

InnoCare Pharma (9969 HK)

Mesutoclax and autoimmune assets driving future growth

InnoCare reported 9M26 revenue of RMB2.10bn (+88.2% YoY). During the period, drug sales contributed RMB1.45bn (+41.5% YoY), representing 73% of our full-year forecast and aligning with our expectations. Such growth was driven by continued volume expansion of orelabrutinib, incremental contributions from tafasitamab and zurlitrectinib, as well as subsequent milestone payments from Zenas. In 3Q26 alone, revenue reached RMB962mn, including drug sales of RMB531mn (+38.6% YoY, +13.8% QoQ). The 9M26 net profit was RMB648mn, compared with a RMB72mn loss last year, while operating cash flow turned positive at RMB220mn. R&D expenses increased 16.1% YoY to RMB785mn in 9M26. Selling expenses vs product sales ratio declined to 29.2% from 37.7%. Management reiterated its guidance for full-year product sales growth of 35% YoY and bottom-line profitability. We maintain BUY with a TP of HK\$18.90.

■ **Mesutoclax remains the lead pipeline asset, with AML/MDS opening new opportunities.** Mesutoclax's commercialization timeline has become clearer: the Ph3 trial of mesutoclax plus orelabrutinib as a fixed-duration regimen in 1L CLL/SLL remains on track for completion in 1H27, with an NDA submission expected in 2027; and the registrational study in BTKi-pretreated MCL is expected to support an NDA filing in 1H27. Ph3 trials of mesutoclax plus orelabrutinib in r/r MCL and r/r MZL are ongoing. In 1L unfit AML, the China Ph3 comparing mesutoclax plus azacitidine with venetoclax plus azacitidine is ongoing, and may take ~3 years to complete. For fit patients with 1L AML, management plans to await data from the ongoing US study, with data targeted for 2027 before potentially initiating a global trial, which would evaluate mesutoclax monotherapy against standard "7+3" chemotherapy. We view AML/MDS as meaningful longer-term optionality beyond the core NHL franchise for mesutoclax. In the near term, mesutoclax's initial global Ph2 MDS data will be presented at ASH 2026 in Dec.

■ **ICP-332 and ICP-488 continue to advance towards commercialization in autoimmune diseases.** ICP-332's registrational Ph3 in atopic dermatitis (AD) met its primary endpoint of Week-16 EASI-75, alongside strong EASI-90 and EASI-100 results; safety follow-up is ongoing and an NDA submission is expected in 1H27. Ph2 data in chronic spontaneous urticaria (CSU) and psoriasis remain scheduled for end-2026. In prurigo nodularis (PN), enrollment in the global study is expected to complete soon, followed by a six-month observation period and potential results in 2027; positive data could support further global development and provide an entry point for ICP-332 into overseas markets. The vitiligo programme is also advancing into Ph3. Meanwhile, ICP-488's Ph3 in psoriasis has met its primary endpoint and is undergoing safety follow-up. Together, these assets offer multiple near-term data catalysts and a potential second commercial growth engine beyond oncology.

■ **Maintain BUY.** The recent strategic licence agreement with Eli Lilly covering up to five innovative target programmes provides external validation of InnoCare's discovery capabilities. Pricing in the impact of US\$100mn in upfront and near-term milestone payments and potential US\$3.3bn in milestone payment, we revise our DCF-based TP from HK\$18.31 to HK\$18.90 (WACC: 10.73%, terminal growth: 2.0%, unchanged).

