

# Hutchmed (13 HK)

## Eyes on the FDA approval of fruquintinib in Nov

HCM's consolidated revenues from oncology/immunology increased 294% YoY to US\$359mn in 1H23, mainly driven by the US\$259mn income recognition related to the total US\$400mn upfront payment received from Takeda. The in-market product sales increased 16% YoY (25% at CER) to US\$101mn in 1H23, among which sales of fruquintinib increased 12% YoY (20% at CER) to US\$56mn, maintaining leadership in patient share (47%) in 3L CRC in China. Surufatinib's in-market sales in 1H23 increased 66% YoY (79% at CER) to US\$23mn, driven by increase in DoT and additional hospital listings. Savolitinib's in-market sales in 1H23 decreased 5% YoY (increased 2% at CER) to US\$22mn, which was mainly impacted by the 38% price cut for NRDL inclusion. However, the sales volume of savolitinib soared 84% YoY in 2Q23 thanks to the NRDL inclusion. We expect the sales growth of savolitinib to pick up in 2H23. The Company spent US\$145mn in R&D, -20% YoY, as a result of strategic prioritization of pipeline. SG&A expenses declined to US\$68mn in 1H23 (vs US\$80mn in 1H22), primarily reflecting the restructuring of the ex-China commercial infrastructure in late 2022. HCM recorded a net income of US\$169mn in 1H23. As of end-1H23, HCM had a strong cash position of US\$856mn (vs US\$631mn at end-2022). HCM targets to turn profitable in 2025.

■ **First wave of innovative drugs continues to expand indications.** Fruquintinib is under NDA review by US FDA and EU EMA for 3L CRC, with PDUFA date of the US FDA review on 30 Nov 2023. Positive with the approval, Takeda is actively preparing for the product's commercial launch in advance of the PDUFA date. HCM will also file NDA for fruquintinib in Japan this year. In China, fruquintinib is under review by CDE for the treatment of the highly underserved 2L gastric cancer (sNDA in Apr 2023), with Ph3 data readout in 2H23. Additionally, fruquintinib + sintilimab recently received BTD designated for endometrial cancer in China, and the potential Ph2 registration trial in China has completed patient enrollment, which if positive may lead to sNDA filing in 1H24. For savolitinib, the global Ph2 SAVANNAH is expected to finish enrollment in 2H23 for potential accelerated approval in the global market for 2/3L tagrisso-refractory MET+ NSCLC. In China, with positive data released, HCM has initiated the registration stage of a Ph2 study of savolitinib in 2L MET+ GC after consultation with CDE. For surufatinib, which was previously required by the FDA to conduct an MRCT for US approval, HCM has decided not to file NDA in Japan for refractory NET.

■ **Commercialization of the second wave of innovation.** With strong efficacy and favourable safety observed in Ph1/2 studies, the Ph3 ESLIM-01 trial of HCM's global-right soveplepib (Syk) in 2L ITP is expected to release data and submit NDA in 2H23. If the data is positive, HCM will initiate Ph1 study in the US as well. For amdzalisib (PI3Kδ), the registration Ph2b trial in 3L FL is expected to release topline data and file NDA in late 2023. HCM is developing multiple early-stage innovative molecules with global rights, including HMPL-453 (FGFR1/2/3), HMPL-306 (IDH1/2), HMPL-415 (SHP2), etc.

■ **Maintain BUY.** We are positive about the FDA/EMA approvals of fruquintinib in late 2023. We revised our TP from HK\$37.49 to HK\$35.67 based on DCF valuation (WACC: 10.25%, terminal growth rate: 3.0%).

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (US\$ mn)	356	426	823	852	998
YoY growth (%)	56	20	93	4	17
Net profit (US\$ mn)	(195)	(361)	(52)	(57)	14
EPS (Reported) (US\$)	(0.25)	(0.43)	(0.06)	(0.07)	0.02
R&D expenses (US\$ mn)	(299)	(387)	(300)	(341)	(329)
CAPEX (US\$ mn)	(16)	(37)	(15)	(10)	(10)

Source: Company data, CMBIGM estimates

### BUY (Maintain)

<b>Target Price</b>	<b>HK\$35.67</b>
(Previous TP)	HK\$37.49)
<b>Up/Downside</b>	<b>50.2%</b>
<b>Current Price</b>	<b>HK\$23.75</b>

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### Stock Data

Mkt Cap (HK\$ mn)	20,571
Avg 3 mths t/o (HK\$ mn)	42.7
52w High/Low (HK\$)	33.20/11.36
Total Issued Shares (mn)	867

Source: FactSet

### Shareholding Structure

CK Hutchison Holdings	38.4%
Deutsche Bank Trust	17.9%

Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	24.7%	17.5%
3-mth	-4.4%	-5.2%
6-mth	-20.1%	-13.1%

