

HUTCHMED (13 HK)

Promising clinical data presented at ESMO Conference

■ HMPL-689, a PI3K δ inhibitor, released encouraging preliminary phase Ib results in Chinese patients with r/r lymphoma at 2021 ESMO Conference.

As of 15 Jun 2021, a total of 76 evaluable patients had received HMPL-689 at RP2D (300mg QD), with median follow-up of 5.6 months. The overall ORR was 53.9% with CR at 11.8% and clinical benefit rate (CBR) at 76.3%. Especially, HMPL-689 showed promising clinical activity in FL and MZL. In the 22 evaluable FL patients, ORR reached 81.8%, CR rate reached 36.4% and CBR was 90.9%. Among the 14 evaluable MZL patients, ORR was 50.0% and CBR was 100.0%. Moreover, HMPL-689 also showed good tolerability in clinical studies thanks to its high target selectivity and optimal PK profile. In the phase 1b study, HMPL-689's most common TEAEs of Grade \geq 3 were neutropenia (11.1%), pneumonia (13.3%) and rash (5.6%). All liver enzyme elevation was mild to moderate (Grade1-2). Grade 3 diarrhea is low (2.2%), and no colitis cases was reported. In Sep 2021, HMPL-689 received Breakthrough Therapy Designation (BTD) from NMPA for treatment of r/r FL. In Apr 2021, HCM has started a registration-intent phase II trial (NCT04849351) in China evaluating HMPL-689 as a monotherapy for 3L FL and 2L MZL, with patient enrollment expected to be completed in 1H22E for the FL cohort and in 2H22E for the MZL cohort.

■ Strong efficacy of savolitinib combo osimertinib in EGFR+, MET+ NSCLC patients whose disease progressed on 1L osimertinib.

At 2021 ESMO Conference, AstraZeneca presented interim results of a biomarker-directed phase II platform study in 1L osimertinib-resistant NSCLC patients (NCT03944772). The savolitinib + osimertinib combo therapy demonstrated promising clinical activity and satisfying safety profile. Of 17 evaluable patients who had been followed-up for 13 weeks, 7 patients achieved confirmed partial response (ORR = 41%) and 7 patients (41%) had stable disease, including 3 patients with unconfirmed partial responses. The enrolment will continue up to approximately 30 patients as pre-specified, with the final efficacy data anticipated in 4Q22E. The key to unleashing its market potential, in our view, lies in global label expansion opportunities in EGFR inhibitor refractory NSCLC. Approximately 30% osimertinib-treated 2/3L EGFRm+ NSCLC patients further develop MET aberrations, while the current therapeutic option for this group of patients represents a black hole.

■ Maintain BUY. We view HMPL-689 as a potential best-in-class PI3K δ inhibitor, and we are positive on savolitinib's potential in global label expansion. We maintain our DCF-based TP at HK\$77.74 based on a 15-year DCF valuation (WACC: 9.07%, terminal growth rate: 4%).

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (US\$ mn)	205	228	340	423	561
YoY growth (%)	(4)	11	49	25	33
Net loss (US\$ mn)	(106)	(126)	(220)	(277)	(225)
EPS (US\$)	(0.16)	(0.18)	(0.25)	(0.32)	(0.26)
Consensus EPS (US\$)	N/A	N/A	(0.69)	(0.67)	(0.22)
R&D expenses (US\$ mn)	(138)	(175)	(300)	(330)	(350)
Capex (US\$ mn)	(9)	(8)	(35)	(50)	(10)

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$77.74
Up/Downside	+34.38%
Current Price	HK\$57.85

China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	49.27
Avg. 3mths t/o (HK\$ mn)	110.08
52W High/Low (HK\$)	85.8/51.2
Total Issued Shares (mn)	864

Source: Bloomberg

Shareholding Structure

CK Hutchison Holdings	39.19%
The Capital Group	9.14%
JP Morgan	6.91%
Free float	44.75%

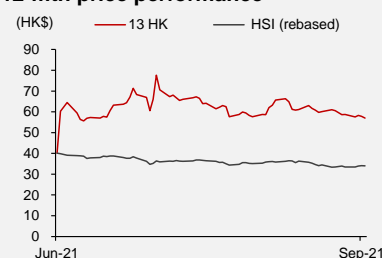
Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	0.3%	3.4%
3-mth	44.3%	69.6%
6-mth	N/A	N/A

