

# Tigermed (300347 CH)

## To continue strong earnings momentum

**Strong earnings growth in 2019.** Tigermed reported preliminary earnings for 2019. Attributable net profit surged 80% YoY to RMB848mn which was mainly due to 1) 23% YoY revenue growth during the period, 2) RMB250 - 350mn one-off investment gains and disposal gains, and 3) spin-off of Shengtong (晟通) which provides logistics services, in 2Q19. We estimate the organic revenue growth in 2019E was around 28% YoY, excluding impact from the spin-off. We also calculate the core net profit increased 69% YoY in 2019. We estimate gross margin improved 5.0ppts to 48.2% in 2019 thanks to the spin-off of low margin logistics business and larger income from high-margin clinical trial technical services. We raised our earnings forecasts and raised SOTP-based TP to RMB91.8, implying 52x FY21E P/E.

- **Mild near-term impact from COVID-19 outbreak.** The progress of clinical trials in China were delayed due to the disease outbreak. However, hospitals in most regions besides Hubei have resumed operation since late Feb. We think the process of clinical trials will catch up from Mar and the overall impact on Tigermed's earnings will be mild and temporary.
- **Strong demand in high-quality clinical CRO in China.** The number of ongoing clinical trials in China has been increasing fast thanks to encouraging policies on drug innovation and pharma and biotech companies' rising focus on innovative drug development. In 2019, the total phase I-IV clinical trials in China rose 22% YoY. Increasing ongoing clinical trials drives the demand for high-quality clinical CRO services.
- **Global expansion opens up room for long-term growth.** As of end-2018, Tigermed operated 11 overseas offices in Asia Pacific, Europe and North America. Tigermed plans to list its subsidiary DreamCIS in KOSDAQ, which will further strengthen the Company's presence in South Korea market. Tigermed may also complete its dual-listing in HK stock exchange in 2020E. With sufficient capital raised overseas, we believe Tigermed will accelerate the acquisition process in global market.
- We revised up our forecasts and expect Tigermed's adjusted net profit to grow at 69%/37%/35% YoY in 2019E/20E/21E, respectively; and attributable net profit to increase 80%/19%/31% YoY in 2019E/20E/21E. Tigermed's financial assets for sale reached RMB1,360mn by 30 Jun, 2019, which will contribute meaningful investment gains over the long term.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	1,687	2,301	2,823	3,644	4,667
Revenue YoY growth (%)	43.63	36.37	22.71	29.09	28.05
Net income (RMB mn)	301	472	848	1,013	1,324
EPS (RMB)	0.61	0.94	1.13	1.35	1.77
EPS YoY growth (%)	104.03	54.22	19.82	19.46	30.73
P/E (x)	124.98	81.04	67.63	56.62	43.31
P/B (x)	15.10	14.34	13.56	11.86	10.19
Yield (%)	0.26	0.46	0.59	0.71	0.92
ROE (%)	11.86	16.70	17.45	18.42	20.91
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

**BUY (Maintain)**

Target Price **RMB91.80**  
 Up/Downside **+20.01%**  
 Current Price **RMB76.50**

### China Healthcare Sector

#### Jill WU, CFA

Tel: (852) 3900 0842

Email: jillwu@cmbi.com.hk

#### Sam HU, PhD

Tel: (852) 3900 0882

Email: samhu@cmbi.com.hk

#### Amy GE

Tel: (852) 3761 8778

Email: amyge@cmbi.com.hk

#### Stock Data

Mkt Cap (RMB mn)	57,336
Avg 3 mths t/o (RMB mn)	524.29
52w High/Low (RMB)	85.01/38.22
Total Issued Shares (mn)	749
Source: Bloomberg	

#### Shareholding Structure

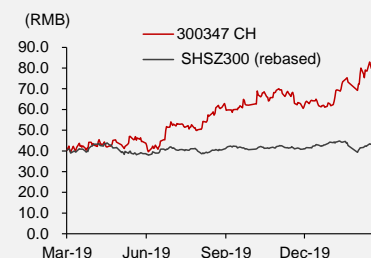
Management	37.11%
Temasek	2.92%
Free float	59.97%
Source: SZSE	

#### Share Performance

	Absolute	Relative
1-mth	4.4%	5.2%
3-mth	21.8%	22.8%
6-mth	25.4%	23.5%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

Auditor: BDO CHINA

**Figure 1: Earnings revision**

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	2,823	3,644	4,667	2,967	3,904	5,101	-4.8%	-6.7%	-8.5%
Gross Profit	1,359	1,772	2,297	1,353	1,795	2,381	0.5%	-1.3%	-3.5%
Operating Profit	820	1,114	1,492	785	1,110	1,526	4.4%	0.4%	-2.2%
Net profit	848	1,013	1,324	690	956	1,330	22.8%	6.0%	-0.5%
EPS (RMB)	1.1	1.4	1.8	0.9	1.3	1.8	22.8%	6.0%	-0.5%
Gross Margin	48.15%	48.62%	49.23%	45.60%	45.98%	46.67%	2.6 ppt	2.6 ppt	2.6 ppt
Operating Margin	29.03%	30.56%	31.97%	26.48%	28.42%	29.91%	2.6 ppt	2.1 ppt	2.1 ppt
Net Margin	30.03%	27.79%	28.37%	23.27%	24.48%	26.08%	3.8 ppt	3.3 ppt	2.3 ppt

