

Hutchmed (13 HK)

Exploit global market opportunities

HCM continued to prove its strong commercial capabilities by achieving remarkable 63% YoY growth in oncology product sales in FY22, reaching US\$124.6mn, driven by its three commercial drugs. HCM targets to grow the oncology product sales by high double-digit in FY23 while the management expects US\$450-550mn consolidated oncology revenue in FY23, including partial recognition of US\$400mn upfront payment from Takeda. The R&D expenses in FY22 were US\$386.9mn (+29% YoY). As of end-2022, HCM had a strong cash position of US\$631.0mn. The Company targets to turn profitable in 2025.

- Eyes on fruquintinib's filling for CRC in the US and GC in China.** With increasing new CRC patients treated (28k in 2H22, 14k in 1H22, 12k in 2H21), the in-market sales of fruquintinib in FY22 grew by 32% YoY to US\$93.5mn, resulting in US\$69.9mn revenue booked by HCM. Fruquintinib has become a market leader for 3L CRC in China with a 44% patient share in 4Q22. In Jan, HCM out-licensed the ex-China rights of fruquintinib to Takeda, and is eligible to receive US\$400mn upfront payment and up to US\$730mn milestones payments. The MRCT FRESCO-2 trial has demonstrated superior efficacy and safety in treating late-line CRC patients than other approved products ([CMBI report link](#)). HCM targets to complete the BLA rolling submission in 1H23 in the US, with EU and Japan to follow. We are positive towards the overseas approvals for CRC. Meanwhile, fruquintinib showed positive PFS results of the Ph3 FRUTIGA trial in 2L GC, while the OS co-primary endpoint was not met. HCM plans to file the sBLA for fruquintinib in 2L GC based on the FRUTIGA data in China in 1H23. Given ramucirumab, the only approved I/O drug for the 2L GC in China, did not achieve significance in OS improvement either in its RAINBOW-Asia trial ([link](#)). We think it is likely fruquintinib can be approved in China for 2L GC. We look forward to the data release of the FRUTIGA trial. We also expect the readout of fruquintinib + PD-1 in 2L EMC and RCC in 1H23.
- NRDL inclusion to further drive sales growth of savolitinib.** The in-market sales of savolitinib increased 159% YoY to US\$41.2mn in FY22, with US\$22.3mn revenue attributable to HCM. Since Mar 2023, savolitinib will be covered by NRDL, which will further facilitate sales growth. HCM will continue the enrolment of the Ph2 SAVANNAH study, and evaluate the potential of US accelerated approval based on this trial. We also expect HCM to release data of savolitinib's potential registrational Ph2 trial for GC in 1H23.
- Next wave of innovative drug commercialization.** The pivotal trial ESLIM-01 of soveplenib (Syk) in 2L ITP was fully enrolled in Dec 2022, and HCM expects the data readout and potential NDA in 2H23. For amdizalisib (PI3Kδ), the Ph2b trial in 2L FL just completed enrolment in Feb, and HCM expects the readout and NDA in 2H23 as well.
- Maintain BUY.** We like HCM given its strong product sales growth momentum in China and big potential of commercial approvals of key assets in overseas regions. We revised our TP from HK\$36.06 to HK\$37.49 based on DCF valuation (WACC: 9.51%, terminal growth rate: 2%).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (US\$ mn)	356	426	816	894	1,066
YoY growth (%)	56.2	19.7	91.4	9.6	19.2
Net profit (US\$ mn)	(167.0)	(360.4)	(138.9)	(65.3)	33.7
EPS (Reported) (US\$)	(0.25)	(0.43)	(0.16)	(0.08)	0.04
R&D expenses (US\$ mn)	(299)	(387)	(390)	(376)	(352)
CAPEX (US\$ mn)	(16)	(37)	(15)	(10)	(10)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$37.49
(Previous TP)	HK\$36.06
Up/Downside	38.5%
Current Price	HK\$27.30

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Stock Data

Mkt Cap (HK\$ mn)	23,608.4
Avg 3 mths t/o (HK\$ mn)	26.0
52w High/Low (HK\$)	42.80/11.76
Total Issued Shares (mn)	864.8

