

Company Report

Hutchmed (HCM US)

Takeda to acquire ex-China rights to HCM's Fruq

■ On 23th Jan, Co inked a deal w/ Takeda for Fruq's ex-China rights for up to USD1.13bn biobucks, o/w USD400mn upfront

■ In China, Fruq continues to demonstrate strong competitive position over its peers.

■ We maintain BUY on Co.'s attractive valuation, continued R&D progress and strong BD capability. SOTP TP upgraded to USD45

Another licensing deal to validate Fruq's attractiveness

Under the pact, Takeda will have the exclusive global license for the development, commercialization and manufacture of fruquintinib (Fruq) outside of mainland China, Hong Kong and Macau. HCM will receive up to ~USD1.13bn biobucks, including USD400mn upfront payment and up to USD730mn potential future milestone payments plus tiered royalties. At ESMO2022, Fruq read positive data from the Ph3 FRESCO-2 MRCT trial ([link](#)) in 3L CRC setting (i.e. mOS, mPFS significantly improved, see our note on 15th Sep, 2022), which could support its rolling submission to US FDA in 1H23E as well as potential filings in EU and Japan in 2023E. Co. expects the collaboration could further unlock its Fruq's ex-China value, underpinned by Takeda's global reach and strong oncology presence.

Fruq demonstrates strong competitive position in China

Per IQVIA, Fruq. continues to solidify its market leading position in 3L CRC in China with 44% patient share in 4Q22 (vs. STIVARGA/Regorafenib's 29%). Meanwhile, Co. succeed in 2022 NRDL renewal. In light of the clear NRDL rules, we reckon the price reduction risk for Fruq is manageable. We thus maintain our forecast that Fruq China in-market sales could reach USD135mn/203mn in FY22E/23E.

Major catalysts to watch in 2023E

Fruquintinib: 1) U.S NDA rolling submission in 1H23E, NDA filing to EMA, PDMA for 3L CRC in '23E; 2) NDA filing in China for 2L GC in '23E; 3) PD-1 combo data readout for 2L EMC in 23E. **Surufatinib:** readout for Japan bridging study for NETs mono in 23E; **Sovleplenib:** topline data readout of China ph3 ESLIM-01 study for ITP in 23E. Co. now has 15 ongoing registration trials for six drug candidates, supporting potential NDA filings in 23E-25E.

We maintain BUY, SOTP TP upgraded to USD45

We revised up SOTP-TP to USD45 from USD42 mainly on recent progresses. For HKEx shrs, we modeled TP at HKD69.4/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, price cut risk.

USD mn	2019	2020	2021	2022E	2023E
Revenue	205	228	356	432	925
yoy growth	-4%	11%	56%	21%	114%
Adjusted net profit	(94)	(106)	(153)	(316)	114
yoy growth	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Company data, CMS (HK) estimates

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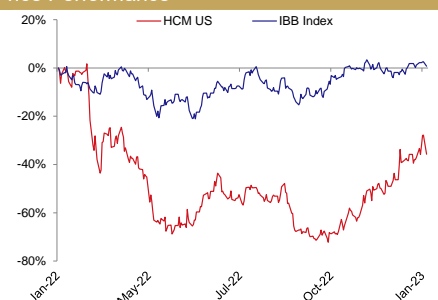
WHAT'S NEW

News and TP updates

BUY

Previous	BUY
Price (January 30, 2023)	USD17.7/HKD29.5
12-month Target Price (Potential up/downside)	USD45.0 (+154%) HKD69.4 (+135%)
Previous	USD42.0/HKD65.3

Price Performance



Source: Bloomberg

%	1m	6m	12m
HCM US	19.7	46.6	(35.7)
IBB	2.7	10.5	0.7

Pharmaceutical & Healthcare

NASDAQ (Jan 30, 2023)	11,394
IBB (Jan 30, 2023)	134.8

Key Data

52-week range (USD/HKD)	7.4-28.4/11.4-43.6
Market cap (USD/HKDmn)	3,060/25,511
Daily traded (USD/HKDmn)	7.9/104.2
BVPS (USD/HKD)	6.5/10.2