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	1,009	2,375	2,707	3,323	4,213
Net profit (RMB mn)	(440.6)	643.0	591.2	626.4	644.3
EPS (Reported) (RMB)	(0.26)	0.38	0.33	0.35	0.36
R&D expenses (RMB mn)	(814)	(952)	(1,137)	(1,163)	(1,474)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$18.90
(Previous TP)	HK\$18.31)
Up/Downside	65.5%
Current Price	HK\$11.42

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Stock Data

Mkt Cap (HK\$ mn)	20,179.9
Avg 3 mths t/o (HK\$ mn)	114.2
52w High/Low (HK\$)	15.83/10.02
Total Issued Shares (mn)	1767.1

Source: FactSet

Shareholding Structure

Hillhouse Capital	11.8%
Renbin Zhao	7.7%

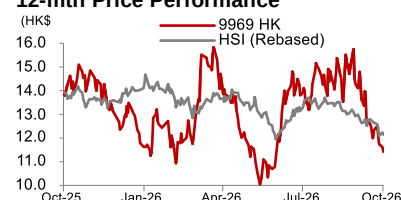
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-20.1%	-15.0%
3-mth	-17.9%	-10.2%
6-mth	-17.7%	-7.4%

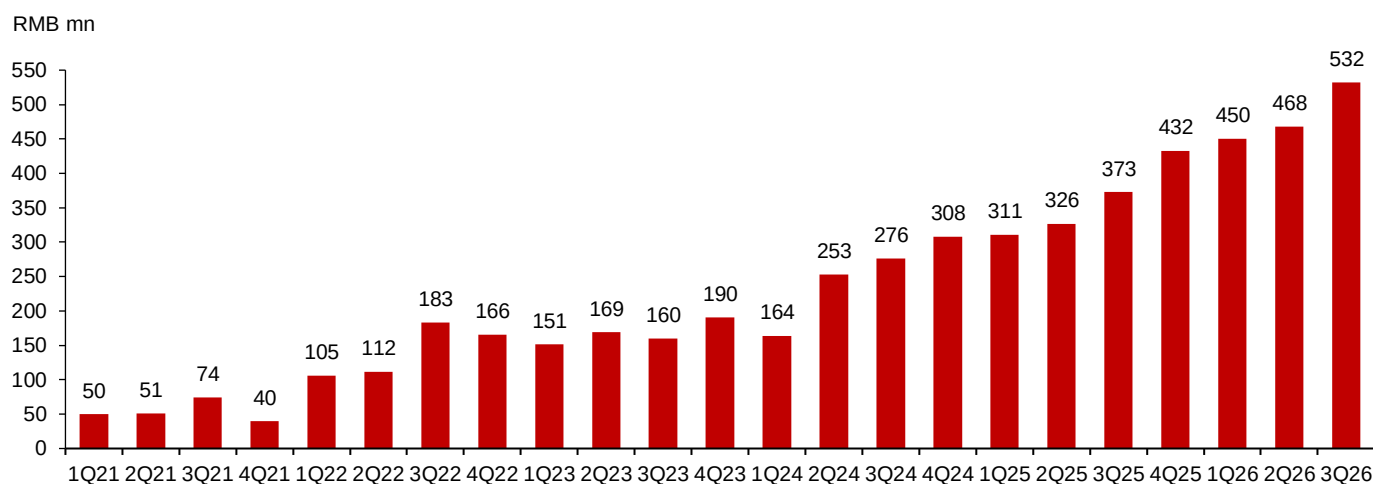
Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Quarterly sales of InnoCare



Source: Company data, CMBIGM

Figure 2: Risk-adjusted DCF valuation

DCF valuation (in RMB mn)	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	544	677	669	1,133	1,927	2,565	3,224	3,618	3,964	4,318
Tax rate	2%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	534	575	568	963	1,638	2,180	2,741	3,075	3,370	3,670
+ D&A	77	77	77	77	77	77	77	77	77	77
- Change in working capital	186	323	197	186	40	(35)	(141)	(202)	(258)	(313)
- Capex	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)
FCFF	728	905	772	1,157	1,685	2,152	2,607	2,881	3,119	3,365
Terminal value										39,326
Present value of enterprise (RMB mn)	24,122									
Net debt	-4,292									
Minorities	21									
Equity value (RMB mn)	28,393									
Corporate value (HK\$ mn)	33,404									
# of shares outstanding (mn)	1,767									
TP per share (HK\$)	18.90									
Terminal growth rate	2.00%									
WACC	10.73%									
Cost of Equity	14.1%									
Cost of Debt	3.50%									
Equity Beta	1.10									
Risk Free Rate	2.50%									
Market Risk Premium	10.50%									
Target Debt to Asset ratio	30.00%									
Effective Corporate Tax Rate	15.00%									

