

Hutchmed (13 HK)

A fruitful 2024 on the way

Including US\$312mn upfront and milestone payments from Takeda, HCM's consolidated revenues from oncology/immunology reached US\$529mn in FY23 (vs US\$164mn in FY22), close to the upper limit of its US\$450-550mn guidance. The in-market product sales increased 28% YoY (35% at CER) to US\$214mn in FY23, among which sales of fruquintinib in China increased 15% YoY (22% at CER) to US\$108mn, maintaining leadership in patient share (47%) in 3L CRC. Fruquintinib recorded US\$15mn in sales in the overseas market in 2023 since the launch in Nov. Surufatinib's in-market sales in FY23 increased 36% YoY (43% at CER) to US\$44mn, and ranked 2nd in the NET market with 21% share in 4Q23. Savolitinib's in-market sales in FY23 increased 12% YoY (19% at CER) to US\$46mn, even with a 38% price cut for NRDL inclusion since Mar 2023. Mgmt guides the FY24E consolidated revenue from oncology/immunology to reach US\$300-400mn, driven by 30% to 50% growth in oncology marketed product revenue. In FY23, HCM spent US\$302mn on R&D, down 22% YoY, due to the completion of several large registration-enabling trials, the focus on ex-China development through partnerships and the strategic prioritization of pipeline. HCM recorded a net income of US\$101mn in FY23. As of end-2023, HCM had a strong cash position of US\$886mn. Management is confident to turn profitable in FY25E.

- Fruquintinib shows potential for expanded indications in China and aims for wider international approvals.** The NDAs of fruquintinib for CRC are under review in the EU and Japan (NDAs submitted in Jun and Sep 2023, respectively). In China, fruquintinib may receive approval for 2L GC in 2H24E (sNDA in Apr 2023). Cross-trial comparison shows fruquintinib's superior efficacy than ramucirumab in 2L GC patients. Additionally, fruquintinib + sintilimab received BTD for endometrial cancer (pMMR type) in China, and the potential Ph2 registration trial in China completed patient enrolment in Jul 2023, with the sNDA filing expected in early 2024E. The Ph2/3 trial of fruquintinib + sintilimab for 2L RCC completed enrolment in Dec 2023, with the top line results expected by end-2024E.
- Savolitinib to become the company's second product to achieve global commercialization.** The global Ph2 SAVANNAH trial of savolitinib in 2/3L osimertinib-refractory MET+ NSCLC finished enrolment in Feb 2024. We anticipate the US NDA submission for accelerated approval by the end of 2024, and savolitinib potentially to be positioned as HCM's second product to reach the global market. Compared with other competing therapies, savolitinib + osimertinib offers potentially better efficacy for specific MET+ patients, and its oral administration route is more convenient over other competing therapies. In China, savolitinib has the potential to expand its label into 1L MET Exon 14 NSCLC with the filing expected in 1Q24E based on positive results from confirmatory Ph3b study.
- Sovleplenib, a promising best-in-class Syk inhibitor, holds strong potential for overseas licensing.** The China Ph3 ESLIM-01 trial of soveleplenib for ITP met its endpoints, leading to the acceptance of the NDA by the NMPA in Jan 2024, with the status of priority review. Concurrently, HCM is initiating a Ph1b/II trial in the US for ITP. Moreover, HCM is on track to unveil detailed Ph3 ITP results by mid-2024 and Ph2 wAlHA data as well. The anticipated data release is expected to act as a significant catalyst for potential international out-licensing agreements.
- Maintain BUY.** Considering the company's guidance, we revise our TP from HK\$36.67 to HK\$34.31 based on DCF valuation (WACC: 10.25 %, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	426	838	690	864	1,172
YoY growth (%)	19.7	96.5	(17.7)	25.2	35.7
Net profit (US\$ mn)	(360)	101	(94)	2	122
EPS (Reported) (US\$)	(0.43)	0.12	(0.11)	0.00	0.14
R&D expenses (US\$ mn)	(387)	(302)	(290)	(285)	(328)
CAPEX (US\$ mn)	(37)	(33)	(30)	(30)	(30)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$34.31**
 (Previous TP) HK\$36.67
Up/Downside **41.8%**
Current Price **HK\$24.20**

