

Hutchison China MediTech – QuickView

5 November 2012

Investment summary: Targeting the wild type

Theliatinib starting Phase I trials highlights the progress that MediPharma (the 80% owned R&D unit) has made. There are five oncology projects currently in Phase I, with a number of similarly novel projects completing pre-clinical phases. These aim to be either best in class or first in class, targeting global development if suitably differentiated or fast tracked for the large domestic Chinese market if not.

Theliatinib EGFR inhibitor starts Phase I study

Theliatinib (HMPL-309), a novel small molecule inhibitor that targets the non-mutant (or wild type) EGFR (epidermal growth factor receptor), has started Phase I clinical trials in non-small cell lung cancer. The study primarily examines safety and tolerability with both single and repeat doses, but monitoring of biomarkers could provide early indications of activity. The EGFR market is worth over \$5bn and is dominated by small molecules such as Roche's Tarceva and Amgen's Vectibix. These first-generation compounds tend to not perform well against wild type EGFR, whereas preclinical data showed notable potency for theliatinib.

An impressive oncology pipeline has been built up

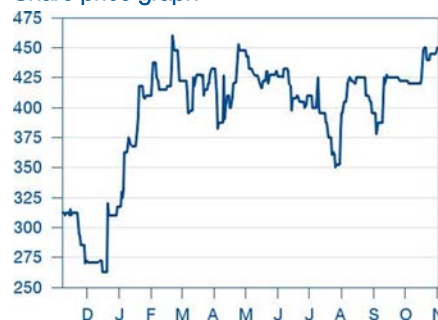
The MediPharma R&D unit, now a fully integrated drug discovery company, has five novel oncology projects in Phase I trials. These are potentially either best in class or first in class, with the goal of global development (with a partner) if suitably differentiated, or rapid development for the domestic Chinese market. Volitinib, a c-Met inhibitor, is partnered with AstraZeneca (for a \$20m upfront fee and milestones of up to \$120m) but the remaining four (epitinib and theliatinib are EGFR inhibitors and sulfatinib and fruquintinib are VEGFR inhibitors) are unpartnered as yet. A number of other projects (targeting PI3K, Syk and FAK) are in preclinical stages.

A premium valuation is deserved

China Healthcare is the largest division. Placing a similar rating to its quoted Chinese peers (19.5x) gives a market cap of £218m, meaning that MediPharma, Consumer Products and the cash pile (over \$20m) are essentially in for free. A sum-of-the-parts valuation suggests a market cap of £275m is justified, with scope for further upside if elements of the R&D pipeline are partnered.

Price 450p
Market cap £234m

Share price graph



Share details

Code HCM
Listing AIM
Sector Pharma & biotech
Shares in issue 52.2m

Business

Hutchison China MediTech (Chi-Med) is the healthcare arm of Hutchison Whampoa, with 28% listed on AIM. The goal is to capitalise on the economic and demographic shifts in China with drugs, organic foods and consumer products.

Bull

- Chinese demographic opportunities are once-in-a-generation events.
- Domestic market demand will continue to boom despite economic uncertainty.
- A rich seam of scientific expertise and a conducive environment for research.

Bear

- Hutchison Whampoa's 72% majority shareholding limits liquidity.
- Political and economic risks remain an ever present threat in China.
- Timelines have slipped historically and product deals have not completed.

Analysts

Franc Gregori +44 (0)20 3077 5700
Robin Davison +44 (0)20 3077 5737

healthcare@edisoninvestmentresearch.co.uk

Consensus estimates

Year end	Revenue (\$m)	EBITDA (\$m)	EPS (\$)	DPS (\$)	P/E (x)	Yield (%)
12/10	134.5	2.4	(0.13)	0.00	N/A	N/A
12/11	166.9	10.3	0.01	0.00	N/A	N/A
12/12e	186.2	12.4	0.00	0.00	N/A	N/A
12/13e	215.6	18.0	0.04	0.00	N/A	N/A

EDISON QUICKVIEWS ARE NORMALLY ONE-OFF PUBLICATIONS WITH NO COMMITMENT TO WRITING ANY FOLLOW UP. QUICKVIEW NOTES USE CONSENSUS EARNINGS ESTIMATES.

EDISON INVESTMENT RESEARCH LIMITED

Edison Investment Research is a leading investment research company. It has won industry recognition, with awards in the UK and internationally. The team of 95 includes over 60 analysts supported by a department of supervisory analysts, editors and assistants. Edison writes on more than 400 companies across every sector and works directly with corporates, fund managers, investment banks, brokers and other advisers. Edison's research is read by institutional investors, alternative funds and wealth managers in more than 100 countries. Edison, founded in 2003, has offices in London, New York and Sydney and is authorised and regulated by the Financial Services Authority (www.fsa.gov.uk/register/firmBasicDetails.do?sic=181584).

DISCLAIMER

Copyright 2012 Edison Investment Research Limited. All rights reserved. This report has been prepared and issued by Edison Investment Research Limited for publication in the United Kingdom. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison Investment Research Limited at the time of publication. The research in this document is intended for professional advisers in the United Kingdom for use in their roles as advisers. It is not intended for retail investors. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment. A marketing communication under FSA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison Investment Research Limited has a restrictive policy relating to personal dealing. Edison Investment Research Limited is authorised and regulated by the Financial Services Authority for the conduct of investment business. The company does not hold any positions in the securities mentioned in this report. However, its directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. Edison Investment Research Limited or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. This communication is intended for professional clients as defined in the FSA's Conduct of Business rules (COBs 3.5).

London +44 (0)20 3077 5700
Lincoln House, 296-302 High Holborn
London, WC1V 7JH, UK

New York +1 646 653 7026
245 Park Avenue, 24th Floor
NY 10167, New York, US

Sydney +61 (0)2 9258 1162
Level 33, Australia Square, 264 George St,
Sydney, NSW 2000, Australia