

Tigermed (300347 CH)

Further recovery in 3Q

- Solid earnings growth in 3Q20.** Tigermed reported 3Q20 revenue of RMB848mn, up 22.3% YoY, which accelerated from 8.6% YoY revenue growth in 1H20. Attributable net profit was up 81.4% YoY in 3Q20 to RMB319mn, including RMB288mn one-off fair value gains and investment gains. Adjusted net profit rose 29.4% YoY in 3Q20 to RMB195mn, driven by both solid topline growth and margin improvement. Gross margin improved 2.89ppts in 3Q20 vs 3Q19, mainly due to the consolidation of acquired targets, including MOSIM (an early-stage clinical CRO company) and Yaxincheng (a medical translation CRO company).
- Strong quarterly recovery.** Recall that Tigermed's operation was interrupted by COVID-19 in the first half of 2020. As the pandemic got largely controlled in China, clinical trial operations started to normalize from 2Q20, leading to recovery in Tigermed's domestic revenue. However, the COVID-19 outbreak worsened in overseas regions such as the US and Europe. As a result, the overseas CRO demand, such as data management services and Frontage's BIO, CMC, DMPK services, were negatively impacted. In 1H20, Tigermed received 42% of total revenue from overseas and 40% of gross profit from overseas. We expect the COVID-19 epidemic to gradually ease in 2021E thanks to the wide supply of vaccines, which will drive further business recovery for Tigermed.
- H-share IPO brings sufficient capital for Tigermed's global expansion.** Tigermed has completed its dual-listing in HKEX in Aug 2020 and raised a total of HK\$11.82bn net proceeds. With sufficient cash on hand, we expect Tigermed to accelerate its pace of global expansion via both acquisitions and self-expansion. Given China's large patient pool, international pharmaceutical companies are including China as one site in MRCTs to speed up the enrollment of patients. Meanwhile, Chinese pharmaceutical companies are doing many MRCTs for the purpose of product registration in overseas countries. Tigermed provides clinical CRO services for Chinese innovative products to go global and multinational enterprises' innovative products to enter Chinese market. The Company already has established good network in Asia Pacific regions, while US market could be the next emphasis.
- Maintain BUY.** We raised our 2020E/21E net profit forecasts by 90%/17%, respectively, to factor in fair value gains and investment gains, and raised SOTP-based TP to RMB146.43, implying 70x FY22E P/E. We like Tigermed given its leading positioning in clinical CRO space and large potential in overseas expansion.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	2,301	2,803	3,320	4,346	5,602
Revenue YoY growth (%)	36.37	21.85	18.42	30.91	28.91
Net income (RMB mn)	472	842	1,597	1,366	1,834
EPS (RMB)	0.94	1.13	1.83	1.57	2.10
EPS YoY growth (%)	54.22	19.70	62.00	-14.48	34.28
Consensus EPS	N/A	N/A	1.50	1.77	2.26
P/E (x)	129.94	108.55	67.00	78.35	58.35
P/B (x)	22.99	21.76	6.86	6.44	5.94
Yield (%)	0.29	0.23	0.37	0.32	0.42
ROE (%)	16.70	17.66	10.01	8.03	9.96
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price RMB146.43
 (Previous TP RMB87.18)
Up/Downside +19.38%
Current Price RMB122.66

China Healthcare Sector

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Stock Data

Mkt Cap (RMB mn)	105,317
Avg 3 mths t/o (RMB mn)	675.68
52w High/Low (RMB)	130.50/59.00
Total Issued Shares (mn)	749

Source: Bloomberg

Shareholding Structure

Management	37.11%
Temasek	2.92%
Free float	59.97%

Source: SZSE

Share Performance

	Absolute	Relative
1-mth	20.4%	17.7%
3-mth	15.1%	15.1%
6-mth	61.0%	34.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: BDO CHINA

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Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	3,320	4,346	5,602	3,381	4,428	5,711	-1.82%	-1.86%	-1.91%
Gross Profit	1,573	2,072	2,686	1,564	2,058	2,676	0.60%	0.67%	0.36%
Operating Profit	895	1,221	1,679	932	1,284	1,746	-3.94%	-4.91%	-3.85%
Net profit	1,597	1,366	1,834	841	1,172	1,591	89.94%	16.55%	15.29%
EPS (RMB)	1.83	1.57	2.10	1.12	1.56	2.12	63.45%	0.35%	-0.84%
Gross Margin	47.40%	47.67%	47.94%	46.26%	46.48%	46.86%	+1.14 ppt	+1.20 ppt	+1.09 ppt
Operating Margin	26.97%	28.10%	29.97%	27.57%	29.00%	30.57%	-0.60 ppt	-0.90 ppt	-0.60 ppt
Net Margin	48.12%	31.43%	32.74%	24.87%	26.47%	27.86%	+23.25 ppt	+4.97 ppt	+4.89 ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	3,320	4,346	5,602	3,367	4,357	5,563	-1.41%	-0.26%	0.70%
Gross Profit	1,573	2,072	2,686	1,577	2,075	2,677	-0.23%	-0.14%	0.34%
Operating Profit	895	1,221	1,679	1,437	1,784	2,327	-37.70%	-31.56%	-27.86%
Net profit	1,597	1,366	1,834	1,261	1,421	1,808	26.68%	-3.87%	1.45%
EPS (RMB)	1.83	1.57	2.10	1.50	1.77	2.26	21.80%	-11.55%	-6.86%
Gross Margin	47.40%	47.67%	47.94%	46.84%	47.62%	48.12%	+0.56 ppt	+0.06 ppt	-0.17 ppt
Operating Margin	26.97%	28.10%	29.97%	42.68%	40.95%	41.83%	-15.71 ppt	-12.85 ppt	-11.86 ppt
Net Margin	48.12%	31.43%	32.74%	37.45%	32.61%	32.50%	+10.67 ppt	-1.18 ppt	+0.24 ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 1: SOTP valuation

