

Hutchison China MediTech

Corporate update

Fruquintinib FRESCO meets its primary endpoints

Pharma & biotech

7 March 2017

Price **US\$13.20**
Market cap **US\$1,602m**

ADR/Ord conversion ratio 1:0.5

Net cash (\$m) as at end June 2016 80.6

ADSs in issue 121.4m

ADS code HCM

ADS exchange NASDAQ

Underlying exchange AIM

Depository Deutsche Bank

Hutchison (HCM) and partner Lilly announced positive, top-line pivotal phase III trial results for fruquintinib in 3rd line colorectal cancer. The China based FRESCO study evaluating 416 patients who had failed at least two prior chemotherapies in CRC demonstrated a clinically meaningful and statistically significant increase in both overall survival and progression-free survival compared to placebo. Consequently, HCM is preparing for a China NDA submission mid-2017; this represents the first China based oncology innovation to succeed at Phase III. We expect the full data to be presented at the 53rd American Society of Clinical Oncology Meeting (ASCO) 2 to 6 June 2017. Our valuation remains unchanged at \$2.4bn.

Year end	Revenue (\$m)	Net profit (\$m)	EPADS (\$)	DPADS (\$)	P/E (x)	Gross Yield (%)
12/14	87.3	(9.3)	(0.09)	0.0	N/A	N/A
12/15	178.2	8.0	0.07	0.0	189	N/A
12/16e	196.7	3.8	0.03	0.0	440	N/A
12/17e	226.0	(26.6)	(0.22)	0.0	N/A	N/A

Source: Dividend yield excludes withholding tax. Investors should consult their tax advisor regarding the application of any domestic and foreign tax laws.

ADR share price performance



52-week high/low \$14.95 \$11.26

FRESCO underpins TKI selectivity hypothesis

Per the press release, the FRESCO trial met all primary and secondary endpoints of overall survival and progression-free survival. Furthermore, the trial did not identify any new or unexpected safety issues. The positive top-line phase III data set highlights the selectivity hypothesis of HCM's TKI pipeline; this is immensely positive for sentiment and we look forward to the full data set being presented mid-year (we anticipate at ASCO 2017 given the timing and potentially the strength of data). Once presented, we will provide further commentary on the extent of fruquintinib efficacy in CRC. HCM will submit a new drug application for fruquintinib to China FDA mid-2017, paving the way for a potential 2018 launch in China.

2017: Defining year for Hutchison

HCM will hold a research and development day in New York on 30 March 2017 (29 March in London) to showcase its broad oncology and immunology pipeline. We expect material news flow over the forthcoming 18 months on savolitinib (data from both the NSCLC Phase IIb Tagrisso and Iressa combinations); fruquintinib (Phase III third-line NSCLC and CRC [full data at ASCO]); sulfatinib (Phase II in advanced NET tumors at ENETS conference in early March and Phase II in thyroid cancer potentially at ESMO in September 2017); and HMPL-523 (Phase I lymphoma data potentially at ASH in December 2017).

Valuation: \$2.4bn (\$20.1/ADS)

Our SOTP valuation remains unchanged at \$2.4bn (\$20.1/ADS). IP is valued at \$1,789m and placing the commercial platform's (CP) 2016e share of net profit on a 22.5x rating gives \$657m (\$5.4/ADS). Adding net cash at end June 2016 and netting out unallocated costs results in a value of \$2.4bn. Approval(s), clinical data and/or deals should increase our risk-adjusted valuation.

Business description

Hutchison China MediTech (Chi-Med; HCM) is an innovative China-based biopharmaceutical company targeting the global market for novel, highly selective oral oncology, and immunology drugs. Its established China Healthcare business is growing ahead of the market.

Next events

FY16 results	13 March 2017
R&D day (New York)	30 March 2017
Fruquintinib FRESCO full data in CRC	June 2017

Analysts

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

healthcare@edisongroup.com
[Edison profile page](#)

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Exhibit 1: Financial summary

