

Hutchmed (13 HK)

On track ramp-up of commercial products

HCM's total revenue in 1H22 was US\$202.0mn (+28% YoY), while revenue from Oncology/Immunology (I/O) increased 113% YoY to US\$91.1mn, which was mainly driven by the three in-house developed commercial drugs. The Company maintained the 2022 I/O revenue guidance unchanged at US\$160-190mn. HCM's commercial team has expanded to its optimal scale of around 820 employees in 1H22 (vs. 2021 year-end ~630). The R&D expenses in 1H22 were US\$181.7mn (+48% YoY). As of end-1H22, HCM had a strong cash position of US\$826.2mn, which is sufficient for 3-year sustainability.

- Fruquintinib continued market share gain.** With around 14k new CRC patients treated in 1H22 (vs. 10k in 1H21), the in-market sales of fruquintinib in 1H22 increased 26% YoY to US\$50.4mn, resulting in US\$36.0mn revenue attributable to HCM. The market share of fruquintinib for 3L CRC has increased from 39% in 4Q21 to 43% in 2Q22, higher than the 33% market share of regorafenib despite fruquintinib's later launch, according to IQVIA. The Ph3 FRESCO-2 trial, HCM's first global MRCT, is expected to release top-line results in this August. If the results are positive, HCM will discuss with FDA, EMA and Japanese PMDA for potential NDA filings.
- China sales of surufatinib remained strong.** In 1H22, around 7.5k new patients were treated with savolitinib, 3.8 times of the 2k new patients in 1H21. The 1H22 in-market sales of surufatinib was US\$13.6mn (+69% YoY). Similar to the FDA's requirement of a MRCT for surufatinib's approval in the US, the EMA indicated that the China SANET studies were not applicable to registration in Europe. HCM has decided to withdraw the EMA NDA filing for surufatinib. Nevertheless, both FDA and EMA have no question on surufatinib's safety or efficacy of in Chinese patients. With a different registration path, as required by PMDA, a bridging study is ongoing in Japan with the completion expected in 1H23.
- Savolitinib to release detailed data in Aug.** Marketed by AstraZeneca, the in-market sales of savolitinib in 1H22 reached US\$23.3mn (US\$13.8mn attributable revenue to HCM). AstraZeneca and HCM are preparing for the potential inclusion of savolitinib in the 2023 China NRDL. Results of the Ph2 SAVANNAH study of savolitinib plus osimertinib in 2/3L TAGRISSO-refractory MET-mutant NSCLC will be presented at the 2022 WCLC meeting in Aug. The Ph3 SAFFRON study may complete FPI in 2H22.
- Maintain BUY.** Considering the delay in potential overseas approvals of surufatinib, we revised our TP from HK\$51.15 to HK\$36.06 based on a 14-year DCF valuation (WACC: 10.73%, terminal growth rate: 2%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (US\$ mn)	228.0	356.1	439.6	515.7	680.1
YoY growth (%)	11.3%	56.2%	23.4%	17.3%	31.9%
Net loss (US\$ mn)	(115.5)	(167.0)	(298.3)	(271.9)	(91.5)
EPS (Reported) (US\$)	(0.18)	(0.25)	(0.38)	(0.35)	(0.14)
R&D expenses (US\$ mn)	(174.8)	(299.1)	(330.0)	(350.0)	(272.1)
CAPEX (US\$ mn)	(7.9)	(16.4)	(50.0)	(15.0)	(10.0)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$36.06
(Previous TP)	HK\$51.15)
Up/Downside	95.6%
Current Price	HK\$18.44

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Stock Data

Mkt Cap (HK\$ mn)	15,943
Avg 3 mths t/o (HK\$ mn)	42.97
52w High/Low (HK\$)	72.30/14.40
Total Issued Shares (mn)	865

Source: FactSet

Shareholding Structure

CK Hutchison Holdings	38.5%
The Capital Group	10.8%

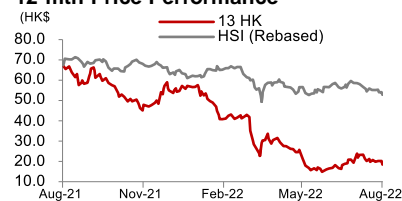
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-4.7%	5.7%
3-mth	-12.8%	-6.6%
6-mth	-54.8%	-45.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Auditor: PricewaterhouseCoopers

