

InnoCare Pharma (9969 HK)

Consistent results of orelabrutinib for MS

InnoCare recorded total revenue of RMB188mn in 2Q23, including RMB169mn sales from orelabrutinib (+12% QoQ, +52% YoY). In 1H23, the sales of orelabrutinib totalled RMB321mn, +48% YoY, accounting for 33% of our previous full-year estimate. In comparison, BGNE's zanubrutinib achieved US\$97mn revenue in China in 1H23, +38% YoY. InnoCare's GP margin (vs total revenue) improved significantly from 77% in 1Q23 to 82% in 2Q23. The selling expenses/R&D expenses/admin expenses as a percentage of product sales were 62%/128%/30% in 2Q23, compared to 57%/93%/24% in 1Q23, or 78%/112%/32% in FY22. InnoCare recorded a net loss of RMB410mn in 2Q23 vs net loss of RMB12mn in 1Q23. As of June 2023, the Company had sufficient cash and cash equivalent of RMB8.7bn.

■ **Consistent efficacy and differentiated safety profile of orelabrutinib for MS.** Positive preliminary Ph2 data of orelabrutinib for the R/R MS at 12 week treatment was released in Mar 2023. InnoCare released the further follow-up results. At week 24, a 92.3% relative reduction ($p=0.0037$) was achieved in cumulative number of new Gd + T1 brain lesions at 80mg QD (N=29 patients) compared to the placebo arm (switched to orelabrutinib 50mg QD after week 12), consistent with the 12-week results of 92.1% (N=35 patients). One case of SAE was observed and two cases of ALT/AST >8xULN were reported, one in the 50mg BID, and the other in the 50mg QD group. The safety profile of 80mg QD arm was similar to that of the placebo arm. InnoCare is working with FDA to lift the partial clinical hold. To date, Ph3 trials of Sanofi's tolebrutinib and Merck's evobrutinib are still on partial hold by FDA. For the treatment of SLE, the Ph2b study of orelabrutinib may complete enrolment of 183 patients in 1H24. The Company expects to complete an interim analysis by end-2024, and will discuss with CDE to expand the study to a registrational trial. In addition, with positive Ph2 data of orelabrutinib for ITP, InnoCare is conducting a Ph3 registration study in China for ITP.

■ **Rich early-stage pipelines in hematologic malignancies and autoimmune diseases.** We expect orelabrutinib to add MZL indication to the NRDL in early 2024. The Ph3 study of orelabrutinib in 1L CLL/SLL has fully enrolled with NDA filing expected in 2024, and a Ph3 study in DLBCL-MCD is ongoing in China. In the US, InnoCare completed the patient enrolment in 1H23 for the Ph2 registrational trial of orelabrutinib in r/r MCL with the BLA expected in mid-2024. The Company is actively looking for an overseas partner for orelabrutinib. ICP-248 (BCL-2) is in Ph1 dose escalation stage with promising early signals. In 3 patients, 2 reached CR and uMRD, suggesting the potential of ICP-248 to combo orelabrutinib for 1L CLL/SLL, with the US IND filing expected by end-2023. The bridging study of tafasitamab in mainland China has fully enrolled the 52 patients. With data release in the next 6 months, the Company expects to file the BLA of tafasitamab in mainland China in 2Q24. Additionally, the Ph2 trial of ICP-332 (TYK2, JH1) for atopic dermatitis (AD) is ongoing with the internal data available by end-2023. 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 future clinical progress of orelabrutinib in MS. We revised our TP from HK\$10.84 to HK\$9.07 (WACC: 12.65%, terminal growth rate: 2.0%)

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	1,043	625	820	1,151	2,052
Net profit (RMB mn)	(65)	(887)	(808)	(800)	(283)
EPS (Reported) (RMB)	(0.05)	(0.60)	(0.46)	(0.45)	(0.16)
R&D expenses (RMB mn)	(722)	(639)	(799)	(919)	(1,057)
Admin expenses (RMB mn)	(140)	(182)	(205)	(242)	(370)
CAPEX (RMB mn)	(166)	(227)	(300)	(100)	(100)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$9.07
(Previous TP)	HK\$10.84)
Up/Downside	31.0%
Current Price	HK\$6.92

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Stock Data

Mkt Cap (HK\$ mn)	12,209.1
Avg 3 mths t/o (HK\$ mn)	19.5
52w High/Low (HK\$)	15.50/6.45
Total Issued Shares (mn)	1,764.3

