Trinity Delta

Hutchison China MediTech

Update

AACR 2020: first surufatinib/PD-1 combo data

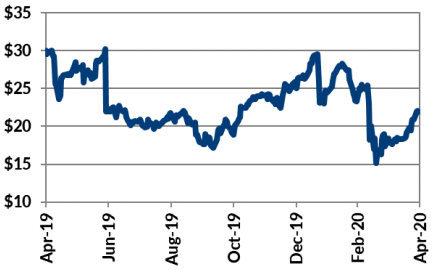
30 April 2020

Data from early stage surufatinib trials was presented at the American Academy of Cancer Research (AACR) 2020 virtual meeting. Preliminary Phase I data of surufatinib in combination with PD-1 inhibitor toripalimab indicated the combination was safe, well-tolerated, and had encouraging anti-tumour activity. In the 29/30 evaluable patients (April 10, 2020 cut off) the overall response rate (ORR) was 34.5% (one complete response, nine partial responses) with a disease control rate (DCR) of 79.3%. For patients with neuroendocrine neoplasms (NEN, n=21), ORR was 33.3% (one CR, five PR, one unconfirmed PR) and DCR, 80.9%. Separately, a second presentation highlighted similar safety/toxicity and PK profiles between Chinese and US patients in the respective Phase I/II surufatinib monotherapy studies. Subject to regulatory approval, in H220 Hutchison China MediTech (Chi-Med) intends to both launch surufatinib monotherapy in its first indication in China and to embark on global pivotal trials. Ahead of these catalysts, our valuation is £5.08/share or $32.99/ADS.

Year-end: December 31	2018	2019	2020E	2021E
Sales (US$m)	214.1	204.9	210.3	274.2
Adj. PBT (US$m)	(86.7)	(141.1)	(202.6)	(190.3)
Net Income (US$m)	(71.3)	(103.7)	(166.5)	(151.1)
Earnings per ADS (US$)	(0.57)	(0.80)	(1.22)	(1.11)
Cash (US$m)	301.1	217.2	145.9	197.0*
Adj. EBITDA (US$m)	(69.7)	(100.7)	(157.1)	(133.5)

Source: Trinity Delta Note: Adjusted PBT excludes exceptionals, Cash includes short-term investments, Adjusted EBITDA includes equity in earnings of equity investees. *2021E cash figure includes assumed raise of $250m.

Price (UK share)	331p
(US ADS)	$21.95
Market Cap	£2.29bn
	$3.03bn
Enterprise Value	£2.05bn
	$2.73bn
Shares in issue (shares)	690.6m
(ADS)	138.1m
12 month range	249p-478p
	$14.74-$30.66
Free float	38.5%
Exchanges	AIM
	NASDAQ
Sector	Healthcare
Company codes	HCM.L
	HCM
Corporate client	Yes



- **Exploring synergies with PD-1 inhibitors** Toripalimab is the first PD-1 inhibitor to be studied in combination with surufatinib. Preliminary Phase I combination data in advanced solid tumours revealed no unexpected safety/tolerability concerns and encouraging anti-tumour activity, including in neuroendocrine neoplasms (NEN) and in patients with negative or low PD-1 expression. Neuroendocrine tumours (NETs) are one subset of NEN; surufatinib monotherapy has already delivered two positive Phase III NET trials (albeit in less severe patient populations). In the Phase I study, three surufatinib doses were evaluated (200mg, 250mg, 300mg once daily) with a fixed toripalimab dose. 250mg was selected as the recommended Phase II dose for the 80-pt Phase II (initiated in Q419) on the basis of its safety/efficacy profile.
- **Surufatinib coming to the fore** First approval is expected in China in H220: NDAs for surufatinib monotherapy are currently under active review (non-pancreatic NET) or pending submission by mid-2020 (pancreatic NET). It will be the first self-launch by Chi-Med's dedicated China Oncology commercial team. Global registration trials (US/Europe/Japan) for surufatinib monotherapy in NET could initiate in H220, subject to positive regulatory interactions. China and US PK data congruence, positive China Phase III data, and similar NET treatment paradigms globally increase confidence in successful global studies, and raise possibility of expedited approval.
- **Valued at £5.08/share or $32.99/ADS ahead of 2020 catalysts** The $110m (net) raised in January coupled to >$300m in available cash resources at end-FY19 provides cash into 2021 and the means for Chi-Med to invest in its pipeline. We value Chi-Med at £3.51bn or $4.56bn using a DCF-based sum-of-the-parts model.

