

# InnoCare Pharma (9969 HK)

## Orelabrutinib received approvals for treating r/r-CLL/SLL and r/r-MCL in China

- **InnoCare received its first NDA approval from the NMPA.** Orelabrutinib (ICP-022) was granted marketing approval for treating elapsed or refractory Chronic Lymphocytic Leukemia/Small Cell leukemia (r/r-CLL/SLL) and relapsed or refractory Mantle Cell Lymphoma (r/r-MCL) by the NMPA, which has made it the second domestic BTK inhibitor approved in China. CLL/SLL and MCL are the two major sub-types of non-Hodgkin's lymphoma (NHL), accounting for approximately 8% of NHL cases in China. Besides CLL/SLL and MCL, Orelabrutinib is also assessed for treatment of other types of NHLs, including MZL, CNSL, WM, DLBCL and FL, in clinical trials in China and the US.
- **Well prepared for the commercialization of Orelabrutinib.** The Company has appointed Mr. Jin Xiaodong (金肖东) as its Chief Commercial Officer (CCO) to lead commercial initiatives, who has more than 24 years' solid experience in production commercialization in global pharmaceutical industry. InnoCare has built a commercialization team with over 140 members (including 100 sales representatives), aiming to cover more than 300 core hospitals, or 85% of NHL patients treated in China. We expect that Orelabrutinib will be launched officially in China within one month.
- **Large potential of Orelabrutinib in multiple sclerosis (MS).** Orelabrutinib received approval from the FDA to initiate a Phase II clinical trial treating relapsing-remitting multiple sclerosis patients (RRMS) in Nov 2020. MS is an autoimmune, inflammatory disease of the central nervous system that is mediated by autoreactive B and T cells. According to the MS International Federation (MSIF), more than 2.8mn people around the world are affected by MS with around 500k in the US and around 1mn in EU. Although several drugs are available for MS patients, substantial unmet medical needs remain for drugs with improvements in efficacy, safety and convenient dosing. To date, four BTK inhibitors have been marketed in worldwide, though none of them has been approved for treatment of MS. With a superior safety, potent efficacy, as well as good Brain Blood Barrier (BBB) penetration capability, Orelabrutinib has the potential to become a best-in-class BTK inhibitor for MS, in our view.
- **Maintain BUY with TP raised to HK\$16.79.** Considering the approval of Orelabrutinib in Dec 2020, we revised the probability of success of Orelabrutinib in different indications and raised our TP accordingly from HK\$16.21 to HK\$ 16.79 based on our DCF-based model (WACC: 10.0%, terminal growth rate: 5.0%).

### Earnings Summary

(YE 31 Dec) (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	2	1	2	116	298
Attributable net profit (loss)	(550)	(2,141)	(549)	(333)	(187)
R&D expense	(150)	(213)	(400)	(400)	(238)
ROA (%)	(25)	(82)	(12)	(11)	(7)
EPS (RMB)	N/A	N/A	(0.43)	(0.26)	(0.14)
Consensus EPS (RMB)	N/A	N/A	(0.47)	(0.34)	(0.22)
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	29	37	249	107	72

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price	HK\$16.79
(Previous TP)	HK\$16.21
Up/Downside	+22.37%
Current Price	HK\$13.72

### China Healthcare Sector

#### Sam Hu, PhD

(852) 3900 0882  
samhu@cmbi.com.hk

#### Jill Wu, CFA

(852) 3900 0842  
jillwu@cmbi.com.hk

Mkt. Cap. (HK\$ mn)	17,687
Avg. 3mths t/o (HK\$ mn)	22.69
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%

