

Client: Chi Med
Source: Investors Chronicle (Web)
Date: 02 August 2011

Hutchison China at a discount

Access to the China's vast healthcare market has boosted Hutchison China Meditech over the past two years as the company, part of Li Ka-shing's Hutchison Whampoa empire, used over-the-counter (OTC) medicines to subsidise its more complex drug development programmes.

Product development is proceeding as planned through the clinical trials process, but it has taken a hit from price inflation and may also need to relocate its factories within China, although compensation payments should cover the cost of a move.

The rising cost of raw materials, particularly of the herbs needed in the company's OTC division, affected gross profit margins, which fell 5 points to 56 per cent. In response, management raised prices and cut marketing spend, but this meant that sales of its top-selling OTC brand Baiyunshan only increased 7 per cent to \$48.1m (£29.3m). However, the company reckons that prices will start to return to normal over the next 18 months.

The development pipeline looks ready to move into late stage trials with the HMPL-004 medicine for ulcerative colitis. Hutchison has formulated a high-strength tablet for use in phase III trials but has to complete a so-called pharmacokinetic study to assess its effectiveness before full trials can begin.

Panmure Gordon forecasts a loss per share in 2011 of 8.79¢ (2010: loss per share of 13.3¢).

Hutchison China Meditech (HCM)

ORD PRICE:

MARKET VALUE:

12-MONTH HIGH:

LOW: 359p

DIVIDEND YIELD:

PE RATIO:

NET ASSET VALUE:

NET DEBT:

Half-year to 30 Jun

Turnover (\$m)

Pre-tax profit (\$m)

Earnings per share (¢)

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Net div per share (¢)

% change

*Includes intangible assets of US\$21m, or 41 cents a share £1:US\$1.64

Aim: pharmaceuticals & biotechnology

Guide to the terms used in IC results tables.

IC VIEW:

Hutchison looks generally sound and the recent pull-back in the share price offers another chance to buy, with the shares trading at a discount to Panmure Gordon's 600p sum-of-the-parts valuation. Buy.

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