21 Mar 2025

CMB International Global Markets | Equity Research | Company Update

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≥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%

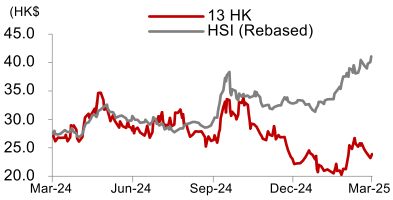
Source: HKEx

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$)

	WACC				
Terminal growth rate	**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

	New			Old			Diff (%)		
US$ mn	**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

	CMBIGM			Consensus			Diff (%)		
US$ mn	**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.

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CMB International Global Markets Limited

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

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