Source: FactSet

Shareholding Structure

CK Hutchison Holdings	38.5%
The Capital Group	10.8%

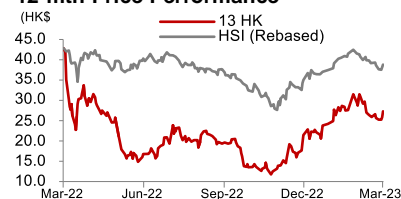
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-10.2%	-3.9%
3-mth	28.8%	17.0%
6-mth	39.1%	32.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in US\$ mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	(209)	(134)	(32)	54	197	353	524	628	685	706	710	727	743
Tax rate	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(209)	(134)	(32)	46	167	300	446	534	583	600	603	618	632
+ D&A	9	9	9	10	10	10	10	10	10	10	10	10	10
- Change in working capital	(5)	(61)	(18)	(41)	(76)	(66)	(57)	(51)	(47)	(37)	(25)	(24)	(33)
- Capex	(15)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
FCFF	(221)	(196)	(50)	5	91	234	388	482	536	563	578	594	599
Terminal value													8,129
Present value of enterprise (US\$ mn)	3,786												
Net debt (US\$ mn)	(397)												
Equity value (US\$ mn)	4,183												
Equity value (HK\$ mn)	32,421												
No. of outstanding shares (mn)	865												
DCF per share (HK\$)	37.49												
Terminal growth rate	2.0%												
WACC	9.51%												
Cost of Equity	12.0%												
Cost of Debt	4.5%												
Equity Beta	0.90												
Risk Free Rate	2.5%												
Market Risk Premium	10.5%												
Target Debt to Asset ratio	30.0%												
Effective Corporate Tax Rate	15.0%												

Source: CMBIGM estimates

Figure 2: Sensitivity analysis (HK\$)

		WACC				
		8.51%	9.01%	9.51%	10.01%	10.51%
Terminal growth rate	4.00%	59.21	52.03	46.20	41.37	37.31
	3.50%	54.76	48.59	43.48	39.19	35.54
	3.00%	45.51	41.19	37.49	34.28	31.48
	2.50%	43.30	39.39	35.99	33.03	30.42
	2.00%	41.39	37.80	34.67	31.92	29.48

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

US\$ mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	816	894	1,066	516	680	680	58%	32%	57%
Gross Profit	342	370	451	177	283	283	94%	31%	60%
Operating Profit	(209)	(134)	(32)	(305)	(124)	(124)	N/A	N/A	N/A
Net profit	(139)	(66)	33	(299)	(119)	(119)	N/A	N/A	N/A
EPS (US\$)	(0.16)	(0.08)	0.04	(0.35)	(0.14)	(0.14)	N/A	N/A	N/A
Gross Margin	41.95%	41.31%	42.34%	34.27%	41.60%	41.60%	0.00 ppt	0.00 ppt	-0.45 ppt

