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Shares have risen but remain attractive

Chi-Med still a buy

Ian McDiarmid

In May (*Shares* 7 May) we pointed out investors in **Hutchison China Meditech (HCM)**, or 'Chi-Med,' could buy in to a traditional Chinese medicine (TCM) healthcare franchise, and get a research and development (R&D) business, essentially thrown in for free. In spite of the rise in the share price to the current 82p that still stands and investors should continue to buy.

Chi-Med reported interim results last week which showed a 23% increase in group revenues, largely on the back of the TCM business. Chi-Med itself estimates the pharmaceutical market, in which it is the market leader, to be increasing at around 20% per annum. The growth in revenues allowed the company to report its maiden half-year operating profit.

The R&D business, Hutchison Medipharma, has its lead drug, HMPL-004 in two phase II trials for ulcerative colitis and Crohn's disease. It also has a promising stable of pre-clinical drugs. As ever with biotechs these are highly risky for investors but it should be noted that by operating in China Chi-Med is able to run an R&D effort which, consisting of 200 scientists, is huge by Aim standards.

The third line of attack for shareholders is an as yet loss-making consumer products brand Sen which is sold in London and Paris. House broker Panmure Gordon has applied a multiple of 13.4 times to its estimate for 2009 earnings to get a value of 152p per share. The one disadvantage is the large (72%) holding of Hutchison which reduces liquidity.

Shares says: Chi-Med remains cheap, a good way to play the Chinese health market, and comes with the potential rewards of its R&D. ⊕ **Buy**