Source: Company data, CMBIS estimates

**Figure 2: CMBI estimates vs consensus**

RMB mn	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	2,823	3,644	4,667	3,002	3,911	5,066	-6.0%	-6.8%	-7.9%
Gross Profit	1,359	1,772	2,297	1,367	1,794	2,339	-0.6%	-1.3%	-1.8%
Operating Profit	820	1,114	1,492	930	1,255	1,657	-11.9%	-11.3%	-10.0%
Net profit	848	1,013	1,324	752	992.6	1,319	12.7%	2.0%	0.4%
EPS (RMB)	1.1	1.4	1.8	0.991	1.367	1.824	14.1%	-1.2%	-3.2%
Gross Margin	48.15%	48.62%	49.23%	45.54%	45.88%	46.18%	2.6 ppt	2.7 ppt	3.1 ppt
Operating Margin	29.03%	30.56%	31.97%	30.99%	32.09%	32.71%	-2.0 ppt	-1.5 ppt	-0.7 ppt
Net Margin	30.03%	27.79%	28.37%	25.05%	25.38%	26.04%	5.0 ppt	2.4 ppt	2.3 ppt

Source: Company data, Bloomberg, CMBIS estimates

**Figure 3: Peers valuation comparison**

			Mkt Cap	Net profit YoY				P/E (x)			P/B (x)		ROE (%)	
Company	Ticker	Rating	(US\$ mn)	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY19E	FY20E	
H-share														
WuXi AppTec	2359 HK	NR	24,958	-4.2%	30.7%	28.4%	79.5	59.7	47.2	8.4	7.5	11.0	13.1	
WuXi Biologics	2269 HK	Buy	11,123	54.3%	42.8%	46.8%	134.8	94.4	64.3	14.6	12.7	13.6	17.3	
Pharmaron	3759 HK	NR	6,357	52.1%	37.3%	30.0%	69.3	50.6	39.7	8.8	7.7	16.5	17.9	
Frontage	1521 HK	NR	1,239	93.2%	32.8%	32.1%	61.5	36.2	27.9	4.1	3.6	13.9	10.3	
Viva	1873 HK	NR	850	58.7%	100.7%	50.2%	38.0	17.3	9.5	3.1	2.8	13.7	13.9	
Average				50.8%	48.9%	37.5%	76.6	51.6	37.7	7.8	6.8	13.7	14.5	
A-share														
WuXi AppTec	603259 CH	Buy	24,958	-5.7%	33.2%	26.5%	81.5	61.2	48.3	8.6	7.7	11.0	13.1	
Tigermid	300347 CH	Buy	6,507	79.6%	19.5%	30.7%	67.6	56.6	43.3	13.6	11.9	17.5	18.4	
Pharmaron	300759 CH	NR	6,358	52.1%	37.3%	30.0%	83.8	61.2	47.9	10.6	9.3	16.5	17.9	
Joinn Laboratories	603127 CH	NR	1,657	45.8%	41.4%	37.2%	73.1	51.2	37.3	14.9	12.3	20.2	23.7	
Asymchem Laboratories	002821 CH	NR	5,926	32.9%	31.5%	31.3%	72.6	55.2	42.0	13.6	11.2	18.9	20.4	
Average				40.9%	32.6%	31.1%	75.7	57.1	43.8	12.3	10.5	16.8	18.7	

