

Hutchmed (13 HK)

Fruquintinib to unlock the global potential in mCRC indication

- Superior improvement in overall survival in mCRC.** HCM released data of the global Ph3 FRESCO-2 trial of fruquintinib in refractory metastatic colorectal cancer (CRC) at ESMO 2022 ([link](#)). The study enrolled 691 heavily pre-treated mCRC patients globally (71% from Europe, 18% from the US, 8% from Japan and 3% from AU). The median line of prior treatments was five, and 91% and 48% of patients had previously received TAS-102 and regorafenib, respectively. The study met the primary endpoint of OS. With 11 months of follow-up, the mOS was 7.4 months for the 461 patients in the fruquintinib + BSC arm, compared to 4.8 months for the 230 patients in the placebo + BSC arm. Fruquintinib delivered 2.6 months of mOS improvement and 34% reduction in risk of death (HR=0.66, p<0.001), which was superior to other approved medicines. TAS-102 extended mOS by 2.0 months and reduced the risk of death by 31% ([link](#)), while less effectively, regorafenib improved the mOS by 1.4 months and reduced the risk of death by 23% ([link](#)). Notably, FRESCO-2 trial enrolled more heavily pre-treated patients, with 73% of patients received >3 lines of prior treatment, compared to 60% in TAS-102's and 49% in regorafenib' studies. In FRESCO-2 study, the mPFS improvement was 1.9 months (3.7 vs 1.8 months; HR=0.32; p<0.001), meeting the key secondary endpoint. The global FRESCO-2 results were consistent with the China FRESCO study (mOS increased by 2.7 months with HR of 0.65; mPFS increased by 1.9 months with HR of 0.26; [link](#)) which led to the approval in China in 2018.
- Favourable safety profile.** In FRESCO-2 trial, Gr \geq 3 TEAEs occurred in 62.7% of patients in the fruquintinib arm (vs 50.4% in the control arm), and the most common Gr \geq 3 TEAEs included hypertension (13.6% vs 0.9%) and asthenia (7.7% vs 3.9%). As for cross-trial comparisons, Gr \geq 3 TEAEs occurred in 69% of patients treated with TAS-102 (vs 52% in control group), while as high as 38% and 21% of patients treated with TAS-102 had Gr \geq 3 neutropenia and leukopenia, respectively ([link](#)). Gr \geq 3 TRAEs in FRESCO-2 trial were 36.0% vs 11.3% in the two arms, while the Gr \geq 3 TRAEs were 54% vs 14% in regorafenib's trial ([link](#)).
- To pursue global commercial approvals with BLA filings in the near term.** By combining the data of China FRESCO and global FRESCO-2 trials, the Company will file BLA of fruquintinib for 3L+ CRC in the US, followed by the filings in the Europe and Japan. With US Fast Track Designation, fruquintinib is entitled for rolling submission. We expect the pre-NDA meeting with US FDA in this Oct. HCM is open to cooperate with global partners for developing and marketing fruquintinib overseas.
- Maintain BUY.** We are positive on fruquintinib's global approvals. We revised our TP from HK\$36.06 to HK\$36.43 based on a 14-year DCF valuation (WACC: 10.73%, terminal growth rate: 2%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (US\$ mn)	228	356	440	516	667
YoY growth (%)	11.3	56.2	23.4	17.3	29.4
Net profit (US\$ mn)	(115.5)	(167.0)	(298.3)	(271.9)	(92.2)
EPS (Reported) (US\$)	(0.18)	(0.25)	(0.38)	(0.35)	(0.14)
R&D expenses (US\$)	(175)	(299)	(330)	(350)	(267)
CAPEX (US\$ mn)	(8)	(16)	(50)	(15)	(10)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$36.43**

(Previous TP) **HK\$36.06**

Up/Downside **85.3%**

Current Price **HK\$19.66**

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Stock Data

Mkt Cap (HK\$ mn)	1,966.0
Avg 3 mths t/o (HK\$ mn)	20.4
52w High/Low (HK\$)	61.00/14.86
Total Issued Shares (mn)	100.0

