

InnoCare Pharma (9969 HK)

Fruitful out/in licensing deals

InnoCare reported attributable net loss of RMB213.1mn in 1H21 vs RMB337.4mn in 1H20. Total revenue grew from RMB0.7mn in 1H20 to RMB101.7mn in 1H21, primarily attributable to the increase of sales of Orelabrutinib. R&D expenses decreased 20% YoY from RMB231.2mn in 1H20 to RMB184.9mn in 1H21, mainly due to the RMB142.9mn decrease of share-based compensation, while clinical expenses and third-party contracting costs are growing in 1H21. Selling expenses jumped to RMB125.0mn in 1H21 vs RMB7.6mn in 1H20, primarily due to the launch of Orelabrutinib.

- Impressive BD progress.** In Jul 2021, InnoCare granted Biogen exclusive rights to Orelabrutinib in the field of MS worldwide and certain autoimmune diseases outside of Greater China while InnoCare will retain exclusive worldwide rights to Orelabrutinib in the field of oncology and certain autoimmune diseases in China. InnoCare will receive a US\$125mn upfront payment and is eligible to receive up to US\$812.5mn in potential development milestones and potential commercial payments, and to receive low to high teens' percentage of sales royalties. We believe the transaction is based on orelabrutinib's potential to inhibit B cell and myeloid cell effector functions in the CNS by crossing BBB. We believe this out-license deal proved InnoCare's strong inhouse R&D capability and BIC potential for orelabrutinib. Furthermore, in Aug 2021, InnoCare obtained the Greater China rights for the development and commercialization of Tafasitamab (CD19 mAb) from Incyte. We expect InnoCare to explore the clinical potential of Orelabrutinib plus Tafasitamab in hematology and oncology. Through in-licensing, InnoCare successfully diversified its product portfolio.
- Fast sales ramp-up for orelabrutinib in China.** After Orelabrutinib's approval for treating r/r-CLL/SLL and r/r-MCL in China in Dec 2020, orelabrutinib registered RMB101mn revenue in 1H21, which was a strong beat. With an in-house team of 150+ experienced sales and marketing members, Orelabrutinib's sales coverage had rapidly penetrated to 230+ cities, 500+ nationally leading hospitals and 4,000+ doctors. We expect InnoCare to further expand its sales and marketing team to broaden Orelabrutinib's market reach. We also expect Orelabrutinib to be included by NRDL through negotiation this year. We maintain positive on Orelabrutinib's sales growth in the coming years.
- Maintain BUY.** InnoCare has built an abundant pipeline portfolio that includes 1 commercial product, 7 clinical stage assets with over 19 trials ongoing globally, and another 7 IND enabling stage candidates, covering mAb, bsAb and small molecules across oncology and autoimmune. We slightly revised up forecasts for orelabrutinib and upgraded our TP from HK\$24.59 to HK\$24.66 (WACC: 9.1%, terminal growth rate: 4.0%).

Earnings Summary

(YE 31 Dec) (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	1	1	1,021	685	707
Attributable net profit (loss)	(2,141)	(464)	89	(78)	6
R&D expense	(213)	(403)	(535)	(350)	(385)
ROA (%)	(82)	(10)	1	(1)	0
EPS (RMB)	N/A	(0.48)	0.06	(0.05)	0.00
Consensus EPS (RMB)	N/A	N/A	(0.05)	(0.25)	0.26
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	37	39	82	121	122

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$24.66**
 (Previous TP **HK\$24.59**)
 Up/Downside **+21.77%**
 Current Price **HK\$20.25**

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Mkt. Cap. (HK\$ mn)	30,368
Avg. 3mths t/o (HK\$ mn)	126.19
52W High/Low (HK\$)	32.05/9.63
Total Issued Shares (mn)	1,500

