

InnoCare Pharma (9969 HK)

Strong sales of orelabrutinib in 1H22

InnoCare recorded total revenue of RMB246.0mn in 1H22, including RMB217.0mn sales from orelabrutinib (+115% YoY). The total net loss was RMB445.8mn (vs RMB213.1mn net loss in 1H21), which was affected by RMB160.0mn foreign exchange loss in 1H22. The gross profit margin of orelabrutinib sales was 82.8% in 1H22, compared to 90.3% in 1H21 and 89.0% in FY21, with the GMP decrease mainly due to the price cut for NRDL inclusion. R&D expenses were RMB273.5mn in 1H22 (+48% YoY). Selling expenses increased from RMB125.0mn in 1H21 to RMB186.1mn in 1H22, while the selling expenses to product sales ratio reduced from 124% in 1H21 to 86% in 1H22, showing the improved cost efficiency. The Company has a sufficient RMB5.0bn net cash as of Jun 2022.

■ **Orelabrutinib recorded strong half-year sales.** Sales of orelabrutinib increased 115% YoY to RMB217.0mn in 1H22, mainly driven by the NRDL inclusion. Besides the approval for r/r CLL/SLL and r/r MCL in China, orelabrutinib is under CDE review for the NDA of r/r WM and r/r MZL. Orelabrutinib has additional ongoing registrational trials in China (1L CLL/SLL, 1L DLBCL-MCD and 1L MCL) and the US (r/r MCL). The Ph3 trial for 1L CLL/SLL may complete patient enrolment in coming months, while the Ph3 trial for 1L DLBCL-MCD may complete patient enrollment by mid-2023. For autoimmune diseases, the global Ph2 trial for MS in collaboration with Biogen has enrolled ~140 of the total 160 targeted number of enrolled patients, and the results are expected to be available in 1H23E. With the positive Ph2 data in SLE, InnoCare is in final discussions with CDE regarding the next stage clinical development of orelabrutinib for SLE. InnoCare is also exploring combinational therapies of orelabrutinib with Gazyva (CD20) and tafasitamab (CD19).

■ **Registrational bridging study of tafasitamab ongoing in China.** Tafasitamab has been approved for treatment for r/r DLBCL in the US and Europe, and is recommended by CSCO guidelines for treatment of r/r DLBCL in China. The bridging study was initiated in 1H22 in mainland China with the enrollment targeted to be completed before the Lunar New Year 2023 and the NDA expected in 2H23E. NDA of tafasitamab has been accepted in HK in 1H22, with NDA in Macau and Taiwan expected in 2H22.

■ **Manufacturing facilities ready for both small and large molecules.** The facility in Guangzhou has been approved for commercial production of orelabrutinib with an annual capacity of one billion pills, with the first batch produced in Aug 2022. A large molecule CMC pilot facility in Beijing for early clinical supplies has finished construction. Meanwhile, the construction of a landmark R&D center and large molecule production facility has started in Aug 2022 and is expected to finish construction by 2025.

■ **Maintain BUY.** Innocare obtained STAR Board listing approval in Aug and targets to finish A-share listing within the next 12 months. We expect orelabrutinib to continue its strong sales momentum in 2H22 and beyond. We revised our TP from HK\$19.24 to HK\$19.11 (WACC: 10.11%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	1	1,043	546	1,209	1,805
Net profit (RMB mn)	(391.4)	(64.5)	(689.6)	(144.3)	75.9
EPS (Reported) (RMB)	(0.40)	(0.05)	(0.46)	(0.10)	0.05
R&D expenses (RMB)	(403)	(722)	(550)	(550)	(500)
Admin expenses (RMB mn)	(89)	(140)	(137)	(266)	(343)
CAPEX (RMB mn)	(251)	(166)	(200)	(100)	(100)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$19.11
(Previous TP)	HK\$19.24
Up/Downside	65.6%
Current Price	HK\$11.54

