

# Hutchison China MediTech

Corporate update

## Elunate receives China NRDL inclusion

Pharma &amp; biotech

29 November 2019

**Price** **US\$24.3**
**Market cap** **US\$3239m**

ADR/Ord conversion ratio 0.2

Net cash (\$m) at 30 June 2019 237.3

ADRs in issue 133.3m

ADR code HCM

ADR exchange NASDAQ

Underlying exchange AIM

Depository Deutsche Bank

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 tumors, 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 (\$m)	Net profit* (\$m)	EPADS* (\$)	DPADS (\$)	P/E (x)	Gross yield (%)
12/17	241.2	(26.7)	(0.02)	0.0	N/A	N/A
12/18	214.1	(74.8)	(0.06)	0.0	N/A	N/A
12/19e	182.9	(117.8)	(0.09)	0.0	N/A	N/A
12/20e	194.6	(164.8)	(0.12)	0.0	N/A	N/A

Note: \*Net profit and EPS are normalized, excluding amortization 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.

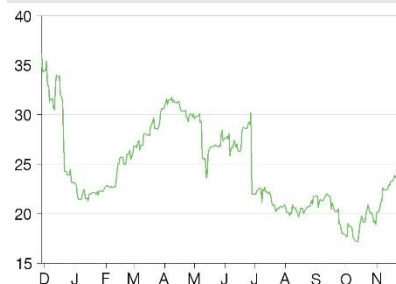
### NET and BTC represents ~\$1bn global opportunity

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 tumors 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 tumor 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 \$42.78/ADS

Our valuation of HCM is unchanged at \$5.7bn 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.

### ADR share price performance



52-week high/low \$36.11 \$17.17

### 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

### Analysts

Dr Susie Jana	+44 (0)20 3077 5700
Dr Daniel Wilkinson	+44 (0)20 3077 5734

[healthcare@edisongroup.com](mailto:healthcare@edisongroup.com)
[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
<b>PROFIT &amp; LOSS</b>					
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 Amortization		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 - normalized (c)		(4.3)	(11.3)	(17.7)	(24.7)
EPS - normalized 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 - normalized (\$)		(0.02)	(0.06)	(0.09)	(0.12)
Earnings per ADS (\$)		(0.02)	(0.06)	(0.09)	(0.12)
<b>BALANCE SHEET</b>					
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
<b>CASH FLOW</b>					
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: HCM accounts, Edison Investment Research

---

## General disclaimer and copyright

This report has been commissioned by Hutchinson China MediTech and prepared and issued by Edison, in consideration of a fee payable by Hutchinson China MediTech. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

**Accuracy of content:** 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 and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. 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.

**Exclusion of Liability:** To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

**No personalised advice:** The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, 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 securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

**Investment in securities mentioned:** Edison has a restrictive policy relating to personal dealing and conflicts of interest. 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, subject to Edison's policies on personal dealing and conflicts of interest.

**Copyright:** Copyright 2019 Edison Investment Research Limited (Edison). All rights reserved FTSE International Limited ("FTSE") © FTSE 2019. "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.

---

## Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

---

## New Zealand

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. 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 (i.e. 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.

---

## United Kingdom

This document is prepared and provided by Edison 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.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

---

## United States

Edison 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. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1,185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia