

Company Report

Hutchmed (HCM US)

Fruquintinib met OS endpoint; 1H22 results on track

■ HCM announced fruquintinib global ph3 FRESCO-2 study has met primary endpoint in metastatic colorectal cancer

■ 1H22 Onco/Immu rev up 113% yoy to USD91.1mn, in line w/ our est.; FY22E China Onco/Immu guidance of USD160-190mn is intact

■ We maintain BUY on Co.'s attractive valuation and overseas catalyst still in play. SOTP TP revised to USD42

Fruquintinib succeeded in MRCT study for 3L CRC

HCM on Aug 8th reported fruquintinib has met OS endpoint in a ph3 MRCT study for 3L CRC. The positive topline result is from FRESCO-2 study (n=691, o/w 116 pts in U.S.) across 14 countries. Co. added that the study also showed statistically-significant improvement in PFS. The safety profile was consistent with prior study. Co. plans to present the full results at an upcoming medical meeting. Co. noted that it will discuss the data with regulatory agencies in the U.S., Europe and Japan with the intent to complete filings in 2023E (fruquintinib has received FDA's fast track designation for CRC in Jun 2020). In addition, Co. announced its savolitinib/Tagrisso combo also yielded positive results in ph2 SAVANNAH study (n=294) for MET+ NSCLC after progression on prior Tagrisso treatment. The study showed 32% ORR and found positive correlation between efficacy and MET expression (49% ORR in high MET+ pts while only 9% ORR in low MET).

Solid 1H22 results

Total revenue up 28% yoy to USD202mn, mainly driven by Onco/Immu sales. ELUNATE in-market sales up 26% yoy to USD50.4mn, reflecting greater penetration in tier2/3 cities. SULANDA in-market sales up ~70% yoy to USD13.6mn, thanks to rapid ramp-up after inclusion into NRDL. ORPATHYS in-market sales grew to USD23.3mn (vs. nil in 1H21), reflecting fast uptake as the FIC MET inhibitor in China. Other ventures consolidated revenue down 3% yoy due to lower sales of consumer products. Adj. loss-making expanded to USD135mn in 1H22 (vs. USD84mn in 1H21) due to hefty R&D expenses (USD182mn, +48% yoy) and increased SG&A as a result of scaling commercial infrastructure in China and the U.S.

We maintain BUY, SOTP-based TP revised to USD42

We cut FY22E/23E revenue by 1%/5% to reflect lower revenue on non-core assets. We revised SOTP TP to USD42 to as we use higher WACC (from 9.6% to 10.4%) to reflect tighter financing conditions. Key 2H22E catalyst includes full results of fruquintinib's FRESCO-2 study. For HKEx shrs, we assume same methodology to arrive TP at HKD65.3/shr (1 ADR shr = 5 HKEx shrs, USD/HKD FX rate at 7.77). **Investment risks:** clinical delay/failure, lower-than-expected sales, regulatory risks, NRDL-driven price cut risk.

USD mn	2019	2020	2021	2022E	2023E
Revenue	205	228	356	432	526
yoy growth	-4%	11%	56%	21%	22%
Adjusted net profit	(94)	(106)	(153)	(316)	(296)
yoy growth	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Company data, CMS (HK) estimates

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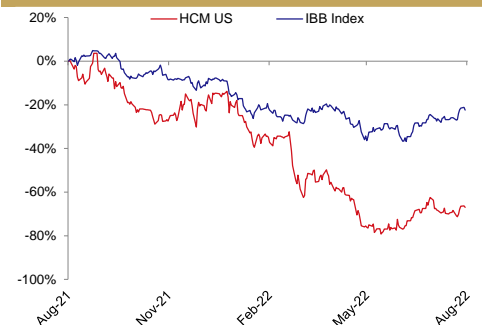
WHAT'S NEW

1H22 earnings update, TP revision

BUY

Previous	BUY
Price (August 9, 2022)	USD13.7/HKD22.2
12-month Target Price (Potential up/downside)	USD42.0 (+207%) HKD65.3 (+194%)
Previous	USD46.9/HKD72.9

Price Performance



Source: Bloomberg

%	1m	6m	12m
HCM US	1.9	(49.6)	(67.0)
IBB	5.2	(1.1)	(22.4)

