

InnoCare Pharma (9969 HK)

Positive PoC data of orelabrutinib for MS

InnoCare recorded total revenue of RMB625mn in FY22, including RMB566mn sales from orelabrutinib (+164% YoY vs RMB215mn in FY21). Sales of orelabrutinib in 4Q22 was RMB166mn, slightly lower compared to RMB183mn in 3Q22 mainly due to COVID-19 interruptions. The strong sales growth of orelabrutinib in FY22 was mainly driven by the increasing market penetration of the drug after NRDL inclusion effective since Jan 2022. InnoCare was able to continuously improve its cost efficiency. The selling costs/ R&D costs/ admin costs as a percentage of total revenue decreased to 72%/ 96% / 27% in 2H22, from 86%/ 111%/ 32% in 1H22, respectively. Excluding license-in expenses, the R&D costs in FY22 increased 29% YoY to RMB639mn from RMB496mn in FY21. InnoCare recorded RMB894mn net loss in FY22. As of end-2022, the Company has RMB9.1bn cash on hand, sufficient to support the Company's R&D investments.

■ **Positive PoC data of orelabrutinib for autoimmune diseases.** The initial data of Ph2 trial (NCT04711148) of orelabrutinib in R/R MS was released. With 136 patients' data analysed, the primary outcome measure at the interim analysis, relative reduction for the cumulative number of new GdE+ T1 MRI brain lesions within Week 12 vs placebo, was 71.1% in the orelabrutinib 50mg QD group ($p=0.0238$), 80.8% in the 50mg BID group ($p=0.0032$), and 92.1% in the 80mg QD group ($p=0.0006$), indicating the trend of dose-dependent improvement. The 92.1% reduction in the 80mg group seemed to be better than the results of tolebrutinib and evobrutinib (-85% and -70%, respectively) in cross-trial comparisons, thanks to the superior plasma exposure and brain penetration of orelabrutinib, in our view. As the primary endpoint of the study has been met, the Company plans to cease further patient enrolment, while will continue patient follow-up with a plan to release the 24-week treatment results in May 2023. Meanwhile, the Company will continue to discuss with FDA regarding lifting the partial study hold and designing a Ph3 MRCT trial. For ITP, positive PoC data of orelabrutinib was also released – in 22 patients with previous response to glucocorticoids or intravenous immunoglobulin, 75.0% (6 out of 8) patients at the 50mg arm achieved the primary endpoint. We see the potential of orelabrutinib for the treatment of various autoimmune diseases, including MS, SLE, ITP and NMOSD.

■ **New commercial approvals to further drive revenue growth.** With priority review schedule, orelabrutinib is expected to be approved for r/r MZL in 1H23 (sNDA in Aug 2022), becoming the first BTKi in China for the treatment of r/r MZL. In the US, the Company has completed the patient enrolment for the Ph2 registrational trial for r/r MCL which is likely to be the first indication of orelabrutinib to be approved in the US. The bridging study of tafasitamab in mainland China, which has been half-enrolled, is expected to be finished this year, and the Company expects to file the BLA of tafasitamab in mainland China by end-2023 or early 2024.

■ **Maintain BUY.** We expect orelabrutinib to continue its strong sales momentum. We maintain our TP unchanged at HK\$10.84 (WACC: 11.37%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	1,043	625	959	1,459	2,444
Attributable net profit (RMB mn)	(65)	(887)	(700)	(827)	(757)
EPS (Reported) (RMB)	(0.05)	(0.60)	(0.40)	(0.47)	(0.43)
R&D expenses (RMB mn)	(722)	(639)	(818)	(1,023)	(1,176)
Admin expenses (RMB mn)	(140)	(182)	(240)	(307)	(441)
CAPEX (RMB mn)	(166)	(300)	(300)	(100)	(100)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$10.84
(Previous TP)	HK\$10.84)
Up/Downside	33.5%
Current Price	HK\$8.12

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Stock Data

Mkt Cap (HK\$ mn)	14,326.3
Avg 3 mths t/o (HK\$ mn)	11.6
52w High/Low (HK\$)	15.50/7.49
Total Issued Shares (mn)	1764.3

Source: FactSet

Shareholding Structure

Hillhouse Capital	11.8%
King Bridge Investments	9.2%

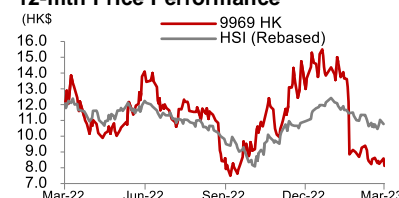
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-5.7%	-5.7%
3-mth	-37.5%	-37.2%
6-mth	2.4%	-10.7%

