

HUTCHMED (13 HK)

Strong sales momentum of three marketed drugs

HCM's 2021 revenue increased 56% YoY to US\$356mn, of which Immunology/Oncology (I/O) revenue was US\$120mn, up 296% YoY thanks to the commercial progress on three in-house developed oncology drugs fruquintinib, surufatinib and savolitinib. We forecast the I/O revenue to reach US\$199mn in 2022E. R&D expenses increased from US\$175mn in 2020 to US\$299mn in 2021 mainly due to development progress of eleven novel oncology drug candidates. 46.8% of the total R&D expenses, or US\$140mn, incurred for scaling global clinical and regulatory operations in the US and Europe. Net loss was US\$195mn in 2021 (vs US\$126mn in 2020).

■ Savolitinib, first-in-class MET inhibitor in China with global potential.

Savolitinib received approval in Jun 2021 for 2L NSCLC with MET exon 14 skipping alterations, making it the first-in-class selective MET inhibitor in China. Marketed by AstraZeneca, the in-market sales of savolitinib in 2021 was US\$15.9mn (US\$11.3mn as revenue in manufacturing fees and royalties for HCM). The Company expects to release data of the global phase 2 SAVANNAH trial and is exploring the possibility of using this data for FDA accelerated approval. Additionally, initiation of the global phase 3 trial (SFAFFRON) is planned for mid-2022E.

■ Potential FDA and EMA approval of surufatinib.

Surufatinib was launched for treatment of both extra-pancreatic NET and pancreatic NET in China. The 2021 in-market sales of surufatinib was US\$11.6mn (vs 2020 nil). Surufatinib was included in the NDRL starting from this year, which we expect will significantly boost the market demand for the drug. NDA filing of surufatinib was accepted by the US FDA in Jun 2021 with a PDUFA date of 30 Apr 2022. Inspections of clinical sites and manufacturing facilities are currently ongoing. US commercial team has already been set up with 50+ employees. Surufatinib's EMA filing, accepted in Jul 2021, now enters the later stage of review. The Company initiated the SURTORI-01 phase 3 trial for advanced NEC in Sep 2021, which was the first pivotal study of surufatinib in combo with a checkpoint inhibitor. HUTCHMED plans to initiate another phase 3 trial of surufatinib in combo with TUOYI (toripalimab) in esophageal cancer in 2H22E.

■ Strong revenue growth of fruquintinib.

Fruquintinib was approved by the NMPA for 3L colorectal cancer (CRC) in Sep 2018, and has maintained a strong sales momentum after its launch. In-market sales of fruquintinib in 2021 increased 111% YoY to US\$71.0mn, resulting in US\$53.5mn revenue attributable to HCM (+168% YoY). Fruquintinib was renewed in NRDL with a price cut of 5%, which was a relatively minimal discount. HCM expects to release topline results of FRESCO-2 global phase 3 trial in CRC in 2H22E, upon which, HCM may file for marketing authorization with the FDA and EMA.

■ Maintain BUY. We revised our DCF-based TP from HK\$77.74 to HK\$73.25 based on a 14-year DCF valuation (WACC: 9.74%, terminal growth rate: 3%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (US\$ mn)	228	356	454	620	974
YoY growth (%)	11	56	28	37	57
Net loss (US\$ mn)	(126)	(195)	(320)	(247)	(103)
EPS (US\$)	(0.18)	(0.25)	(0.37)	(0.29)	(0.12)
Consensus EPS (US\$)	N/A	N/A	(1.55)	(1.04)	(0.29)
R&D expenses (US\$ mn)	(175)	(299)	(330)	(350)	(390)
Capex (US\$ mn)	(8)	(16)	(50)	(15)	(10)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$73.25
(Previous TP)	HK\$77.74)
Up/Downside	+108.70%
Current Price	HK\$35.10

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Mkt. Cap. (HK\$ mn)	30,345
Avg. 3mths t/o (HK\$ mn)	48.73
52W High/Low (HK\$)	85.8/34.0
Total Issued Shares (mn)	865

Source: Bloomberg

Shareholding Structure

CK Hutchison Holdings	38.46%
The Capital Group	10.79%
JP Morgan	6.21%
Free float	44.54%

