

Hutchmed (13 HK)

Fruquintinib's overseas sales beat

HCM's oncology/immunology product revenue reached US\$128mn in 1H24 (+59.6% YoY), including US\$43mn revenue recognised from fruquintinib's sales outside China. The consolidated revenue from oncology/immunology including R&D services and Takeda collaboration revenue, reached US\$169mn in 1H24, representing 48% of the midpoint of the FY24 guidance range of US\$300-400mn. In 2Q24, fruquintinib recorded strong sales in the US market, +53% QoQ to JPY11.9bn (or c. US\$80mn), up from JPY7.8bn (or c. US\$52mn) in 1Q24. The growth has beaten our expectation, reflecting strong demand in the US. With imminent commercialization in EU, Japan and other global markets, we expect fruquintinib to maintain its strong sales momentum outside China in 2024 and beyond. In China, the in-market sales of fruquintinib, savolitinib and surufatinib in 1H24 increased by 8%, 18%, and 12% YoY, respectively, with the revenue to HCM +10%/-13%/+12% YoY to US\$46mn/13mn/25mn. HCM's consolidated revenues from oncology/immunology in China maintained relatively stable growth, increasing 6% YoY or 11% HoH to US\$85mn in 1H24. Fruquintinib maintained its leading position in the China 3L CRC market, while savolitinib could face fierce competition in the China cMET inhibitor market. HCM's R&D expenditures were US\$95mn in 1H24, down 34% YoY. HCM recorded a net income of US\$26mn in 1H24. As of Jun 2024, HCM held a strong cash position of US\$803mn.

- Fruquintinib shows potential for indication expansion in China.** In China, fruquintinib may receive CDE decision for the sDNA for 2L GC in 3Q24 (sNDA submitted in Apr 2023). Recall that the OS endpoint was not met in the Ph3 FRUTIGA trial. Furthermore, fruquintinib combined with sintilimab received BTD for endometrial cancer (pMMR type) in China, with an sNDA filed in Apr 2024, supported by promising results recently released at ASCO (CMBI report: [link](#)). Additionally, we expect another sNDA of fruquintinib + sintilimab for 2L renal cancer to be filed by end-2024. The expanded indications will contribute to fruquintinib's further sales growth in China.
- 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 expect AZ to file the NDA to the US FDA for accelerated approval by the end of 2024, contingent on positive trial outcomes. This could establish savolitinib as HCM's second product in the global marketplace. In China, there is potential for savolitinib to broaden its indications to include first-line MET Exon 14 NSCLC, following a filing in Mar 2024. We believe this expansion would enhance its competitive stance in the cMET inhibitor market upon approval.
- Sovleplenib, a potential best-in-class Syk inhibitor, exhibits significant potential for overseas licensing.** In the Ph3 ESLIM-01 trial, soveleplenib demonstrated BIC potential for ITP, achieving a high durable response rate of 48% observed. Following the NDA submission in Jan 2024, we anticipate that soveleplenib will allow the Company to penetrate the autoimmune disease market. HCM is conducting a Ph1b ITP trial in the US/EU, which will facilitate the potential out-licensing upon positive data readout, in our view.
- Maintain BUY.** Considering fruquintinib's strong US sales momentum and near-term launch in other regions outside China, we raise our TP from HK\$34.31 to HK\$35.61 based on DCF valuation (WACC: 10.95 %, terminal growth rate: 3.0%). BUY.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (US\$ mn)	426	838	640	785	1,055
YoY growth (%)	19.7	96.5	(23.6)	22.6	34.5
Net profit (US\$ mn)	(360.4)	101.1	34.9	89.0	89.0
EPS (Reported) (US\$)	(0.43)	0.12	0.04	0.10	0.26
R&D expenses (US\$ mn)	(387)	(302)	(224)	(235)	(232)
CAPEX (US\$ mn)	(37)	(33)	(30)	(30)	(30)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$35.61
(Previous TP)	HK\$34.31
Up/Downside	20.9%
Current Price	HK\$29.45

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Stock Data

Mkt Cap (HK\$ mn)	25,661.5
Avg 3 mths t/o (HK\$ mn)	88.2
52w High/Low (HK\$)	34.70/19.16
Total Issued Shares (mn)	871.4

Source: FactSet

Shareholding Structure

CK Hutchison Holdings	38.2%
Deutsche Bank Trust	12.6%

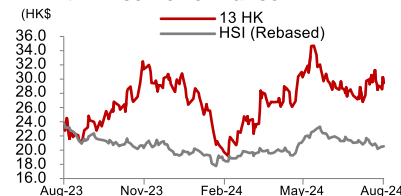
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	7.1%	9.7%
3-mth	-2.6%	-0.1%
6-mth	47.3%	32.5%