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Stock Data

Mkt Cap (HK\$ mn)	17,546.2
Avg 3 mths t/o (HK\$ mn)	11.8
52w High/Low (HK\$)	23.25/9.15
Total Issued Shares (mn)	1499.7

Source: FactSet

Shareholding Structure

Hillhouse Capital	13.3%
Pang Kee Chan	10.8%

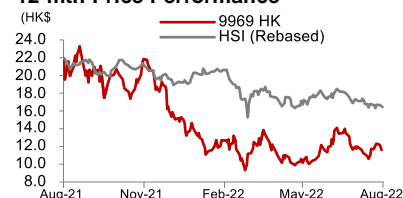
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-0.3%	4.1%
3-mth	15.2%	17.2%
6-mth	-7.7%	15.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: Ernst & Young

Web-site: www.innocarepharma.com

Related report:

1. A successful commercial year for orelabrutinib – 24 Mar 2022
2. Fruitful out/in licensing deals – 30 Aug 2021

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(803)	(252)	(20)	355	991	1,734	2,085	2,543	3,082
Tax rate	0%	0%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(803)	(252)	(17)	302	842	1,474	1,772	2,161	2,619
+ D&A	13	13	13	13	13	13	13	13	13
- Change in working capital	36	181	157	128	215	216	97	181	199
- Capex	(200)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
FCFF	(954)	(158)	53	343	970	1,603	1,781	2,255	2,731
Terminal value									39,576
FCF + Terminal value	(954)	(158)	53	343	970	1,603	1,781	2,255	42,307

Present value of enterprise (RMB mn)	20,511
Net Debt	-3,898
Minorities	50
Equity value (RMB mn)	24,359
Corporate value (HK\$ mn)	28,658
# of shares outstanding	1,499,673,235
TP per share (HK\$)	19.11

Terminal growth rate	3.00%
WACC	10.11%
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 2: Sensitivity analysis (HK\$)

		WACC				
		9.26%	9.76%	10.26%	10.76%	11.26%
Terminal growth rate	4.00%	26.21	23.58	21.39	19.55	17.98
	3.50%	24.35	22.08	20.17	18.53	17.12
	3.00%	22.79	20.81	19.11	17.65	16.38
	2.50%	21.47	19.71	18.19	16.87	15.72
	2.00%	20.34	18.76	17.39	16.19	15.13