Source: Company data, Bloomberg, CMBIS estimates

## Financial Summary

### Income statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>1,687</b>	<b>2,301</b>	<b>2,823</b>	<b>3,644</b>	<b>4,667</b>
Clinical field service	820	1,103	1,336	1,711	2,156
Clinical test technical service	826	1,195	1,480	1,925	2,503
Other business	41	3	8	8	8
Cost of sales	(963)	(1,309)	(1,464)	(1,873)	(2,369)
<b>Gross profit</b>	<b>724</b>	<b>992</b>	<b>1,359</b>	<b>1,772</b>	<b>2,297</b>
Business taxes	(5)	(9)	(10)	(13)	(17)
Selling expenses	(40)	(54)	(83)	(98)	(121)
Admin expenses	(236)	(314)	(328)	(401)	(490)
R&D expenses	(50)	(88)	(118)	(146)	(177)
<b>Operating profit</b>	<b>394</b>	<b>526</b>	<b>820</b>	<b>1,114</b>	<b>1,492</b>
Finance costs, net	(12)	(7)	(30)	(11)	(14)
Investment gains	53	119	297	228	250
Other gains	(4)	(31)	(16)	(40)	(40)
<b>Pre-tax profit</b>	<b>431</b>	<b>606</b>	<b>1,071</b>	<b>1,291</b>	<b>1,687</b>
Income tax	(99)	(99)	(153)	(194)	(253)
Minority interests	(31)	(35)	(71)	(84)	(110)
<b>Net profit</b>	<b>301</b>	<b>472</b>	<b>848</b>	<b>1,013</b>	<b>1,324</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Total net profit</b>	<b>332</b>	<b>507</b>	<b>918</b>	<b>1,097</b>	<b>1,434</b>
Depreciation and amortization	33	61	62	67	72
Change in working capital	(27)	8	(71)	(186)	(216)
Investment loss (gain)	(53)	(119)	(297)	(228)	(250)
Other operating activities	31	65	51	53	56
<b>Operating cash flow</b>	<b>315</b>	<b>522</b>	<b>664</b>	<b>803</b>	<b>1,097</b>
Capex	(1,008)	(843)	(400)	(500)	(700)
Acquisition of subsidiaries	(536)	(28)	0	0	0
Other investing activities	697	504	(100)	(100)	(100)
<b>Investing cash flow</b>	<b>(846)</b>	<b>(367)</b>	<b>(500)</b>	<b>(600)</b>	<b>(800)</b>
Net proceeds from shares issued	715	59	1,650	0	0
Bank borrowing	75	340	0	0	0
Acquisition of non-controlling interests	(62)	(127)	(369)	(416)	(544)
Dividends and interests paid	(25)	(262)	0	0	0
Other financing activities	702	10	1,281	(416)	(544)
<b>Financial cash flow</b>	<b>702</b>	<b>10</b>	<b>1,281</b>	<b>(416)</b>	<b>(544)</b>
FX changes	(9)	7	0	0	0
Net change in cash	162	173	1,445	(213)	(247)
Cash at the beginning	364	525	704	2,150	1,937
<b>Cash at the end</b>	<b>537</b>	<b>704</b>	<b>2,150</b>	<b>1,937</b>	<b>1,690</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current assets</b>	<b>2,238</b>	<b>2,677</b>	<b>3,392</b>	<b>4,113</b>	<b>5,050</b>
Fixed asset	202	255	300	340	375
Intangible assets	17	28	23	18	13
Financial assets available for sale	792	1,222	1,916	2,644	3,594
Goodwill	1,049	1,033	1,016	976	936
Other non-current assets	178	139	137	135	133
<b>Current assets</b>	<b>1,346</b>	<b>1,603</b>	<b>3,119</b>	<b>3,104</b>	<b>3,089</b>
Cash	537	704	2,150	1,937	1,690
Inventories	0	1	2	3	3
Trade and bills receivables	632	782	851	1,048	1,279
Prepayments, deposits and other receivables	31	47	47	47	47
Other current assets	146	69	69	69	69
<b>Current liabilities</b>	<b>733</b>	<b>1,209</b>	<b>1,209</b>	<b>1,221</b>	<b>1,236</b>
Borrowings	242	603	603	603	603
Trade and other payables	34	44	44	44	44
Other current liabilities	457	562	562	574	589
<b>Non-current liabilities</b>	<b>49</b>	<b>37</b>	<b>39</b>	<b>41</b>	<b>43</b>
Borrowings	17	3	3	3	3
Other non-current liabilities	31	34	36	38	40
<b>Total net assets</b>	<b>2,801</b>	<b>3,034</b>	<b>5,263</b>	<b>5,955</b>	<b>6,860</b>
<b>Minority interest</b>	<b>310</b>	<b>366</b>	<b>1,036</b>	<b>1,120</b>	<b>1,231</b>
<b>Shareholders' equity</b>	<b>2,491</b>	<b>2,669</b>	<b>4,227</b>	<b>4,835</b>	<b>5,629</b>

### Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
Clinical trial technical services	49	48	47	47	46
Clinical trial consulting services	49	52	52	53	54
Other business	2	0	0	0	0
Total	100	100	100	100	100
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	43	43	48	49	49
EBITDA margin	28	29	41	38	38
Pre-tax margin	26	26	38	35	36
Net margin	18	21	30	28	28
Effective tax rate	23	16	14	15	15
<b>Balance sheet ratios</b>					
Current ratio (x)	2	1	3	3	2
Trade receivables turnover days	117	112	110	105	100
Trade payables turnover days	12	11	11	11	11
Net debt to equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Returns (%)</b>					
ROE	12	17	17	18	21
ROA	9	12	14	15	18
<b>Per share</b>					
EPS (RMB)	0.61	0.94	1.13	1.35	1.77
DPS (RMB)	0.20	0.35	0.45	0.54	0.71
BVPS (RMB)	5.07	5.34	5.64	6.45	7.51

Source: Company data, CMBIS estimates

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIS Ratings

<b>BUY</b>	: Stock with potential return of over 15% over next 12 months
<b>HOLD</b>	: Stock with potential return of +15% to -10% over next 12 months
<b>SELL</b>	: Stock with potential loss of over 10% over next 12 months
<b>NOT RATED</b>	: Stock is not rated by CMBIS

<b>OUTPERFORM</b>	: Industry expected to outperform the relevant broad market benchmark over next 12 months
<b>MARKET-PERFORM</b>	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
<b>UNDERPERFORM</b>	: Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Securities Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.