

Venus Medtech (2500 HK)

Shifted to profit oriented strategy

Venus Medtech reported 1H22 revenue of RMB210.0mn, down by 12.2% YoY due to the decreasing volume of TAVR surgeries amid COVID. Gross profit margin was 78.2%, basically flat compared with the same period of last year while gross profit decreased by 12.7% YoY to RMB188.1mn because of the decreasing revenue size. Given a sharp increase in R&D expense after the acquisition of Cardiovalve, attributable net loss was RMB199.9mn, increasing 76.8% YoY.

■ **New commercialization strategy to focus on profitability.** To cope with the pricing pressure from increasing competition in TAVR market, Venus Medtech has switched its business strategy from expanding hospital coverage to pursuing operating profit. The Company has strategically abandoned some lower-priced surgical markets with less TAVR surgery volumes, which accounted for approximately 3-4% of the total TAVR market in terms of sales volume, while focused on markets with greater ability to pay and with higher TAVR surgery volumes, such as mid-to-high end hospitals and regions with better medical or commercial insurance coverage. In 1H22, the Company's share in China's TAVR market was 63%, with a market share of nearly 70% in TOP 30 hospitals. As a result, the Company maintained a stable gross profit margin amid COVID, which was 78.2% in 1H22 compared to 78.6% in 1H21.

■ **Expansion of commercial product portfolio and smooth progress of product pipeline.** In 1H22, two products were approved by the NMPA including VenusA-Pro and VenusP-Valve. Comprehensive product portfolio provided more options to surgeons and patients, cementing the Company's leading market position. VenusP-Valve was the first self-expanding TPVR product approved in Europe and China and contributed RMB9.1mn revenue in only two months after the launch. Driven by the sales of VenusP-Valve, the Company's overseas revenue reached RMB13.3mn in 1H22, up 138% YoY. Patient enrollment of clinical trials of Cardiovalve treating mitral valve and tricuspid valve also progressed smoothly with 16 and 18 patients implanted Cardiovalve, respectively. Multicentre FIM study in China and Europe will be conducted in 3Q or 4Q. Since the population of patients with mitral or tricuspid regurgitation is 6 to 7 times higher than that of aortic valves, Cardiovalve may become a blockbuster product if successfully launched.

■ **Maintain BUY.** We expect TAVR sales volume to recover in 2H22E, achieving 4,000 in the full-year of 2022 and Venus Medtech will maintain its dominant position in China's TAVR market. We revised our TP to HK\$19.69 based on a 9-year DCF model (WACC: 10.6%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	276	416	504	713	1,019
YoY growth (%)	18.3	50.6	21.1	41.5	42.9
Net profit (RMB mn)	(182.0)	(373.6)	(409.6)	(362.1)	(120.6)
EPS (Reported) (RMB cents)	(44.47)	(85.19)	(92.88)	(82.10)	(27.34)
P/B (x)	6.0	4.4	1.3	1.4	1.4
ROE (%)	(5.3)	(8.9)	(9.4)	(9.2)	(3.2)
Net gearing (%)	(76.9)	(63.5)	(32.9)	(20.8)	(14.0)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$19.69
(Previous TP)	HK\$24.44
Up/Downside	40.4%
Current Price	HK\$14.02

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Stock Data

Mkt Cap (HK\$ mn)	5,830
Avg 3 mths t/o (HK\$ mn)	34.12
52w High/Low (HK\$)	46.40/10.52
Total Issued Shares (mn)	441

Source: FactSet

Shareholding Structure

Ming Zhi Investments (BVI) Limited	9.4%
Horizon Beijing LLC	7.6%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.9%	5.9%
3-mth	3.5%	12.5%
6-mth	-39.0%	-29.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Related report:

- [Venus Medtech \(Hangzhou\) Inc. \(2500 HK\) – Expanding global innovative product portfolio](#)

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	504	713	1,019	706	1,024	1,503	-28.6%	-30.4%	-32.2%
Gross profit	393	556	795	547	794	1,165	-28.2%	-29.9%	-31.8%
Operating profit	-406	-359	-117	-311	-282	-166	30.4%	27.4%	-29.4%
Net profit	-410	-362	-121	-315	-285	-169	30.1%	27.0%	-28.8%
EPS (RMB)	-0.93	-0.82	-0.27	-0.71	-0.65	-0.38	30.1%	27.0%	-28.8%
Gross margin	78.00%	78.00%	78.00%	77.50%	77.50%	77.50%	0.50 ppt	0.50 ppt	0.50 ppt
Operating margin	-80.61%	-50.28%	-11.48%	-44.11%	-27.48%	-11.03%	-36.49 ppt	-22.80 ppt	-0.45 ppt
Net Margin	-81.31%	-50.78%	-11.83%	-44.61%	-27.83%	-11.26%	-36.70 ppt	-22.95 ppt	-0.56 ppt