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: PricewaterhouseCoopers

Web-site: <https://www.hutch-med.com>

Related Reports

1. A home-grown, global-facing Biopharma – 17 Sep 2021

Figure 1: Comparison of safety profile of PI3K inhibitors

ESMO 2021	Incidence of select treatment emergent adverse events – all AEs / grade ≥3 AEs										
	Amdizalisib ^[1]		Zydelig® (idelalisib) ^[2]	Aliqopa® (copanlisib) ^[3]	Copiktra® (duvelisib) ^[3]	Ukoniq® (umbralisib) ^[3]	Parsaclisib			Zandelisib	
n	Dose escalation ^[1]	30mg QD ^[2]					Dose escalation ^[4]	CITADEL-203/ FL ^[5]	CITADEL-204/ MZ1 ^[6]	Dose e escalation ^[7]	intermittent dosing ^[8]
56	90	146	168	442	221	72	102	72	30	37	
Neutropenia	43% / 11%	29% / 11%	53% / 25%*	32% / 25%	34% / 30%	33% / 16%*	44% / 20%*	14% / 10%	14% / 11%	45% / 13%*	na / 16%
Leukopenia	29% / 4%	21% / 4%	na	36% / 27%	29% / 8%*	na	50% / 8%	na	na	na	na
Anemia	16% / 0%	12% / 4%	28% / 2%*	na	20% / 11%	27% / 3%*	31% / 8%*	29% / 2%*	15% / 5%	13% / 0%*	na / <5%
Thrombocytopenia	11% / 0%	<10% / 2%	26% / 6%*	22% / 8%	17% / 10%	26% / 4%*	35% / 10%*	20% / 0%*	1% / 3%*	22% / 0%*	na / <5%
Diarrhea	<5% / 0%	11% / 2%	47% / 14%	36% / 5%	50% / 23%	58% / 10%	36% / 9%	37% / 11%	49% / 14%	45% / 19%	na / 5%
Rash	11% / 5%	16% / 6%	21% / 3%	15% / 2%	31% / 9%	18% / 3%	31% / 6%	11% / 2%	17% / 3%	42% / 13%	na / 8%
ALT increased	27% / 2%	27% / 0%	50% / 19%	na	40% / 8%	33% / 8%	28% / 1%	25% / 2%	29% / 6%	39% / 6%	na / 8%
AST increased	21% / 2%	19% / 0%	41% / 12%	na	37% / 6%	32% / 7%	29% / 1%	25% / 0%	19% / 2%	25% / 6%	na
Pyrexia	14% / 0%	<10% / 1%	28% / 2%	na	26% / 2%	10% / 0%	18% / 1%	17% / 3%	13% / 1%	<15%	na / <5%
Pneumonia	25% / 16%	18% / 13%	25% / 16%	21% / 14%**	21% / 15%	PJP prophylaxis recommended	na	<10%	8% with PJP prophylaxis	<15%	PJP prophylaxis
Hypertension	7% / 5%	<10% / 0%	na	35% / 27%	na	na	7% / 0%	<10%	<10%	<15%	na / <5%
Hyperglycemia	11% / 0%	<10% / 0%	na	54% / 39%	na	na	10% / 1%	<10%	<10%	<15%	na / <5%
Discontinuation due to AE	na	5.6%	53% (+inter)	16%	29-35%	14%	19%	22%	35%	13%	8%

Source: Company data, CMBIS

Figure 2: Risk-adjusted DCF valuation

DCF Valuation (in US\$ mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	(308)	(303)	(246)	(62)	207	405	644	883	1,110	1,214	1,271	1,309	1,176	1,187	1,199
Tax rate	0%	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(308)	(303)	(246)	(62)	176	344	547	751	943	1,032	1,081	1,113	999	1,009	1,020
+ D&A	5	11	19	17	16	14	14	13	12	12	11	11	11	11	11
- Change in working capital	(0)	(20)	(15)	(30)	(64)	(87)	(71)	(70)	(55)	(42)	(27)	(15)	(1)	43	(1)
- Capex	(35)	(50)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
FCFF	(338)	(362)	(252)	(85)	117	262	480	684	891	992	1,055	1,099	1,000	1,053	1,019
Terminal value															20,886
Present value of enterprise (US\$ mn)	8,171														
Net debt (US\$ mn)	(500)														
Equity value (US\$ mn)	8,671														
Equity value (HK\$ mn)	67,175														
No. of outstanding shares (mn)	864														
DCF per share (HK\$)	77.74														
Terminal growth rate	4.0%														
WACC	9.07%														
Cost of Equity	11.5%														
Cost of Debt	4.0%														
Equity Beta	0.81														
Risk Free Rate	3.0%														
Market Risk Premium	10.5%														
Target Debt to Asset ratio	30.0%														
Effective Corporate Tax Rate	15.0%														

