

Hutchison China MediTech

Update

ASCO GU: promising PRCC data for savo/durva combo

20 February 2019

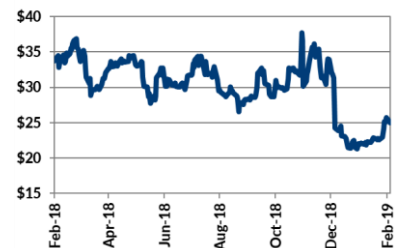
Preliminary CALYPSO study presented at ASCO GU evidenced encouraging efficacy signals for the savolitinib and durvalumab combination in an all-comers papillary renal cell carcinoma (PRCC) population. CALYPSO is an exploratory single arm Phase I/II trial sponsored by Queen Mary University of London, which enrolled both treatment-naïve and previously treated PRCC patients. Hutchison China MediTech (Chi-Med) and partner AstraZeneca are currently reviewing their strategy for savolitinib development in kidney cancer; CALYPSO data will contribute to this, although more mature data is awaited. Chi-Med will present FY18 results and a pipeline update on March 11th. We value Chi-Med at £51.52/share or \$33.49/ADS.

Year-end: December 31	2016	2017	2018E	2019E
Sales (US\$m)	216.1	241.2	174.6	177.2
Adj. PBT (US\$m)	(47.4)	(53.5)	(104.4)	(169.7)
Net Income (US\$m)	14.6	(23.0)	(74.8)	(136.4)
EPS (US\$)	0.20	(0.43)	(1.19)	(2.12)
Cash (US\$m)	103.7	358.3	296.6	165.8
Adj. EBITDA (US\$m)	21.9	(17.2)	(70.9)	(133.0)

Source: Trinity Delta Note: Adjusted PBT excludes exceptionals, Cash includes short-term investments, Adjusted EBITDA includes equity in earnings of equity investees.

- An exploratory Phase I/II study** CALYPSO enrolled 42 PRCC patients; 38 were dosed with savolitinib (600mg QD) and durvalumab (1500g Q4W) after a 4-week savolitinib run-in. For the 41 patients assessed, ORR (overall response rate) was 27% (11/41), with median PFS (progression-free survival) of 5.3 months. In the first-line setting (n=28), ORR was 32% (9/28) and PFS 12.0 months. Tolerability, in line with expectations, indicates the drugs are combinable. OS data is not yet mature.
- Potential for MET and PD-1/PD-L1 combination** PRCC has poor prognosis and no approved targeted therapies. Standard of care is drugs indicated for clear cell RCC, or inclusion in clinical trials. Emergence of acquired resistance to VEGFR tyrosine kinase inhibitors (TKIs)/mTOR inhibitors has increased interest in combination approaches in RCC, particularly in combining immuno-oncology agents with TKIs. Savolitinib is well-positioned given its specificity and relatively benign side-effect profile vs other TKIs, and the hypothesised synergy between MET and PD-1/PD-L1. To provide context, ORR of single-agent pembrolizumab was 25.4% in the 1L PRCC part of cohort B of the [KEYNOTE427](#) Phase II. Differences in patient characteristics (eg first-line vs all comers) means this is not directly comparable with CALYPSO.
- CALYPSO data to contribute to PRCC strategy** Savolitinib's strategy in kidney cancer is under review by Chi-Med and AstraZeneca (announced [December 2018](#) and detailed in our February [initiation](#)). Initial early findings from CALYPSO, coupled to more mature data on durability of response, PFS and OS (overall survival) will help inform the decision. NSCLC remains the priority indication for savolitinib.
- We maintain our £51.52/share or \$33.49/ADS valuation** We apply a DCF-based sum-of-the-parts approach to valuing Chi-Med, which includes a detailed rNPV model of the clinical pipeline. Our current valuation is £3.4bn/\$4.5bn equivalent to £51.52/share or \$33.49/ADS. The depth of the development portfolio means a steady stream of share price catalysts are expected over the next 12-18 months.

Price (UK share)	3,950p
(US ADS)	\$24.95
Market Cap	£2.63bn \$3.31bn
Enterprise Value	£2.42bn \$3.04bn
Shares in issue (shares)	66.7m
(ADS)	133.3m
12 month range	3,180p-5,668p \$20.83-\$39.68
Free float	32%
Exchanges	AIM NASDAQ
Sector	Healthcare
Company codes	HCM.L HCM
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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Exhibit 1: Summary of financials