Source: Bloomberg

Shareholding Structure

Management	36.39%
Pre-IPO and Cornerstone investors	43.95%
Free float	19.67%

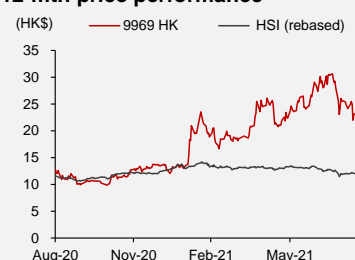
Source: Bloomberg

Share performance

	Absolute	Relative
1-mth	-16.3%	-16.1%
3-mth	-9.4%	3.9%
6-mth	7.4%	22.5%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Ernst & Young

Web-site: www.innocarepharma.com

Related report:

- Orelabrutinib showed impressive efficacy in r/r-CLL/SLL – 20 Apr 2021
- Entering into commercial stage – 29 Mar 2021
- Orelabrutinib received approvals for treating r/r-CLL/SLL and r/r-MCL in China – 29 Dec 2020

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	0	(206)	(120)	448	928	1,747	1,989	2,329	2,663	3,036
Tax rate	15%	0%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	0	(206)	(102)	381	789	1,485	1,690	1,980	2,264	2,581
+ D&A	5	5	5	5	5	5	5	5	5	5
- Change in working capital	(80)	35	(3)	(111)	(101)	(148)	(50)	(72)	(67)	(74)
- Capex	(100)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)	(60)
FCFF	(175)	(226)	(161)	214	632	1,282	1,585	1,852	2,141	2,451
Terminal value										49,842
FCF + Terminal value	(175)	(226)	(161)	214	632	1,282	1,585	1,852	2,141	52,293

Present value of enterprise (RMB mn)	25,461
Net Debt	(5,287)
Minorities	56
Equity value (RMB mn)	30,692
Corporate value (HK\$ mn)	36,979
# of shares outstanding	1,499,673,235
TP per share (HK\$)	24.66

Terminal growth rate	
WACC	4.00%
Cost of Equity	9.12%
Cost of Debt	11.20%
Equity Beta	5.00%
Risk Free Rate	82.00%
Market Risk Premium	3.00%
Target Debt to Asset ratio	10.00%
Effective Corporate Tax Rate	30.00%

Source: CMBIS estimates

Figure 2: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	1,021	685	707	116	305	668	781%	125%	6%
Gross Profit	817	562	587	93	250	555	781%	125%	6%
Operating Profit	105	(77)	8	(308)	(149)	51	N/A	N/A	-85%
Net profit	88	(78)	5	(309)	(150)	42	N/A	N/A	-87%
EPS (RMB)	0.06	(0.05)	0.00	(0.21)	(0.10)	0.03	N/A	N/A	-86%
Gross Margin	80.00%	83.00%	83.00%	80.00%	82.00%	83.00%	0.00 ppt	+1.00 ppt	0.00 ppt

Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	1,021	685	707	675	519	1,540	51%	32%	-54%
Gross Profit	817	562	587	565	406	1,299	44%	38%	-55%
Operating Profit	105	(77)	8	(550)	(387)	96	N/A	N/A	-92%
Net profit	88	(78)	5	(180)	(340)	104	N/A	N/A	-95%
EPS (RMB)	0.06	(0.05)	0.00	(0.05)	(0.25)	0.26	N/A	N/A	-98%
Gross Margin	80.00%	82.00%	83.00%	83.78%	78.25%	84.33%	-3.78 ppt	+3.75 ppt	-1.33 ppt