Source: FactSet

12-mth Price Performance

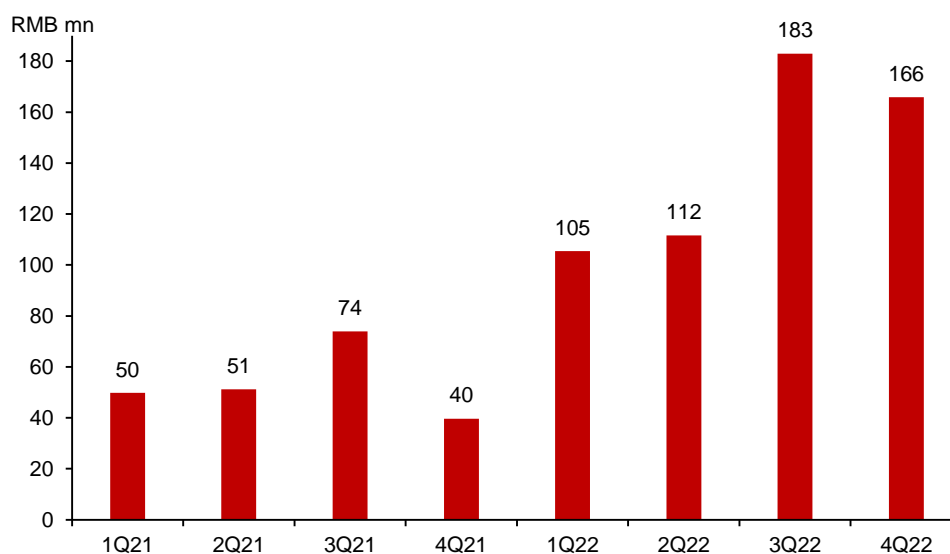


Source: FactSet

Auditor: Ernst & Young

Web-site: www.innocarepharma.com

Figure 1: Quarterly sales of orelabrutinib in 1Q21-4Q22



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)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	(897)	(1,003)	(914)	(364)	44	517	1,154	1,749	2,392	2,867	3,311	3,357	3,260
Tax rate	0%	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(897)	(1,003)	(914)	(364)	37	440	981	1,487	2,033	2,437	2,814	2,853	2,771
+ D&A	13	13	13	13	13	13	13	13	13	13	13	13	13
- Change in working capital	(105)	139	287	236	168	74	98	20	(82)	(152)	(211)	(282)	(279)
- Capex	(300)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
FCFF	(1,290)	(951)	(714)	(216)	118	427	992	1,420	1,865	2,198	2,515	2,484	2,405
Terminal value													29,610
FCF + Terminal value	(1,290)	(951)	(714)	(216)	118	427	992	1,420	1,865	2,198	2,515	2,484	32,015
Present value of enterprise (RMB mn)	9,583												
Net debt	-6,714												
Minorities	40												
Equity value (RMB mn)	16,257												
Corporate value (HK\$ mn)	19,126												
# of shares outstanding (mn)	1,764												
TP per share (HK\$)	10.84												
Terminal growth rate	3.00%												
WACC	11.37%												
Cost of Equity	14.6%												
Cost of Debt	4.50%												
Equity Beta	1.05												
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				
		10.37%	10.87%	11.37%	11.87%	12.37%
Terminal growth rate	4.00%	13.51	12.46	11.56	10.78	10.10
	3.50%	12.95	12.00	11.18	10.46	9.84
	3.00%	12.46	11.60	10.84	10.18	9.60
	2.50%	12.04	11.24	10.54	9.93	9.38
	2.00%	11.67	10.93	10.28	9.70	9.19

Source: CMBIGM estimates

Figure 4: CMBIGM estimates revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	959	1,459	2,444	941	1,509	2,505	2%	-3%	-2%
Gross Profit	768	1,182	1,992	744	1,199	2,004	3%	-1%	-1%
Operating Profit	(675)	(812)	(752)	(587)	(361)	(228)	N/A	N/A	N/A
Net profit	(707)	(834)	(764)	(590)	(364)	(232)	N/A	N/A	N/A
EPS (RMB)	(0.40)	(0.47)	(0.43)	(0.33)	(0.20)	(0.13)	N/A	N/A	N/A
Gross Margin	80.00%	81.00%	81.50%	79.00%	79.50%	80.00%	+1.00 ppt	+1.50 ppt	+1.50 ppt

Source: Company data, CMBIGM estimates

Figure 5: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	959	1,459	2,444	1,155	1,841	2,314	-17%	-21%	6%
Gross Profit	768	1,182	1,992	981	1,547	1,835	-22%	-24%	9%
Operating Profit	(675)	(812)	(752)	(524)	(226)	28	N/A	N/A	N/A
Net profit	(707)	(834)	(764)	(462)	(176)	(208)	N/A	N/A	N/A
EPS (RMB)	(0.40)	(0.47)	(0.43)	(0.27)	(0.12)	(0.12)	N/A	N/A	N/A
Gross Margin	80.00%	81.00%	81.50%	84.91%	84.03%	79.30%	-4.91 ppt	-3.03 ppt	+2.20 ppt

Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	1	1,043	625	959	1,459	2,444
Cost of goods sold	0	(66)	(143)	(192)	(277)	(452)
Gross profit	1	977	482	768	1,182	1,992
Operating expenses	(594)	(1,212)	(1,547)	(1,705)	(2,225)	(2,946)
Selling expense	(68)	(298)	(439)	(647)	(896)	(1,329)
Admin expense	(89)	(140)	(182)	(240)	(307)	(441)
R&D expense	(403)	(722)	(639)	(818)	(1,023)	(1,176)
Others	(34)	(52)	(288)	0	0	0
Other income	271	218	198	262	231	202
Other expense	(1)	(3)	(17)	(32)	(22)	(12)
Gain/loss on financial assets at FVTPL	(69)	0	0	0	0	0
Share of (losses)/profits of associates/JV	0	(1)	(10)	0	0	0
Pre-tax profit	(392)	(20)	(894)	(707)	(834)	(764)
Income tax	0	(47)	0	0	0	0
After tax profit	(392)	(67)	(894)	(707)	(834)	(764)
Minority interest	0	2	7	7	7	7
Net profit	(391)	(65)	(887)	(700)	(827)	(757)

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	4,092	6,417	9,300	8,217	7,194	6,548
Cash & equivalents	3,970	5,929	8,698	7,598	6,417	5,452
Account receivables	0	45	128	131	204	348
Inventories	2	10	65	42	61	99
Financial assets at FVTPL	0	317	313	313	313	313
Other current assets	121	116	95	131	200	335
Non-current assets	445	980	1,021	1,309	1,396	1,483
PP&E	306	430	653	943	1,032	1,122
Right-of-use assets	97	136	284	282	280	278
Investment in JVs & assos	1	21	12	12	12	12
Intangibles	37	34	41	41	40	40
Goodwill	3	3	3	3	3	3
Other non-current assets	1	356	28	28	28	28
Total assets	4,538	7,398	10,321	9,525	8,590	8,030
Current liabilities	104	329	2,075	1,986	1,885	2,090
Short-term borrowings	0	0	1,197	1,197	797	397
Account payables	6	85	119	136	196	320
Other current liabilities	92	218	735	629	867	1,348
Lease liabilities	7	20	20	20	20	20
Contract liabilities	0	7	4	4	4	4
Non-current liabilities	1,273	1,409	601	601	601	601
Long-term borrowings	0	0	0	0	0	0
Convertible bonds	1,150	1,201	0	0	0	0
Deferred income	100	124	278	278	278	278
Other non-current liabilities	23	85	323	323	323	323
Total liabilities	1,377	1,739	2,677	2,588	2,487	2,691
Share capital	0	0	0	0	0	0
Other reserves	3,104	5,605	7,597	6,897	6,070	5,314
Total shareholders equity	3,104	5,605	7,597	6,897	6,070	5,314
Minority interest	56	54	47	40	33	26
Total equity and liabilities	4,538	7,398	10,321	9,525	8,590	8,030

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(464)	(20)	(894)	(707)	(834)	(764)
Depreciation & amortization	2	10	10	10	10	10
Tax paid	0	0	0	0	0	0
Change in working capital	(57)	120	435	(105)	139	287
Others	346	57	116	(188)	(167)	(148)
Net cash from operations	(173)	167	(333)	(990)	(851)	(614)

Investing

Capital expenditure	(251)	(166)	(300)	(300)	(100)	(100)
Net proceeds from disposal of short-term investments	(889)	(1,637)	(1,198)	0	0	0
Others	33	73	527	222	191	162
Net cash from investing	(1,107)	(1,730)	(971)	(78)	91	62
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	(9)	0	0	0	(400)	(400)
Proceeds from share issues	2,253	2,562	3,989	0	0	0
Others	(6)	(17)	(17)	(32)	(22)	(12)
Net cash from financing	2,238	2,545	3,972	(32)	(422)	(412)
Net change in cash						
Cash at the beginning of the year	1,594	2,301	5,929	8,698	7,598	6,417
Exchange difference	(252)	(45)	0	0	0	0
Cash at the end of the year	2,301	5,929	8,597	7,598	6,417	5,452
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	9.4%	76,368.7%	(40.0%)	53.4%	52.1%	67.5%
Gross profit	9.4%	71,554.4%	(50.7%)	59.2%	54.0%	68.5%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	100.0%	93.7%	77.1%	80.0%	81.0%	81.5%
Return on equity (ROE)	(788.3%)	(1.5%)	(13.4%)	(9.7%)	(12.8%)	(13.3%)
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	39.2	19.5	4.5	4.1	3.8	3.1
Receivable turnover days	0.0	50.0	53.0	54.0	55.0	56.0
Inventory turnover days	0.0	80.0	80.0	80.0	80.0	80.0
Payable turnover days	0.0	258.6	258.6	258.6	258.6	258.6
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						

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

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