Pharmaceutical & Healthcare

NASDAQ (Aug 9, 2022)	12,494
IBB (Aug 9, 2022)	130

Key Data

52-week range (USD/HKD)	8.4-43.2/14.4-67.9
Market cap (USD/HKdmn)	2,362/19,194
Daily traded (USD/HKdmn)	7.1/42.7
BVPS (USD/HKD)	3.76/5.84

Shareholding Structure

CK Hutchison	38.5%
Capital Group	9.1%
JPMorgan	4.7%
Directors	3.3%
Free float	44.4%

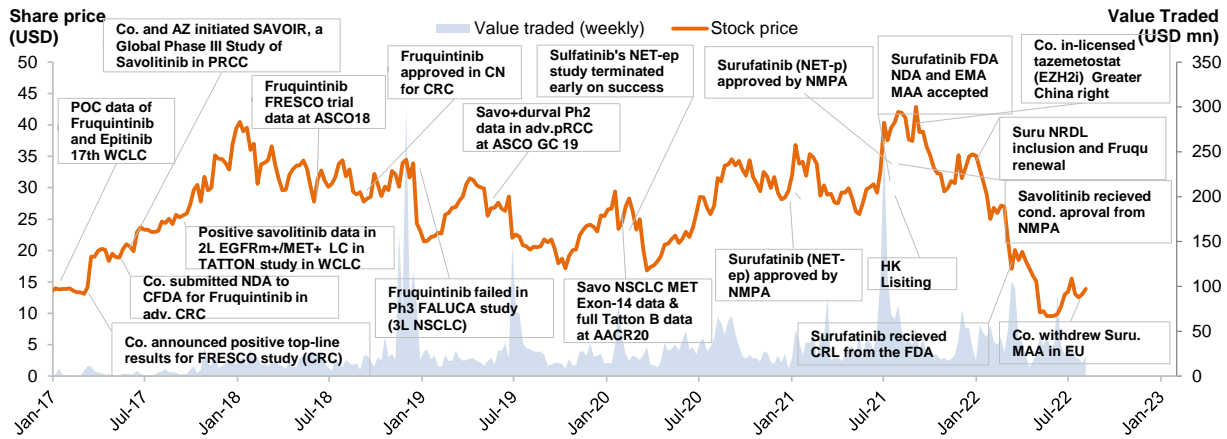
Sources: Company data, Bloomberg

Related Research

1. Hutchmed (HCM US) – FDA rejects surufatinib to treat ep and p-NETs (BUY) (May 5, 2022)
2. Hutchmed (HCM US) – Robust FY21 results; sanguine FY22E guidance (BUY) (March 8, 2022)
3. Hutchmed (HCM US) – Positive pipeline momentum continues (BUY) (September 29, 2021)
4. Hutchmed (HCM US) – Building momentum towards a fully-fledged biopharma (BUY) (August 4, 2021)

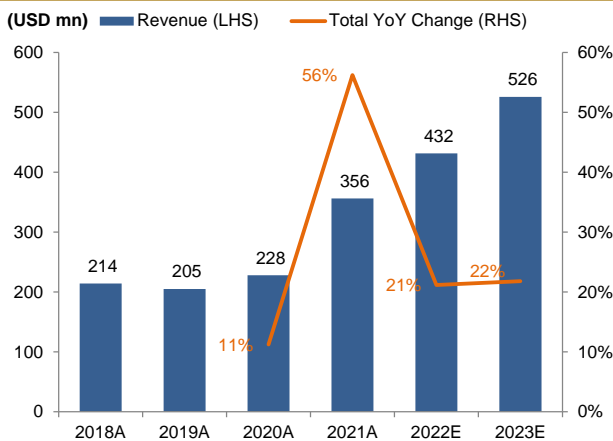
Focus charts

Figure 1: HCM's share price performance



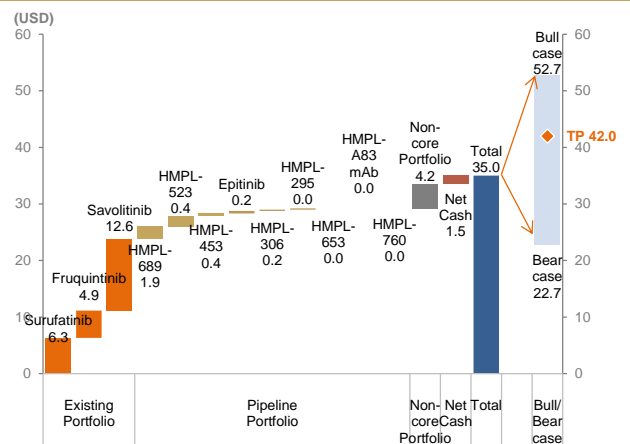
Sources: Bloomberg, CMS (HK)