Source: CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	816	894	1,066	669	739	917	22%	21%	16%
Gross profit	342	370	451	317	315	446	8%	17%	1%
Operating profit	(209)	(134)	(32)	(219)	(211)	(175)	N/A	N/A	N/A
Net profit	(139)	(66)	33	(77)	(124)	(109)	N/A	N/A	N/A
EPS (US\$)	(0.16)	(0.08)	0.04	(0.19)	(0.21)	(0.20)	N/A	N/A	N/A
Gross margin	41.95%	41.31%	42.34%	47.46%	42.70%	48.68%	-5.51 ppt	-1.39 ppt	-6.34 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Revenue	228	356	426	816	894	1,066
Cost of goods sold	(189)	(258)	(311)	(474)	(525)	(615)
Gross profit	39	98	115	342	370	451
Operating expenses	(236)	(426)	(523)	(552)	(504)	(483)
Selling expense	(11)	(38)	(44)	(80)	(83)	(89)
Admin expense	(50)	(89)	(92)	(82)	(45)	(43)
R&D expense	(175)	(299)	(387)	(390)	(376)	(352)
Operating profit	(197)	(328)	(408)	(209)	(134)	(32)
Other income	5	2	2	0	0	0
Other expense	(0)	(13)	(14)	0	0	0
Gain/loss on financial assets at FVTPL	2	1	9	10	9	5
Other gains/(losses)	0	121	0	0	0	0
Pre-tax profit	(190)	(216)	(410)	(199)	(125)	(26)
Income tax	(5)	(12)	0	0	0	0
Others	79	61	50	60	60	60
Minority interest	(10)	(28)	(0)	(0)	(0)	(0)
Net profit	(116)	(167)	(360)	(139)	(65)	34
BALANCE SHEET						
	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Current assets	531	1,212	840	619	522	504
Cash & equivalents	236	378	313	403	216	171
Account receivables	48	84	98	92	177	194
Inventories	20	36	57	52	58	67
Financial assets at FVTPL	200	634	318	18	18	18
Other current assets	28	81	54	54	54	54
Non-current assets	193	161	190	256	317	377
PP&E	24	41	76	82	83	83
Deferred income tax	2	9	15	15	15	15
Investment in JVs & assos	140	76	74	134	194	254
Other non-current assets	28	33	24	24	24	24
Total assets	724	1,373	1,029	875	839	881
Current liabilities	158	312	691	338	367	376
Short-term borrowings	0	27	0	0	0	0
Account payables	32	41	71	55	84	93
Tax payable	1	16	1	1	1	1
Other current liabilities	126	228	619	282	282	282
Non-current liabilities	47	21	39	39	39	39
Long-term borrowings	27	0	18	18	18	18
Obligations under finance leases	6	7	5	5	5	5
Deferred income	0	0	0	0	0	0
Other non-current liabilities	13	14	15	15	15	15
Total liabilities	205	333	729	377	406	415
Share capital	73	86	86	86	86	86
Capital surplus	822	1,505	1,497	1,497	1,497	1,497
Retained earnings	(416)	(610)	(971)	(1,111)	(1,177)	(1,143)
Other reserves	4	6	(2)	(2)	(2)	(2)
Total shareholders equity	484	987	610	471	405	439
Minority interest	35	53	27	27	27	28
Total equity and liabilities	519	1,040	637	498	433	466

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	(190)	(216)	(410)	(199)	(125)	(26)
Depreciation & amortization	6	7	9	9	9	9
Tax paid	(5)	(12)	0	0	0	0
Change in working capital	29	33	57	(5)	(61)	(18)
Others	97	(16)	76	0	0	0
Net cash from operations	(62)	(204)	(269)	(195)	(177)	(35)
Investing						
Capital expenditure	(8)	(16)	(37)	(15)	(10)	(10)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Net proceeds from disposal of short-term investments	(104)	(435)	316	300	0	0
Others	(14)	145	17	0	0	0
Net cash from investing	(125)	(306)	297	285	(10)	(10)
Financing						
Dividend paid	(1)	(10)	(26)	0	0	0
Net borrowings	0	(1)	(9)	0	0	0
Proceeds from share issues	319	717	0	0	0	0
Share repurchases	(13)	(27)	(48)	0	0	0
Others	(8)	(30)	(0)	0	0	0
Net cash from financing	296	650	(83)	0	0	0
Net change in cash						
Cash at the beginning of the year	121	236	378	313	403	216
Exchange difference	6	2	(9)	0	0	0
Cash at the end of the year	236	378	313	403	216	171
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	11.3%	56.2%	19.7%	91.4%	9.6%	19.2%
Gross profit	(11.8%)	148.1%	17.8%	197.0%	7.9%	22.2%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	17.3%	27.5%	27.0%	42.0%	41.3%	42.3%
Operating margin	(86.3%)	(92.2%)	(95.6%)	(25.6%)	(15.0%)	(3.0%)
Return on equity (ROE)	(29.9%)	(22.7%)	(45.1%)	(25.7%)	(14.9%)	8.0%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.8)	(1.0)	(1.0)	(0.8)	(0.5)	(0.4)
Current ratio (x)	3.4	3.9	1.2	1.8	1.4	1.3
Receivable turnover days	70.5	66.1	77.2	78.0	78.0	78.0
Inventory turnover days	34.8	39.2	54.2	40.0	40.0	40.0
Payable turnover days	53.8	51.4	65.9	65.0	65.0	65.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	na	na	na	na	90.5
P/B	na	5.6	4.2	6.0	7.0	6.4

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

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