Company description

Hutchison China MediTech is a Hong Kong headquartered biopharma focused on discovering, developing and commercializing innovative targeted therapeutics and immunotherapies to treat cancer and autoimmune diseases. It has a diverse pipeline of first-in-class/best-in-class selective oral tyrosine kinase inhibitors in development for the China and global markets.

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Exhibit 1: Summary of financials

Year-end: December 31	$'000s	2015	2016	2017	2018	2019	2020E	2021E
INCOME STATEMENT								
Revenues		**178,203**	**216,080**	**241,203**	**214,109**	**204,890**	**210,301**	**274,245**
Cost of goods sold		(110,777)	(156,328)	(175,820)	(143,944)	(160,152)	(159,189)	(173,122)
Gross Profit		**67,426**	**59,752**	**65,383**	**70,165**	**44,738**	**51,113**	**101,123**
R&D expenses		(47,368)	(66,871)	(75,523)	(114,161)	(138,190)	(196,911)	(216,602)
Selling expenses		(10,209)	(17,998)	(19,322)	(17,736)	(13,724)	(16,371)	(23,308)
G&A expenses		(19,620)	(21,580)	(23,955)	(30,909)	(39,210)	(43,176)	(53,402)
Underlying operating profit		**(9,771)**	**(46,697)**	**(53,417)**	**(92,641)**	**(146,386)**	**(205,345)**	**(192,190)**
Other revenue/expenses		0	0	0	0	0	0	0
EBITDA		**(7,756)**	**(44,356)**	**(50,839)**	**(89,051)**	**(141,444)**	**(199,179)**	**(178,943)**
Operating Profit		**(9,771)**	**(46,697)**	**(53,417)**	**(92,641)**	**(146,386)**	**(205,345)**	**(192,190)**
Interest income/expense		(953)	(1,129)	(235)	4,969	3,914	1,372	553
Other income/expense		184	470	116	1,017	1,367	1,367	1,367
Profit Before Taxes		**(10,540)**	**(47,356)**	**(53,536)**	**(86,655)**	**(141,105)**	**(202,606)**	**(190,270)**
Adj. PBT		**(10,540)**	**(47,356)**	**(53,536)**	**(86,655)**	**(141,105)**	**(202,606)**	**(190,270)**
Current tax income		(1,605)	(4,331)	(3,080)	(3,964)	(3,274)	(5,910)	(6,311)
Equity in earnings of equity investees, net of tax		22,572	66,244	33,653	19,333	40,700	42,046	45,464
Net Income		**10,427**	**14,557**	**(22,963)**	**(71,286)**	**(103,679)**	**(166,470)**	**(151,117)**
Minority interests		(2,434)	(2,859)	(3,774)	(3,519)	(2,345)	(2,462)	(2,585)
Net income attributable to equityholders		**7,993**	**11,698**	**(26,737)**	**(74,805)**	**(106,024)**	**(168,932)**	**(153,702)**
EPS ($)		**0.01**	**0.02**	**(0.04)**	**(0.11)**	**(0.16)**	**(0.24)**	**(0.22)**
Earnings per ADS ($)		**0.07**	**0.10**	**(0.22)**	**(0.57)**	**(0.80)**	**(1.22)**	**(1.11)**
DPS ($)		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Average no. of shares (m)		546.6	597.2	617.2	664.3	665.7	690.6	690.6
Gross margin		*38%*	*28%*	*27%*	*33%*	*22%*	*24%*	*37%*
EBITDA margin		*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*
Underlying operating margin		*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*
BALANCE SHEET								
Current assets		**89,512**	**167,380**	**432,195**	**370,541**	**317,022**	**249,860**	**316,515**
Cash and cash equivalents		31,941	79,431	85,265	86,036	121,157	99,919	151,031
Short-term investments		0	24,270	273,031	214,915	96,011	46,011	46,011