Source: FactSet

Shareholding Structure

Hillhouse Capital	13.3%
Pang Kee Chan	10.9%

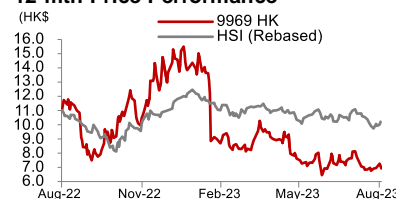
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-14.7%	-8.1%
3-mth	-7.5%	-6.9%
6-mth	-19.6%	-14.0%

Source: FactSet

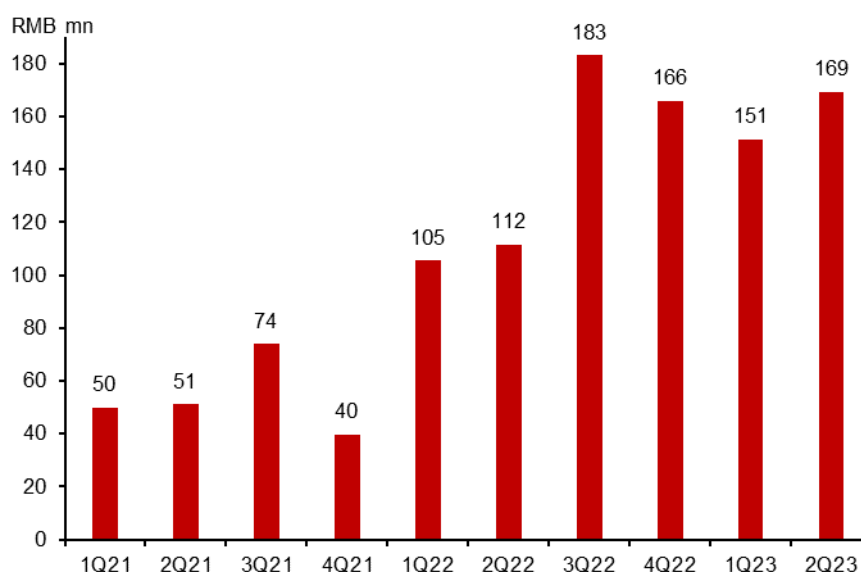
12-mth Price Performance



Source: FactSet

Auditor: Ernst & Young

Web-site: www.innocarepharma.com

Figure 1: Quarterly sales of orelabrutinib in 1Q21-2Q23

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	(928)	(912)	(390)	(186)	227	706	1,350	2,139	2,700	3,242	3,713	3,761	3,182
Tax rate	0%	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(928)	(912)	(390)	(186)	193	600	1,148	1,818	2,295	2,756	3,156	3,197	2,704
+ D&A	38	38	38	38	38	38	38	38	38	38	38	38	38
- Change in working capital	(171)	80	271	172	188	148	79	12	(69)	(137)	(182)	(235)	(302)
- Capex	(300)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
FCFF	(1,362)	(894)	(182)	(76)	318	686	1,164	1,767	2,164	2,557	2,912	2,900	2,341
Terminal value													22,417
FCF + Terminal value	(1,362)	(894)	(182)	(76)	318	686	1,164	1,767	2,164	2,557	2,912	2,900	24,758
Present value of enterprise (RMB mn)	7,871												
Net debt	-6,573												
Minorities	47												
Equity value (RMB mn)	14,397												
Corporate value (HK\$ mn)	15,997												
# of shares outstanding (mn)	1,764												
TP per share (HK\$)	9.07												
Terminal growth rate	2.00%												
WACC	12.65%												
Cost of Equity	16.3%												
Cost of Debt	5.00%												
Equity Beta	1.30												
Risk Free Rate	2.60%												
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				
		11.65%	12.15%	12.65%	13.15%	13.65%
Terminal growth rate	4.00%	10.53	9.94	9.41	8.94	8.52
	3.50%	10.28	9.73	9.23	8.79	8.39
	3.00%	10.06	9.54	9.07	8.65	8.26
	2.50%	9.86	9.36	8.92	8.52	8.15
	2.00%	9.68	9.21	8.78	8.40	8.05

