Trinity Delta Lighthouse

Hutchison China MediTech (Chi-Med)

FY18 results as expected, plentiful news flow in FY19

11 March 2019

- Chi-Med reported FY18 results that met or beat expectations. Group revenues were $214.1m, down from $241.2m as the two-invoice impacted how domestic China sales are reported, with the JV revenues growth of 13.4% to $491.5m (from $433.3m) being a better reflection of the Commercial Platform's performance. R&D spend in the Innovation Platform was $142.2m, up from $88.0m, as more later-stage clinical studies are undertaken. This sees the Group's attributable net loss rising to $74.8m, against $26.7m last year. Cash resources remained strong, with $420.3m available at December 2018, versus $479.6m in 2017.
- It is the Innovation Platform that is driving future growth, initially through addressing the China Oncology opportunity and further out Global Innovation. Elunate (fruquintinib) was the first domestically discovered and developed innovative compound approved in China. It was launched, together with Eli Lilly, in November and is showing solid early signs of clinical acceptance. The collaboration has been amended, with Chi-Med funding more clinical work in return for greater marketing freedom and better financials; this is likely to enact in 2021/2 in our opinion.
- Five products are currently in clinical trials aimed at Global markets, with clinical and regulatory teams being bolstered in the US and Europe. Four of these (fruquintinib, surufatinib, HMPL-523, and HMPL-689) are not partnered and will form the basis of the longer term global marketing infrastructure. Savolitinib is partnered with AstraZeneca and is on track to be approved in combination with Tagrisso by 2022, if not earlier, in our view. Management's target is to progress one novel drug candidate into global development per annum.
- 2019 is expected to see a wealth of news flow as a number of clinical studies produce both interim and mature results. The first of these is likely to be two presentations at the AACR meeting in 29 March-3 April, with the Phase II data of the savolitinib single agent NSCLC Exon 14 deletion study and the Phase Ib results for the savolitinib/Tagrisso combination in NSCLC (the TATTON study) scheduled. A further dozen trial results are likely to be presented at various conferences during the year.
- The guidance for 2019 is for R&D expenditure to be $160-200m and adjusted net cash flows (non-GAAP) to be -$120m to -$150m.

Trinity Delta view: Chi-Med continues to perform to our expectations. The depth of the development pipeline means the coming year should see a steady stream of share price catalysts. Our valuation employs a DCF-based sum-of-the-parts approach, which includes a detailed rNPV model of the clinical pipeline. Our current valuation is $4.5bn/£3.4bn, which is equivalent to $33.49/ADS or £51.52/share.

Price (US ADS)	$27.29
(UK share)	3,980p
Market Cap	$3.51bn
	£2.79bn
Exchanges	NASDAQ
	AIM London
Sector	Healthcare
Company codes	HCM
	HCM.L
Corporate client	Yes

Company description

Hutchison China MediTech is a Hong Kong headquartered biopharma with an established Commercial Platform in China, and a diverse pipeline of first-in-class/best-in-class selective oral tyrosine kinase inhibitors (Innovation Platform). Its pipeline, discovered in-house, is in development for the China and global oncology markets.

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