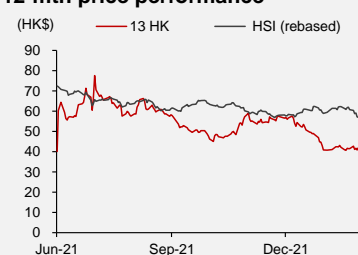
Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	-14.6%	-4.2%
3-mth	-35.9%	-30.5%
6-mth	-46.6%	-36.8%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Web-site: <https://www.hutch-med.com>

Related Reports

- Promising clinical data presented at ESMO Conference – 30 Sep 2021
- A home-grown, global-facing Biopharma – 17 Sep 2021

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in US\$ mn)	2021A	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	(217)	(326)	(252)	(108)	216	438	682	921	1,146	1,262	1,329	1,378	1,249	1,267	1,287
Tax rate	-6%	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(229)	(326)	(252)	(108)	183	372	580	783	974	1,073	1,130	1,171	1,061	1,077	1,094
+ D&A	7	8	17	16	15	14	13	13	12	12	11	11	11	11	11
- Change in working capital	33	21	(14)	(33)	(62)	(96)	(77)	(73)	(57)	(42)	(30)	(19)	(3)	38	(5)
- Capex	(16)	(50)	(15)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
FCFF	(206)	(347)	(265)	(135)	127	280	506	713	919	1,033	1,101	1,154	1,059	1,116	1,090
Terminal value															16,664
Present value of enterprise (US\$ mn)	7,538														
Net debt (US\$ mn)	(634)														
Equity value (US\$ mn)	8,171														
Equity value (HK\$ mn)	63,329														
No. of outstanding shares (mn)	865														
DCF per share (HK\$)	73.25														
Terminal growth rate	3.0%														
WACC	9.74%														
Cost of Equity	12.5%														
Cost of Debt	4.0%														
Equity Beta	0.90														
Risk Free Rate	3.0%														
Market Risk Premium	10.5%														
Target Debt to Asset ratio	30.0%														
Effective Corporate Tax Rate	15.0%														

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

		WACC				
		8.74%	9.24%	9.74%	10.24%	10.74%
Terminal growth rate	2.00%	81.26	73.96	67.65	62.15	57.32
	2.50%	85.18	77.14	70.26	64.31	59.12
	3.00%	89.78	80.83	73.25	66.77	61.16
	3.50%	95.25	85.16	76.73	69.59	63.48
	4.00%	101.89	90.32	80.81	72.87	66.14

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

US\$ mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	454	620	974	423	561	900	7.38%	10.62%	8.29%
Gross Profit	134	240	474	158	248	475	-15.48%	-3.53%	-0.22%
Operating Profit	(326)	(252)	(108)	(306)	(249)	(65)	N/A	N/A	N/A
Net profit	(320)	(247)	(103)	(277)	(225)	(44)	N/A	N/A	N/A
EPS (US\$)	(0.37)	(0.29)	(0.12)	(0.32)	(0.26)	(0.05)	N/A	N/A	N/A
Gross Margin	29.40%	38.61%	48.67%	37.34%	44.28%	52.82%	-7.95ppt	-5.67ppt	-4.16ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	454	620	974	449	615	909	1.17%	0.80%	7.23%
Gross profit	134	240	474	175	267	471	-23.68%	-10.17%	0.76%
Operating profit	(326)	(252)	(108)	(348)	(267)	(128)	N/A	N/A	N/A
Net profit	(320)	(247)	(103)	(309)	(228)	(64)	N/A	N/A	N/A
EPS (US\$)	(0.37)	(0.29)	(0.12)	(1.55)	(1.04)	(0.29)	N/A	N/A	N/A
Gross margin	29.40%	38.61%	48.67%	38.97%	43.33%	51.79%	-9.57 ppt	-4.72 ppt	-3.13 ppt
Operating margin	-71.73%	-40.70%	-11.13%	-77.59%	-43.37%	-14.10%	+5.85 ppt	+2.67 ppt	+2.97 ppt
Net Margin	-70.49%	-39.79%	-10.60%	-68.88%	-37.08%	-7.02%	-1.61 ppt	-2.71 ppt	-3.59 ppt