Year-end: December 31	\$'000s	2015	2016	2017	2018E	2019E	2020E
INCOME STATEMENT							
Revenues		178,203	216,080	241,203	174,636	177,234	190,142
Cost of goods sold		(110,777)	(156,328)	(175,820)	(104,388)	(95,902)	(99,816)
Gross Profit		67,426	59,752	65,383	70,249	81,333	90,326
R&D expenses		(47,368)	(66,871)	(75,523)	(134,780)	(200,702)	(220,773)
Selling expenses		(10,209)	(17,998)	(19,322)	(16,175)	(23,290)	(27,150)
G&A expenses		(19,620)	(21,580)	(23,955)	(27,527)	(31,252)	(33,693)
Underlying operating profit		(9,771)	(46,697)	(53,417)	(108,233)	(173,912)	(191,289)
Other revenue/expenses		0	0	0	0	0	0
EBITDA		(7,756)	(44,356)	(50,839)	(105,095)	(170,819)	(188,008)
Operating Profit		(9,771)	(46,697)	(53,417)	(108,233)	(173,912)	(191,289)
Interest income/expense		(953)	(1,129)	(235)	377	755	356
Other income/expense		184	470	116	3,411	3,411	3,411
Profit Before Taxes		(10,540)	(47,356)	(53,536)	(104,445)	(169,746)	(187,522)
Adj. PBT		(10,540)	(47,356)	(53,536)	(104,445)	(169,746)	(187,522)
Current tax income		(1,605)	(4,331)	(3,080)	(4,551)	(4,444)	(4,791)
Equity in earnings of equity investees, net of tax		22,572	66,244	33,653	34,162	37,837	41,218
Net Income		10,427	14,557	(22,963)	(74,834)	(136,352)	(151,095)
Minority interests		(2,434)	(2,859)	(3,774)	(4,248)	(4,461)	(4,684)
Net income attributable to equityholders		7,993	11,698	(26,737)	(79,082)	(140,813)	(155,779)
EPS (\$)		0.15	0.20	(0.43)	(1.19)	(2.12)	(2.34)
Adj. EPS (\$)		0.15	0.20	(0.43)	(1.19)	(2.12)	(2.34)
DPS (\$)		0.00	0.00	0.00	0.00	0.00	0.00
Average no. of shares (m)		54.7	59.7	61.7	66.5	66.5	66.5
<i>Gross margin</i>		38%	28%	27%	40%	46%	48%
<i>EBITDA margin</i>		N/A	N/A	N/A	N/A	N/A	N/A
<i>Underlying operating margin</i>		N/A	N/A	N/A	N/A	N/A	N/A
BALANCE SHEET							
Current assets		89,512	167,380	432,195	367,996	235,047	108,634
Cash and cash equivalents		31,941	79,431	85,265	49,476	35,618	32,651
Short-term investments		0	24,270	273,031	247,165	127,165	0
Accounts receivable		35,215	45,035	42,270	43,061	43,702	46,884
Inventories		9,555	12,822	11,789	12,870	13,137	13,673
Other current assets		12,801	5,822	19,840	15,425	15,425	15,425
Non-current assets		140,087	175,057	165,737	178,334	181,212	183,745
Property, plant & equipment		8,507	9,954	14,220	15,047	16,329	17,641
Intangible assets		3,903	3,606	3,738	3,751	3,735	3,720
Investments in equity investees		119,756	158,506	144,237	156,033	157,645	158,881
Other non-current assets		7,921	2,991	3,542	3,503	3,503	3,503
Current liabilities		(81,062)	(95,119)	(104,600)	(93,471)	(91,380)	(109,804)
Short-term debt		(23,077)	(19,957)	(29,987)	0	0	(20,000)
Accounts payable		(24,086)	(35,538)	(24,365)	(28,599)	(26,274)	(24,612)
Other current liabilities		(33,899)	(39,624)	(50,248)	(64,872)	(65,105)	(65,192)
Non-current liabilities		(46,260)	(43,258)	(8,366)	(35,514)	(35,514)	(35,514)
Long-term debt		(26,768)	(26,830)	0	(26,692)	(26,692)	(26,692)
Other non-current liabilities		(19,492)	(16,428)	(8,366)	(8,822)	(8,822)	(8,822)
Equity		102,277	204,060	484,966	417,345	289,365	147,061
CASH FLOW STATEMENTS							
Operating cash flow		(9,385)	(9,569)	(8,943)	(42,377)	(129,499)	(145,554)
Net income		10,427	14,557	(22,963)	(74,834)	(136,352)	(151,095)
Non-cash adjustments & other operating cash flow		(9,863)	(27,557)	28,525	18,187	10,087	10,922
Change in working capital		(9,949)	3,431	(14,505)	14,270	(3,233)	(5,381)
Investing cash flow		8,855	(33,597)	(260,780)	13,714	115,641	122,588
CAPEX		(3,324)	(4,327)	(5,019)	(4,152)	(4,359)	(4,577)
Change in short term investments		12,179	(24,270)	(248,761)	25,866	120,000	127,165
Investment in an equity investee		0	(5,000)	(7,000)	(8,000)	0	0
Financing cash flow		(5,471)	92,435	273,196	(7,842)	0	20,000
Proceeds from equity		(1,733)	97,076	291,737	(4,765)	0	0
Increase in loans		(3,205)	(4,077)	(16,947)	(3,077)	0	20,000
Other financing cash flow		(533)	(564)	(1,594)	0	0	0
Net increase in cash		(6,001)	49,269	3,473	(36,504)	(13,858)	(2,967)
Exchange rate effects		(1,004)	(1,779)	2,361	715	0	0
Cash at start of year		38,946	31,941	79,431	85,265	49,476	35,618
Cash at end of year		31,941	79,431	85,265	49,476	35,618	32,651
Net cash at end of year		(17,904)	56,914	328,309	269,949	136,091	(14,041)

Source: Company, Trinity Delta Note: Adjusted numbers exclude exceptionals

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