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

Related Reports

- FDA raised the bar for the approval of surufatinib – 4 May 2022
- Strong sales momentum of three marketed drugs – 7 Mar 2022
- 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)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	(332)	(305)	(124)	100	239	400	557	717	802	853	889	806	826	848
Tax rate	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(332)	(305)	(124)	85	203	340	474	610	682	725	755	685	702	720
+ D&A	8	17	16	15	14	13	13	12	12	11	11	11	11	11
- Change in working capital	21	(10)	(16)	(33)	(68)	(48)	(49)	(39)	(32)	(25)	(16)	(5)	22	(8)
- Capex	(50)	(15)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
FCFF	(352)	(313)	(133)	57	139	295	428	572	651	702	740	681	725	713
Terminal value														8,336
Present value of enterprise (US\$ mn)	3,394													
Net debt (US\$ mn)	(629)													
Equity value (US\$ mn)	4,023													
Equity value (HK\$ mn)	31,181													
No. of outstanding shares (mn)	865													
DCF per share (HK\$)	36.06													
Terminal growth rate	2.0%													
WACC	10.73%													
Cost of Equity	13.5%													
Cost of Debt	5.0%													
Equity Beta	1.00													
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				
		9.73%	10.23%	10.73%	11.23%	11.73%
Terminal growth rate	4.00%	51.39	46.22	41.86	38.13	34.90
	3.50%	48.70	44.07	40.11	36.69	33.71
	3.00%	42.74	39.18	36.06	33.32	30.88
	2.50%	41.23	37.92	35.01	32.42	30.12
	2.00%	39.90	36.80	34.06	31.62	29.43

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

US\$ mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	440	516	680	443	552	841	-1%	-7%	-19%
Gross Profit	126	177	283	128	199	387	-1%	-11%	-27%
Operating Profit	(332)	(305)	(124)	(330)	(287)	(115)	N/A	N/A	N/A
Net profit	(326)	(299)	(119)	(325)	(281)	(111)	N/A	N/A	N/A
EPS (US\$)	(0.38)	(0.35)	(0.14)	(0.38)	(0.33)	(0.13)	N/A	N/A	N/A
Gross Margin	28.70%	34.27%	41.60%	28.88%	35.96%	46.08%	-0.18 ppt	-1.69 ppt	-4.48 ppt

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	440	516	680	406	487	684	8%	6%	-1%
Gross profit	126	177	283	137	199	320	-8%	-11%	-11%
Operating profit	(332)	(305)	(124)	(399)	(381)	(299)	N/A	N/A	N/A
Net profit	(326)	(299)	(119)	(377)	(324)	(262)	N/A	N/A	N/A
EPS (US\$)	(0.38)	(0.35)	(0.14)	(0.60)	(0.59)	(0.47)	N/A	N/A	N/A
Gross margin	28.70%	34.27%	41.60%	33.69%	40.83%	46.75%	-6.35 ppt	-8.04 ppt	-5.58 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Revenue	205	228	356	440	516	680
Cost of goods sold	(160)	(189)	(258)	(313)	(339)	(397)
Gross profit	45	39	98	126	177	283
Operating expenses	(191)	(236)	(426)	(458)	(482)	(407)
Selling expense	(14)	(11)	(38)	(53)	(52)	(67)
Admin expense	(39)	(50)	(89)	(75)	(80)	(68)
R&D expense	(138)	(175)	(299)	(330)	(350)	(272)
Operating profit	(146)	(197)	(328)	(332)	(305)	(124)
Other income	2	5	2	0	0	0
Other expense	(0)	(0)	(13)	0	0	0
Gain/loss on financial assets at FVTPL	4	2	1	3	3	2
Other gains/(losses)	0	0	121	0	0	0
Pre-tax profit	(141)	(190)	(216)	(328)	(302)	(122)
Income tax	(3)	(5)	(12)	0	0	0
Others	41	79	61	30	30	30
Net profit	(104)	(116)	(167)	(298)	(272)	(92)
Minority interest	(2)	(10)	(28)	(28)	(28)	(28)
Net profit to shareholders	(106)	(126)	(195)	(326)	(299)	(119)
BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Current assets	317	531	1,212	840	548	436
Cash & equivalents	121	236	378	329	319	188
Account receivables	43	48	84	66	81	95
Inventories	16	20	36	30	33	38
Financial assets at FVTPL	96	200	634	334	34	34
Other current assets	40	28	81	81	81	81
Non-current assets	148	193	161	232	261	284
PP&E	21	24	41	83	81	75
Deferred income tax	1	2	9	9	9	9
Investment in JVs & assos	99	140	76	106	136	166
Other non-current assets	27	28	33	33	33	33
Total assets	465	724	1,373	1,072	808	721
Current liabilities	113	158	312	309	318	322
Short-term borrowings	0	0	27	27	27	27
Account payables	24	32	41	39	47	51
Tax payable	2	1	16	16	16	16
Other current liabilities	87	126	228	228	228	228
Non-current liabilities	39	47	21	21	21	21
Long-term borrowings	27	27	0	0	0	0
Obligations under finance leases	3	6	7	7	7	7
Deferred income	0	0	0	0	0	0
Other non-current liabilities	9	13	14	14	14	14
Total liabilities	152	205	333	331	339	343
Share capital	67	73	86	86	86	86
Capital surplus	515	822	1,505	1,505	1,505	1,505
Retained earnings	(290)	(416)	(610)	(936)	(1,236)	(1,355)
Other reserves	(4)	4	6	6	6	6
Total shareholders equity	288	484	987	661	361	242
Minority interest	25	35	53	80	108	135

