

Client: Chi Med
Source: Small Company Sharewatch.
Date: 01 April 2012
Page: 5
Reach: 0
Size: 101cm2
Value: 565.6

Hutchison Chi Med (HCM)

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FT : AIM, Pharmaceuticals

Solid full year figures from Hutchison driven by its Chinese consumer healthcare arm. Overall sales rose 24% to US\$167m and operating profit was US\$5.4m compared to a loss.

The core Chinese healthcare division continued to grow helped by the increase in government spending on national healthcare. With its joint ventures proportionally consolidated, sales were up 16% to US\$139m - all organic - thanks to leadership market shares in the Chinese cough-cold and cardiovascular drug markets. Its best seller, the cardiovascular prescription drug, *She Xiang Bao Xin*, saw blistering sales growth, up 32% to \$79m. Being prescription it is also high margin compared to OTC remedies.

The healthcare division's profitability fully offset the reduced US\$3.7m operating loss in the drug R&D division (70% owned), helped by the access fee from AstraZeneca for the *Voltnib* drug. There are now five small molecule drugs including *Voltnib* that are progressing towards / are in Phase I trials. Meanwhile, the great white hope, *HMPL-004*, for inflammatory bowel disease, is expected to start phase III trials shortly – the outlicencing of this remains elusive but HCM is in “discussions with multiple parties.” With unmet needs in a US\$5bn market this is the trigger that will eventually get the share price flying.

Elsewhere, the consumer products division grew sales 26% but recorded a small loss resulting from its expansion in organic infant formula in China.

FY12 has started with a bang. Healthcare is “well ahead” and the OTC medicines should grow 10-15% whilst prescription drugs will grow by 20-30%.

Buy - that's what respected fund manager Mark Slater has been doing, taking his stake past 7%.