Accounts receivable		35,215	45,035	42,270	42,958	43,254	46,093	60,109
Inventories		9,555	12,822	11,789	12,309	16,208	17,445	18,972
Other current assets		12,801	5,822	19,840	14,323	40,392	40,392	40,392
Non-current assets		**140,087**	**175,057**	**165,737**	**161,577**	**148,100**	**174,370**	**226,519**
Property, plant & equipment		8,507	9,954	14,220	16,616	20,855	40,894	86,279
Intangible assets		3,903	3,606	3,738	3,533	3,387	3,311	3,256
Investments in equity investees		119,756	158,506	144,237	138,318	98,944	105,251	112,070
Other non-current assets		7,921	2,991	3,542	3,110	24,914	24,914	24,914
Current liabilities		**(81,062)**	**(95,119)**	**(104,600)**	**(85,479)**	**(113,101)**	**(116,488)**	**(373,628)**
Short-term debt		(23,077)	(19,957)	(29,987)	0	0	0	(250,000)
Accounts payable		(24,086)	(35,538)	(24,365)	(25,625)	(23,961)	(26,168)	(33,202)
Other current liabilities		(33,899)	(39,624)	(50,248)	(59,854)	(89,140)	(90,320)	(90,427)
Non-current liabilities		**(46,260)**	**(43,258)**	**(8,366)**	**(34,384)**	**(39,118)**	**(39,118)**	**(39,118)**
Long-term debt		(26,768)	(26,830)	0	(26,739)	(26,818)	(26,818)	(26,818)
Other non-current liabilities		(19,492)	(16,428)	(8,366)	(7,645)	(12,300)	(12,300)	(12,300)
Equity		**102,277**	**204,060**	**484,966**	**412,255**	**312,903**	**268,624**	**130,288**
CASH FLOW STATEMENTS								
Operating cash flow		**(9,385)**	**(9,569)**	**(8,943)**	**(32,847)**	**(80,912)**	**(155,128)**	**(140,311)**
Net income		10,427	14,557	(22,963)	(71,286)	(103,679)	(166,470)	(151,117)
Non-cash adjustments & other operating cash flow		(9,863)	(27,557)	28,525	31,276	6,662	13,211	19,314
Change in working capital		(9,949)	3,431	(14,505)	7,163	16,105	(1,870)	(8,509)
Investing cash flow		**8,855**	**(33,597)**	**(260,780)**	**43,752**	**119,028**	**23,871**	**(58,577)**
CAPEX		(3,324)	(4,327)	(5,019)	(6,364)	(8,565)	(26,130)	(58,577)
Change in short term investments		12,179	(24,270)	(248,761)	58,116	118,904	50,000	0
Investment in an equity investee		0	(5,000)	(7,000)	(8,000)	8,689	0	0
Financing cash flow		**(5,471)**	**92,435**	**273,196**	**(8,231)**	**(1,493)**	**110,019**	**250,000**
Proceeds from equity		(1,733)	97,076	291,737	(2,322)	(95)	110,019	0
Increase in loans		(3,205)	(4,077)	(16,947)	(4,627)	(116)	0	250,000
Other financing cash flow		(533)	(564)	(1,594)	(1,282)	(1,282)	0	0
Net increase in cash		**(6,001)**	**49,269**	**3,473**	**2,674**	**36,623**	**(21,238)**	**51,112**
Exchange rate effects		(1,004)	(1,779)	2,361	(1,903)	(1,502)	0	0
Cash at start of year		38,946	31,941	79,431	85,265	86,036	121,157	99,919
Cash at end of year		**31,941**	**79,431**	**85,265**	**86,036**	**121,157**	**99,919**	**151,031**
Net cash at end of year		**(17,904)**	**56,914**	**328,309**	**274,212**	**190,350**	**119,112**	**(79,776)**

Source: Company, Trinity Delta Note: Adjusted PBT excludes exceptionals, Cash includes short-term investments, Adjusted EBITDA includes equity in earnings of equity investees. *2021E cash figure includes assumed raise of $250m

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