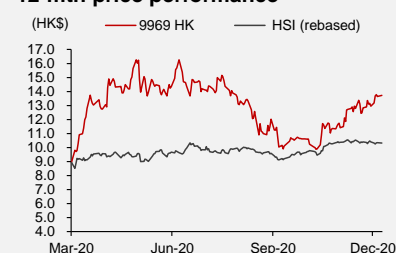
Source: Bloomberg

### Share performance

	Absolute	Relative
1-mth	7.2%	9.3%
3-mth	35.9%	19.6%
6-mth	-16.1%	-22.0%

Source: Bloomberg

### 12-mth price performance



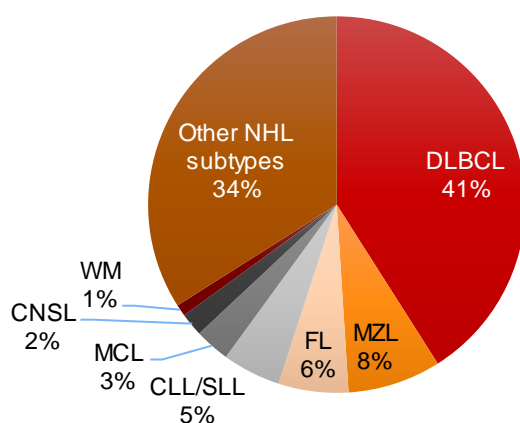
Source: Bloomberg

### Auditor: Ernst & Young

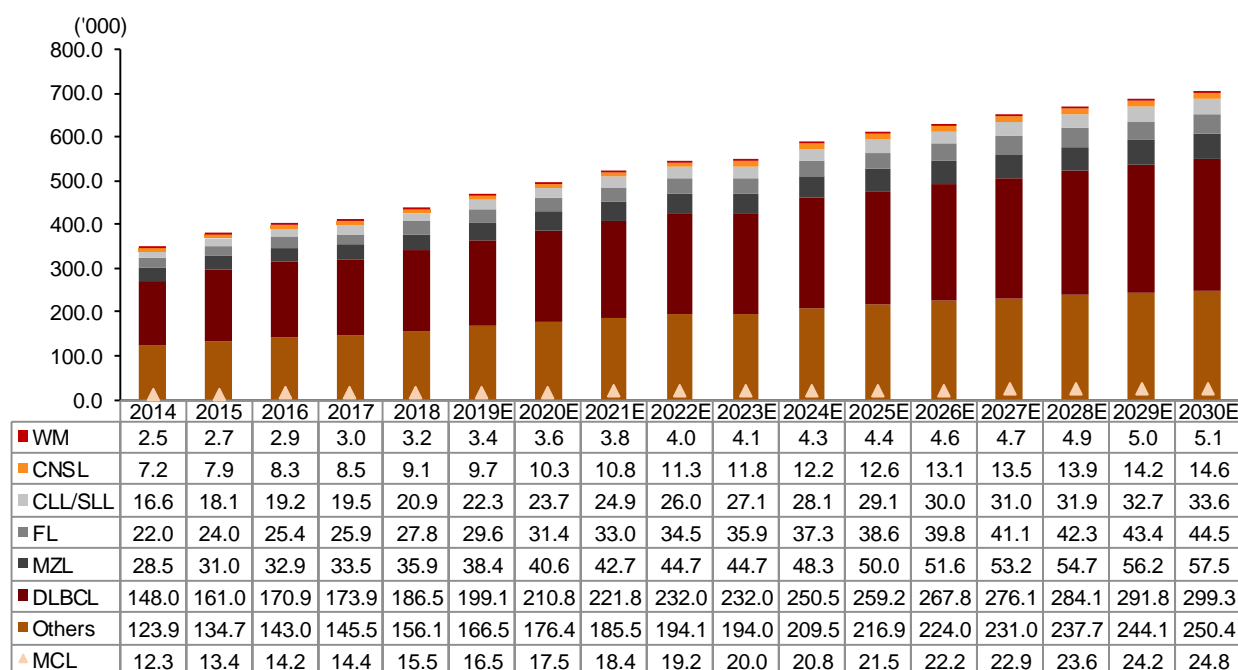
Web-site: [www.innocarepharma.com](http://www.innocarepharma.com)

