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HUTCHISON CHINA MEDITECH (HCM)

Hutchison shrugs off China worries

Fears over the state of the Chinese economy have weighed consistently on Hutchison China Meditech's (HCM) share price over the past few months, along with the winding down of its UK Sen Medicine operation. But, judging by these half-year results, these worries appear to bear little relationship with the company's operational performance, which benefited from lower raw-materials costs and impressive sales growth in its main health-care division. In fact, HCM looks in a particularly strong position now that its research and development programme is self-financing after a deal with AstraZeneca, so buying the



shares at a lower valuation could make sense.

Sales at the China Healthcare division grew by 26 per cent to \$187m (£117m), with operating profits 12 per cent higher at \$16.5m. Prescription drugs made up the biggest proportion of this growth, up 30 per cent to \$63.4m, because of the success of HCM's own cardiovascular medicine. Total healthcare division sales have more than tripled since 2006. Meanwhile, sales at the over-the-counter business rose by a quarter as it benefited most from lower prices for raw materials. In addition, HCM is expanding its production sites in Shanghai and Guangzhou, which should be cost neutral.

Broker Edison Investment Research is currently forecasting underlying pre-tax profits of \$5.9m for 2012, giving EPS of 1.4¢.

Half-year to 30 Jun	Turnover (\$m)	Pre-tax profit (\$m)	Earnings per share (¢)	Dividend per share (p)
2011	82.3	3.41	-1.35	nil
2012	103	6.52	4.82	nil
% change	+25	+91	-	-
Last IC view: Buy, 44 3p, 20 Mar 2012			Ex-div: -	Payment: -

Cost pressures are easing at Hutchison China Meditech, which makes the shares an interesting, if speculative, play on China's growing healthcare sector.

Speculative buy

Ord Price: 395p Market Value: £205m

Touch: 383-405p 12-Month High: 470p Low: 172p

Dividend Yield: nil PE Ratio: 82

Net Asset Value: 124¢* Net Cash: \$25.6m

*Includes intangible assets of \$25.6m, or 49¢ a share

£=\$1.57