Source: FactSet

Shareholding Structure

CK Hutchison Holdings	38.5%
The Capital Group	10.8%

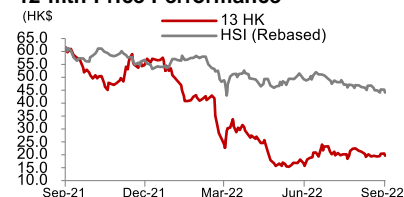
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-9.6%	-3.2%
3-mth	25.2%	40.0%
6-mth	-18.4%	-9.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in US\$ mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	(332)	(305)	(124)	95	231	391	550	713	803	859	900	818	841	866
Tax rate	0%	0%	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(332)	(305)	(124)	81	197	332	468	606	682	730	765	695	715	736
+ D&A	8	17	16	15	14	13	13	12	12	11	11	11	11	11
- Change in working capital	21	(10)	(15)	(32)	(67)	(47)	(49)	(40)	(34)	(26)	(18)	(7)	22	(9)
- Capex	(50)	(15)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
FCFF	(352)	(313)	(134)	55	133	289	421	568	650	705	748	689	737	728
Terminal value														8,509
Present value of enterprise (US\$ mn)	3,435													
Net debt (US\$ mn)	(629)													
Equity value (US\$ mn)	4,064													
Equity value (HK\$ mn)	31,497													
No. of outstanding shares (mn)	865													
DCF per share (HK\$)	36.43													
Terminal growth rate	2.0%													
WACC	10.73%													
Cost of Equity	13.5%													
Cost of Debt	5.0%													
Equity Beta	1.00													
Risk Free Rate	3.0%													
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				
		9.73%	10.23%	10.73%	11.23%	11.73%
Terminal growth rate	4.00%	52.04	46.79	42.34	38.55	35.27
	3.50%	49.30	44.59	40.56	37.08	34.05
	3.00%	43.21	39.60	36.43	33.64	31.16
	2.50%	41.68	38.32	35.35	32.72	30.38
	2.00%	40.32	37.17	34.39	31.90	29.68

Source: CMBIGM estimates

Figure 3: CMBIGM estimates revision

US\$ mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	440	516	667	440	516	680	0%	0%	-2%
Gross Profit	126	177	275	126	177	283	0%	0%	-3%
Operating Profit	(332)	(305)	(124)	(332)	(305)	(124)	N/A	N/A	N/A
Net profit	(326)	(299)	(120)	(326)	(299)	(119)	N/A	N/A	N/A
EPS (US\$)	(0.38)	(0.35)	(0.14)	(0.38)	(0.35)	(0.14)	N/A	N/A	N/A
Gross Margin	28.70%	34.27%	41.15%	28.70%	34.27%	41.60%	0.00 ppt	0.00 ppt	-0.45 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	440	516	667	408	469	666	8%	10%	0%
Gross profit	126	177	275	130	173	288	-3%	2%	-5%
Operating profit	(332)	(305)	(124)	(412)	(436)	(353)	N/A	N/A	N/A
Net profit	(326)	(299)	(120)	(377)	(403)	(307)	N/A	N/A	N/A
EPS (US\$)	(0.38)	(0.35)	(0.14)	(0.45)	(0.69)	(0.60)	N/A	N/A	N/A
Gross margin	28.70%	34.27%	41.15%	31.89%	36.91%	43.25%	-3.18 ppt	-2.63 ppt	-2.09 ppt

Source: Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Revenue	205	228	356	440	516	667
Cost of goods sold	(160)	(189)	(258)	(313)	(339)	(393)
Gross profit	45	39	98	126	177	275
Operating expenses	(191)	(236)	(426)	(458)	(482)	(399)
Selling expense	(14)	(11)	(38)	(53)	(52)	(65)
Admin expense	(39)	(50)	(89)	(75)	(80)	(67)
R&D expense	(138)	(175)	(299)	(330)	(350)	(267)
Operating profit	(146)	(197)	(328)	(332)	(305)	(124)
Other income	2	5	2	0	0	0
Other expense	(0)	(0)	(13)	0	0	0
Gain/loss on financial assets at FVTPL	4	2	1	3	3	2
Other gains/(losses)	0	0	121	0	0	0
Pre-tax profit	(141)	(190)	(216)	(328)	(302)	(122)
Income tax	(3)	(5)	(12)	0	0	0
Others	41	79	61	30	30	30
Minority interest	(2)	(10)	(28)	(28)	(28)	(28)
Net profit	(104)	(116)	(167)	(298)	(272)	(92)

