

# InnoCare Pharma (9969 HK)

## Eyes on next steps of orelabrutinib for MS

InnoCare recorded total revenue of RMB189mn in 1Q23, including RMB151mn sales from orelabrutinib (-9% QoQ, +44% YoY). The QoQ decrease in sales of orelabrutinib was mainly due to the COVID-19 outbreak and Chinese New Year break in 1Q. InnoCare continued to improve its cost efficiency in 1Q23. The selling costs/ R&D costs/ admin costs as a percentage of product sales decreased to 57%/ 93%/ 24% in 1Q23, from 78%/ 112%/ 32% in FY22, respectively. The R&D costs in 1Q23 were RMB141mn, compared to RMB164mn in 4Q22. InnoCare narrowed the attributable net loss to RMB12mn compared to loss of RMB52mn in 4Q22. As of 1Q23, the Company has RMB8.9bn cash and cash equivalent, sufficient to support the Company's R&D and operations for multiple years.

■ **Look forward to the further data readout of orelabrutinib for autoimmune diseases.** Positive preliminary data of Ph2 trial (NCT04711148) of orelabrutinib for the R/R **MS** with 12-week treatment was released in Mar 2023. As the primary endpoint of the study has been met, InnoCare decided to cease further patient enrolment for the Ph2 global trial and to continue patient follow-up with the treatment results at week 24 internally available by end May 2023. The Company expects to submit the full 24-week efficacy and safety data to the FDA to discuss about lifting the partial hold of the Ph2 MS trial and initiating a Ph3 study. To date, Ph3 trials of Sanofi's tolebrutinib for MS are still on partial hold by FDA. Additionally, in Apr 2023, the FDA also placed a partial clinical hold on Merck's evobrutinib ([link](#)) due to suggestive drug-induced liver injury cases. We will keep a close eye on FDA's further decisions on the study hold for the three BTK inhibitors. For the treatment of **SLE**, the Ph2b study of orelabrutinib expects to complete the enrolment of 183 patients within the next 12 months. The expected DoT of the study is 48 weeks. The Company may conduct an interim analysis and seeks to upgrade the study to a registrational study upon CDE's approval. In addition, InnoCare will release detailed data of the Ph2 trial of orelabrutinib for **ITP** at the EHA meeting in the coming Jun.

■ **Smooth progress of regulatory and research development.** Orelabrutinib was recently approved for r/r MZL, 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 with the US BLA expected within the next 12 months. The bridging study of tafasitamab in mainland China 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. Additionally, the Ph2 trial of ICP-332 (TYK2, JH1) for atopic dermatitis (AD) is ongoing with the data readout expected within the next 12 months. For ICP-488 (TYK-2, JH2), a psoriasis cohort has been added to the Ph1 study with the PoC data in psoriasis expected by end-2023.

■ **Maintain BUY.** We look forward to the further data readout of orelabrutinib's Ph2 MS trial and the next steps of the FDA. 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
Net profit (RMB mn)	(65)	(887)	(707)	(833)	(762)
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)	(227)	(300)	(100)	(100)

Source: Company data, Bloomberg, CMBIGM estimates

### BUY (Maintain)

**Target Price** **HK\$10.84**  
(Previous TP HK\$10.84)  
**Up/Downside** **24.3%**  
**Current Price** **HK\$8.72**

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### Stock Data

Mkt Cap (HK\$ mn)	15,384.9
Avg 3 mths t/o (HK\$ mn)	50.7
52w High/Low (HK\$)	15.50/7.49
Total Issued Shares (mn)	1,764.3

