

Hutchison China MediTech

Update

Timing is right for a Hong Kong debut

30 May 2019

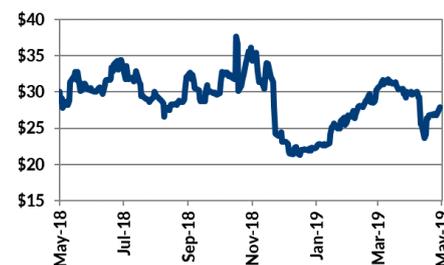
Approval of EGM resolutions paves the way for the IPO of Hutchison China MediTech (Chi-Med) on the Hong Kong Stock Exchange (SEHK) in the coming months. This IPO should enhance Chi-Med's access to capital, broaden its shareholder base, further raise its profile in its home market, and, importantly, improve liquidity. Liquidity will be further boosted by an associated global offering (size and structure are not yet disclosed), the secondary placement of shares by majority shareholder CK Hutchison Holdings Ltd, and a share split effective May 30th. Each ordinary AIM share is being divided into 10 new shares; an adjustment to the ADS ratio ensures there is no effect on the NASDAQ trading price. Accounting for this share split, our valuation remains \$35.57/ADS (\$4.74bn) but is now £5.47/share (£3.65bn) vs £54.72/share previously.

Year-end: December 31	2017	2018	2019E	2020E
Sales (US\$m)	241.2	214.1	168.6	207.6
Adj. PBT (US\$m)	(53.5)	(86.7)	(205.6)	(202.0)
Net Income (US\$m)	(23.0)	(71.3)	(170.6)	(164.4)
Earnings per ADS (US\$)	(0.22)	(0.57)	(1.31)	(1.26)
Cash (US\$m)	358.3	301.0	285.9*	233.8
Adj. EBITDA (US\$m)	(17.2)	(69.7)	(163.9)	(159.5)

Source: Trinity Delta Note: Adjusted PBT excludes exceptionals, Cash includes short-term investments, Adjusted EBITDA includes equity in earnings of equity investees. *2019E cash figure includes assumed raise of \$250m.

- New capital to support pipeline investment** Chi-Med's Global Innovation and China Oncology pipelines are maturing, with eight programmes under evaluation in over 30 clinical trials. The company is raising funds to support investment into advancing its pipeline but has so far given no indication of the potential size and structure of the proposed primary capital offering. Based on expected cash burn over the next two years, and guidance for FY19 R&D spend of \$160-200m, we estimate Chi-Med would look to raise \$200-250m.
- Majority holder deconsolidating, but still committed** Reducing CK Hutchison's holding from 60.2% to <50%, via dilution and a secondary placement, will give Chi-Med more flexibility to pursue its own strategic goals and maximise its potential. The secondary placing of, we calculate c\$250m, will also improve its liquidity and means it will no longer be consolidated in CK Hutchison's financial accounts.
- Various approaches to boost liquidity** In addition to the proposed IPO, global offering, and secondary share sale by CK Hutchison, Chi-Med shareholders have approved a share split. Effective May 30th, each AIM share is subject to a one-for-ten share split; with the ADS ratio adjusted to 1 ADS = 5 shares (from 1 ADS = 0.5 share) to ensure the ADS value is unaffected. This should make Chi-Med shares more accessible to the spectrum of investors and reduce the bid/offer spread.
- Updated £5.47/share valuation; per ADS remains \$35.57/ADS** Our Chi-Med valuation employs a DCF-based SOTP approach that includes a detailed rNPV of the clinical pipeline. Our current pre-money valuation is \$4.74bn (\$35.57/ADS) or £3.65bn (with the share split this is now equivalent to £5.47/share). We anticipate clinical, regulatory, and commercial catalysts that will unlock further value.

Price (US ADS)	\$28.46
(UK share)	4.52p
Market Cap	\$3.79bn £3.01bn
Enterprise Value	\$3.49bn £2.78bn
Shares in issue (ADS)	133.3m
(shares)	666.6m
12 month range	\$20.83-\$39.68 318p-567p
Free float	32%
Exchanges	NASDAQ AIM
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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Exhibit 1: Summary of financials