Shareholding Structure

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

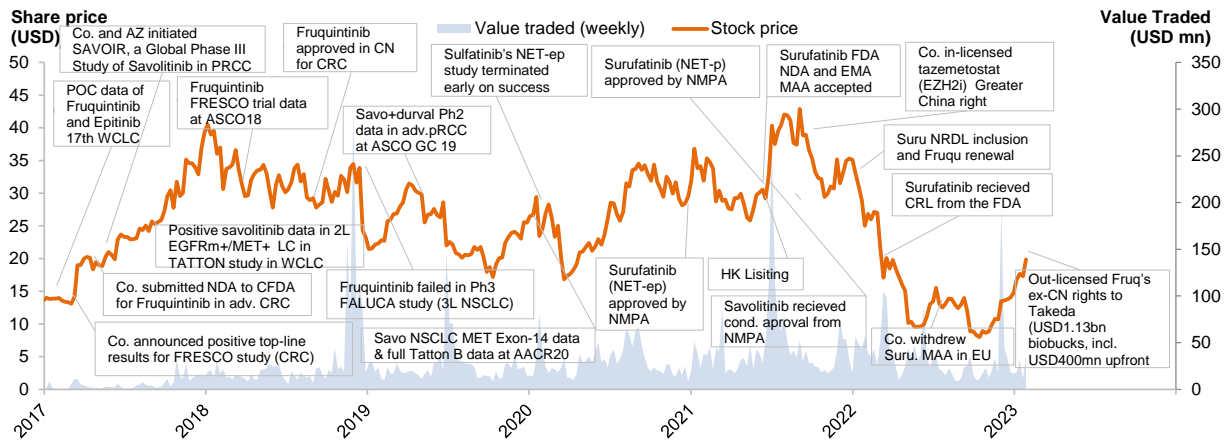
Sources: Company data, Bloomberg

Related Research

1. Hutchmed (HCM US) – Co announced positive result in Ph3 FRUTIGA trial (BUY) (Nov 23, 2022)
2. Hutchmed (HCM US) – Co presented FRESCO-2 readout at ESMO 2022 (BUY) (Sep 15, 2022)
3. Hutchmed (HCM US) – Fruquintinib met OS endpoint; 1H22 results on track (BUY) (August 11, 2022)
4. Hutchmed (HCM US) – FDA rejects surufatinib to treat ep and p-NETs (BUY) (May 5, 2022)

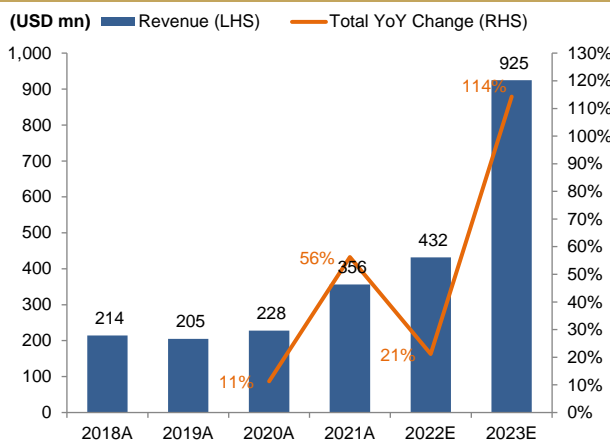
Focus charts

Figure 1: HCM's share price performance



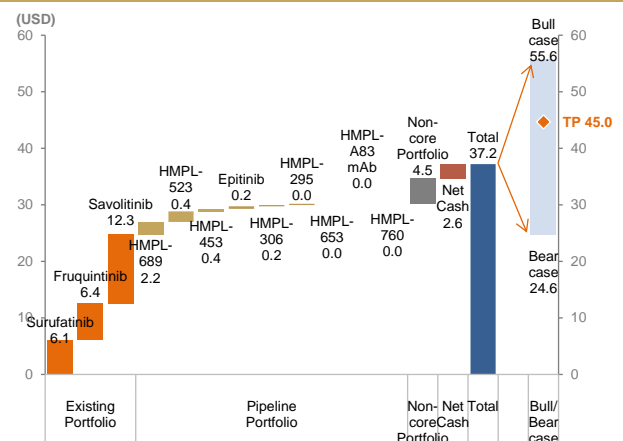
Sources: Bloomberg, CMS (HK)

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



Sources: Company data, CMS (HK) estimates

Figure 3: rNAV per share breakdown



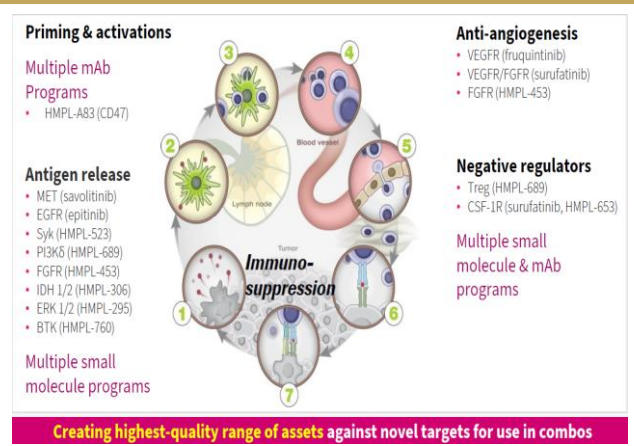
Sources: Company data, CMS (HK) estimates

