

Hutchison China MediTech

Corporate update

Elunate receives China NRDL inclusion

Pharma & biotech

28 November 2019

Price **364.0p**

Market cap **£2,427m**

\$1.22/£

Net cash (\$m) and short-term investments at 30 June 2019 237.3

Shares in issue 666.8m

Free float 47.4%

Code HCM

Primary exchange AIM/Nasdaq

Secondary exchange N/A

Hutchison China MediTech (HCM) has announced that Elunate (fruquintinib capsules) have been included in China's National Reimbursement Drug List (NRDL) by the National Healthcare Security Administration (NHSA). Although expected, this is a huge positive as from 1 January 2020 Elunate will be available in all state-run hospital pharmacies and patients on NHSA insurance schemes will be reimbursed. HCM's innovative oncology assets are making significant progress in China. It has now submitted the China NDA for surufatinib for treating non-pancreatic NET tumours, a large unmet clinical need. Surufatinib is likely to be the first of HCM's non-partnered assets to reach the China market (late 2020). We value HCM at \$5.7bn.

Year end	Revenue (US\$m)	Net profit* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/17	241.2	(26.7)	(4.3)	0.0	N/A	N/A
12/18	214.1	(74.8)	(11.3)	0.0	N/A	N/A
12/19e	182.9	(117.8)	(17.7)	0.0	N/A	N/A
12/20e	194.6	(164.8)	(24.7)	0.0	N/A	N/A

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

Elunate NRDL inclusion is key

Elunate is now being commercialised in China (third-line colorectal cancer, CRC) by partner Eli Lilly (Lilly). The early sales trajectory is notable (H119 in-market of sales of \$11.4m); however, the most interesting opportunity is inclusion on China's NRDL, as this means automatic inclusion in all state-funded hospitals (more eligible patients) and automatic reimbursement (albeit it at a lower price) for patients with NHSA insurance. In its 2019 update NHSA added over 20 Category B oncology drugs (including Elunate) to the NRDL; reimbursement of Category B drugs requires varying degrees of co-payment from patients depending on their province of residence and type of NHSA insurance scheme enrolment. We forecast \$211m peak sales for China's CRC indication.

NET and BTC represents ~\$1bn global opportunity

Surufatinib's China NDA was accepted on November 11, based on data from Phase III SANET-ep for advanced non-pancreatic NET. Also, in the US the FDA has granted surufatinib orphan drug designation for pancreatic NET. The global (US and Europe) registration Phase III study is planned for H120. NET tumours are highly prevalent, fragmented in primary origin and are an unmet medical need. Surufatinib could be the first universal drug to treat NET in all patients regardless of tumour subtype. We continue to forecast global peak sales for surufatinib of \$953m across the NET and biliary tract cancer (BTC) indications. We forecast China launch in late 2020 and US/EU launch in 2024.

Valuation: \$5.7bn or £7.01/share or \$42.78/ADS

Our valuation of HCM is unchanged at \$5.7bn (£7.01/share) and make no changes to our forecasts. We use a risk-adjusted net present value method to discount future cash flows for the innovation platform (savolitinib, fruquintinib, surufatinib, epitinib, HMPL-523 and HMPL-689) valuation of \$4,131.4m.

Share price performance



% 1m 3m 12m

Abs 16.1 8.0 (32.0)

Rel (local) 13.9 2.5 (36.3)

52-week high/low 548p 272p

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 continues to expand its outreach.

Next events

Surufatinib pancreatic NET Phase III interim data (SANET-p) H120

Surufatinib start global PII/III trials H120

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[Edison profile page](#)