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	546	1,209	1,805	820	845	1,965	-33%	43%	-8%
Gross Profit	465	1,028	1,534	722	744	1,730	-36%	38%	-11%
Operating Profit	(675)	(145)	88	(427)	(329)	359	N/A	N/A	-76%
Net profit	(694)	(149)	71	(431)	(332)	302	N/A	N/A	-76%
EPS (RMB)	(0.46)	(0.10)	0.05	(0.29)	(0.22)	0.20	N/A	N/A	-75%
Gross Margin	85.00%	85.00%	85.00%	88.00%	88.00%	88.00%	-3.00 ppt	-3.00 ppt	-3.00 ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	546	1,209	1,805	566	1,513	2,265	-3%	-20%	-20%
Gross Profit	465	1,028	1,534	510	1,389	2,016	-9%	-26%	-24%
Operating Profit	(675)	(145)	88	(746)	(86)	440	N/A	N/A	-80%
Net profit	(694)	(149)	71	(705)	(73)	301	N/A	N/A	-76%
EPS (RMB)	(0.46)	(0.10)	0.05	(0.50)	(0.01)	0.28	N/A	N/A	-82%
Gross Margin	85.00%	85.00%	85.00%	90.12%	91.78%	89.00%	-5.12 ppt	-6.78 ppt	-4.00 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	546	1,209	1,805
Cost of goods sold	0	0	(66)	(82)	(181)	(271)
Gross profit	1	1	977	465	1,028	1,534
Operating expenses	(440)	(594)	(1,212)	(1,333)	(1,337)	(1,611)
Selling expense	(3)	(68)	(298)	(367)	(521)	(768)
Admin expense	(64)	(89)	(140)	(137)	(266)	(343)
R&D expense	(213)	(403)	(722)	(550)	(550)	(500)
Others	(160)	(34)	(52)	(280)	0	0
Other income	104	271	218	193	164	165
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
Pre-tax profit	(2,150)	(392)	(20)	(694)	(149)	84
Income tax	0	0	(47)	0	0	(13)
After tax profit	(2,150)	(392)	(67)	(694)	(149)	71
Minority interest	9	0	2	4	4	4
Net profit	(2,141)	(391)	(65)	(690)	(144)	76
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	2,409	4,092	6,417	5,779	5,828	6,066
Cash & equivalents	2,292	3,970	5,929	5,379	5,324	5,465
Account receivables	0	0	45	13	33	54
Inventories	0	2	10	7	16	24
Financial assets at FVTPL	80	0	317	317	317	317
Other current assets	37	121	116	62	137	205
Non-current assets	207	445	980	1,152	1,240	1,327
PP&E	48	306	430	620	709	799
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
Total assets	2,616	4,538	7,398	6,931	7,067	7,392
Current liabilities	66	104	329	277	562	815
Short-term borrowings	0	0	0	0	0	0
Account payables	8	6	85	56	124	186
Other current liabilities	51	92	218	193	410	602
Lease liabilities	6	7	20	20	20	20
Contract liabilities	0	0	7	7	7	7
Non-current liabilities	5,498	1,273	1,409	1,689	1,689	1,689
Long-term borrowings	0	0	0	0	0	0
Convertible bonds	1,117	1,150	1,201	1,481	1,481	1,481
Deferred income	157	100	124	124	124	124
Other non-current liabilities	4,223	23	85	85	85	85
Total liabilities	5,563	1,377	1,739	1,966	2,251	2,505
Share capital	0	0	0	0	0	0
Other reserves	(3,005)	3,104	5,605	4,915	4,771	4,847
Total shareholders equity	(3,005)	3,104	5,605	4,915	4,771	4,847
Minority interest	57	56	54	50	45	41
Total equity and liabilities	2,616	4,538	7,398	6,931	7,067	7,392

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(2,150)	(464)	(20)	(694)	(149)	84
Depreciation & amortization	1	2	10	10	10	10
Tax paid	0	0	0	0	0	(13)
Change in working capital	21	(57)	120	36	181	157
Others	2,048	346	57	187	(101)	(102)
Net cash from operations	(80)	(173)	167	(461)	(58)	137
Investing						
Capital expenditure	(75)	(251)	(166)	(200)	(100)	(100)
Net proceeds from disposal of short-term investments	19	(889)	(1,637)	2	0	0
Others	103	33	73	113	107	108
Net cash from investing	47	(1,107)	(1,730)	(85)	7	8
Financing						
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	0	0	0
Others	(9)	(6)	(17)	(4)	(4)	(4)
Net cash from financing	363	2,238	2,545	(4)	(4)	(4)
Net change in cash						
Cash at the beginning of the year	1,245	1,594	2,301	5,929	5,379	5,324
Exchange difference	18	(252)	(45)	0	0	0
Cash at the end of the year	1,594	2,301	3,237	5,379	5,324	5,465
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	(22.9%)	9.4%	76,368.7%	(47.6%)	121.2%	49.3%
Gross profit	(22.9%)	9.4%	71,554.4%	(52.5%)	121.2%	49.3%
Net profit	289.4%	(81.7%)	(83.5%)	968.4%	(79.1%)	(152.6%)
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	100.0%	100.0%	93.7%	85.0%	85.0%	85.0%
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Current ratio (x)	36.7	39.2	19.5	20.9	10.4	7.4
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
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	na	n/m	n/m	n/m	n/m	200.5

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

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