Figure 4: Major catalysts in 2023E

Candidates	Target	Indication	FY23E Milestone	Type	Timeline	Outcome
Surufatinib	VEGFR1/2/3 FGFR1 CSF-1R	NET (p/non-p)	Japan bridging data readouts	Data	23E	
		Solid tumors	PD-1 combo data readouts	Data	1H23E	
Fruquintinib	VEGFR1/2/3	≥3L CRC	NDA submission (US/EU/JP)	Reg.	23E	✓
			NRDL renewal	Others	Jan '23	✓
		2L GC	sNDA submission (CN)	Reg.	1H23E	
Savolitinib	c-MET	2/3L EGFRm/ MET+ NSCLC	SAVANNAH data readouts	Data	Aug '22	✓
			NRDL negotiation led by AZ (CN)	NRDL	Jan '23	✓
Amdizalisib	PI3Kδ	2L FL/MZL	NDA submission (CN)	Reg.	'23E	

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	432	432	0.0%	526	925	75.9%
COGS	(282)	(282)	0.0%	(337)	(337)	-0.1%
Gross profit	150	150	0.0%	189	588	211.4%
(-) Total SG&A expense	(184)	(184)	0.0%	(193)	(197)	2.3%
Administrative expenses	(122)	(122)	0.0%	(118)	(122)	3.9%
Selling and distribution costs	(62)	(62)	0.0%	(75)	(75)	-0.3%
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	(283)	(283)	0.0%	(247)	164	n.a.
Total Depreciation and Amortisation	(12)	(12)	0.0%	(25)	(25)	0.0%
Stock-Based Compensation	(22)	(22)	0.0%	(21)	(37)	75.9%
EBIT adjusted	(295)	(295)	0.0%	(272)	138	n.a.
(+/-) Profit from JV&Asso.	47	47	0.0%	49	49	0.0%
(+/-) Finance (expense)/income - net	7	7	0.0%	5	5	0.0%
(+/-) Other gains/losses	-	-	n.a.	-	-	n.a.
Profit before tax	(310)	(310)	0.0%	(288)	107	n.a.
(-) Tax	(5)	(5)	0.0%	(5)	(5)	0.0%
(+/-) Minority interest	(23)	(23)	0.0%	(24)	(24)	0.0%
NP attributable to shareholders (reported)	(338)	(338)	0.0%	(318)	77	n.a.
Adjusted net profit	(316)	(316)	0.0%	(296)	114	n.a.
EPS Fully diluted (USD)	(0.37)	(0.37)	0.0%	(0.34)	0.13	n.a.
Margins (%)			p.p.			p.p.
Gross Margin	35%	35%	0	36%	64%	28
yoy Growth (%)						
Consolidated revenue	21%	21%	0	22%	114%	92
Gross profit	53%	53%	0	26%	293%	267

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.

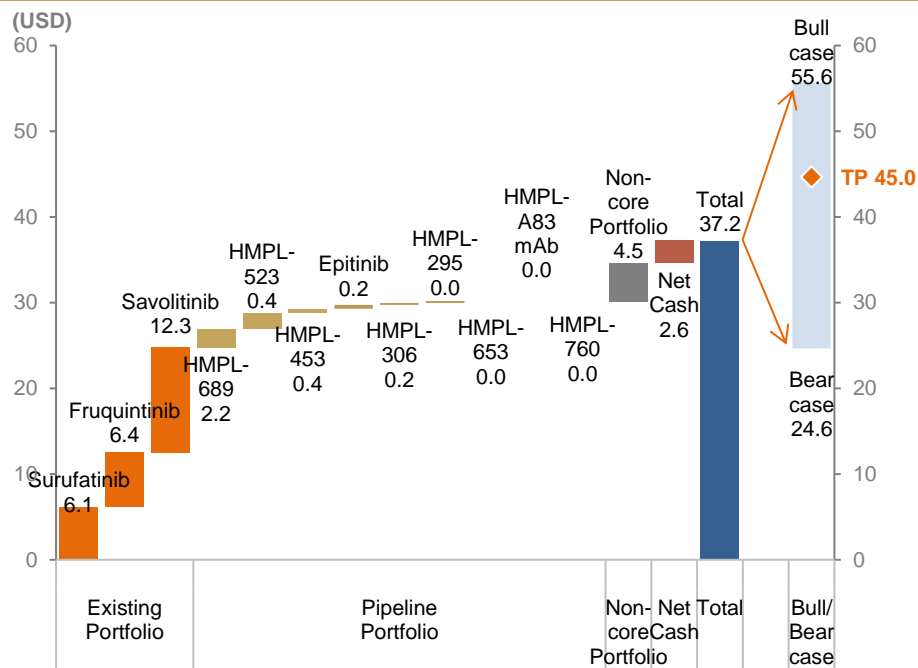
Figure 7: rNPV-based SOTP valuation and main assumptions