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	(22)	36	195	357	440	510	559	560	568	567	547	529
Tax rate	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(22)	31	166	303	374	434	475	476	483	482	465	449
+ D&A	8	10	12	13	15	16	17	18	19	20	21	22
- Change in working capital	(20)	18	(29)	(45)	(44)	(25)	(22)	(18)	(11)	(12)	(8)	(3)
- Capex	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)
FCFF	(64)	29	118	241	314	395	440	446	461	460	447	438
Terminal value												5,671
Present value of enterprise (US\$ mn)	3,260											
Net debt (US\$ mn)	(744)											
Equity value (US\$ mn)	4,004											
Equity value (HK\$ mn)	31,029											
No. of outstanding shares (mn)	871											
DCF per share (HK\$)	35.61											
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%	43.96	40.67	37.86	35.42	33.30
	3.50%	42.17	39.22	36.66	34.43	32.46
	3.00%	40.64	37.96	35.61	33.55	31.72
	2.50%	39.32	36.85	34.69	32.76	31.05
	2.00%	38.16	35.88	33.86	32.07	30.45

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

US\$ mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	640	785	1,055	690	864	1,172	-7%	-9%	-10%
Gross profit	324	417	612	293	398	609	10%	5%	0%
Operating profit	(22)	36	195	(148)	(51)	81	-85%	-172%	139%
Net profit	35	89	226	(94)	2	122	-137%	5767%	84%
EPS (US\$)	0.04	0.10	0.26	(0.11)	0.00	0.14	-137%	5766%	84%
Gross margin	50.53%	53.13%	57.96%	42.48%	46.13%	51.95%	+8.06 ppt	+7.00 ppt	+6.01 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	640	785	1,055	679	837	1,015	-6%	-6%	4%
Gross profit	324	417	612	287	397	533	13%	5%	15%
Operating profit	(22)	36	195	(126)	(34)	57	NA	NA	242%
Net profit	35	89	226	(73)	30	114	NA	NA	98%
EPS (US\$)	0.04	0.10	0.26	(0.10)	0.02	0.13	NA	NA	106%
Gross margin	50.53%	53.13%	57.96%	42.35%	47.41%	52.55%	+8.19 ppt	+5.71 ppt	+5.41 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Revenue	356	426	838	640	785	1,055
Cost of goods sold	(258)	(311)	(384)	(317)	(368)	(444)
Gross profit	98	115	454	324	417	612
Operating expenses	(426)	(523)	(435)	(346)	(381)	(417)
Selling expense	(38)	(44)	(53)	(58)	(67)	(84)
Admin expense	(89)	(92)	(80)	(64)	(78)	(100)
R&D expense	(299)	(387)	(302)	(224)	(235)	(232)
Operating profit	(328)	(408)	18	(22)	36	195
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	7	7	7
Other gains/(losses)	121	0	0	0	0	0
Pre-tax profit	(216)	(410)	58	(15)	43	43
Income tax	(12)	0	(5)	0	(7)	(7)
Others	61	50	47	50	52	54
Minority interest	(28)	(0)	(0)	0	0	0
Net profit	(167)	(360)	101	35	89	89
BALANCE SHEET						
	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Current assets	1,212	840	1,097	1,025	1,042	1,042
Cash & equivalents	378	313	284	227	262	262
Account receivables	84	98	117	107	82	101
Inventories	36	57	50	44	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	1,279	1,368	1,368
Current liabilities	312	691	403	368	368	368
Short-term borrowings	27	0	31	31	31	31
Account payables	41	71	36	1	1	1
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	501	501	501
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)	(836)	(747)	(747)
Other reserves	6	(2)	(8)	(8)	(8)	(8)
Total shareholders equity	987	610	731	765	854	854
Minority interest	53	27	13	13	13	13
Total equity and liabilities	1,040	637	743	778	867	867

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	(216)	(410)	58	(15)	43	43
Depreciation & amortization	7	9	8	8	10	12
Tax paid	(12)	0	(5)	0	(7)	(7)
Change in working capital	33	57	72	(20)	18	(29)
Others	(16)	76	85	0	0	0
Net cash from operations	(204)	(269)	219	(26)	65	65
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	227	227
Exchange difference	2	(9)	(6)	0	0	0
Cash at the end of the year	378	313	284	227	262	262

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

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