	US\$'000s	2013	2014	2015	2016e	2017e
		US GAAP	US GAAP	US GAAP	US GAAP	US GAAP
December						
PROFIT & LOSS						
Revenue		36,547	87,329	178,203	196,737	225,967
Cost of Sales		(11,194)	(58,849)	(110,777)	(138,332)	(137,473)
Gross Profit		25,353	28,480	67,426	58,405	88,493
Research and development		(22,731)	(29,914)	(47,368)	(80,000)	(110,200)
Other overheads		(15,818)	(16,825)	(29,829)	(32,190)	(34,779)
EBITDA		(12,233)	(16,994)	(7,756)	(51,004)	(52,696)
Operating Profit (before amort. and except.)		(13,196)	(18,259)	(9,771)	(53,785)	(56,485)
Intangible Amortization		0	0	0	0	0
Operating Profit		(13,196)	(18,259)	(9,771)	(53,785)	(56,485)
Net Interest		(1,034)	(957)	(953)	(1,300)	(1,500)
Exceptionals		30,000	0	0	0	0
Pre-tax Profit (norm)		(13,078)	(19,957)	(10,540)	(55,085)	(57,985)
Pre-tax Profit (reported)		16,922	(19,957)	(10,540)	(55,085)	(57,985)
Tax		(1,050)	(1,343)	(1,605)	(4,131)	(6,958)
Equity investments, after tax		11,031	15,180	22,572	65,809	42,802
Profit After Tax (norm)		(3,097)	(6,120)	10,427	6,593	(22,141)
Profit After Tax (reported)		26,903	(6,120)	10,427	6,593	(22,141)
Minority		(983)	(3,220)	(2,434)	(2,800)	(4,500)
Discontinued operations		(1,978)	2,034	0	0	0
Net profit (norm)		(4,080)	(9,340)	7,993	3,793	(26,641)
Net profit (reported)		23,942	(7,306)	7,993	3,793	(26,641)
Average Number of Shares Outstanding (m)		52.1	52.6	54.7	60.6	60.6
EPS - normalized (c)		(7.8)	(17.8)	14.6	6.3	(43.9)
EPS - normalized and fully diluted (c)		(7.8)	(17.8)	14.6	6.3	(43.9)
EPS - (reported) (c)		46.0	(13.9)	14.6	6.3	(43.9)
Average number of ADS outstanding (m)		104.1	105.1	109.3	121.3	121.3
Earnings per ADS - normalized (\$)		(0.04)	(0.09)	0.07	0.03	(0.22)
Earnings per ADS (\$)		0.23	(0.07)	0.07	0.03	(0.22)
BALANCE SHEET						
Fixed Assets		118,239	120,992	140,087	183,615	190,128
Intangible Assets		407	4,096	3,903	3,903	3,903
Tangible Assets		5,028	7,482	8,507	13,226	19,436
Investments		112,804	109,414	127,677	166,486	166,789
Current Assets		67,164	89,842	89,667	153,533	128,179
Stocks		1,420	4,405	9,555	10,000	12,000
Debtors		17,497	27,924	38,628	43,000	45,000
Cash		46,863	38,941	31,941	90,990	61,636
Other		1,384	18,572	9,543	9,543	9,543
Current Liabilities		(79,463)	(75,299)	(81,062)	(84,976)	(88,976)
Creditors		(4,163)	(20,427)	(24,086)	(28,000)	(32,000)
Short term borrowings		(51,508)	(26,282)	(23,077)	(23,077)	(23,077)
Other		(23,792)	(28,590)	(33,899)	(33,899)	(33,899)
Long Term Liabilities		(15,366)	(37,584)	(46,415)	(46,415)	(46,415)
Long term borrowings		0	(26,923)	(26,923)	(26,923)	(26,923)
Other long term liabilities		(15,366)	(10,661)	(19,492)	(19,492)	(19,492)
Net Assets		90,574	97,951	102,277	205,757	182,916
Minority		(6,960)	(17,764)	(18,921)	(21,721)	(26,221)
Shareholder equity		83,614	80,187	83,356	184,036	156,695
CASH FLOW						
Operating Cash Flow		5,028	8,359	(9,393)	(25,338)	(18,654)
Net Interest		0	0	0	0	0
Tax		0	0	0	0	0
Capex		(2,500)	(3,729)	(3,324)	(7,500)	(10,000)
Acquisitions/disposals		0	689	0	0	0
Financing		7	2,801	(355)	0	0
Dividends		(577)	(1,179)	(590)	(700)	(700)
Equity financing		0	0	0	92,600	0
Other		0	(9,120)	10,858	0	0
Net Cash Flow		1,958	(2,179)	(2,804)	59,062	(29,354)
Opening net debt/(cash)		6,603	4,645	14,264	18,059	(40,990)
HP finance leases initiated		0	0	0	0	0
Other		0	(7,440)	(991)	(13)	0
Closing net debt/(cash)		4,645	14,264	18,059	(40,990)	(11,636)

Source: Hutchison China MediTech reports, Edison Investment Research. Note: Equity investments after tax include the net profit contribution from JVs.

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