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Stock Data

Mkt Cap (HK\$ mn)	21,084.4
Avg 3 mths t/o (HK\$ mn)	80.9
52w High/Low (HK\$)	32.45/17.68
Total Issued Shares (mn)	871.3

Source: FactSet

Shareholding Structure

CK Hutchison Holdings	38.2%
Deutsche Bank Trust	12.6%

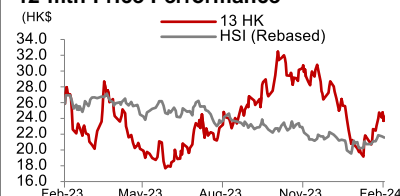
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	22.6%	15.0%
3-mth	-19.9%	-17.3%
6-mth	0.4%	11.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in US\$ mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	(148)	(51)	81	231	387	514	592	648	689	641	617	615
Tax rate	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(148)	(51)	69	197	329	437	503	551	586	545	525	523
+ D&A	8	10	12	13	15	16	17	18	19	20	21	22
- Change in working capital	(26)	27	(36)	(60)	(55)	(50)	(45)	(38)	(34)	(28)	0	(9)
- Capex	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)
FCFF	(196)	(44)	15	120	258	373	445	500	541	507	516	505
Terminal value												6,548
Present value of enterprise (US\$ mn)	3,248											
Net debt (US\$ mn)	(609)											
Equity value (US\$ mn)	3,857											
Equity value (HK\$ mn)	29,891											
No. of outstanding shares (mn)	871											
DCF per share (HK\$)	34.31											
Terminal growth rate	3.0%											
WACC	10.95%											
Cost of equity	14.0%											
Cost of debt	4.5%											
Equity beta	1.10											
Risk-free rate	3.0%											
Market risk premium	10.0%											
Target debt to asset ratio	30.0%											
Effective corporate tax rate	15.0%											

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

		WACC				
		9.95%	10.45%	10.95%	11.45%	11.95%
Terminal growth rate	4.00%	43.80	40.08	36.90	34.16	31.78
	3.50%	41.74	38.40	35.52	33.01	30.81
	3.00%	39.97	36.94	34.31	32.00	29.95
	2.50%	38.44	35.67	33.24	31.09	29.19
	2.00%	37.10	34.55	32.29	30.29	28.49

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

US\$ mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	690	864	1,172	867	1,032	1,367	-20%	-16%	-14%
Gross profit	293	398	609	337	412	594	-13%	-3%	3%
Operating profit	(148)	(51)	81	(127)	(47)	61	N/A	N/A	34%
Net profit	(94)	2	122	(56)	21	21	N/A	-93%	494%
EPS (US\$)	(0.11)	0.00	0.14	(0.06)	0.02	0.14	N/A	-93%	3%
Gross margin	42.48%	46.13%	51.95%	38.85%	39.93%	43.46%	+3.62 ppt	+6.20 ppt	+8.49 ppt

Source: CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	690	864	1,172	667	824	1,026	3%	5%	14%
Gross profit	293	398	609	371	377	602	-21%	6%	1%
Operating profit	(148)	(51)	81	(160)	(50)	(75)	N/A	N/A	N/A
Net profit	(94)	2	122	(63)	16	8	N/A	N/A	N/A
EPS (US\$)	(0.11)	0.00	0.14	(0.34)	(0.05)	0.05	N/A	N/A	N/A
Gross margin	42.48%	46.13%	51.95%	55.63%	45.80%	58.70%	-13.15 ppt	+0.33 ppt	-6.75 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Revenue	356	426	838	690	864	1,172
Cost of goods sold	(258)	(311)	(384)	(397)	(465)	(563)
Gross profit	98	115	454	293	398	609
Operating expenses	(426)	(523)	(435)	(441)	(449)	(527)
Selling expense	(38)	(44)	(53)	(69)	(78)	(94)
Admin expense	(89)	(92)	(80)	(83)	(86)	(105)
R&D expense	(299)	(387)	(302)	(290)	(285)	(328)
Operating profit	(328)	(408)	18	(148)	(51)	81
Other income	2	2	13	0	0	0
Other expense	(13)	(14)	(8)	0	0	0
Gain/loss on financial assets at FVTPL	1	9	35	5	0	(1)
Other gains/(losses)	121	0	0	0	0	0
Pre-tax profit	(216)	(410)	58	(144)	(51)	81
Income tax	(12)	0	(5)	0	0	(12)
Others	61	50	47	50	52	54
Minority interest	(28)	(0)	(0)	0	0	0
Net profit	(167)	(360)	101	(94)	2	122

