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Research upside at Hutchison

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The unique combination of a stable healthcare business and potential upside from its research and development (R&D) arm means investor should buy shares in **Hutchison China Meditech (HCM:AIM)**.

Shares in the £31.5 million cap, which is effectively a biotechnology firm backed by a large, growing and cash-generative traditional Chinese medicines (TCM) business, can be bought at 61.5p. House broker Investec reckons the healthcare business itself is worth 110p a share and sees this part of the business as growing 20% per annum over the next couple of years. This operation is divided into three partially-owned subsidiaries focusing on over-the-counter (OTC) drugs, prescription drugs and supplements derived from TCM. Investec admits the lack of quoted peers makes this part of the company hard to value but the current share price suggests even on a conservative basis investors are getting the biotechnology potential for nothing.

The R&D division is divided into in-house development and collaborative agreements. Lead drug candidate HMPL-004 is in trials for ulcerative colitis and Crohn's disease, both of which cause inflammation of the bowel.

The results from a Phase IIb trial for Crohn's disease are due next month and could provide a catalyst to the share price. The ulcerative colitis trial is a Phase II trial. Hutchison China Meditech partnership agreements with America's Merck, Eli Lilly and Johnson & Johnson to research drugs for them. Each deal could produce revenues this year. Details are thin but there are four projects with potentially large milestones. The Aim-listed firm also has a consumer products business which is currently loss making but is still in the development stage.

Shares says: Upside potential from the biotech arm could be thrown in for free. ⬆ Buy

