

Hutchison China MediTech

Corporate news

Fruquintinib capsules approved in China

Pharma & biotech

Hutchison China MediTech's (HCM) lead TKI asset, fruquintinib, has received China registration approval from the National Medical Products Administration of China (NMPA) for the treatment of CRC (third line). The approval serves as a major validation of the R&D innovation strategy, which HCM has cultivated over the years. This is the first innovative drug for an oncology indication, discovered and developed in China through a randomized clinical trial, to be unconditionally approved in that country. We expect launch in China by HCM and partner Eli Lilly during Q418. The approval has triggered a \$13.6m milestone payment to HCM from Lilly. Our revised valuation is £74/ share.

Year end	Revenue (US\$m)	Net profit* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/16	216.1	11.7	19.6	0.0	293	N/A
12/17	241.2	(26.7)	(43.3)	0.0	N/A	N/A
12/18e	162.5	(72.8)	(109.5)	0.0	N/A	N/A
12/19e	180.1	(92.7)	(139.4)	0.0	N/A	N/A

Note: *PBT, net profit and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Fruquintinib first internally developed drug approved

Fruquintinib (branded Elunate in China) has received approval for CRC (third line) for Chinese patients based on the results of the Phase III FRESCO clinical trials. FRESCO data underpin the hypothesis that fruquintinib's safety and efficacy profile could position it as best-in-class in China. This is a major inflection point for HCM as its R&D strategy to develop first or best-in-class, highly selective tyrosine kinase inhibitors has come to fruition with its first approval. While the actual pricing is unknown, we forecast peak sales of \$149m in China in CRC alone, based on our assumption of pricing at ~\$3,500/month. We note that competitor product apatinib (Jiangsu HengRui Medicine) is priced at \$2,870/month. We believe fruquintinib is a superior product given its highly selective inhibition of VEGFR1/2/3.

Fruquintinib could achieve blockbuster status

We forecast global peak sales for fruquintinib of \$2.2bn across all indications under investigation (CRC, NSCLC and gastric cancer). The magnitude of fruquintinib's success will depend on the global opportunity; HCM is developing fruquintinib outside China (the global Phase I trial is expected to complete later this year). Its profile internationally will be determined by ex-China Phase III trials (data from FRESCO bode well) as we believe the global clinical trials will focus on more proprietary immunoncology combination studies. In forthcoming news, the Phase III FALUCA (third-line NSCLC) fruquintinib trial in China has fully enrolled, and OS maturity and top-line data are expected in Q418.

Valuation: \$6.5bn (£74.0/share, \$48.7/ADS)

We have updated our model for the approval of fruquintinib capsules in China, including the \$13.6m milestone payment and roll forward our DCF. Our revised valuation of HCM is \$6.5bn or £74.0/share from \$6.4bn or £73.3/share previously.

18 September 2018

Price **4,350.00p**

Market cap **£2,893m**

\$1.32/£

Net cash (US\$m) at 30 June 2018 295.8

Shares in issue 66.5m

Free float 37%

Code HCM

Primary exchange AIM

Secondary exchange NASDAQ

Share price performance



% 1m 3m 12m

Abs (4.3) (7.5) 18.4

Rel (local) (1.5) (3.5) 16.2

52-week high/low 5890.0p 3647.5p

Business description

Hutchison China MediTech is an innovative China-based biopharmaceutical company targeting the global market for novel, highly selective oral oncology and immunology drugs. Its established commercial platform business in China is growing ahead of the market.

Next events

Fruquintinib China launch in CRC Q418

Fruquintinib FALUCA top-line data Q418

Savolitinib MES data Late 2018

Analysts

Dr Susie Jana +44 (0)20 3077 5700

Daniel Wilkinson +44 (0)20 3077 5734

healthcare@edisongroup.com

[Edison profile page](#)