(USD mn)	Target	R&D Status*	Partner	Major Indication	Launch date	Peak sales	PoS**	Rights	rNPV (prior)	rNPV (revised)	Chg%
Core portfolio drugs (rNPV)									5,053	5,216	3%
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	849	100% (CH), 50% (U.S.)	100% (WW)	1,091	1,060	-3%
Fruquintinib	VEGFR1/2/3	Approved (CH), P2/3 (U.S.)	Eli Lilly / Takeda / Innovent / Genor / BeiGene	CRC, GC, NSCLC, solid tumors (w/ I/O combo)	2018	1,051	100% (CH), 75% (U.S.)	70-80% sales (CH); Tiered royalty (ex-CH)	839	1,098	31%
Savolitinib	c-MET	Approved (CH), Reg. (U.S.)	AstraZeneca	NSCLC, RCC, GC CRC (w/ I/O combo)	2021	2,222	100% (CH), 70% (U.S.)	30% royalty (CH); 9-18% royalty (ex-CH)	2,187	2,122	-3%
R&D Pipeline											
HMPL-689	PI3Kδ	P1b/2	-	B-cell malignancies - indolent NHL	2025	289	40%	100% (WW)	382	382	0%
HMPL-523	Syk	P1b/2	-	Cholangiocarcinoma	2025	240	40%	100% (WW)	321	321	0%
HMPL-453	FGFR1/2/3	P2	-	Glioblastoma, HCC	2025	130	40%	100% (WW)	77	77	0%
Epitinib	EGFRm+	P2	-	Hematological malignancies, solid tumor	2025	130	40%	100% (WW)	77	77	0%
HMPL-306	IDH1/2	P1	-	Solid tumor	2025	130	20%	100% (WW)	39	39	0%
HMPL-295	ERK(MAPK pathway)	P1	-	Solid tumor	2025	130	20%	100% (WW)	39	39	0%
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 24E NOPAT)									734	771	5%
Net cash									265	446	68%
Valuation (USD mn)									6,053	6,434	6%
No of shares (m)									865	865	0%
Valuation per ADR share (USD)									35.01	37.21	6%
Capital allocation premium									20%	20%	n.a.
TP (USD)									42	45	6%

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-Hodgkin lymphoma, HCC: hepatocellular carcinoma; Note 2: *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 HKD69.4/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	860
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	473
Total assets	465	724	1,373	1,063	1,174
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	727
Minorities	25	35	53	76	100
Total liability and equity	465	724	1,373	1,063	1,174

Cashflow Statement

USD mn	2019	2020	2021	2022E	2023E
Operating cash flow	(81)	(62)	(204)	(336)	62
Pretax profit	(104)	(116)	(167)	(315)	102
Operating profit before WC chg	(97)	(91)	(237)	(356)	72
Net working capital change	16	29	32	21	(9)
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	473

Profit & Loss

USD mn	2019	2020	2021	2022E	2023E
Consolidated revenue	205	228	356	432	925
Cost of goods sold	(160)	(189)	(258)	(282)	(337)
Gross profit	45	39	98	150	588
(-) Total SG&A expense	(53)	(61)	(127)	(184)	(197)
Administrative expenses	(39)	(50)	(89)	(122)	(122)
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)	164
Stock-Based Compensation	(12)	(20)	(42)	(22)	(37)
Total Depreciation and amortisation	(5)	(6)	(7)	(12)	(25)
Adj. EBIT	(94)	(98)	(226)	(295)	138
(+/-) Finance expense - net	4	2	1	7	5
(+/-) Others, net	1	4	111	-	-
Profit before tax	(100)	(111)	(155)	(310)	107
(-) Tax	(3)	(5)	(12)	(5)	(5)
Net Profit	(104)	(116)	(167)	(315)	102
(+/-) Minority interest	(2)	(10)	(28)	(23)	(24)
Attributable net profit	(106)	(126)	(195)	(338)	77
Adjusted net profit	(94)	(106)	(153)	(316)	114
EPS Fully diluted (USD)	(0.14)	(0.15)	(0.19)	(0.37)	0.13

Financial Ratios

	2019	2020	2021	2022E	2023E
Growth (%)					
Consolidated revenue	(4%)	11%	56%	21%	114%
Gross profit	(36%)	(12%)	148%	53%	293%
Adjusted net profit	46%	12%	44%	107%	(136%)
Profitability (%)					
Gross margin (%)	22%	17%	27%	35%	64%
Adj. net profit margin (%)	(45%)	(42%)	(35%)	(68%)	15%
ROE	(31%)	(33%)	(26%)	(41%)	11%
ROA	(21%)	(21%)	(19%)	(28%)	7%
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)	25
Net gearing (%)	(29)	(40)	(34)	(37)	(54)

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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Hong Kong

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