### Related report:

Orelabrutinib to initiate trial in multiple sclerosis in US - 04 Nov 2020  
Well prepared for the first product commercialization - 18 Sep 2020  
Biopharmaceutical company developing global innovative therapies in oncology and autoimmune areas - 12 May 2020

**Figure 1: Prevalence of NHL Subtypes in China (2018)**

Source: F&amp;S, CMBIS

**Figure 2: Prevalence of NHL Subtypes in China (2014-2030E)**

Source: F&amp;S, CMBIS

**Figure 3: Adverse events comparison of Orelabrutinib and three marketed BTK inhibitors**

Index	Orelabrutinib N=200	Zanubrutinib N=671	Acalabrutinib N=612	Ibrutinib N=1,124
Major bleeding	0.5%	2.7%	2.0%	3.0%
Atrial fibrillation (Grade 3 or Grade 4)	0.0%	0.6%	1.0%	4.0%
Hypertension (Grade 3 or Grade 4)	2.5%	3.1%	2.5%	5.0%
Infection (≥Grade 3)	16.0%	21.3%	18.0%	24.0%
Secondary malignancy	0.5%	7.9%	10.6%	10.0%
Diarrhea	7.0%	18.2%	38.4%	39.0%

Source: Company data, CMBIS; Note: Data showed above are not from head-to-head comparative studies but extracted from some pooled analyses. Orelabrutinib as of the data cut-off date of 30 Sep 2019 for ICP-CL-00102 trial, 9 Aug 2019 for ICP-CL-00103 trial and 31 Aug 2019 for ICP-CL-00104, ICP-CL-00105 and ICP-CL-00106 trial.

**Figure 4: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	2	116	298	2	106	274	0%	9%	9%
Gross Profit	2	95	250	2	87	230	0%	9%	9%
Operating Profit	(407)	(333)	(187)	(407)	(341)	(168)	N/A	N/A	N/A
Net profit	(549)	(333)	(187)	(549)	(341)	(168)	N/A	N/A	N/A
EPS (RMB)	(0.43)	(0.26)	(0.14)	(0.43)	(0.26)	(0.13)	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 data, CMBIS estimates

**Figure 5: CMBIS estimates vs consensus**

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	2	116	298	11	171	514	-82%	-32%	-42%
Gross Profit	2	95	250	9	134	431	-83%	-29%	-42%
Operating Profit	(407)	(333)	(187)	(499)	(480)	(339)	N/A	N/A	N/A
Net profit	(549)	(333)	(187)	(538)	(442)	(284)	N/A	N/A	N/A
EPS (RMB)	(0.43)	(0.26)	(0.14)	(0.47)	(0.34)	(0.22)	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 data, CMBIS estimates