Total equity and liabilities	313	519	1,040	741	469	378
CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	(141)	(190)	(216)	(328)	(302)	(122)
Depreciation & amortization	5	6	7	8	17	16
Tax paid	(3)	(5)	(12)	0	0	0
Change in working capital	17	29	33	21	(10)	(16)
Others	42	97	(16)	0	0	0
Net cash from operations	(81)	(62)	(204)	(299)	(295)	(121)
Investing						
Capital expenditure	(9)	(8)	(16)	(50)	(15)	(10)
Acquisition of subsidiaries/ investments	9	0	0	0	0	0
Net proceeds from disposal of short-term investments	119	(104)	(435)	300	300	0
Others	0	(14)	145	0	0	0
Net cash from investing	119	(125)	(306)	250	285	(10)
Financing						
Dividend paid	(1)	(1)	(10)	0	0	0
Net borrowings	(0)	0	(1)	0	0	0
Proceeds from share issues	0	319	717	0	0	0
Share repurchases	(0)	(13)	(27)	0	0	0
Others	0	(8)	(30)	0	0	0
Net cash from financing	(1)	296	650	0	0	0
Net change in cash						
Cash at the beginning of the year	86	121	236	378	329	319
Exchange difference	(2)	6	2	0	0	0
Cash at the end of the year	121	236	378	329	319	188
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	(4.3%)	11.3%	56.2%	23.4%	17.3%	31.9%
Gross profit	(36.2%)	(11.8%)	148.1%	28.9%	40.1%	60.1%
Operating profit	58.0%	34.3%	66.9%	1.0%	(8.1%)	(59.4%)
Net profit	45.4%	11.4%	44.6%	78.6%	(8.9%)	(66.3%)
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	21.8%	17.3%	27.5%	28.7%	34.3%	41.6%
Operating margin	(71.4%)	(86.3%)	(92.2%)	(75.4%)	(59.1%)	(18.2%)
Net profit margin	(51.7%)	(55.2%)	(54.7%)	(74.1%)	(58.1%)	(17.5%)
Return on assets (ROA)	n/m	n/m	n/m	n/m	n/m	n/m
Return on equity (ROE)	(36.8%)	(26.0%)	(19.7%)	(49.3%)	(82.9%)	(49.2%)
GEARING/LIQUIDITY/ACTI VITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.8)	(1.0)	(1.0)	(0.9)	(0.8)
Current ratio (x)	2.8	3.4	3.9	2.7	1.7	1.4
Receivable turnover days	72.7	70.5	66.1	66.1	66.1	66.1
Inventory turnover days	32.5	34.8	39.2	35.0	35.0	35.0
Payable turnover days	56.5	53.8	51.4	55.0	55.0	55.0
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						

P/E	na	na	n/m	n/m	n/m	n/m
P/B	na	na	36.2	18.5	29.2	36.3

Note: The calculation of net cash includes financial assets. Source: Company data, CMBIGM estimates

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