ICP-723 (TRK), ICP-332 (TYK2-JH1) and ICP-488 (TYK2-JH2). We revised our TP from HK\$19.11 to HK\$20.14 (WACC: 10.11%, terminal growth rate: 3.0%).

### Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	1	1,043	655	1,416	2,065
Net profit (RMB mn)	(391)	(65)	(960)	(167)	240
EPS (Reported) (RMB)	(0.40)	(0.05)	(0.54)	(0.09)	0.14
R&D expenses (RMB)	(403)	(722)	(600)	(600)	(600)
Admin expenses (RMB mn)	(89)	(140)	(164)	(311)	(392)
CAPEX (RMB mn)	(251)	(166)	(400)	(200)	(100)

Source: Company data, Bloomberg, CMBIGM estimates

## BUY (Maintain)

<b>Target Price</b>	<b>HK\$20.14</b>
(Previous TP)	HK\$19.11)
<b>Up/Downside</b>	<b>71.0%</b>
<b>Current Price</b>	<b>HK\$11.78</b>

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### Stock Data

Mkt Cap (HK\$ mn)	21,911
Avg 3 mths t/o (HK\$ mn)	18.47
52w High/Low (HK\$)	22.30/7.20
Total Issued Shares (mn)	1,764

Source: Bloomberg

### Shareholding Structure

Hillhouse Capital	11.8%
King Bridge Investments	9.2%

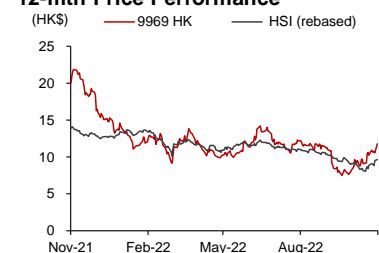
Source: Company data

### Share Performance

	Absolute	Relative
1-mth	33.3%	26.1%
3-mth	-13.3%	1.0%
6-mth	3.5%	18.9%

Source: Bloomberg

### 12-mth Price Performance



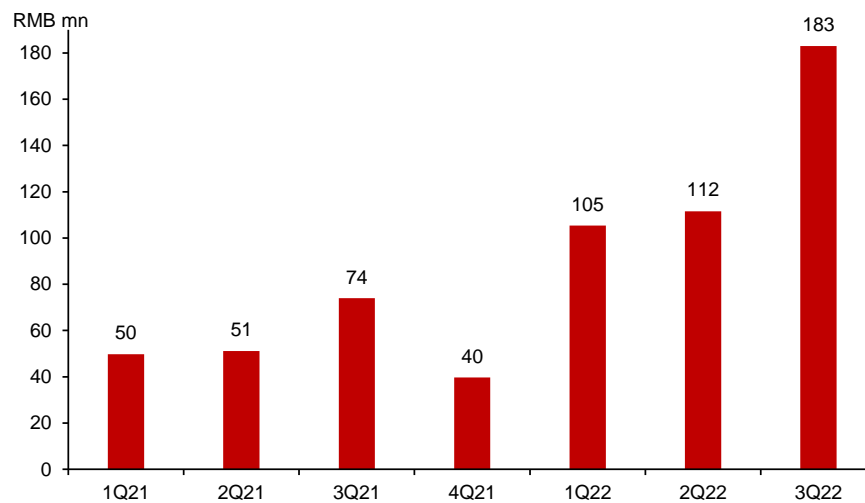
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### Auditor: Ernst & Young

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

### Related report:

- Strong sales of orelabrutinib in 1H22 ([link](#)) – 23 Aug 2022
- A successful commercial year for orelabrutinib ([link](#)) – 24 Mar 2022

**Figure 1: Quarterly sales of orelabrutinib in 1Q21-3Q22**

Source: Company data, CMBIGM. Notes: orelabrutinib was initially approved in China in Dec 2020. Sales of orelabrutinib in 4Q21 was negatively impacted by RMB26.5mn due to inventory compensation related to NRDL inclusion effective since Jan 2022.

**Figure 2: Risk-adjusted DCF valuation**

DCF Valuation (in RMB mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(1,086)	(298)	150	601	1,023	1,885	2,371	3,119	3,601
Tax rate	0%	0%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(1,086)	(298)	128	511	870	1,602	2,015	2,651	3,061
+ D&A	13	13	13	13	13	13	13	13	13
- Change in working capital	140	253	166	175	180	134	110	182	194
- Capex	(400)	(200)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
<b>FCFF</b>	<b>(1,333)</b>	<b>(232)</b>	<b>207</b>	<b>599</b>	<b>963</b>	<b>1,649</b>	<b>2,039</b>	<b>2,747</b>	<b>3,168</b>
<b>Terminal value</b>									<b>45,907</b>
FCF + Terminal value	(1,333)	(232)	207	599	963	1,649	2,039	2,747	49,075
Present value of enterprise (RMB mn)	23,622								
Net Debt	-6,638								
Minorities	50								
Equity value (RMB mn)	30,210								
<b>Corporate value (HK\$ mn)</b>	<b>35,541</b>								
# of shares outstanding (mn)	1,764								
<b>TP per share (HK\$)</b>	<b>20.14</b>								
<b>Terminal growth rate</b>	<b>3.00%</b>								
<b>WACC</b>	<b>10.11%</b>								
Cost of Equity	12.8%								
Cost of Debt	4.50%								
Equity Beta	0.90								
Risk Free Rate	2.00%								
Market Risk Premium	12.00%								
Target Debt to Asset ratio	30.00%								
Effective Corporate Tax Rate	15.00%								