Figure 2: Total revenue and growth during 2018-23E



Sources: Company data, CMS (HK) estimates

Figure 3: rNAV per share breakdown



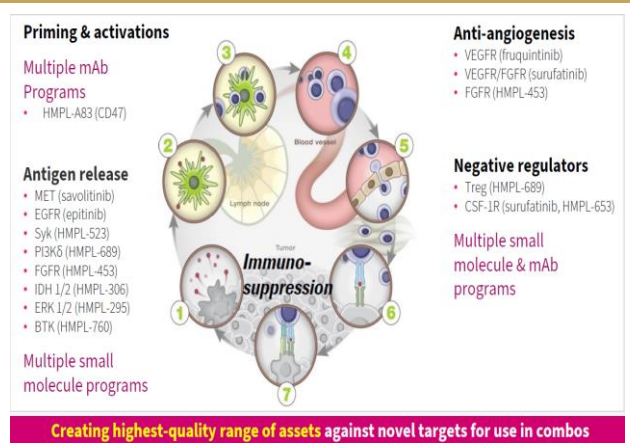
Sources: Company data, CMS (HK) estimates

Figure 4: Major catalysts in 2H22E-2023E

Candidates	Target	Indication	FY22-23E Milestone	Type	Timeline	Outcome
Surufatinib	VEGFR1/2/3 FGFR1 CSF-1R	NET (p/non-p)	NDA approval in US	Reg.	May '22	✘
			NDA approval in EU	Reg.	Aug '22	✘
			Japan bridging data readouts	Data	23E	
Fruquintinib	VEGFR1/2/3	≥3L CRC	Solid tumors PD-1 combo data readouts	Data	1H23E	
			FRESCO-2 Met primay end pt.	Data	Aug '22	✔
			FRESCO-2 full data readout	Data	2H22E	
Savolitinib	c-MET	2/3L EGFR+/MET+ NSCLC	NDA submission (US/EU/J)	Reg.	23E	
			2L GC sNDA submission (CN)	Reg.	23E	
			SAVANNAH data readouts	Data	Aug '22	✔
Amdizalisib	PI3Kδ	2L FL/MZL	NDRD negotiation led by AZ (CN)	NDRD	YE22E	
			NDA submission (CN)	Reg.	'23E	
Tazemetostat	EZH2	r/r FL	Commercial launch in Hainan, CN	Others	Jun '22	✔

Sources: Company data, CMS (HK) estimates; Note: non-p: non-pancreatic, p: pancreatic

Figure 5: Drug discovery platform



Sources: Company data

Our earnings revision

Figure 6: Earnings revision

(USD mn)	2022E			2023E		
	Before	After	% Chg	Before	After	% Chg
Income statement						
Consolidated revenue	435	432	-0.9%	550	526	-4.5%
COGS	(295)	(282)	-4.5%	(352)	(337)	-4.2%
Gross profit	140	150	6.7%	199	189	-4.9%
(-) Total SG&A expense	(135)	(184)	36.3%	(151)	(193)	28.0%
Administrative expenses	(66)	(122)	86.6%	(70)	(118)	69.0%
Selling and distribution costs	(69)	(62)	-11.2%	(81)	(75)	-7.2%
Payments under collaboration arrangements	-	-	n.a.	-	-	n.a.
(+/-) Other income/expense, gains/losses	-	-	n.a.	-	-	n.a.
(-) Research & Development cost	(329)	(329)	0.0%	(339)	(339)	0.0%
EBITDA adjusted	(243)	(283)	16.4%	(194)	(247)	27.2%
Total Depreciation and Amortisation	(12)	(12)	0.0%	(25)	(25)	0.0%
Stock-Based Compensation	(22)	(22)	-0.9%	(22)	(21)	-4.5%
EBIT adjusted	(255)	(295)	15.6%	(219)	(272)	24.1%
(+/-) Profit from JV&Asso.	47	47	0.0%	49	49	0.0%
(+/-) Finance (expense)/income - net	7	7	0.0%	6	5	-12.5%
(+/-) Other gains/losses	-	-	n.a.	-	-	n.a.
Profit before tax	(270)	(310)	14.7%	(236)	(288)	22.3%
(-) Tax	(5)	(5)	0.0%	(5)	(5)	0.0%
(+/-) Minority interest	24	23	-5.6%	26	24	-5.6%
NP attributable to shareholders (reported)	(299)	(338)	12.8%	(266)	(318)	19.2%
Adjusted net profit	(278)	(316)	13.8%	(244)	(296)	21.4%
EPS Fully diluted (USD)	(0.32)	(0.37)	13.8%	(0.28)	(0.34)	21.4%
Margins (%)			p.p.			p.p.
Gross Margin	32%	35%	2	36%	36%	0
yoy Growth (%)						
Consolidated revenue	22%	21%	-1	26%	22%	-5
Gross profit	43%	53%	10	42%	26%	-15