Source: FactSet

### Shareholding Structure

Hillhouse Capital	11.8%
King Bridge Investments	9.2%

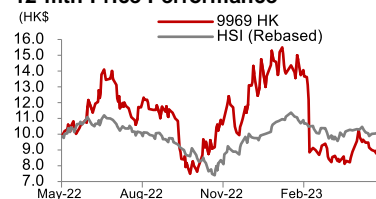
Source: Company data

### Share Performance

	Absolute	Relative
1-mth	-1.9%	0.4%
3-mth	-38.0%	-32.5%
6-mth	-17.9%	-32.4%

Source: FactSet

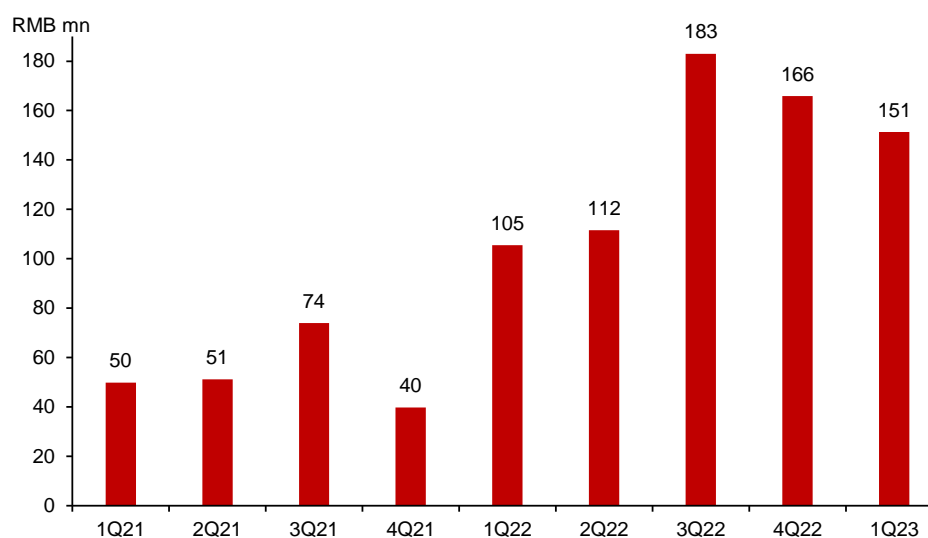
### 12-mth Price Performance



Source: FactSet

**Auditor:** Ernst & Young

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

**Figure 1: Quarterly sales of orelabrutinib in 1Q21-1Q23**

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	488	1,096	1,700	2,337	2,808	3,248	3,296	3,201
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	415	932	1,445	1,986	2,387	2,761	2,801	2,721
+ D&A	38	38	38	38	38	38	38	38	38	38	38	38	38
- Change in working capital	(105)	139	287	236	168	164	112	31	(76)	(150)	(213)	(292)	(289)
- Capex	(300)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
<b>FCFF</b>	<b>(1,265)</b>	<b>(926)</b>	<b>(690)</b>	<b>(191)</b>	<b>143</b>	<b>516</b>	<b>982</b>	<b>1,413</b>	<b>1,849</b>	<b>2,175</b>	<b>2,486</b>	<b>2,448</b>	<b>2,370</b>
<b>Terminal value</b>													<b>29,172</b>
<b>FCF + Terminal value</b>	<b>(1,265)</b>	<b>(926)</b>	<b>(690)</b>	<b>(191)</b>	<b>143</b>	<b>516</b>	<b>982</b>	<b>1,413</b>	<b>1,849</b>	<b>2,175</b>	<b>2,486</b>	<b>2,448</b>	<b>31,542</b>
Present value of enterprise (RMB mn)	9,564												
Net debt	-6,740												
Minorities	47												
Equity value (RMB mn)	16,257												
<b>Corporate value (HK\$ mn)</b>	<b>19,126</b>												
# of shares outstanding (mn)	1,764												
<b>TP per share (HK\$)</b>	<b>10.84</b>												
<b>Terminal growth rate</b>	<b>3.00%</b>												
<b>WACC</b>	<b>11.37%</b>												
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 vs consensus**

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	959	1,459	2,444	1,005	1,514	2,299	-5%	-4%	6%
Gross Profit	768	1,182	1,992	814	1,255	1,919	-6%	-6%	4%
Operating Profit	(675)	(812)	(752)	(829)	(635)	(91)	N/A	N/A	N/A
Net profit	(707)	(834)	(764)	(748)	(527)	(73)	N/A	N/A	N/A
EPS (RMB)	(0.40)	(0.47)	(0.43)	(0.44)	(0.30)	(0.02)	N/A	N/A	N/A
Gross Margin	80.00%	81.00%	81.50%	81.02%	82.86%	83.46%	-1.02 ppt	-1.86 ppt	-1.96 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	263	232	204
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)	(833)	(762)
Income tax	0	(47)	0	0	0	0
After tax profit	(392)	(67)	(894)	(707)	(833)	(762)
Minority interest	0	2	7	0	0	0
Net profit	(391)	(65)	(887)	(707)	(833)	(762)

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	4,092	6,417	9,300	8,242	7,246	6,626
Cash & equivalents	3,970	5,929	8,698	7,624	6,468	5,530
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	1,284	1,346	1,408
PP&E	306	430	653	918	982	1,047
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	8,591	8,034
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	6,890	6,057	5,295
Total shareholders equity	3,104	5,605	7,597	6,890	6,057	5,295
Minority interest	56	54	47	47	47	47
Total equity and liabilities	4,538	7,398	10,321	9,525	8,591	8,034

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(464)	(20)	(894)	(707)	(833)	(762)
Depreciation & amortization	2	10	35	35	35	35
Tax paid	0	0	0	0	0	0
Change in working capital	(57)	120	(75)	(105)	139	287
Others	346	57	368	(188)	(168)	(150)
Net cash from operations	(173)	167	(565)	(965)	(826)	(590)

### Investing

Capital expenditure	(251)	(166)	(227)	(300)	(100)	(100)
Net proceeds from disposal of short-term investments	(889)	(1,637)	(1,509)	0	0	0
Others	33	73	10	223	192	164
<b>Net cash from investing</b>	<b>(1,107)</b>	<b>(1,730)</b>	<b>(1,726)</b>	<b>(77)</b>	<b>92</b>	<b>64</b>
<b>Financing</b>						
Dividend paid	0	0	0	0	0	0
Net borrowings	(9)	0	0	0	(400)	(400)
Proceeds from share issues	2,253	2,562	3,120	0	0	0
Others	(6)	(17)	(25)	(32)	(22)	(12)
<b>Net cash from financing</b>	<b>2,238</b>	<b>2,545</b>	<b>3,095</b>	<b>(32)</b>	<b>(422)</b>	<b>(412)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,594	2,301	5,929	8,698	7,624	6,468
Exchange difference	(252)	(45)	140	0	0	0
<b>Cash at the end of the year</b>	<b>2,301</b>	<b>5,929</b>	<b>8,698</b>	<b>7,624</b>	<b>6,468</b>	<b>5,530</b>
<b>GROWTH</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
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%
<b>PROFITABILITY</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
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%)	(9.8%)	(12.9%)	(13.4%)
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						
Current ratio (x)	39.2	19.5	4.5	4.1	3.8	3.2
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
<b>VALUATION</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec</b>						

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

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