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	(124)	(128)	(53)	29	164	319	485	588	647	678	690	715	740
Tax rate	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(124)	(128)	(53)	24	140	271	413	500	550	576	587	607	629
+ D&A	9	9	9	10	10	10	10	10	10	10	10	10	10
- Change in working capital	(7)	(58)	(9)	(37)	(74)	(66)	(59)	(52)	(49)	(40)	(32)	(30)	(39)
- Capex	(15)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
<b>FCFF</b>	<b>(137)</b>	<b>(186)</b>	<b>(63)</b>	<b>(13)</b>	<b>65</b>	<b>205</b>	<b>353</b>	<b>448</b>	<b>501</b>	<b>536</b>	<b>555</b>	<b>577</b>	<b>590</b>
<b>Terminal value</b>													<b>8,386</b>
Present value of enterprise (US\$ mn)	3,508												
Net debt (US\$ mn)	(482)												
Equity value (US\$ mn)	3,991												
Equity value (HK\$ mn)	30,930												
No. of outstanding shares (mn)	867												
<b>DCF per share (HK\$)</b>	<b>35.67</b>												
<b>Terminal growth rate</b>	<b>3.0%</b>												
<b>WACC</b>	<b>10.25%</b>												
Cost of Equity	13.0%												
Cost of Debt	4.5%												
Equity Beta	1.00												
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				
		9.25%	9.75%	10.25%	10.75%	11.25%
<b>Terminal growth rate</b>	<b>4.00%</b>	48.84	43.63	39.29	35.62	32.48
	<b>3.50%</b>	45.82	41.23	37.35	34.03	31.18
	<b>3.00%</b>	43.28	39.18	<b>35.67</b>	32.66	30.03
	<b>2.50%</b>	41.11	37.41	34.22	31.44	29.01
	<b>2.00%</b>	39.25	35.87	32.94	30.37	28.10

Source: CMBIGM estimates

**Figure 3: CMBIGM estimates revision**

US\$ mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	823	852	998	816	894	1,066	1%	-5%	-6%
Gross Profit	333	328	391	342	370	451	-3%	-11%	-13%
Operating Profit	(124)	(128)	(53)	(209)	(134)	(32)	N/A	N/A	N/A
Net profit	(52)	(57)	14	(139)	(66)	33	N/A	N/A	N/A
EPS (US\$)	(0.06)	(0.07)	0.02	(0.16)	(0.08)	0.04	N/A	N/A	N/A
Gross Margin	40.45%	38.47%	39.17%	41.95%	41.31%	42.34%	-1.50 ppt	-2.85 ppt	-3.17 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	823	852	998	767	787	909	7%	8%	10%
Gross profit	333	328	391	404	360	433	-18%	-9%	-10%
Operating profit	(124)	(128)	(53)	(134)	(144)	(87)	N/A	N/A	N/A
Net profit	(52)	(57)	14	(93)	(134)	(46)	N/A	N/A	N/A
EPS (US\$)	(0.06)	(0.07)	0.02	(0.03)	(0.17)	(0.16)	N/A	N/A	N/A
Gross margin	40.45%	38.47%	39.17%	52.70%	45.76%	47.59%	-12.25 ppt	-7.29 ppt	-8.42 ppt

Source: Bloomberg, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Revenue	228	356	426	823	852	998
Cost of goods sold	(189)	(258)	(311)	(490)	(524)	(607)
Gross profit	39	98	115	333	328	391
Operating expenses	(236)	(426)	(523)	(456)	(456)	(444)
Selling expense	(11)	(38)	(44)	(74)	(72)	(75)
Admin expense	(50)	(89)	(92)	(82)	(43)	(40)
R&D expense	(175)	(299)	(387)	(300)	(341)	(329)
Operating profit	(197)	(328)	(408)	(124)	(128)	(53)
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	12	12	8
Other gains/(losses)	0	121	0	0	0	0
Pre-tax profit	(190)	(216)	(410)	(112)	(116)	(45)
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 attributable to shareholders	(126)	(195)	(361)	(52)	(57)	14

  

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (US\$ mn)						
Current assets	531	1,212	840	706	621	581
Cash & equivalents	236	378	313	488	313	258
Account receivables	48	84	98	92	178	184
Inventories	20	36	57	54	57	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	962	937	958
Current liabilities	158	312	691	338	370	376
Short-term borrowings	0	27	0	0	0	0
Account payables	32	41	71	55	87	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	409	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)	(1,024)	(1,081)	(1,066)
Other reserves	4	6	(2)	(2)	(2)	(2)
Total shareholders equity	484	987	610	558	501	516
Minority interest	35	53	27	27	27	28
Total equity and liabilities	519	1,040	637	585	529	543

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (US\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	(190)	(216)	(410)	(112)	(116)	(45)
Depreciation & amortization	6	7	9	9	9	9
Tax paid	(5)	(12)	0	0	0	0
Change in working capital	29	33	57	(7)	(58)	(9)
Others	97	(16)	76	0	0	0
<b>Net cash from operations</b>	<b>(62)</b>	<b>(204)</b>	<b>(269)</b>	<b>(110)</b>	<b>(165)</b>	<b>(45)</b>
<b>Investing</b>						
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
<b>Net cash from investing</b>	<b>(125)</b>	<b>(306)</b>	<b>297</b>	<b>285</b>	<b>(10)</b>	<b>(10)</b>
<b>Financing</b>						
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
<b>Net cash from financing</b>	<b>296</b>	<b>650</b>	<b>(83)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	121	236	378	313	488	313
Exchange difference	6	2	(9)	0	0	0
<b>Cash at the end of the year</b>	<b>236</b>	<b>378</b>	<b>313</b>	<b>488</b>	<b>313</b>	<b>258</b>
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Revenue	11.3%	56.2%	19.7%	92.9%	3.6%	17.1%
Gross profit	(11.8%)	148.1%	17.8%	188.6%	(1.5%)	19.3%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Gross profit margin	17.3%	27.5%	27.0%	40.5%	38.5%	39.2%
Operating margin	(86.3%)	(92.2%)	(95.6%)	(15.0%)	(15.0%)	(5.3%)
Return on equity (ROE)	(29.9%)	(22.7%)	(45.1%)	(8.9%)	(10.7%)	2.9%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
Net debt to equity (x)	(0.8)	(1.0)	(1.0)	(0.9)	(0.6)	(0.5)
Current ratio (x)	3.4	3.9	1.2	2.1	1.7	1.5
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
<b>YE 31 Dec</b>						
P/E	na	na	na	na	na	177.2
P/B	na	5.6	4.2	4.4	4.8	4.7

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

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