

Hutchmed (13 HK)

Expecting sustainable profitability

- Strong fruquintinib overseas sales drove top-line beat.** HCM delivered a strong FY24 financial performance, marked by a top-line beat fueled by robust fruquintinib sales internationally. Oncology/immunology product revenue grew by 65% YoY to US\$272mn, exceeding the previous guidance of 30-50% growth. FRUZAQLA (fruquintinib) generated total overseas sales of US\$291mn in its first full year on the market, with US\$111mn recognized as HCM's revenue. In China, oncology/immunology product revenue remained largely flat (+2% YoY). While fruquintinib and surufatinib continued to deliver growth, savolitinib encountered heightened competition. We anticipate continuously strong momentum for FRUZAQLA's overseas sales, driven by increasing penetration in 3L CRC in the US, expanding US reimbursement coverage, and commercialization in the EU, Japan, and other global markets. We are confident in HCM's 2025 oncology business target of US\$350-450mn and project 35% YoY growth in in-market sales for its combined portfolio in FY25E.
- Sustainable profitability achieved ahead of schedule.** Driven by robust FRUZAQLA product revenue, HCM achieved net profit of US\$38mn for FY24, surpassing its original target of reaching profitability by 2025. This financial success was bolstered by a 30% YoY reduction in R&D expenses to US\$212mn and a 15% YoY decrease in SG&A expenses to US\$113mn. With strong sales of fruquintinib from overseas markets, and one-off gain from divesting non-core business of Shanghai Hutchison, we expect the Company to realize net profit of US\$340mn in FY25E. HCM's robust cash position of US\$836mn at end 2024 provides ample flexibility for potential M&A or in-licensing opportunities.
- Savolitinib positioned for global commercialization.** Savolitinib is on track to become HCM's second globally commercialized product. The SAVANNAH Ph2 trial demonstrated promising results for the oral, chemo-free combination of savolitinib + osimertinib in EGFR-TKI resistant MET+ NSCLC patients, delivering a 55% ORR and an mPFS of 7.5 months ([link](#)), with a manageable safety profile (32% Grade \geq 3 TRAEs). This profile compares favorably to other treatment options in the same setting, such as EGFR/cMET bsAb, PD-1/VEGF bsAb, or TROP2 ADC. Detailed SAVANNAH data will be presented at the upcoming ELCC meeting in Mar. The SAVANNAH trial, along with the nearing completion of enrollment of the Ph3 SAFFRON trial, are expected to support global approval for savolitinib.
- ATTC platform to be an innovation focus.** Leveraging its expertise in targeted therapy and small molecule inhibitors, HCM is developing an innovative Antibody Targeted Therapy Conjugate (ATTC) platform, which distinguishes itself from traditional ADCs by replacing the cytotoxic payload with a targeted small molecule inhibitor. This novel approach offers the potential for reduced toxicity compared to conventional ADCs while maintaining or enhancing efficacy. HCM anticipates the first ATTC drug candidate to enter clinic in 2H25.
- Maintain BUY.** In parallel with the Company's conservative FY25 revenue target, we adjust our top line estimate as well and revise our TP from HK\$35.61 to HK\$34.03 based on DCF valuation (WACC: 13.19%, terminal growth rate: 2.0%).

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	838	630	684	893	1,192
YoY growth (%)	96.5	(24.8)	8.5	30.6	33.4
Net profit (US\$ mn)	101.1	38.2	340.9	183.0	326.4
EPS (Reported) (US\$ cents)	11.86	4.41	39.06	20.95	37.40
R&D expenses (US\$ mn)	(302)	(212)	(205)	(196)	(215)
CAPEX (US\$ mn)	(33)	(18)	(18)	(18)	(18)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$34.03
(Previous TP)	HK\$35.61
Up/Downside	42.4%
Current Price	HK\$23.90

China Healthcare

Jill WU, CFA

(852) 3900 0842
jillwu@cmbi.com.hk

Andy WANG

(852) 3657 6288
andywang@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	20,831.3
Avg 3 mths t/o (HK\$ mn)	154.4
52w High/Low (HK\$)	34.70/20.25
Total Issued Shares (mn)	871.6