Sources: Company data, CMS (HK) estimates

Valuation Summary

We arrived at our SOTP-based TP using a risk adjusted NPV (rNPV) approach, with sensitivities on the peak sales and the probability of success (PoS) of various molecules. We detail below our assumption and valuation results.

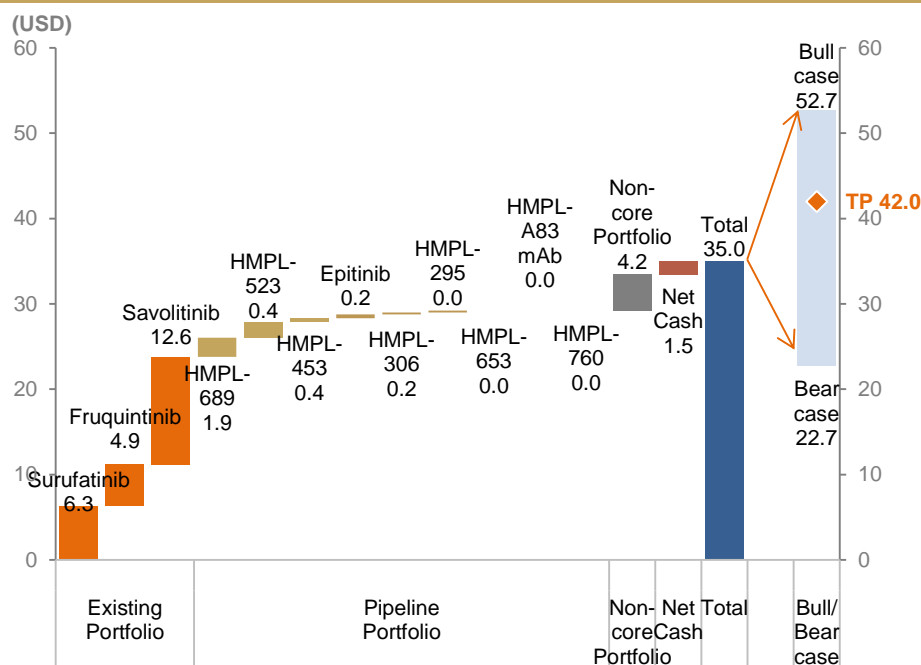
Figure 7: rNPV-based SOTP valuation and main assumptions