## Financial Statements

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>116</b>	<b>298</b>
Orelabrutinib - risk adjusted	0	0	0	116	298
ICP-192 - risk adjusted	0	0	0	0	0
ICP-105 - risk adjusted	0	0	0	0	0
R&D services	2	2	2	0	0
Cost of sales	0	0	(0)	(21)	(48)
<b>Gross profit</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>95</b>	<b>250</b>
Other income	31	104	182	182	90
Selling & distribution expenses	(1)	(3)	(50)	(100)	(149)
R&D expenses	(150)	(213)	(400)	(400)	(238)
Administrative expenses	(18)	(64)	(90)	(60)	(89)
Other expenses	(28)	(160)	(50)	(50)	(50)
<b>Operating profit (loss)</b>	<b>(163)</b>	<b>(334)</b>	<b>(407)</b>	<b>(333)</b>	<b>(187)</b>
Fair value changes of convertible redeemable preferred shares	(388)	(1,814)	(142)	0	0
Finance costs	(3)	(2)	0	0	0
<b>Pre-tax profit (loss)</b>	<b>(554)</b>	<b>(2,150)</b>	<b>(549)</b>	<b>(333)</b>	<b>(187)</b>
Income tax	0	0	0	0	0
Minority interests	4	9	0	0	0
<b>Attributable net profit (loss)</b>	<b>(550)</b>	<b>(2,141)</b>	<b>(549)</b>	<b>(333)</b>	<b>(187)</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Profit before tax</b>	<b>(554)</b>	<b>(2,150)</b>	<b>(549)</b>	<b>(333)</b>	<b>(187)</b>
Depreciation and amortization	5	9	4	4	4
Change in working capital	47	21	(13)	(13)	(21)
Others	484	2,040	110	(32)	(10)
Net income tax paid	0	0	0	0	0
<b>Net operating cash flow</b>	<b>(18)</b>	<b>(80)</b>	<b>(448)</b>	<b>(374)</b>	<b>(214)</b>
Interest received	0	0	78	78	56
Purchases of PP&E	(4)	(45)	(250)	(100)	(50)
Purchases of other intangible assets	(16)	(0)	0	0	0
Net purchases of financial assets	(160)	85	0	0	0
Others	(708)	8	4	4	4
<b>Net investing cash flow</b>	<b>(888)</b>	<b>47</b>	<b>(168)</b>	<b>(18)</b>	<b>10</b>
Net proceeds from shares issued	1,165	422	2,255	0	0
Bank borrowing, net	873	(50)	0	(1,200)	0
Acquisition of non-controlling interests	0	0	0	0	0
Others	63	(9)	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>
FX changes	13	18	0	0	0
Net change in cash	1,196	331	1,639	(1,592)	(204)
Cash at the beginning	37	1,245	2,292	3,931	2,339
<b>Cash at the end</b>	<b>1,245</b>	<b>1,594</b>	<b>3,931</b>	<b>2,339</b>	<b>2,135</b>

### Balance sheet

YE 31 Dec (RMB mn)	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>
PP&E	5	48	297	396	444
Goodwill	3	3	3	3	3
Other intangible assets	37	37	37	36	36
Right-of-use assets	13	86	84	82	80
Investment in JVs	1	1	1	1	1
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>2,439</b>	<b>2,265</b>
Inventories	0	0	0	4	9
Trade receivables	0	0	0	13	33
Prepayments, other receivables & other assets	18	37	0	3	8
Cash and cash equivalents	1,877	2,292	3,931	2,339	2,135
Others	169	80	80	80	80
<b>Current liabilities</b>	<b>72</b>	<b>66</b>	<b>16</b>	<b>23</b>	<b>32</b>
Trade payables	2	8	0	6	13
Loans and borrowings	50	0	0	0	0
Other payables and accruals	5	42	0	1	3
Lease liabilities	5	6	6	6	6
Loans from a related party	9	9	9	9	9
Others	0	1	1	1	1
<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>
Convertible redeemable preferred shares	1,935	4,214	4,356	4,356	4,356
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>(1,574)</b>	<b>(1,761)</b>
Minority interest	66	57	57	57	57
<b>Shareholders' equity</b>	<b>(904)</b>	<b>(3,005)</b>	<b>(1,299)</b>	<b>(1,631)</b>	<b>(1,818)</b>

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
Orelabrutinib - risk adjusted	0	0	0	100	100
ICP-192 - risk adjusted	0	0	0	0	0
ICP-105 - risk adjusted	0	0	0	0	0
R&D services	100	100	100	0	0
Total	100	100	100	100	100
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	100	100	80	82	84
EBITDA margin	NA	NA	NA	NA	NA
Pre-tax margin	NA	NA	NA	NA	NA
Net margin	NA	NA	NA	NA	NA
Effective tax rate	0	0	0	0	0
<b>Balance sheet ratios</b>					
Current ratio (x)	29	37	249	107	72
Trade receivables turnover days	NA	NA	40	40	40
Trade payables turnover days	NA	NA	100	100	100
Net debt to total equity ratio (%)	Net	Net	Net	Net	Net
<b>Returns (%)</b>					
ROE	NA	NA	NA	NA	NA
ROA	(25)	(82)	(12)	(11)	(7)

Source: Company data, CMBIS estimates

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

## CMBIS Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIS

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Securities Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.