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HUTCHISON CHINA MEDITECH (HCM)

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What's new

- Major deal with Nestlé
- Phase III trials due to start
- FDA looking favourably at botanical medicines

The surge in **Hutchison China Meditech's (HCM)** share price in the first quarter of last year signalled that the market had started to understand how important the company's access to the Chinese medical market could be in years to come. Swiss consumer products giant **Nestlé (NESN)** seems to have recognised the importance of Hutchison's medical research into plant-derived medicines by forming a joint venture (JV) with the company.

The JV will allow the company's main product, HMPL-004, a treatment for gastrointestinal problems, to go into phase III clinical trials, with its potential commercialisation around the world to follow. The trials start early this year and will involve more than 2,700 patients. There were no financial details available, but analysts estimate the cost of running such extensive trials at $150m-$200m (£62m-£125m). The deal is notable as JVs are unusual in the pharma world, where companies tend to sign licensing agreements in return for royalties. The timing looks right as regulators have started to assess and approve the first batches of plant-derived medicines since creating a special category for them in 2004. The US regulator, The Food and Drug Administration, recently approved Crofelemer, a medicine to treat HIV-related side-effects, developed by Salix Pharmaceuticals.

Panmure Gordon says...

Buy. Nestlé has considerable expertise and know-how in manufacturing processes involving active ingredients derived from plants. Although the deal structure revolves around gastrointestinal assets, it should be noted that a broader collaboration for the entire botanicals portfolio could materialise in the coming years. The deal also further demonstrates the company's business development capabilities, with Nestlé being an 'out of the box' type partner in a structure that should result in significantly more value creation for Chi-Med shareholders if HMPL-004 for inflammatory bowel disease is successfully commercialised. We value the Chinese healthcare business at $400m (£248m), the pharmaceutical business at approximately $100m and consumer products at $11.5m. Cumulatively, this translates into a price target of 600p per share.

Edison Investment Research says...

Buy. The MediPharma research and development (R&D) unit is now a fully integrated drug discovery company and 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. China Healthcare is the largest division and placing on it a similar rating to its quoted Chinese peers (PE ratio of 19.5) gives it 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.

The deal with Nestlé should give Hutchison's share price the momentum that has been lacking since a powerful early surge last year. With more products in the pipeline and plenty of cash to develop them, there is still upside to come. The shares are a speculative buy at 455p.

Speculative buy