Source: CMBIGM estimates

**Figure 3: Sensitivity analysis (HK\$)**

		WACC				
		9.26%	9.76%	10.26%	10.76%	11.26%
Terminal growth rate	4.00%	27.15	24.55	22.40	20.58	19.03
	3.50%	25.31	23.07	21.19	19.58	18.19
	3.00%	23.78	21.82	20.14	18.70	17.45
	2.50%	22.47	20.74	19.24	17.94	16.80
	2.00%	21.35	19.80	18.45	17.26	16.22

Source: CMBIGM estimates

**Figure 4: CMBIGM estimates revision**

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	655	1,416	2,065	546	1,209	1,805	20%	17%	14%
Gross Profit	530	1,161	1,714	465	1,028	1,534	14%	13%	12%
Operating Profit	(946)	(168)	281	(675)	(145)	88	N/A	N/A	219%
Net profit	(965)	(172)	235	(694)	(149)	71	N/A	N/A	231%
EPS (RMB)	(0.54)	(0.09)	0.14	(0.46)	(0.10)	0.05	N/A	N/A	172%
Gross Margin	82.00%	82.00%	83.00%	85.00%	85.00%	85.00%	-3.00 ppt	-3.00 ppt	-2.00 ppt

Source: Company data, CMBIGM estimates

**Figure 5: CMBIGM estimates vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	655	1,416	2,065	526	1,338	1,953	24%	6%	6%
Gross Profit	530	1,161	1,714	453	1,198	1,730	17%	-3%	-1%
Operating Profit	(946)	(168)	281	(779)	(283)	(116)	N/A	N/A	N/A
Net profit	(965)	(172)	235	(745)	(235)	(78)	N/A	N/A	N/A
EPS (RMB)	(0.54)	(0.09)	0.14	(0.50)	(0.15)	(0.03)	N/A	N/A	N/A
Gross Margin	81.00%	82.00%	83.00%	86.04%	89.57%	88.59%	-5.04 ppt	-7.57 ppt	-5.59 ppt