Source: CMBIGM estimates

Figure 3: Sensitivity analysis (HK\$)

		WACC				
		9.73%	10.23%	10.73%	11.23%	11.73%
Terminal growth rate	3.00%	23.39	21.70	20.23	18.95	17.82
	2.50%	22.39	20.86	19.53	18.35	17.31
	2.00%	21.52	20.13	18.90	17.82	16.85
	1.50%	20.76	19.48	18.35	17.34	16.43
	1.00%	20.08	18.90	17.85	16.91	16.06

Source: CMBIGM estimates

Figure 4: CMBIGM estimates old vs new

RMB mn	NEW			OLD			Diff (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	2,707	3,323	4,213	2,592	3,063	3,936	4%	9%	7%
Gross profit	2,447	2,932	3,697	2,322	2,669	3,420	5%	10%	8%
Operating profit	656	781	802	318	375	748	106%	108%	7%
Net profit	590	625	643	224	280	598	163%	123%	8%
EPS (RMB)	0.33	0.35	0.36	0.13	0.16	0.34	162%	122%	7%
Gross margin	90.40%	88.22%	87.75%	89.59%	87.14%	86.89%	+0.81 ppt	+1.08 ppt	+0.87 ppt
Operating margin	24.23%	23.50%	19.04%	12.29%	12.23%	19.01%	+11.94 ppt	+11.26 ppt	+0.02 ppt
Net margin	21.81%	18.82%	15.27%	8.66%	9.15%	15.19%	+13.15 ppt	+9.67 ppt	+0.08 ppt

Source: CMBIGM estimates

Figure 5: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	2,707	3,323	4,213	2,749	3,470	4,467	-2%	-4%	-6%
Gross profit	2,447	2,932	3,697	2,509	3,143	4,003	-2%	-7%	-8%
Operating profit	656	781	802	534	638	832	23%	22%	-4%
Net profit	590	625	643	628	662	832	-6%	-5%	-23%
EPS (RMB)	0.33	0.35	0.36	0.36	0.37	0.47	-7%	-4%	-22%
Gross margin	90.40%	88.22%	87.75%	91.28%	90.57%	89.61%	-0.88 ppt	-2.35 ppt	-1.86 ppt
Operating margin	24.23%	23.50%	19.04%	19.42%	18.39%	18.61%	+4.80 ppt	+5.11 ppt	+0.42 ppt
Net margin	21.81%	18.82%	15.27%	22.86%	19.07%	18.63%	-1.05 ppt	-0.25 ppt	-3.36 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	739	1,009	2,375	2,707	3,323	4,213
Cost of goods sold	(128)	(138)	(191)	(260)	(391)	(516)
Gross profit	610	871	2,184	2,447	2,932	3,697
Operating expenses	(1,458)	(1,494)	(1,735)	(2,007)	(2,318)	(3,091)
Selling expense	(367)	(420)	(580)	(600)	(839)	(1,216)
Admin expense	(194)	(184)	(204)	(271)	(316)	(400)
R&D expense	(751)	(814)	(952)	(1,137)	(1,163)	(1,474)
Others	(147)	(76)	(0)	0	0	0
Other income	244	211	262	216	167	196
Other expense	(35)	(34)	(54)	(55)	(45)	(45)
Gain/loss on financial assets at FVTPL	0	0	0	0	0	0
Share of (losses)/profits of associates/JV	(5)	(5)	(0)	0	0	0
Pre-tax profit	(644)	(453)	655	601	736	757
Income tax	(1)	(0)	(12)	(11)	(110)	(114)
After tax profit	(646)	(453)	644	590	625	643
Minority interest	14	12	1	1	1	1
Net profit	(631)	(441)	643	591	626	644

