

InnoCare Pharma (9969 HK)

Autoimmune pipeline holds potential for global markets

InnoCare delivered solid 1Q25 results, with revenue reaching RMB381mn. Sales of orelabrutinib rose 89% YoY and 1% QoQ to RMB311mn, primarily supported by sustained uptake in MZL. Notably, orelabrutinib remains the only BTK inhibitor approved and included in the NRD for MZL in China—the second-largest subtype of NHL. Management expects MZL to account for approximately 50% of orelabrutinib sales by year-end 2025. Looking ahead, we expect orelabrutinib to maintain robust growth throughout FY25, supported by expanded hospital coverage in lower-tier cities and the recent label expansion into first-line CLL, approved in April 2025. Management has raised the FY25 sales growth target for orelabrutinib from 30% to over 35%. InnoCare also reported net income of RMB14mn in 1Q25, underpinned by orelabrutinib's strong sales and a US\$8.75mn upfront payment from out-licensing its CD3/CD20 asset to Prolium. InnoCare's product gross margin improved to 88.4% (vs 86.2% in FY24), reflecting enhanced manufacturing efficiency. Meanwhile, SG&A ratio declined to 50%, down from 60% in FY24, indicating better cost discipline. As of 1Q25, InnoCare maintained a robust cash position of RMB7.8bn, providing ample capital for R&D initiatives.

■ **Autoimmune pipeline offers broad long-term upside.** We view InnoCare's autoimmune pipeline as a key pillar of its future growth, offering meaningful upside alongside its oncology franchise. Orelabrutinib has demonstrated strong potential in multiple sclerosis (MS), supported by its superior plasma exposure and CNS penetration. Two Ph3 trials are advancing in the US—one for PPMS, with FPI anticipated by mid-2025, and another for SPMS, with FPI expected in 2H25. Both indications represent significant unmet needs. In SLE, orelabrutinib has previously delivered strong Ph2a data, with Ph2b readouts expected in 4Q25 and Ph3 preparations underway. Moreover, ICP-322 (TYK2 JH1 inhibitor) has shown promising efficacy in atopic dermatitis (AD), potentially outperforming current therapies such as JAK1/2 inhibitors, IL-4Rα mAbs, and IL-13 mAbs. ICP-332 is currently in a Ph3 trial in China for AD. A China Ph2/3 trial of ICP-332 in vitiligo is ongoing with FPI expected by mid-2025, and a global Ph2 trial in prurigo nodularis (PN) is also in active planning.

■ **Pipeline in oncology continues to expand.** InnoCare is making rapid progress across its oncology portfolio, with mesutoclax (ICP-248) emerging as a competitive Bcl-2 inhibitor. A Ph3 trial evaluating mesutoclax + orelabrutinib for 1L CLL is currently ongoing in China. Early clinical data are encouraging, with the all-oral regimen achieving a 53.4% CR and 46.2% uMRD at Week 12. Updated clinical data for mesutoclax will be presented at the upcoming ASCO 2025 conference. Strategically, InnoCare is targeting less crowded indications overseas, including first-line AML and BTKi-pretreated MCL. In addition, tafasitamab (CD19) is on track for approval in China for r/r DLBCL, further strengthening its hematology portfolio. In the solid tumor space, InnoCare is advancing its in-house ADC platform, with the IND for a B7-H3-targeting ADC submitted in Apr 2025, and initial data expected by late 2025 or early 2026.

■ **Maintain BUY.** We see InnoCare's significant out-licensing potential across multiple assets, especially orelabrutinib and ICP-332. We maintain our DCF-derived TP unchanged at HK\$11.95 (WACC: 10.73%, terminal growth rate: 2.0%).

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	739	1,009	1,492	1,886	2,573
Net profit (RMB mn)	(631.3)	(440.6)	(268.1)	(188.3)	7.9
EPS (Reported) (RMB)	(0.37)	(0.26)	(0.15)	(0.11)	0.00
R&D expenses (RMB mn)	(751)	(814)	(950)	(1,037)	(1,209)
Admin expenses (RMB mn)	(194)	(184)	(224)	(264)	(283)
CAPEX (RMB mn)	(255)	(100)	(100)	(100)	(100)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$11.95**
(Previous TP **HK\$11.95**)
Up/Downside **25.8%**
Current Price **HK\$9.50**

China Healthcare

Jill WU, CFA
(852) 3900 0842
jillwu@cmbi.com.hk

Andy WANG
(852) 3657 6288
andywang@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	16,744.4
Avg 3 mths t/o (HK\$ mn)	124.2
52w High/Low (HK\$)	10.52/4.27
Total Issued Shares (mn)	1762.6