Source: Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	1	1	1,043	655	1,416	2,065
Cost of goods sold	0	0	(66)	(124)	(255)	(351)
<b>Gross profit</b>	<b>1</b>	<b>1</b>	<b>977</b>	<b>530</b>	<b>1,161</b>	<b>1,714</b>
<b>Operating expenses</b>	<b>(440)</b>	<b>(594)</b>	<b>(1,212)</b>	<b>(1,682)</b>	<b>(1,516)</b>	<b>(1,621)</b>
Selling expense	(3)	(68)	(298)	(418)	(605)	(828)
Admin expense	(64)	(89)	(140)	(164)	(311)	(392)
R&D expense	(213)	(403)	(722)	(600)	(600)	(600)
Others	(160)	(34)	(52)	(500)	0	200
Other income	104	271	218	205	187	187
Other expense	(2)	(1)	(3)	(4)	(4)	(4)
Gain/loss on financial assets at FVTPL	(1,814)	(69)	0	0	0	0
Share of (losses)/profits of associates/JV	0	0	(1)	(15)	0	0
<b>Pre-tax profit</b>	<b>(2,150)</b>	<b>(392)</b>	<b>(20)</b>	<b>(965)</b>	<b>(172)</b>	<b>277</b>
Income tax	0	0	(47)	0	0	(42)
<b>After tax profit</b>	<b>(2,150)</b>	<b>(392)</b>	<b>(67)</b>	<b>(965)</b>	<b>(172)</b>	<b>235</b>
Minority interest	9	0	2	4	4	4
<b>Net profit</b>	<b>(2,141)</b>	<b>(391)</b>	<b>(65)</b>	<b>(960)</b>	<b>(167)</b>	<b>240</b>
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
<b>Current assets</b>	<b>2,409</b>	<b>4,092</b>	<b>6,417</b>	<b>8,840</b>	<b>8,855</b>	<b>9,075</b>
Cash & equivalents	2,292	3,970	5,929	6,571	6,466	6,580
Account receivables	0	0	45	16	39	62
Inventories	0	2	10	11	23	32
Financial assets at FVTPL	80	0	317	2,167	2,167	2,167
Other current assets	37	121	116	74	161	234
<b>Non-current assets</b>	<b>207</b>	<b>445</b>	<b>980</b>	<b>1,352</b>	<b>1,540</b>	<b>1,627</b>
PP&E	48	306	430	820	1,009	1,099
Right-of-use assets	86	97	136	134	132	130
Investment in JVs & assos	1	1	21	6	6	6
Intangibles	37	37	34	34	33	33
Goodwill	3	3	3	3	3	3
Other non-current assets	31	1	356	356	356	356
<b>Total assets</b>	<b>2,616</b>	<b>4,538</b>	<b>7,398</b>	<b>10,192</b>	<b>10,394</b>	<b>10,702</b>
<b>Current liabilities</b>	<b>66</b>	<b>104</b>	<b>329</b>	<b>400</b>	<b>773</b>	<b>1,045</b>
Short-term borrowings	0	0	0	0	0	0
Account payables	8	6	85	85	175	241
Other current liabilities	51	92	218	287	571	777
Lease liabilities	6	7	20	20	20	20
Contract liabilities	0	0	7	7	7	7
<b>Non-current liabilities</b>	<b>5,498</b>	<b>1,273</b>	<b>1,409</b>	<b>2,309</b>	<b>2,309</b>	<b>2,109</b>
Long-term borrowings	0	0	0	0	0	0
Convertible bonds	1,117	1,150	1,201	2,101	2,101	1,901
Deferred income	157	100	124	124	124	124
Other non-current liabilities	4,223	23	85	85	85	85
<b>Total liabilities</b>	<b>5,563</b>	<b>1,377</b>	<b>1,739</b>	<b>2,709</b>	<b>3,082</b>	<b>3,155</b>
Share capital	0	0	0	0	0	0
Other reserves	(3,005)	3,104	5,605	7,434	7,267	7,506
<b>Total shareholders equity</b>	<b>(3,005)</b>	<b>3,104</b>	<b>5,605</b>	<b>7,434</b>	<b>7,267</b>	<b>7,506</b>
Minority interest	57	56	54	50	45	41
<b>Total equity and liabilities</b>	<b>2,616</b>	<b>4,538</b>	<b>7,398</b>	<b>10,192</b>	<b>10,394</b>	<b>10,702</b>

<b>CASH FLOW</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>(2,150)</b>	<b>(464)</b>	<b>(20)</b>	<b>(965)</b>	<b>(172)</b>	<b>277</b>
Depreciation & amortization	1	2	10	10	10	10
Tax paid	0	0	0	0	0	(42)
Change in working capital	21	(57)	120	140	253	166
Others	2,048	346	57	395	(124)	(324)
<b>Net cash from operations</b>	<b>(80)</b>	<b>(173)</b>	<b>167</b>	<b>(420)</b>	<b>(32)</b>	<b>88</b>
<b>Investing</b>						
Capital expenditure	(75)	(251)	(166)	(400)	(200)	(100)
Net proceeds from disposal of short-term investments	19	(889)	(1,637)	(1,848)	0	0
Others	103	33	73	125	130	130
<b>Net cash from investing</b>	<b>47</b>	<b>(1,107)</b>	<b>(1,730)</b>	<b>(2,123)</b>	<b>(70)</b>	<b>30</b>
<b>Financing</b>						
Dividend paid	0	0	0	0	0	0
Net borrowings	(50)	(9)	0	0	0	0
Proceeds from share issues	422	2,253	2,562	3,189	0	0
Others	(9)	(6)	(17)	(4)	(4)	(4)
<b>Net cash from financing</b>	<b>363</b>	<b>2,238</b>	<b>2,545</b>	<b>3,186</b>	<b>(4)</b>	<b>(4)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,245	1,594	2,301	5,929	6,571	6,466
Exchange difference	18	(252)	(45)	0	0	0
<b>Cash at the end of the year</b>	<b>1,594</b>	<b>2,301</b>	<b>3,237</b>	<b>6,571</b>	<b>6,466</b>	<b>6,580</b>
<b>GROWTH</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Revenue	(22.9%)	9.4%	76,368.7%	(37.2%)	116.2%	45.9%
Gross profit	(22.9%)	9.4%	71,554.4%	(45.7%)	118.9%	47.6%
<b>PROFITABILITY</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Gross profit margin	100.0%	100.0%	93.7%	81.0%	82.0%	83.0%
Return on equity (ROE)	na	(788.3%)	(1.5%)	(14.7%)	(2.3%)	3.2%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
Current ratio (x)	36.7	39.2	19.5	22.1	11.5	8.7
Receivable turnover days	0.0	0.0	9.9	12.9	13.9	14.9
Inventory turnover days	0.0	0.0	32.8	32.8	32.8	32.8
Payable turnover days	0.0	0.0	250.5	250.5	250.5	250.5
<b>VALUATION</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b>YE 31 Dec</b>						
P/E	na	na	na	na	na	70.6

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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