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

Exhibit 1: Financial summary

	US\$000s	2017	2018	2019e	2020e
Year end 31 December		US GAAP	US GAAP	US GAAP	US GAAP
PROFIT & LOSS					
Revenue		241,203	214,109	182,885	194,589
Cost of Sales		(175,820)	(143,944)	(128,232)	(129,503)
Gross Profit		65,383	70,165	54,653	65,085
Research and development		(75,523)	(114,161)	(152,500)	(207,000)
Other overheads		(43,277)	(48,645)	(51,604)	(52,752)
EBITDA		(50,692)	(88,975)	(144,811)	(189,201)
Operating Profit (before amort. and except.)		(53,417)	(92,641)	(149,452)	(194,667)
Intangible Amortisation		0	0	0	0
Operating Profit		(53,417)	(92,641)	(149,452)	(194,667)
Net Interest		(235)	4,969	2,458	(726)
Exceptionals		0	0	0	0
Profit Before Tax (norm)		(53,536)	(86,655)	(146,994)	(195,393)
Profit Before Tax (reported)		(53,536)	(86,655)	(146,994)	(195,393)
Tax		(3,080)	(3,964)	(5,004)	(5,200)
Equity investments, after tax		33,653	19,333	39,233	40,813
Profit After Tax (norm)		(22,963)	(71,286)	(112,765)	(159,780)
Profit After Tax (reported)		(22,963)	(71,286)	(112,765)	(159,780)
Minority		(3,774)	(3,519)	(5,000)	(5,000)
Discontinued operations		0	0	0	0
Net profit (norm)		(26,737)	(74,805)	(117,765)	(164,780)
Net profit (reported)		(26,737)	(74,805)	(117,765)	(164,780)
Average Number of Shares Outstanding (m)		617.2	664.3	666.6	666.6
EPS - normalised (c)		(4.3)	(11.3)	(17.7)	(24.7)
EPS - normalised and fully diluted (c)		(4.3)	(11.3)	(17.7)	(24.7)
EPS - (reported) (c)		(4.3)	(11.3)	(17.7)	(24.7)
Average number of ADS outstanding (m)		123.4	132.9	133.3	133.3
Earnings per ADS - normalised (\$)		(0.02)	(0.06)	(0.09)	(0.12)
Earnings per ADS (\$)		(0.02)	(0.06)	(0.09)	(0.12)
BALANCE SHEET					
Fixed Assets		165,737	161,577	176,169	192,947
Intangible Assets		3,738	3,533	3,301	3,028
Tangible Assets		14,220	16,616	22,207	27,014
Investments		147,779	141,428	150,661	162,905
Current Assets		432,195	370,541	257,157	71,922
Stocks		11,789	12,309	10,540	10,644
Debtors		53,566	56,392	56,000	29,855
Cash		85,265	86,036	64,729	30,534
St investments		273,031	214,915	125,000	0
Other		8,544	889	889	889
Current Liabilities		(104,600)	(85,479)	(101,457)	(94,779)
Creditors		(25,344)	(26,180)	(42,158)	(35,480)
Short term borrowings		(29,987)	0	0	0
Other		(49,269)	(59,299)	(59,299)	(59,299)
Long Term Liabilities		(8,366)	(34,384)	(34,384)	(34,384)
Long term borrowings		0	(26,739)	(26,739)	(26,739)
Other long-term liabilities		(8,366)	(7,645)	(7,645)	(7,645)
Net Assets		484,966	412,255	297,485	135,705
Minority		(23,233)	(23,259)	(28,259)	(33,259)
Shareholder equity		461,733	388,996	269,226	102,446
CASH FLOW					
Operating Cash Flow		(8,943)	(32,847)	(99,217)	(147,195)
Net Interest		0	0	0	0
Tax		0	0	0	0
Capex		(5,019)	(6,364)	(10,000)	(10,000)
Acquisitions/disposals		0	0	0	0
Dividends		(1,594)	(1,282)	(2,000)	(2,000)
Equity financing and capital movements		291,737	(2,322)	0	0
Other		(255,761)	50,116	89,910	125,000
Net Cash Flow		20,420	7,301	(21,307)	(34,195)
Opening net debt/(cash)		(56,914)	(328,309)	(274,212)	(162,990)
Increase/(decrease) in ST investments		248,761	(58,116)	(89,915)	(125,000)
Other		2,214	(3,282)	0	0
Closing net debt/(cash)		(328,309)	(274,212)	(162,990)	(3,795)

Source: Hutchison China Meditech accounts, Edison Investment Research

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