(USD mn)	Target	R&D Status*	Partner	Major Indication	Launch date	Peak sales	PoS**	Rights	rNPV (prior)	rNPV (revised)	Change (%)
Core portfolio drugs (rNPV)									5,706	5,053	-11%
Existing portfolio											
Surufatinib	VEGFR1/2/3, FGFR1&CSF-1R	Approved (CH), NDA (U.S.)	Junshi / Innovent / BeiGene	Neuroendocrine tumor (NET), biliary tract, thyroid, solid tumors (w/ I/O combo)	2021	1,093	100% (CH), 50% (U.S.)	100% (WW)	1,253	1,091	-13%
Fruquintinib	VEGFR1/2/3	Approved (CH), P2/3 (U.S.)	Eli Lilly / Innovent / Genor / BeiGene	CRC, GC, NSCLC, solid tumors (w/ I/O combo)	2018	1,062	100% (CH), 50% (U.S.)	70-80% sales (CH); 100% sales (WW)	948	839	-12%
Savolitinib	c-MET	Approved (CH), Reg. (U.S.)	AstraZeneca	NSCLC, RCC, GC CRC (w/ I/O combo)	2021	2,236	100% (CH), 70% (U.S.)	30% royalty (CH); 9-18% royalty (ex-CH)	2,443	2,187	-10%
R&D Pipeline											
HMPL-689	PI3Kδ	P1b/2	-	B-cell malignancies - indolent NHL	2025	289	40%	100% (WW)	434	382	-12%
HMPL-523	Syk	P1b/2	-	Cholangiocarcinoma	2025	240	40%	100% (WW)	365	321	-12%
HMPL-453	FGFR1/2/3	P2	-	Glioblastoma, HCC	2025	130	40%	100% (WW)	87	77	-11%
Epitinib	EGFRm+	P2	-	Hematological malignancies, solid tumor	2025	130	40%	100% (WW)	87	77	-11%
HMPL-306	IDH1/2	P1	-	Solid tumor	2025	130	20%	100% (WW)	44	39	-11%
HMPL-295	ERK(MAPK pathway)	P1	-	Solid tumor	2025	130	20%	100% (WW)	44	39	-11%
HMPL-653	CSF-1R	IND	-	Solid tumor	2026			100% (WW)	-	-	n.a.
HMPL-A83 mAb	CD47	IND	-	Solid tumor, hematological malignancies	2026			100% (WW)	-	-	n.a.
HMPL-760	3 rd Gen BTK	IND	-	Hematological malignancies	2026			100% (WW)	-	-	n.a.
Non-core portfolio (10x 23E NOPAT)											
Net cash									749	734	-2%
Valuation (USD mn)									301	265	-12%
No of shares (m)											
Valuation per ADR share (USD)											
Capital allocation premium											
TP (USD)									46.9	42.0	-10%

Sources: Company data, CMS (HK) estimates, Note1: CRC: colorectal cancer, GC: gastric cancer, NSCLC: non-small cell lung cancer, I/O: immuno-oncology, RCC: renal cell carcinoma, NHL: non-Nodgkin lymphoma, HCC: hepatocellular carcinoma; Note2: *represents the lead indication of the molecule, **represents the highest PoS of indication of the molecule

We present below sensitivity exercise for HCM. The main variables in our assumptions are the peak sales (+/-30% relative to our base case) in each marketed molecule, the probability of success (+/-30% relative to our base case) in each molecule in the pipeline.

Figure 8: HCM's SOTP and sensitivity analysis



Source: Company data, CMS (HK) estimates

Figure 9: WACC assumption

Cost of equity (%)	
Risk free rate (%)	3.3
Beta	0.9
Equity risk premium (%)	8.3
CAPM unleveraged discount rate	10.8
Cost of debt (%)	
Average spread over risk-free rate (%)	5.0
Pre-tax cost of debt (%)	8.3
Average corporate tax rate for company (%)	19.0
Post-tax cost of debt (%)	6.7
Estimated target gearing (net debt/EV) (%)	10.0
WACC (%)	10.4

Source: CMS (HK) estimates

For the HKEX shares of HCM, we assume the same SOTP valuation approach to arrive TP at HKD65.3/shr (given 1 ADS = 5 ordinary shares, USD/HKD FX rate assumed at 7.77).

Financial Summary

Balance Sheet

USD mn	2019	2020	2021	2022E	2023E
Non-current assets	148	193	161	253	314
PP&E	21	24	41	86	98
Intangible assets	6	8	12	12	12
Prepaid lease payments	-	-	-	-	-
Deferred tax assets	1	2	9	9	9
Others	22	20	22	22	22
Current assets	317	531	1,212	811	465
Inventories	16	20	36	29	35
Loan and account receivables	43	48	84	74	87
Prepayments and other receivables	16	27	81	81	81
Assets held-for-sale	25	1	-	-	-
Short-term investments	96	200	634	334	184
Bank balances and cash	121	236	378	292	78
Total assets	465	724	1,373	1,063	779
Current liabilities	113	158	312	317	326
Trade and bills payables	24	32	41	46	55
Due to a related party	82	121	211	211	211
ST bank debt	-	-	27	27	27
Others	4	3	17	17	17
Non-current liabilities	39	47	21	21	21
Long-term payables	-	-	-	-	-
Contract liabilities	3	5	3	3	3
LT bank loans	27	27	-	-	-
Others	9	14	19	19	19
Shareholders' funds	288	484	987	649	332
Minorities	25	35	53	76	100
Total liability and equity	465	724	1,373	1,063	779