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	8,765	7,820	8,062	6,320	7,508	8,647
Cash & equivalents	8,225	6,223	7,051	5,290	6,245	7,093
Account receivables	308	351	503	494	616	792
Inventories	119	96	163	176	265	349
Financial assets at FVTPL	0	0	0	0	0	0
Other current assets	114	1,151	345	360	382	414
Non-current assets	1,154	1,587	2,761	2,754	2,747	2,739
PP&E	760	784	732	727	722	717
Right-of-use assets	294	282	266	264	262	260
Investment in JVs & assos	6	0	3	3	3	3
Intangibles	39	36	31	30	30	29
Goodwill	3	3	3	3	3	3
Other non-current assets	52	23	50	50	50	50
Total assets	9,919	9,407	10,824	11,619	12,799	13,932
Current liabilities	2,094	1,061	1,398	1,603	2,158	2,647
Short-term borrowings	1,256	194	241	241	241	241
Account payables	135	128	184	212	320	421
Other current liabilities	680	707	840	1,017	1,465	1,852
Lease liabilities	23	32	27	27	27	27
Contract liabilities	0	0	105	105	105	105
Non-current liabilities	644	1,601	1,677	1,677	1,677	1,677
Long-term borrowings	26	1,019	1,002	1,002	1,002	1,002
Convertible bonds	0	0	0	0	0	0
Deferred income	269	251	275	275	275	275
Other non-current liabilities	349	331	400	400	400	400
Total liabilities	2,738	2,662	3,074	3,280	3,835	4,324
Share capital	0	0	0	0	0	0
Other reserves	7,148	6,725	7,727	8,318	8,944	9,589
Total shareholders equity	7,148	6,725	7,727	8,318	8,944	9,589
Minority interest	33	21	22	21	20	19
Total equity and liabilities	9,919	9,407	10,824	11,619	12,799	13,932

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(644)	(453)	656	601	736	757
Depreciation & amortization	59	65	75	75	75	75
Tax paid	(0)	(0)	(0)	(11)	(110)	(114)
Change in working capital	(244)	(18)	61	186	323	197
Others	104	37	49	(76)	(56)	(86)
Net cash from operations	(726)	(368)	840	775	967	829
Investing						
Capital expenditure	(255)	(78)	(70)	(70)	(70)	(70)
Net proceeds from disposal of short-term investments	796	1,056	(295)	22	0	0
Others	125	133	118	111	104	133
Net cash from investing	667	1,111	(247)	63	34	63
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	31	1,033	117	0	0	0
Proceeds from share issues	4	(912)	19	0	0	0
Others	(28)	(393)	(67)	(55)	(45)	(45)
Net cash from financing	8	(272)	69	(55)	(45)	(45)
Net change in cash						
Cash at the beginning of the year	4,180	4,203	4,679	4,506	5,290	6,245
Exchange difference	26	17	(63)	0	0	0
Cash at the end of the year	4,203	4,680	4,506	5,290	6,245	7,093
GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	18.1%	36.7%	135.3%	14.0%	22.8%	26.8%
Gross profit	26.6%	42.8%	150.7%	12.0%	19.8%	26.1%
Net profit	na	na	na	(8.1%)	5.9%	2.9%
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	82.6%	86.3%	92.0%	90.4%	88.2%	87.8%
Return on equity (ROE)	(8.6%)	(6.4%)	8.9%	7.4%	7.3%	7.0%
GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Current ratio (x)	4.2	7.4	5.8	3.9	3.5	3.3
Receivable turnover days	67.6	68.6	69.6	70.6	71.6	72.6
Inventory turnover days	246.8	246.8	246.8	246.8	246.8	246.8
Payable turnover days	298.0	298.0	298.0	298.0	298.0	298.0
VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	ns	ns	25.6	29.0	27.4	26.6
P/B	4.1	3.8	4.4	4.7	5.1	5.4

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

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