Trinity Delta Lighthouse

Hutchison China MediTech (Chi-Med)

Elunate (fruquintinib) secures China NRDL listing

29 November 2019

- Fruquintinib (Elunate) has been included in the latest update of the China National Reimbursement Drug List (NRDL). NRDL inclusion will broaden fruquintinib's availability and accelerate patient access across China.
- From January 1, 2020, fruquintinib will automatically be available in all state-run hospital pharmacies in China, and patients covered by NHSA (National Healthcare Security Administration) insurance schemes will be reimbursed.
- Fruquintinib was approved in third-line colorectal cancer (3L CRC) in China in September 2018 and launched in November 2018 by Chi-Med's partner Eli Lilly. From launch to end-July 2019, the drug generated $8.3m in royalty/ manufacturing revenue for Chi-Med on c$13.1m of in-market China sales.
- Fruquintinib's NRDL listing, as an innovative Category B drug, is associated with a c64% discount to its launch price (without patient access programme, PAP). The new price is RMB 7,938 (or $1.18k) per four week cycle.
- At launch, fruquintinib list price was RMB 21,960 ($3.26k) per cycle (three weeks on drug, one week off). However, while reimbursement discussions were ongoing, the PAP limited the total out-of-pocket cost to a maximum of three cycles ($9.8k) vs expected average usage of 5.5 cycles (per FRESCO data). The PAP will run to end-2019 and be superseded when fruquintinib's NRDL inclusion becomes effective.
- In China, fruquintinib is also being evaluated in the Phase III FRUTIGA trial in 2L gastric cancer, and in earlier proof of concept studies in combination with PD-1 inhibitors. A global registration trial in 3L/4L CRC will initiate in H120.

Trinity Delta view: Inclusion of fruquintinib in the China NRDL is an important milestone for Chi-Med. It is its first novel oncology drug commercially launched in China and securing NRDL reimbursement will significantly boost market penetration in 3L CRC. NRDL listing is associated with a c64% gross (we estimate 34% net) price discount; however, this is likely to be more than offset by higher volumes, driving both manufacturing revenue and royalties from sales growth.

Elunate is currently Chi-Med's most valuable asset, contributing $9.47/ADS or £1.46/share to our company valuation. We forecast a $122m peak sales opportunity in China 3L CRC, and a potential $500m-$1bn China sales opportunity across multiple indications, with Chi-Med eligible for minimum royalties of 15%. Outside of China, Chi-Med retains full rights to the drug.

Our Chi-Med valuation is $5.14bn ($38.55/ADS) or £3.95bn (£5.93/share). We anticipate various clinical, regulatory, and commercial catalysts through 2020 which will unlock further value. For H120, these include interim analysis of the surufatinib China SANET-p Phase III study; China NDA filing for savolitinib in MET exon 14m/del 1L NSCLC; and initiation of US/Europe registration studies for surufatinib (neuroendocrine tumours) and fruquintinib (3L/4L CRC).

Price (US ADS) (UK share)	$24.30 378p
Market Cap	$3.24bn £2.52bn
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.

Analysts

Franc Gregori
fgregori@trinitydelta.org
+44 (0) 20 3637 5041

Mick Cooper PhD
mcooper@trinitydelta.org
+44 (0) 20 3637 5042

Lala Gregorek
lgregorek@trinitydelta.org
+44 (0) 20 3637 5043

Mick Cooper PhD CFA mcooper@trinitydelta.org +44 (0) 20 3637 5042

Lala Gregorek lgregorek@trinitydelta.org +44 (0) 20 3637 5043

Franc Gregori fgregori@trinitydelta.org +44 (0) 20 3637 5041

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