Year-end: December 31	\$'000s	2015	2016	2017	2018	2019E*	2020E
INCOME STATEMENT							
Revenues		178,203	216,080	241,203	214,109	168,560	207,569
Cost of goods sold		(110,777)	(156,328)	(175,820)	(143,944)	(126,753)	(140,319)
Gross Profit		67,426	59,752	65,383	70,165	41,807	67,250
R&D expenses		(47,368)	(66,871)	(75,523)	(114,161)	(200,513)	(220,565)
Selling expenses		(10,209)	(17,998)	(19,322)	(17,736)	(13,419)	(14,416)
G&A expenses		(19,620)	(21,580)	(23,955)	(30,909)	(35,011)	(38,150)
Underlying operating profit		(9,771)	(46,697)	(53,417)	(92,641)	(207,137)	(205,880)
Other revenue/expenses		0	0	0	0	0	0
EBITDA		(7,756)	(44,356)	(50,839)	(89,051)	(203,748)	(201,882)
Operating Profit		(9,771)	(46,697)	(53,417)	(92,641)	(207,137)	(205,880)
Interest income/expense		(953)	(1,129)	(235)	4,969	555	2,859
Other income/expense		184	470	116	1,017	1,017	1,017
Profit Before Taxes		(10,540)	(47,356)	(53,536)	(86,655)	(205,565)	(202,005)
Adj. PBT		(10,540)	(47,356)	(53,536)	(86,655)	(205,565)	(202,005)
Current tax income		(1,605)	(4,331)	(3,080)	(3,964)	(4,839)	(4,805)
Equity in earnings of equity investees, net of tax		22,572	66,244	33,653	19,333	39,838	42,391
Net Income		10,427	14,557	(22,963)	(71,286)	(170,565)	(164,418)
Minority interests		(2,434)	(2,859)	(3,774)	(3,519)	(3,695)	(3,880)
Net income attributable to equityholders		7,993	11,698	(26,737)	(74,805)	(174,260)	(168,298)
EPS (\$)		0.15	0.20	(0.43)	(1.13)	(0.26)	(0.25)
Earnings per ADS (\$)		0.07	0.10	(0.22)	(0.57)	(1.31)	(1.26)
DPS (\$)		0.00	0.00	0.00	0.00	0.00	0.00
Average no. of shares (m)		54.7	59.7	61.7	66.4	666.6	666.6
<i>Gross margin</i>		38%	28%	27%	33%	25%	32%
<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	370,541	460,736	303,245
Cash and cash equivalents		31,941	79,431	85,265	86,036	285,871	233,816
Short-term investments		0	24,270	273,031	214,915	114,915	0
Accounts receivable		35,215	45,035	42,270	42,958	36,945	45,495
Inventories		9,555	12,822	11,789	12,309	8,682	9,611
Other current assets		12,801	5,822	19,840	14,323	14,323	14,323
Non-current assets		140,087	175,057	165,737	161,577	170,534	177,792
Property, plant & equipment		8,507	9,954	14,220	16,616	19,923	22,955
Intangible assets		3,903	3,606	3,738	3,533	3,519	3,506
Investments in equity investees		119,756	158,506	144,237	138,318	143,982	148,221
Other non-current assets		7,921	2,991	3,542	3,110	3,110	3,110
Current liabilities		(81,062)	(95,119)	(104,600)	(85,479)	(345,218)	(348,926)
Short-term debt		(23,077)	(19,957)	(29,987)	0	(250,000)	(250,000)
Accounts payable		(24,086)	(35,538)	(24,365)	(25,625)	(34,727)	(38,443)
Other current liabilities		(33,899)	(39,624)	(50,248)	(59,854)	(60,491)	(60,483)
Non-current liabilities		(46,260)	(43,258)	(8,366)	(34,384)	(34,384)	(34,384)
Long-term debt		(26,768)	(26,830)	0	(26,739)	(26,739)	(26,739)
Other non-current liabilities		(19,492)	(16,428)	(8,366)	(7,645)	(7,645)	(7,645)
Equity		102,277	204,060	484,966	412,255	251,668	97,726
CASH FLOW STATEMENTS							
Operating cash flow		(9,385)	(9,569)	(8,943)	(32,847)	(143,482)	(159,954)
Net income		10,427	14,557	(22,963)	(71,286)	(170,565)	(164,418)
Non-cash adjustments & other operating cash flow		(9,863)	(27,557)	28,525	31,276	8,340	10,227
Change in working capital		(9,949)	3,431	(14,505)	7,163	18,742	(5,762)
Investing cash flow		8,855	(33,597)	(260,780)	43,752	93,318	107,899
CAPEX		(3,324)	(4,327)	(5,019)	(6,364)	(6,682)	(7,016)
Change in short term investments		12,179	(24,270)	(248,761)	58,116	100,000	114,915
Investment in an equity investee		0	(5,000)	(7,000)	(8,000)	0	0
Financing cash flow		(5,471)	92,435	273,196	(8,231)	250,000	0
Proceeds from equity		(1,733)	97,076	291,737	(2,322)	0	0
Increase in loans		(3,205)	(4,077)	(16,947)	(4,627)	250,000	0
Other financing cash flow		(533)	(564)	(1,594)	(1,282)	0	0
Net increase in cash		(6,001)	49,269	3,473	2,674	199,835	(52,055)
Exchange rate effects		(1,004)	(1,779)	2,361	(1,903)	0	0
Cash at start of year		38,946	31,941	79,431	85,265	86,036	285,871
Cash at end of year		31,941	79,431	85,265	86,036	285,871	233,816
Net cash at end of year		(17,904)	56,914	328,309	274,212	124,047	(42,923)

Source: Company, Trinity Delta Note: Adjusted numbers exclude exceptionals. * Forecast EPS for 2019 and 2020 adjusted for one-to-ten ordinary share split, with new ADS ratio of 1:5 shares. Our estimate of \$250m proceeds from the proposed equity raise are shown as short-term debt in FY19e, until transaction size, structure, and terms are confirmed.

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