Source: Company data, CMBIS estimates

Financial Statements

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	1	1	1,021	685	707	Profit before tax	(2,150)	(464)	104	(78)	6
Orelabrutinib - risk adjusted	0	0	184	350	613	Depreciation and amortization	9	11	5	5	5
ICP-192 - risk adjusted	0	0	0	0	94	Change in working capital	21	(57)	(80)	35	(3)
ICP-105 - risk adjusted	0	0	0	0	0	Others	2,040	337	(87)	(96)	(129)
Others	1	1	838	335	0	Net income tax paid	0	0	(16)	0	(1)
Cost of sales	0	0	(204)	(123)	(120)	Net operating cash flow	(80)	(173)	(59)	(134)	(122)
Gross profit	1	1	817	562	587	Interest received	4	33	104	129	128
Other income	104	271	206	161	159	Purchases of PP&E	(75)	(251)	(100)	(60)	(60)
Selling & distribution expenses	(3)	(68)	(250)	(210)	(212)	Purchases of other intangible assets	(0)	(0)	0	0	0
R&D expenses	(213)	(403)	(535)	(350)	(385)	Net purchases of financial assets	85	82	0	0	0
Administrative expenses	(64)	(89)	(100)	(205)	(141)	Others	34	(971)	2	2	2
Other expenses	(160)	(34)	(34)	(34)	0	Net investing cash flow	47	(1,107)	6	71	69
Operating profit (loss)	(334)	(322)	105	(77)	8	Net proceeds from shares issued	422	2,253	2,555	0	0
Fair value changes of convertible redeemable preferred shares	(1,814)	(142)	0	0	0	Bank borrowing, net	(50)	(9)	0	0	0
Finance costs	(2)	(1)	(1)	(1)	(1)	Acquisition of non-controlling interests	0	0	0	0	0
Pre-tax profit (loss)	(2,150)	(464)	104	(78)	6	Others	(9)	(6)	(1)	(1)	(1)
Income tax	0	0	(16)	0	(1)	Net financing cash flow	363	2,238	2,554	(1)	(1)
Minority interests	9	0	0	0	0	FX changes	18	(252)	0	0	0
Attributable net profit (loss)	(2,141)	(464)	89	(78)	6	Net change in cash	331	959	2,501	(65)	(53)
						Cash at the beginning	1,245	1,594	3,970	6,471	6,406
						Cash at the end	1,594	2,301	6,471	6,406	6,352

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	207	445	541	596	652	Sales mix (%)					
PP&E	48	306	404	462	520	Orelabrutinib - risk adjusted	0	0	18	51	87
Goodwill	3	3	3	3	3	ICP-192 - risk adjusted	0	0	0	0	13
Other intangible assets	37	37	37	36	36	ICP-105 - risk adjusted	0	0	0	0	0
Right-of-use assets	86	97	95	93	91	R&D services	100	100	82	49	1
Investment in JVs	1	1	1	1	1	Total	100	100	100	100	101
Other non-current assets	31	1	1	1	1						
Current assets	2,409	4,092	6,650	6,523	6,472	Profit & loss ratios (%)					
Inventories	0	2	39	24	23	Gross margin	100	100	80	82	83
Trade receivables	0	0	112	75	77	EBITDA margin	NA	NA	0	NA	NA
Prepayments, other receivables & other assets	37	121	28	19	19	Pre-tax margin	NA	NA	10	NA	1
Cash and cash equivalents	2,292	3,970	6,471	6,406	6,352	Net margin	NA	NA	9	NA	1
Others	80	0	0	0	0	Effective tax rate	0	0	15	0	15
Current liabilities	66	104	81	54	53	Balance sheet ratios					
Trade payables	8	6	56	34	33	Current ratio (x)	37	39	82	121	122
Loans and borrowings	0	0	0	0	0	Trade receivables turnover days	NA	40	40	40	40
Other payables and accruals	42	85	11	7	7	Trade payables turnover days	NA	100	100	100	100
Lease liabilities	6	0	0	0	0	Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Loans from a related party	9	7	7	7	7						
Others	1	7	7	7	7	Returns (%)					
Non-current liabilities	5,498	1,273	1,307	1,340	1,340	ROE	NA	NA	NA	NA	NA
Convertible redeemable preferred shares	4,214	0	0	0	0	ROA	(82)	(10)	1	(1)	0
Convertible loan	1,117	1,150	1,183	1,217	1,217						
Loans and borrowings	0	0	0	0	0						
Others	167	123	123	123	123						
Total net assets	(2,948)	3,161	5,803	5,725	5,731						
Minority interest	57	56	56	56	55						
Shareholders' equity	(3,005)	3,104	5,747	5,670	5,676						

Source: Company data, CMBIS estimates

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