Cashflow Statement

USD mn	2019	2020	2021	2022E	2023E
Operating cash flow	(81)	(62)	(204)	(336)	(333)
Pretax profit	(104)	(116)	(167)	(315)	(293)
Operating profit before WC chg	(97)	(91)	(237)	(356)	(323)
Net working capital change	16	29	32	21	(10)
Income tax paid	-	-	-	-	-
Interest paid	-	-	-	(1)	(1)
Investing cash flow	119	(125)	(306)	251	119
Purchase of PPE	(9)	(8)	(16)	(57)	(37)
Purchase/disposal of subsidiaries	9	-	-	-	-
Purchase/disposal of JV&Asso.	-	-	159	-	-
Interest received	-	-	-	8	6
Others	119	(104)	(450)	300	150
Financing cash flow	(1)	296	650	-	-
Proceeds from IPO net of fees	0	311	688	-	-
Issurance of equity shares	-	-	-	-	-
Proceeds/repayment of bank borrowings	(0)	-	-	-	-
Others	-	-	-	-	-
Beginning cash	86	121	236	378	292
Forex	(2)	6	2	-	-
End cash	121	236	378	292	78

Profit & Loss

USD mn	2019	2020	2021	2022E	2023E
Consolidated revenue	205	228	356	432	526
Cost of goods sold	(160)	(189)	(258)	(282)	(337)
Gross profit	45	39	98	150	189
(-) Total SG&A expense	(53)	(61)	(127)	(184)	(193)
Administrative expenses	(39)	(50)	(89)	(122)	(118)
Selling and distribution costs	(14)	(11)	(38)	(62)	(75)
(-) R&D expense	(138)	(175)	(299)	(329)	(339)
(+/-) Other income/expense	-	-	-	-	-
(+/-) Profit from JV&Asso.	41	79	61	47	49
Adj. EBITDA	(89)	(92)	(218)	(283)	(247)
Stock-Based Compensation	(12)	(20)	(42)	(22)	(21)
Total Depreciation and amortisation	(5)	(6)	(7)	(12)	(25)
Adj. EBIT	(94)	(98)	(226)	(295)	(272)
(+/-) Finance expense - net	4	2	1	7	5
(+/-) Others, net	1	4	111	-	-
Profit before tax	(100)	(111)	(155)	(310)	(288)
(-) Tax	(3)	(5)	(12)	(5)	(5)
Net Profit	(104)	(116)	(167)	(315)	(293)
(+/-) Minority interest	(2)	(10)	(28)	(23)	(24)
Attributable net profit	(106)	(126)	(195)	(338)	(318)
Adjusted net profit	(94)	(106)	(153)	(316)	(296)
EPS Fully diluted (USD)	(0.14)	(0.15)	(0.19)	(0.37)	(0.34)

Financial Ratios

	2019	2020	2021	2022E	2023E
Growth (%)					
Consolidated revenue	(4%)	11%	56%	21%	22%
Gross profit	(36%)	(12%)	148%	53%	26%
Adjusted net profit	n.a.	n.a.	n.a.	n.a.	n.a.
Profitability (%)					
Gross margin (%)	22%	17%	27%	35%	36%
Adj. net profit margin (%)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE	n.a.	n.a.	n.a.	n.a.	n.a.
ROA	n.a.	n.a.	n.a.	n.a.	n.a.
Efficiency					
Inventory days	32	34	39	42	35
Accounts receivable days	88	81	89	91	79
Accounts payable days	56	53	51	57	55
Cash cycle days	64	62	77	76	59
Liquidity					
FCF (USD mn)	(89)	(84)	(220)	(393)	(370)
Net gearing (%)	(29)	(40)	(34)	(37)	(12)

Sources: Company data, CMS (HK) estimates

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
HOLD	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

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