Source: CMBIGM estimates

Figure 4: CMBIGM revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	820	1,151	2,052	959	1,459	2,444	-15%	-21%	-16%
Gross Profit	656	932	1,672	768	1,182	1,992	-15%	-21%	-16%
Operating Profit	(775)	(778)	(272)	(674)	(811)	(750)	N/A	N/A	N/A
Net profit	(808)	(800)	(283)	(707)	(833)	(762)	N/A	N/A	N/A
EPS (RMB)	(0.46)	(0.45)	(0.16)	(0.40)	(0.47)	(0.43)	N/A	N/A	N/A
Gross Margin	80.00%	81.00%	81.50%	80.00%	81.00%	81.50%	0.00 ppt	0.00 ppt	0.00 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	820	1,151	2,052	1,020	1,434	2,387	-20%	-20%	-14%
Gross Profit	656	932	1,672	841	1,213	2,025	-22%	-23%	-17%
Operating Profit	(775)	(778)	(272)	(831)	(698)	(423)	N/A	N/A	N/A
Net profit	(808)	(800)	(283)	(508)	(471)	(325)	N/A	N/A	N/A
EPS (RMB)	(0.46)	(0.45)	(0.16)	(0.28)	(0.22)	(0.07)	N/A	N/A	N/A
Gross Margin	80.00%	81.00%	81.50%	82.45%	84.58%	84.83%	-2.45 ppt	-3.57 ppt	-3.33 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	820	1,151	2,052
Cost of goods sold	0	(66)	(143)	(164)	(219)	(380)
Gross profit	1	977	482	656	932	1,672
Operating expenses	(594)	(1,212)	(1,547)	(1,631)	(1,890)	(2,109)
Selling expense	(68)	(298)	(439)	(426)	(529)	(882)
Admin expense	(89)	(140)	(182)	(205)	(242)	(370)
R&D expense	(403)	(722)	(639)	(799)	(919)	(1,057)
Others	(34)	(52)	(288)	(200)	(200)	200
Other income	271	218	198	199	180	165
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)	(808)	(800)	(283)
Income tax	0	(47)	0	0	0	0
After tax profit	(392)	(67)	(894)	(808)	(800)	(283)
Minority interest	0	2	7	0	0	0
Net profit	(391)	(65)	(887)	(808)	(800)	(283)

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	4,092	6,417	9,300	8,231	7,355	6,970
Cash & equivalents	3,970	5,929	8,698	7,657	6,675	6,000
Account receivables	0	45	128	112	161	292
Inventories	2	10	65	36	48	83
Financial assets at FVTPL	0	317	313	313	313	313
Other current assets	121	116	95	112	158	281
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	9,515	8,701	8,378
Current liabilities	104	329	2,075	1,876	1,662	1,823
Short-term borrowings	0	0	1,197	1,197	797	397
Account payables	6	85	119	116	155	269
Other current liabilities	92	218	735	539	686	1,133
Lease liabilities	7	20	20	20	20	20
Contract liabilities	0	7	4	4	4	4
Non-current liabilities	1,273	1,409	601	801	1,001	801
Long-term borrowings	0	0	0	0	0	0
Convertible bonds	1,150	1,201	0	200	400	200
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	2,678	2,664	2,624
Share capital	0	0	0	0	0	0
Other reserves	3,104	5,605	7,597	6,789	5,990	5,706
Total shareholders equity	3,104	5,605	7,597	6,789	5,990	5,706
Minority interest	56	54	47	47	47	47
Total equity and liabilities	4,538	7,398	10,321	9,515	8,701	8,378

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(464)	(20)	(894)	(808)	(800)	(283)
Depreciation & amortization	2	10	35	35	35	35
Tax paid	0	0	0	0	0	0
Change in working capital	(57)	120	(75)	(171)	80	271
Others	346	57	368	82	90	(304)
Net cash from operations	(173)	167	(565)	(862)	(594)	(282)

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	153	134	119
Net cash from investing	(1,107)	(1,730)	(1,726)	(147)	34	19
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	3,120	0	0	0
Others	(6)	(17)	(25)	(32)	(22)	(12)
Net cash from financing	2,238	2,545	3,095	(32)	(422)	(412)
Net change in cash						
Cash at the beginning of the year	1,594	2,301	5,929	8,698	7,657	6,675
Exchange difference	(252)	(45)	140	0	0	0
Cash at the end of the year	2,301	5,929	8,698	7,657	6,675	6,000

GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
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YE 31 Dec

Revenue	9.4%	76,368.7%	(40.0%)	31.1%	40.4%	78.2%
Gross profit	9.4%	71,554.4%	(50.7%)	36.1%	42.1%	79.3%

PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
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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%)	(11.2%)	(12.5%)	(4.8%)

GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
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YE 31 Dec

Current ratio (x)	39.2	19.5	4.5	4.4	4.4	3.8
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
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YE 31 Dec

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

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