Source: Bloomberg, CMBIGM estimates

Financial Statements

Income statement

YE 31 Dec (US\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	228	356	454	620	974
COGS	(189)	(258)	(321)	(381)	(500)
Gross profit	39	98	134	240	474
Administrative expenses	(50)	(89)	(75)	(80)	(97)
R&D expenses	(175)	(299)	(330)	(350)	(390)
Selling expenses	(11)	(38)	(55)	(62)	(95)
Operating profit	(197)	(328)	(326)	(252)	(108)
Gain on divestment equity investee	0	121	0	0	0
Interest income	3	2	4	4	3
Other income (expenses), net	5	2	0	0	0
Interest expense	(1)	(1)	(0)	(0)	(0)
Other expense	(0)	(13)	0	0	0
Pre-tax profit	(190)	(216)	(323)	(249)	(106)
Income tax	(5)	(12)	0	0	0
Equity in earnings of equity investees, net of tax	79	61	30	30	30
Minority interests	(10)	(28)	(28)	(28)	(28)
Net profit (loss)	(126)	(195)	(320)	(247)	(103)

Cash flow summary

YE 31 Dec (US\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before tax	(116)	(167)	(293)	(219)	(76)
Depreciation and amortization	6	7	8	17	16
Change in working capital	29	33	21	(14)	(33)
Changes in income tax balances	(1)	7	0	0	0
Others	19	(84)	(30)	(30)	(30)
Net cash from operating activities	(62)	(204)	(294)	(247)	(122)
Capex	(8)	(16)	(50)	(15)	(10)
Net proceeds from disposal of short-term investments	(733)	(1,356)	0	0	0
Other investing activities	615	1,066	300	300	0
Net cash from investing activities	(125)	(306)	250	285	(10)
Net proceeds from shares issued	319	717	0	0	0
Net bank borrowing	0	0	0	0	0
Other financing activities	(23)	(67)	0	0	0
Net cash from financing activities	296	650	0	0	0
FX changes	6	2	0	0	0
Net change in cash	109	139	(44)	38	(132)
Cash at the beginning of the year	121	236	378	334	372
Cash at the end of the year	236	378	334	372	239

Balance sheet

YE 31 Dec (US\$ mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	193	161	232	261	284
PP&E	24	41	83	81	75
Right-of-use assets	8	12	12	12	12
Deferred tax assets	2	9	9	9	9
Investments in equity investees	0	0	0	0	0
Other non-current assets	20	22	22	22	22
Current assets	531	1,212	845	607	517
Cash and cash equivalents	236	378	334	372	239
Short-term investments	200	634	334	34	34
Accounts receivable	48	84	66	84	114
Inventories	20	36	31	37	48
Other current assets	28	81	81	81	81
Current liabilities	158	312	309	319	328
Accounts payable	32	41	39	48	57
Other payables, accruals and advance receipts	121	211	211	211	211
Lease liabilities	3	0	0	0	0
Other current liabilities	(1)	55	28	28	28
Non-current liabilities	47	21	21	21	21
Lease liabilities	6	7	7	7	7
Long-term bank borrowings	27	0	0	0	0
Other non-current liabilities	14	14	14	14	14
Total net assets	519	1,040	747	528	452
Minority interest	35	53	80	108	135
Shareholders' equity	484	987	667	420	316

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Profit & loss ratios (%)					
Gross margin	17	27	29	39	49
EBITDA margin	N/A	N/A	N/A	N/A	N/A
Net margin	N/A	N/A	N/A	N/A	N/A
Effective tax rate (%)	N/A	N/A	N/A	N/A	N/A
Balance sheet ratios					
Current ratio (x)	3	4	3	2	2
Inventory days	35	39	35	35	35
Account receivables turnover days-third parties	70	66	66	66	66
Account receivables turnover days-related parties	2	1	1	1	1
Account payables turnover days	54	51	55	55	55
Total debt to asset ratio (%)	28	24	31	39	44
Returns (%)					
ROE	(22)	(16)	(39)	(42)	(17)
ROA	(16)	(12)	(27)	(25)	(9)
Per share data					
EPS (US\$)	(0.2)	(0.2)	(0.4)	(0.3)	(0.1)
DPS (US\$)	0.0	0.0	0.0	0.0	0.0
BVPS (US\$)	0.7	1.3	0.9	0.6	0.5

Source: Company data, CMBIGM estimates

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