Source: FactSet

Shareholding Structure

Hillhouse Capital	13.4%
Pang Kee Chan	10.5%

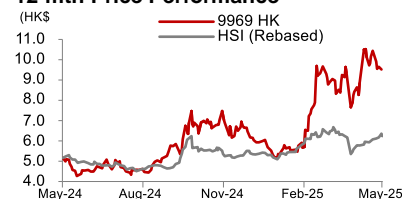
Source: Company data

Share Performance

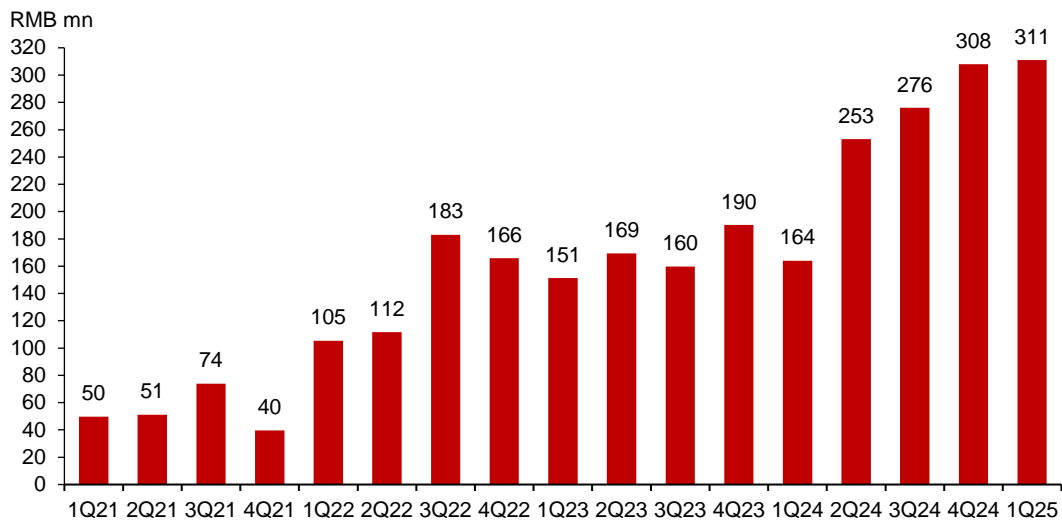
	Absolute	Relative
1-mth	12.8%	2.1%
3-mth	66.7%	57.3%
6-mth	34.9%	15.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Quarterly sales of orelabrutinib

Source: Company data, CMBIGM.

Figure 2: Risk-adjusted DCF valuation

DCF valuation (in RMB mn)	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	(396)	(309)	(111)	138	559	1,080	1,735	2,463	2,803	3,070	3,352
Tax rate	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(396)	(309)	(111)	117	476	918	1,475	2,093	2,382	2,610	2,849
+ D&A	62	62	62	62	62	62	62	62	62	62	62
- Change in working capital	(79)	67	363	59	43	(121)	(126)	(200)	(231)	(244)	(262)
- Capex	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
FCFF	(514)	(280)	213	137	480	759	1,311	1,855	2,113	2,327	2,549
Terminal value											29,795
FCF + Terminal value	(514)	(280)	213	137	480	759	1,311	1,855	2,113	2,327	32,344
Present value of enterprise (RMB mn)	13,947										
Net debt	-5,648										
Minorities	8										
Equity value (RMB mn)	19,587										
Corporate value (HK\$ mn)	21,061										
# of shares outstanding (mn)	1,763										
TP per share (HK\$)	11.95										
Terminal growth rate	2.00%										
WACC	10.73%										
Cost of Equity	14.1%										
Cost of Debt	3.50%										
Equity Beta	1.10										
Risk Free Rate	2.50%										
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				
		9.73%	10.23%	10.73%	11.23%	11.73%
Terminal growth rate	3.00%	14.83	13.73	12.78	11.96	11.23
	2.50%	14.20	13.20	12.34	11.58	10.91
	2.00%	13.65	12.74	11.95	11.25	10.63
	1.50%	13.17	12.33	11.60	10.95	10.37
	1.00%	12.74	11.97	11.29	10.68	10.14

Source: CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	1,492	1,886	2,573	1,515	2,045	2,885	-2%	-8%	-11%
Gross Profit	1,321	1,660	2,198	1,327	1,800	2,569	0%	-8%	-14%
Operating Profit	(258)	(186)	10	(320)	(119)	253	N/A	N/A	N/A
Net profit	(280)	(200)	(4)	(195)	(91)	352	N/A	N/A	N/A
EPS (RMB)	(0.15)	(0.11)	0.00	(0.11)	(0.05)	0.20	N/A	N/A	N/A
Gross Margin	88.51%	88.00%	85.42%	87.60%	88.00%	89.04%	+0.92 ppt	0.00 ppt	-3.62 ppt

Source: Company data, CMBIGM estimates

Figure 5: Glossary

MZL	Marginal Zone Lymphoma
NHL	Non-Hodgkin Lymphoma
CLL	Chronic Lymphocytic Leukemia
CNS	Central Nervous System
PPMS	Primary-Progressive Multiple Sclerosis
SPMS	Secondary Progressive Multiple Sclerosis
FPI	First Patient In
SLE	Systemic Lupus Erythematosus
AD	atopic dermatitis
CR	Complete Response
AML	Acute Myeloid Leukemia
MCL	Mantle Cell Lymphoma
DLBCL	Diffuse Large B-cell Lymphoma
ADC	Antibody-Drug Conjugate
IND	Investigational New Drug