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Current assets	1,212	840	1,097	964	895	958
Cash & equivalents	378	313	284	93	49	63
Account receivables	84	98	117	181	149	187
Inventories	36	57	50	43	51	62
Financial assets at FVTPL	634	318	603	603	603	603
Other current assets	81	54	43	43	43	43
Non-current assets	161	190	183	254	327	399
PP&E	41	76	100	122	142	160
Deferred income tax	9	15	15	15	15	15
Investment in JVs & assos	76	74	48	98	150	204
Other non-current assets	33	24	19	19	19	19
Total assets	1,373	1,029	1,280	1,218	1,222	1,356
Current liabilities	312	691	403	435	437	450
Short-term borrowings	27	0	31	31	31	31
Account payables	41	71	36	68	71	83
Tax payable	16	1	3	3	3	3
Other current liabilities	228	619	333	333	333	333
Non-current liabilities	21	39	133	133	133	133
Long-term borrowings	0	18	48	48	48	48
Obligations under finance leases	7	5	3	3	3	3
Deferred income	0	0	69	69	69	69
Other non-current liabilities	14	15	13	13	13	13
Total liabilities	333	729	536	569	571	583
Share capital	86	86	87	87	87	87
Capital surplus	1,505	1,497	1,522	1,522	1,522	1,522
Retained earnings	(610)	(971)	(871)	(965)	(963)	(841)
Other reserves	6	(2)	(8)	(8)	(8)	(8)
Total shareholders equity	987	610	731	637	638	761
Minority interest	53	27	13	13	13	13
Total equity and liabilities	1,040	637	743	649	651	773

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	(216)	(410)	58	(144)	(51)	81
Depreciation & amortization	7	9	8	8	10	12
Tax paid	(12)	0	(5)	0	0	(12)
Change in working capital	33	57	72	(26)	27	(36)
Others	(16)	76	85	0	0	0
Net cash from operations	(204)	(269)	219	(161)	(14)	44
Investing						
Capital expenditure	(16)	(37)	(33)	(30)	(30)	(30)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	(435)	316	(285)	0	0	0
Others	145	17	27	0	0	0
Net cash from investing	(306)	297	(291)	(30)	(30)	(30)
Financing						
Dividend paid	(10)	(26)	(9)	0	0	0
Net borrowings	(1)	(9)	62	0	0	0
Proceeds from share issues	717	0	5	0	0	0
Share repurchases	(27)	(48)	(9)	0	0	0
Others	(30)	(0)	0	0	0	0
Net cash from financing	650	(83)	49	0	0	0
Net change in cash						
Cash at the beginning of the year	236	378	313	284	93	49
Exchange difference	2	(9)	(6)	0	0	0
Cash at the end of the year	378	313	284	93	49	63
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	56.2%	19.7%	96.5%	(17.7%)	25.2%	35.7%
Gross profit	148.1%	17.8%	293.3%	(35.4%)	36.0%	52.8%
Net profit	na	na	na	na	na	7,976.0%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	27.5%	27.0%	54.1%	42.5%	46.1%	51.9%
Operating margin	(92.2%)	(95.6%)	2.2%	(21.5%)	(5.9%)	6.9%
Return on equity (ROE)	(22.7%)	(45.1%)	15.1%	(13.8%)	0.2%	17.5%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(1.0)	(1.0)	(1.1)	(1.0)	(0.9)	(0.8)
Current ratio (x)	3.9	1.2	2.7	2.2	2.0	2.1
Receivable turnover days	66.1	77.2	78.0	78.0	78.0	78.0
Inventory turnover days	39.2	54.2	40.0	40.0	40.0	40.0
Payable turnover days	51.4	65.9	65.0	65.0	65.0	65.0
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	ns	ns	26.8	ns	1,775.8	22.0
P/B	5.6	4.2	3.6	4.1	4.1	3.5

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

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