Source: CMBIS estimates

Figure 3: CMBIS estimates vs consensus

US\$ mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	340	423	561	340	480	745	-0.03%	-11.84%	-24.72%
Gross profit	114	158	248	125	230	399	-8.24%	-31.36%	-37.81%
Operating profit	(311)	(306)	(249)	(336)	(310)	(104)	N/A	N/A	N/A
Net profit	(220)	(277)	(225)	(207)	(206)	(59)	N/A	N/A	N/A
EPS (US\$)	(0.25)	(0.32)	(0.26)	(0.69)	(0.67)	(0.22)	N/A	N/A	N/A
Gross margin	33.61%	37.34%	44.28%	36.62%	47.96%	53.60%	-3.01 ppt	-10.62 ppt	-9.32 ppt
Operating margin	-91.43%	-72.36%	-44.40%	-98.82%	-64.58%	-13.96%	+7.40 ppt	-7.78 ppt	-30.44 ppt
Net Margin	-64.78%	-65.44%	-40.15%	-60.88%	-42.92%	-7.92%	-3.90 ppt	-22.52 ppt	-32.23 ppt

Source: Bloomberg, CMBIS estimates

Financial Statements

Income statement

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	205	228	340	423	561
COGS	(160)	(189)	(226)	(265)	(312)
Gross profit	45	39	114	158	248
Administrative expenses	(39)	(50)	(70)	(75)	(80)
R&D expenses	(138)	(175)	(300)	(330)	(350)
Selling expenses	(14)	(11)	(55)	(59)	(67)
Operating profit	(146)	(197)	(311)	(306)	(249)
Interest income	5	3	5	5	2
Other income (expenses), net	2	5	3	3	3
Interest expense	(1)	(1)	(1)	(3)	(6)
Other expense	(0)	(0)	0	0	0
Pre-tax profit	(141)	(190)	(304)	(301)	(249)
Income tax	(3)	(5)	0	0	0
Equity in earnings of equity investees, net of tax	41	79	90	30	30
Minority interests	(2)	(10)	(6)	(6)	(6)
Net profit (loss)	(106)	(126)	(220)	(277)	(225)

Cash flow summary

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	(104)	(116)	(214)	(271)	(219)
Depreciation and amortization	5	6	5	11	19
Change in working capital	16	29	(0)	(20)	(15)
Changes in income tax balances	0	(1)	0	0	0
Others	1	19	(90)	(30)	(30)
Net cash from operating activities	(81)	(62)	(300)	(310)	(245)
Capex	(9)	(8)	(35)	(50)	(10)
Net proceeds from disposal of short-term investments	(478)	(733)	0	0	0
Other investing activities	606	615	0	0	0
Net cash from investing activities	119	(125)	(35)	(50)	(10)
Net proceeds from shares issued	0	319	635	0	0
Net bank borrowing	(0)	0	0	100	100
Other financing activities	(2)	(23)	0	0	0
Net cash from financing activities	(1)	296	635	100	100
FX changes	(2)	6	0	0	0
Net change in cash	37	109	300	(260)	(155)
Cash at the beginning of the year	86	121	236	536	276
Cash at the end of the year	121	236	536	276	121

Balance sheet

YE 31 Dec (US\$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	148	193	314	383	404
PP&E	21	24	54	93	85
Right-of-use assets	6	8	8	ss8	8
Deferred tax assets	1	2	2	2	2
Investments in equity investees	16	0	0	0	0
Other non-current assets	22	20	20	20	20
Current assets	317	531	831	597	463
Cash and cash equivalents	121	236	536	276	121
Short-term investments	96	200	200	200	200
Accounts receivable	43	48	46	68	85
Inventories	16	20	22	25	30
Other current assets	40	28	28	28	28
Current liabilities	113	158	158	164	170
Accounts payable	24	32	31	37	44
Other payables, accruals and advance receipts	82	121	121	121	121
Lease liabilities	3	3	3	3	3
Other current liabilities	4	4	4	4	4
Non-current liabilities	39	47	47	147	247
Lease liabilities	3	6	6	6	6
Long-term bank borrowings	27	27	27	127	227
Other non-current liabilities	9	14	14	14	14
Total net assets	313	519	940	669	450
Minority interest	(2)	(10)	(6)	(6)	(6)
Shareholders' equity	313	519	940	669	450

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Profit & loss ratios (%)					
Gross margin	22	17	34	37	44
EBITDA margin	(68)	(82)	(89)	(69)	(41)
Net margin	(52)	(55)	(65)	(65)	(40)
Effective tax rate (%)	N/A	N/A	N/A	N/A	N/A
Balance sheet ratios					
Current ratio (x)	3	3	5	4	3
Inventory days					
Account receivables turnover days-third parties	73	70	70	70	70
Account receivables turnover days-related parties	4	2	3	3	3
Account payables turnover days	57	54	60	60	60
Total debt to asset ratio (%)	29	28	18	32	48
Returns (%)					
ROE	(33)	(22)	(23)	(41)	(49)
ROA	(19)	(16)	(19)	(28)	(25)
Per share data					
EPS (US\$)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
DPS (US\$)	0.0	0.0	0.0	0.0	0.0
BVPS (US\$)	0.5	0.7	1.1	0.8	0.5

Source: Company data, CMBIS estimates

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