Source: CMBIGM

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	625	739	1,009	1,492	1,886	2,573
Cost of goods sold	(143)	(128)	(138)	(171)	(226)	(375)
Gross profit	482	610	871	1,321	1,660	2,198
Operating expenses	(1,547)	(1,458)	(1,494)	(1,738)	(1,990)	(2,330)
Selling expense	(439)	(367)	(420)	(564)	(688)	(838)
Admin expense	(182)	(194)	(184)	(224)	(264)	(283)
R&D expense	(639)	(751)	(814)	(950)	(1,037)	(1,209)
Others	(288)	(147)	(76)	0	0	0
Other income	198	244	211	159	144	143
Other expense	(17)	(35)	(34)	(22)	(15)	(15)
Gain/loss on financial assets at FVTPL	0	0	0	0	0	0
Share of (losses)/profits of associates/JV	(10)	(5)	(5)	0	0	0
Pre-tax profit	(894)	(644)	(453)	(280)	(200)	(4)
Income tax	0	(1)	(0)	0	0	0
After tax profit	(894)	(646)	(453)	(280)	(200)	(4)
Minority interest	7	14	12	12	12	12
Net profit	(887)	(631)	(441)	(268)	(188)	8

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	9,300	8,765	7,820	7,261	7,006	7,745
Cash & equivalents	8,698	8,225	6,223	5,425	4,953	5,273
Account receivables	128	308	351	491	626	861
Inventories	65	119	96	133	175	291
Financial assets at FVTPL	313	0	0	0	0	0
Other current assets	95	114	1,151	1,212	1,252	1,320
Non-current assets	1,021	1,154	1,587	1,626	1,664	1,703
PP&E	653	760	784	825	866	907
Right-of-use assets	284	294	282	280	278	276
Investment in JVs & assos	12	6	0	0	0	0
Intangibles	41	39	36	35	35	34
Goodwill	3	3	3	3	3	3
Other non-current assets	28	52	23	23	23	23
Total assets	10,321	9,919	9,407	8,887	8,670	9,448
Current liabilities	2,075	2,094	1,061	821	805	1,586
Short-term borrowings	1,197	1,256	194	(206)	(506)	(506)
Account payables	119	135	128	163	215	357
Other current liabilities	735	680	707	832	1,064	1,704
Lease liabilities	20	23	32	32	32	32
Contract liabilities	4	0	0	0	0	0
Non-current liabilities	601	644	1,601	1,601	1,601	1,601
Long-term borrowings	0	26	1,019	1,019	1,019	1,019
Convertible bonds	0	0	0	0	0	0
Deferred income	278	269	251	251	251	251
Other non-current liabilities	323	349	331	331	331	331
Total liabilities	2,677	2,738	2,662	2,421	2,405	3,187
Share capital	0	0	0	0	0	0
Other reserves	7,597	7,148	6,725	6,457	6,269	6,277
Total shareholders equity	7,597	7,148	6,725	6,457	6,269	6,277
Minority interest	47	33	21	8	(4)	(16)
Total equity and liabilities	10,321	9,919	9,407	8,887	8,670	9,448

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(894)	(644)	(453)	(280)	(200)	(4)
Depreciation & amortization	35	59	59	59	59	59
Tax paid	0	(0)	(0)	0	0	0
Change in working capital	(75)	(244)	27	(79)	67	363
Others	368	104	(66)	(113)	(106)	(104)
Net cash from operations	(565)	(726)	(433)	(414)	(180)	313
Investing						
Capital expenditure	(227)	(255)	(100)	(100)	(100)	(100)
Net proceeds from disposal of short-term investments	(1,509)	796	(400)	0	0	0
Others	10	125	201	138	123	121
Net cash from investing	(1,726)	667	(299)	38	23	21
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	0	31	(600)	(400)	(300)	0
Proceeds from share issues	3,120	4	20	0	0	0
Others	(25)	(28)	(34)	(22)	(15)	(15)
Net cash from financing	3,095	8	(614)	(422)	(315)	(15)
Net change in cash						
Cash at the beginning of the year	5,929	8,698	8,721	6,879	5,425	4,953
Exchange difference	140	26	0	0	0	0
Cash at the end of the year	8,698	8,721	6,879	5,425	4,953	5,273
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	(40.0%)	18.1%	36.7%	47.8%	26.4%	36.4%
Gross profit	(50.7%)	26.6%	42.8%	51.6%	25.7%	32.4%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	77.1%	82.6%	86.3%	88.5%	88.0%	85.4%
Return on equity (ROE)	(13.4%)	(8.6%)	(6.4%)	(4.1%)	(3.0%)	0.1%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	4.5	4.2	7.4	8.8	8.7	4.9
Receivable turnover days	121.1	122.1	123.1	124.1	125.1	126.1
Inventory turnover days	283.0	283.0	283.0	283.0	283.0	283.0
Payable turnover days	347.1	347.1	347.1	347.1	347.1	347.1
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	ns	ns	ns	ns	ns	1,966.9

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