Source: FactSet

Shareholding Structure

CK Hutchison Holdings	38.2%
Deutsche Bank Trust	12.6%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	4.1%	-3.5%
3-mth	4.1%	-17.0%
6-mth	-9.5%	-34.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Risk-adjusted DCF valuation

DCF valuation (US\$ mn)	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	376	173	334	336	396	430	438	453	461	462	453
Tax rate	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	320	147	284	286	337	365	372	385	392	392	385
+ D&A	9	10	11	12	12	13	13	14	14	15	15
- Change in working capital	14	(18)	(50)	(59)	(19)	(24)	(18)	(7)	(9)	(4)	0
- Capex	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)
FCFF	325	122	227	220	312	336	350	374	380	384	383
Terminal value											3,488
PV of enterprise (US\$ mn)	2,513										
Net debt (US\$ mn)	(1,314)										
Equity value (US\$ mn)	3,827										
Equity value (HK\$ mn)	29,662										
No. of outstanding share (mn)	872										
DCF per share (HK\$)	34.03										
Terminal growth rate	2.0%										
WACC	13.19%										
Cost of equity	17.2%										
Cost of debt	4.5%										
Equity beta	1.10										
Risk-free rate	4.0%										
Market risk premium	12.0%										
Target debt to asset ratio	30.0%										
Effective corporate tax rate	15.0%										

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (US\$)

Terminal growth rate	WACC				
	12.19%	12.69%	13.19%	13.69%	14.19%
4.0%	39.00	37.39	35.95	34.66	33.50
3.5%	38.24	36.74	35.40	34.18	33.09
3.0%	36.42	35.17	34.03	33.00	32.05
2.5%	35.92	34.74	33.65	32.66	31.75
2.0%	35.47	34.34	33.31	32.36	31.49

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

US\$ mn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	684	893	1,192	785	1,055	1,348	-13%	-15%	-12%
Gross profit	320	474	697	417	612	826	-23%	-23%	-16%
Operating profit	(5)	126	286	36	195	357	NA	NA	42%
Net profit	340	183	326	89	226	370	NA	NA	42%
EPS (US\$)	0.39	0.21	0.37	0.10	0.26	0.00	NA	NA	42%
Gross Margin	46.73%	53.05%	58.49%	53.13%	57.96%	61.26%	-6.40 ppt	-4.91 ppt	-2.78 ppt