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Current assets	317	531	1,212	840	548	436
Cash & equivalents	121	236	378	329	319	188
Account receivables	43	48	84	66	81	95
Inventories	16	20	36	30	33	38
Financial assets at FVTPL	96	200	634	334	34	34
Other current assets	40	28	81	81	81	81
Non-current assets	148	193	161	232	261	284
PP&E	21	24	41	83	81	75
Deferred income tax	1	2	9	9	9	9
Investment in JVs & assos	99	140	76	106	136	166
Other non-current assets	27	28	33	33	33	33
Total assets	465	724	1,373	1,072	808	720
Current liabilities	113	158	312	309	318	322
Short-term borrowings	0	0	27	27	27	27
Account payables	24	32	41	39	47	51
Tax payable	2	1	16	16	16	16
Other current liabilities	87	126	228	228	228	228
Non-current liabilities	39	47	21	21	21	21
Long-term borrowings	27	27	0	0	0	0
Obligations under finance leases	3	6	7	7	7	7
Deferred income	0	0	0	0	0	0
Other non-current liabilities	9	13	14	14	14	14
Total liabilities	152	205	333	331	339	343
Share capital	67	73	86	86	86	86
Capital surplus	515	822	1,505	1,505	1,505	1,505
Retained earnings	(290)	(416)	(610)	(936)	(1,236)	(1,356)
Other reserves	(4)	4	6	6	6	6
Total shareholders equity	288	484	987	661	361	242
Minority interest	25	35	53	80	108	135
Total equity and liabilities	313	519	1,040	741	469	377

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (US\$ mn)						
Operating						
Profit before taxation	(141)	(190)	(216)	(328)	(302)	(122)
Depreciation & amortization	5	6	7	8	17	16
Tax paid	(3)	(5)	(12)	0	0	0
Change in working capital	17	29	33	21	(10)	(15)
Others	42	97	(16)	0	0	0
Net cash from operations	(81)	(62)	(204)	(299)	(295)	(121)
Investing						
Capital expenditure	(9)	(8)	(16)	(50)	(15)	(10)
Acquisition of subsidiaries/ investments	9	0	0	0	0	0
Net proceeds from disposal of short-term investments	119	(104)	(435)	300	300	0
Others	0	(14)	145	0	0	0
Net cash from investing	119	(125)	(306)	250	285	(10)
Financing						
Dividend paid	(1)	(1)	(10)	0	0	0
Net borrowings	(0)	0	(1)	0	0	0
Proceeds from share issues	0	319	717	0	0	0
Share repurchases	(0)	(13)	(27)	0	0	0
Others	0	(8)	(30)	0	0	0
Net cash from financing	(1)	296	650	0	0	0
Net change in cash						
Cash at the beginning of the year	86	121	236	378	329	319
Exchange difference	(2)	6	2	0	0	0
Cash at the end of the year	121	236	378	329	319	188
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	(4.3%)	11.3%	56.2%	23.4%	17.3%	29.4%
Gross profit	(36.2%)	(11.8%)	148.1%	28.9%	40.1%	55.4%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	21.8%	17.3%	27.5%	28.7%	34.3%	41.2%
Operating margin	(71.4%)	(86.3%)	(92.2%)	(75.4%)	(59.1%)	(18.6%)
Return on equity (ROE)	(30.6%)	(29.9%)	(22.7%)	(36.2%)	(53.2%)	(30.6%)
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.8)	(1.0)	(1.0)	(0.9)	(0.8)
Current ratio (x)	2.8	3.4	3.9	2.7	1.7	1.4
Receivable turnover days	72.7	70.5	66.1	66.1	66.1	66.1
Inventory turnover days	32.5	34.8	39.2	35.0	35.0	35.0
Payable turnover days	56.5	53.8	51.4	55.0	55.0	55.0
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/B	na	na	5.6	2.9	4.6	5.7

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

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