SOTP valuation	2022E
Attributable Non-IFRS net profit (RMB mn)	1,404
PE multiple of core business (x)	65.0
Valuation of CRO business (RMB mn)	91,275
Fair value of financial assets for sale (RMB mn)	6,083
PB multiple of investment business (x)	6.0
Valuation of investment business (RMB mn)	36,498
SOTP valuation (RMB mn)	127,772
# of shares	872,580,350
Target price (RMB per share)	146.43

Source: CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Revenue	2,301	2,803	3,320	4,346	5,602
Clinical field service	1,103	1,347	1,638	2,129	2,768
Clinical test technical service	1,195	1,446	1,671	2,205	2,823
Other business	3	10	11	11	11
Cost of sales	(1,309)	(1,500)	(1,746)	(2,274)	(2,916)
Gross profit	992	1,303	1,573	2,072	2,686
Business taxes	(9)	(11)	(12)	(16)	(21)
Selling expenses	(54)	(81)	(94)	(117)	(146)
Admin expenses	(314)	(350)	(415)	(521)	(616)
R&D expenses	(88)	(124)	(156)	(196)	(224)
Operating profit	526	737	895	1,221	1,679
Finance costs, net	(7)	(10)	(139)	(13)	(17)
Investment gains	119	180	100	0	0
Other gains	(31)	203	1,041	408	508
Pre-tax profit	606	1,089	1,891	1,616	2,170
Income tax	(99)	(114)	(190)	(162)	(217)
Minority interests	(35)	(134)	(104)	(89)	(119)
Net profit	472	842	1,597	1,366	1,834

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Total net profit	507	975	1,701	1,455	1,953
Depreciation and amortization	61	47	41	52	62
Change in working capital	8	(169)	47	(238)	(271)
Investment loss (gain)	(119)	(180)	(100)	0	0
Other operating activities	65	(147)	(882)	(385)	(481)
Operating cash flow	522	528	807	884	1,264
Capex	(92)	(103)	(150)	(150)	(150)
Acquisition of subsidiaries	(843)	(1,015)	(1,000)	(1,000)	(1,000)
Other investing activities	568	479	300	408	508
Investing cash flow	(367)	(638)	(850)	(742)	(642)
Net proceeds from shares issued	59	1,441	10,167	0	0
Bank borrowing	340	180	0	0	0
Proceeds from issue of bonds	0	0	0	0	0
Dividends and interests paid	(127)	(266)	(534)	(351)	(470)
Other financing activities	(262)	80	0	0	0
Financial cash flow	10	1,434	9,633	(351)	(470)
FX changes	7	15	0	0	0
Net change in cash	173	1,339	9,590	(209)	152
Cash at the beginning	525	698	2,042	11,632	11,423
Cash at the end	704	2,042	11,632	11,423	11,575

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Non-current assets	2,677	4,163	6,104	7,202	8,290
Fixed asset	255	252	371	479	576
Intangible assets	28	96	91	85	79
Financial assets available for sale	1,222	0	0	0	0
Goodwill	1,033	1,158	1,158	1,158	1,158
Other non-current assets	139	2,656	4,485	5,481	6,477
Current assets	1,603	3,370	12,960	13,020	13,481
Cash	704	2,042	11,632	11,423	11,575
Inventories	1	1	2	3	4
Trade and bills receivables	782	1,080	1,091	1,369	1,688
Prepayments, deposits and other receivables	47	26	26	26	26
Other current assets	69	220	208	198	188
Current liabilities	1,209	1,791	1,849	1,890	1,939
Borrowings	603	864	864	864	864
Trade and other payables	44	185	185	185	185
Other current liabilities	562	742	801	841	890
Non-current liabilities	37	220	220	220	220
Borrowings	3	37	37	37	37
Other non-current liabilities	34	184	184	184	184
Total net assets	3,034	5,522	16,995	18,112	19,611
Minority interest	366	1,296	1,400	1,488	1,607
Shareholders' equity	2,669	4,225	15,595	16,623	18,004

Key ratios

YE 31 Dec	FY18A	FY19E	FY20E	FY21E	FY22E
Sales mix (%)					
Clinical trial technical services	48	48	49	49	49
Clinical trial consulting services	52	52	50	51	50
Other business	0	0	0	0	0
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	43	46	47	48	48
EBITDA margin	29	41	62	39	40
Pre-tax margin	26	39	57	37	39
Net margin	21	30	48	31	33
Effective tax rate	16	10	10	10	10
Balance sheet ratios					
Current ratio (x)	1	2	7	7	7
Trade receivables turnover days	112	121	120	115	110
Trade payables turnover days	11	28	28	28	28
Net debt to equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	17	18	10	8	10
ROA	12	13	9	7	9
Per share					
EPS (RMB)	0.94	1.13	1.83	1.57	2.10
DPS (RMB)	0.35	0.28	0.45	0.39	0.52
BVPS (RMB)	5.34	5.64	17.87	19.05	20.63

Source: Company data, CMBIS estimates

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