

Hutchison China MediTech (Chi-Med)

Secondary ADS offering trims CK Hutchison stake

28 June 2019

- Chi-Med has announced the sale of 12m ADS at a price of \$24.00/ADS in an upsized secondary placing by Hutchison Healthcare Holdings Ltd (HHHL), its largest shareholder and a subsidiary of CK Hutchison Holdings. A further 1.8m ADS have been offered to the underwriter under a 30-day option.
- All proceeds will be received by HHHL, which, after closing (on or before July 2) will own between 49.8% and 51.2% of Chi-Med's share capital, depending on whether the over-allotment is fully exercised.
- In addition, Chi-Med, its officers and directors and HHHL have agreed to a 90-day lock-up on sales or transfers of ordinary shares, ADSs or equity-linked securities in connection with this offering.
- As outlined in Chi-Med's [press release](#) of April 15, 2019, the reduction of CK Hutchison's 60.2% holding in Chi-Med to below 50% (via over-allotment exercise or dilution) allows deconsolidation from CK Hutchison's financial accounts. This is mutually beneficial. It enables Chi-Med to invest in maximising the potential of its clinical pipeline independent of CK Hutchison's earnings objectives.
- Chi-Med remains committed to its proposed listing on the Stock Exchange of Hong Kong (SEHK) and global offering; however, timings have not been disclosed and are subject to various factors including final SEHK approval, the final board decision, and market conditions. The company will provide a further update in due course.

Price (US ADS) (UK share)	\$30.20 426p
Market Cap	\$4.03bn £3.05bn
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.

Trinity Delta view: Chi-Med's April 2019 announcement emphasised two key objectives: (1) a Hong Kong listing and global raise, and (2) the reduction in CK Hutchison's shareholding to below 50%. Today's announcements indicate that the second of these objectives has been achieved just ahead of end-H119.

The closing of the secondary placement should improve Chi-Med's liquidity and, while it may have been assumed that these events would occur in tandem, the decoupling of the two objectives should facilitate a more straightforward IPO process as it will now only be associated with a primary offering of shares.

The timing of the SEHK IPO and size and structure of the offering - neither of which have been disclosed - are of clear interest to investors. Based on expected cash burn, we assume a potential offering of \$200-250m to provide new capital to support pipeline investment. The IPO should enhance Chi-Med's access to capital, broaden its shareholder base, further raise its profile in its home market, and, like the offering, improve liquidity.

Ahead of the IPO/raise, Chi-Med remains well-funded. We continue to anticipate various clinical, regulatory, and commercial catalysts in 2019 and 2020 that will unlock further shareholder value. Our current Chi-Med valuation of \$5.14bn (\$38.55/ADS) or £3.95bn (£5.93/share) is a pre-money valuation pending the proposed Hong Kong IPO and global placement.

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