Hutchison China MediTech is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

	USD'000s	2016	2017	2018e	2019e
December		US GAAP	US GAAP	US GAAP	US GAAP
PROFIT & LOSS					
Revenue		216,080	241,203	162,463	180,105
Cost of Sales		(156,328)	(175,820)	(89,900)	(94,632)
Gross Profit		59,752	65,383	72,563	85,473
Research and development		(66,871)	(75,523)	(126,500)	(154,500)
Other overheads		(39,578)	(43,277)	(45,353)	(51,260)
EBITDA		(44,264)	(50,692)	(94,790)	(113,909)
Operating Profit (before amort. and except.)		(46,697)	(53,417)	(99,290)	(120,287)
Intangible Amortisation		0	0	0	0
Operating Profit		(46,697)	(53,417)	(99,290)	(120,287)
Net Interest		(1,129)	(235)	(176)	208
Exceptionals		0	0	0	0
Profit Before Tax (norm)		(47,356)	(53,536)	(99,466)	(120,079)
Profit Before Tax (reported)		(47,356)	(53,536)	(99,466)	(120,079)
Tax		(4,331)	(3,080)	(3,000)	(5,004)
Equity investments, after tax		66,244	33,653	34,524	37,390
Profit After Tax (norm)		14,557	(22,963)	(67,942)	(87,692)
Profit After Tax (reported)		14,557	(22,963)	(67,942)	(87,692)
Minority		(2,859)	(3,774)	(4,900)	(5,000)
Discontinued operations		0	0	0	0
Net profit (norm)		11,698	(26,737)	(72,842)	(92,692)
Net profit (reported)		11,698	(26,737)	(72,842)	(92,692)
Average Number of Shares Outstanding (m)		59.7	61.7	66.5	66.5
EPS - normalised (c)		19.6	(43.3)	(109.5)	(139.4)
EPS - normalised and fully diluted (c)		19.5	(43.3)	(109.5)	(139.4)
EPS - (reported) (c)		19.6	(43.3)	(109.5)	(139.4)
Average number of ADS outstanding (m)		119.4	123.4	133.0	133.0
Earnings per ADS - normalised (\$)		0.10	(0.22)	(0.55)	(0.70)
Earnings per ADS (\$)		0.10	(0.22)	(0.55)	(0.70)
BALANCE SHEET					
Fixed Assets		175,057	165,737	177,761	195,774
Intangible Assets		3,606	3,738	3,513	3,194
Tangible Assets		9,954	14,220	21,945	32,886
Investments		161,497	147,779	152,303	159,694
Current Assets		167,380	432,195	360,180	238,513
Stocks		12,822	11,789	14,000	7,778
Debtors		49,349	53,566	66,659	73,231
Cash		79,431	85,265	57,977	23,960
ST investments		24,270	273,031	213,000	125,000
Other		1,508	8,544	8,544	8,544
Current Liabilities		(95,119)	(104,600)	(115,256)	(101,294)
Creditors		(35,812)	(25,344)	(36,000)	(22,038)
Short term borrowings		(19,957)	(29,987)	(29,987)	(29,987)
Other		(39,350)	(49,269)	(49,269)	(49,269)
Long Term Liabilities		(43,258)	(8,366)	(8,366)	(8,366)
Long term borrowings		(26,830)	0	0	0
Other long term liabilities		(16,428)	(8,366)	(8,366)	(8,366)
Net Assets		204,060	484,966	414,319	324,627
Minority		(19,790)	(23,233)	(28,133)	(33,133)
Shareholder equity		184,270	461,733	386,186	291,494
CASH FLOW					
Operating Cash Flow		(9,569)	(8,943)	(72,614)	(103,017)
Net Interest		0	0	0	0
Tax		0	0	0	0
Capex		(4,327)	(5,019)	(12,000)	(17,000)
Acquisitions/disposals		0	0	0	0
Dividends		(564)	(1,594)	(2,700)	(2,000)
Equity financing and capital movements		97,076	291,737	0	0
Other		(29,270)	(255,761)	60,026	88,000
Net Cash Flow		53,346	20,420	(27,288)	(34,017)
Opening net debt/(cash and ST investments)		18,051	(56,914)	(328,309)	(240,990)
Increase/(decrease) in ST investments		24,270	248,761	(60,031)	(88,000)
Other		(2,651)	2,214	0	0
Closing net debt/(cash and ST investments)		(56,914)	(328,309)	(240,990)	(118,973)

Source: Company accounts, Edison Investment Research

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Hutchison China MedTech and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2018. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.