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimate vs consensus

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	684	893	1,192	788	925	1,114	-13%	-3%	7%
Gross profit	320	474	697	377	488	621	-15%	-3%	12%
Operating profit	(5)	126	286	(16)	67	115	N/A	N/A	N/A
Net profit	340	183	326	170	116	187	N/A	N/A	N/A
EPS (US\$)	0.39	0.21	0.37	0.18	0.14	0.27	N/A	N/A	N/A
Gross margin	46.73%	53.05%	58.49%	47.92%	52.76%	55.77%	-1.19 ppt	+0.30 ppt	+2.72 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Revenue	426	838	630	684	893	1,192
Cost of goods sold	(311)	(384)	(349)	(364)	(419)	(495)
Gross profit	115	454	281	320	474	697
Operating expenses	(523)	(435)	(325)	(325)	(348)	(411)
Selling expense	(44)	(53)	(49)	(51)	(67)	(89)
Admin expense	(92)	(80)	(64)	(68)	(85)	(107)
R&D expense	(387)	(302)	(212)	(205)	(196)	(215)
Operating profit	(408)	18	(44)	(5)	126	286
Other income	2	13	10	0	0	0
Other expense	(14)	(8)	(5)	0	0	0
Gain/loss on financial assets at FVTPL	9	35	37	19	36	44
Other gains/(losses)	0	0	0	382	48	48
Pre-tax profit	(410)	58	(1)	395	209	378
Income tax	0	(5)	(7)	(59)	(31)	(57)
Others	50	47	46	5	5	5
Minority interest	(0)	(0)	(0)	(0)	(0)	(0)
Net profit	(360)	101	38	341	183	326
BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Current assets	840	1,097	1,067	1,617	1,741	2,014
Cash & equivalents	313	284	154	722	826	1,043
Account receivables	98	117	156	136	148	193
Inventories	57	50	50	53	60	71
Financial assets at FVTPL	318	603	682	682	682	682
Other current assets	54	43	25	25	25	25
Non-current assets	190	183	208	151	164	177
PP&E	76	100	92	101	109	116
Deferred income tax	15	15	12	12	12	12
Investment in JVs & assos	74	48	78	13	18	23
Other non-current assets	24	19	25	25	25	25
Total assets	1,029	1,280	1,274	1,768	1,905	2,190
Current liabilities	691	403	377	530	484	442
Short-term borrowings	0	31	23	23	23	23
Account payables	71	36	43	39	41	47
Tax payable	1	3	2	2	2	2
Other current liabilities	619	333	309	466	418	370
Non-current liabilities	39	133	126	126	126	126
Long-term borrowings	18	48	59	59	59	59
Obligations under finance leases	5	3	4	4	4	4
Deferred income	0	69	48	48	48	48
Other non-current liabilities	15	13	14	14	14	14
Total liabilities	729	536	502	656	610	568
Share capital	86	87	87	87	87	87
Capital surplus	1,497	1,522	1,518	1,518	1,518	1,518
Retained earnings	(971)	(871)	(833)	(493)	(310)	16
Other reserves	(2)	(8)	(12)	(12)	(12)	(12)
Total shareholders equity	610	731	760	1,100	1,283	1,609
Minority interest	27	13	12	12	13	13
Total equity and liabilities	637	743	772	1,113	1,296	1,622

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	(410)	58	(1)	395	209	378
Depreciation & amortization	9	8	12	9	10	11
Tax paid	0	(5)	(7)	(59)	(31)	(57)
Change in working capital	57	72	(59)	14	(18)	(50)
Others	76	85	56	0	0	0
Net cash from operations	(269)	219	0	359	170	282
Investing						
Capital expenditure	(37)	(33)	(18)	(18)	(18)	(18)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	316	(285)	(79)	0	0	0
Others	17	27	1	156	(48)	(48)
Net cash from investing	297	(291)	(96)	138	(66)	(66)
Financing						
Dividend paid	(26)	(9)	(1)	0	0	0
Net borrowings	(9)	62	6	0	0	0
Proceeds from share issues	0	5	1	0	0	0
Share repurchases	(48)	(9)	(36)	0	0	0
Others	(0)	0	0	0	0	0
Net cash from financing	(83)	49	(31)	0	0	0
Net change in cash						
Cash at the beginning of the year	378	313	284	154	722	826
Exchange difference	(9)	(6)	(3)	0	0	0
Cash at the end of the year	313	284	154	652	826	1,043
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	19.7%	96.5%	(24.8%)	8.5%	30.6%	33.4%
Gross profit	17.8%	293.3%	(38.0%)	13.6%	48.3%	47.1%
Operating profit	na	na	na	na	na	127.7%
Net profit	na	na	(62.2%)	793.2%	(46.3%)	78.3%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	27.0%	54.1%	44.6%	46.7%	53.1%	58.5%
Operating margin	(95.6%)	2.2%	(6.9%)	(0.8%)	14.1%	24.0%
Return on equity (ROE)	(45.1%)	15.1%	5.1%	36.7%	15.4%	22.6%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Net debt to equity (x)	(1.0)	(1.1)	(1.0)	(1.2)	(1.1)	(1.0)
Current ratio (x)	1.2	2.7	2.8	3.1	3.6	4.6
Receivable turnover days	77.2	46.8	78.9	78.9	78.9	78.9
Inventory turnover days	54.2	50.8	52.7	52.7	52.7	52.7
Payable turnover days	65.9	51.0	41.2	41.2	41.2	41.2
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	ns	25.9	69.7	7.9	14.7	8.2
P/B	4.1	3.5	3.4	2.4	2.1	1.7

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

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM. Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.