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A powerful play on growing Chinese healthcare spend

Chi-Med's march to profitability

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Even though shares in **Hutchison China MediTech (HCM:AIM)** have risen 554%, rising from 61.5p to 402p, since we first flagged the company's attractions last year (*Shares*, 7 May '09) they still have further to go. Keep buying the shares in anticipation of a possible licensing deal for its lead drug, and ahead of the fast-growing firm making a move in to sustained profitability.

There are three parts to the company: a healthcare division; a small consumer products company; and a drug development arm. The lead drug in development in the latter is HMPL-004 for Crohn's disease and ulcerative colitis and it could provide a licensing deal before the end of the year. An agreement would not only be good news for the share price for its own sake, but could act as a catalyst for a fuller appreciation of the company's value overall.

Another boost for the stock could come from a move in to sustained profitability. Chi-Med has yet to record an annual profit but did report a slim operating surplus of \$2.3 million in the first half of 2010. The company has achieved a compound annual growth rate of revenues of 31% over the last five years, centred on the key healthcare division, which accounts for 92% of revenues. This sells prescription and OTC traditional Chinese medicines (TCMs). These include leading brands such as the ubiquitous Banlangen for colds and flu.

Spending on healthcare in China, starting from a low base, should continue to expand more rapidly than overall GDP growth and Chi-Med is a good way to gain exposure to the theme.

Shares says: + Buy Hutchison China-Meditech at 402p.