Source: Company data, CMBIGM estimates

Figure 2: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	-406	-359	-117	41	210	418	716	1,123	1,642
Tax rate	0%	0%	0%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	-406	-359	-117	35	178	356	609	955	1,395
+ D&A	27	27	27	27	27	27	27	27	27
- Change in working capital	-45	-130	-171	-176	-272	-161	-133	-84	-7
- Capex	-1,142	-154	-50	-50	-700	-50	-50	-50	-50
FCFF	-1,566	-615	-311	-164	-767	172	452	848	1,365
Terminal value									18,535
FCF + Terminal value	-1,566	-615	-311	-164	-767	172	452	848	19,900

Terminal growth rate	3.0%
WACC	10.6%
Cost of Equity	13.3%
Cost of Debt	5.0%
Equity Beta	1.0
Risk Free Rate	2.8%
Market Risk Premium	10.5%
Target Debt to Asset ratio	30.0%
Effective Corporate Tax Rate	15.0%

PV of enterprise value (RMB mn)	6,020
Net debt (RMB mn)	-1,360
Equity value (RMB mn)	7,379
Equity value (HK\$ mn)	8,682
# of shares outstanding (mn)	441
Price per share (HK\$)	19.69

Source: CMBIGM estimates

Figure 3: Sensitivity analysis

		WACC				
		9.6%	10.1%	10.6%	11.1%	11.6%
Terminal growth rate	4.0%	29.55	25.96	22.95	20.40	18.21
	3.5%	26.98	23.85	21.20	18.93	16.98
	3.0%	24.79	22.04	19.69	17.65	15.89
	2.5%	22.92	20.47	18.36	16.52	14.92
	2.0%	21.29	19.09	17.19	15.52	14.05

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	504	713	1,019	629	1,003	1,441	-19.8%	-28.9%	-29.3%
Gross Profit	393	556	795	490	782	1,124	-19.8%	-28.9%	-29.3%
Operating Profit	-406	-359	-117	-343	-257	-113	18.3%	39.6%	3.4%
Net profit	-410	-362	-121	-324	-245	-99	26.3%	48.1%	21.8%
EPS (RMB)	-0.93	-0.82	-0.27	-0.79	-0.54	-0.13	17.0%	51.7%	104.0%
Gross Margin	78.00%	78.00%	78.00%	78.00%	78.00%	78.00%	0.00 ppt	0.00 ppt	0.00 ppt
Operating Margin	-80.61%	-50.28%	-11.48%	-54.61%	-25.61%	-7.85%	-25.99 ppt	-24.67 ppt	-3.63 ppt
Net Margin	-81.31%	-50.78%	-11.83%	-51.61%	-24.38%	-6.87%	-29.70 ppt	-26.4 ppt	-4.96 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	233	276	416	504	713	1,019
Cost of goods sold	(39)	(49)	(92)	(111)	(157)	(224)
Gross profit	195	227	324	393	556	795
Operating expenses	(552)	(410)	(685)	(799)	(915)	(912)
Selling expense	(125)	(135)	(216)	(247)	(313)	(407)
Admin expense	(198)	(104)	(129)	(101)	(121)	(143)
R&D expense	(201)	(167)	(258)	(408)	(428)	(306)
Others	(29)	(4)	(82)	(44)	(52)	(56)
Operating profit	(357)	(182)	(361)	(406)	(359)	(117)
Gain/loss on financial assets at FVTPL	(2)	0	(3)	0	0	0
Share of (losses)/profits of associates/JV	0	1	(12)	0	0	0
Net Interest income/(expense)	(22)	(4)	(2)	(4)	(4)	(4)
Pre-tax profit	(382)	(186)	(378)	(410)	(362)	(121)
Income tax	1	3	6	0	0	0
After tax profit	(381)	(183)	(371)	(410)	(362)	(121)
Minority interest	(0)	(1)	2	0	0	0
Attributable net profit	(381)	(182)	(374)	(410)	(362)	(121)

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	2,904	3,360	3,440	1,961	1,520	1,426
Cash & equivalents	2,413	2,708	2,955	1,428	851	579
Account receivables	162	231	302	338	439	571
Inventories	25	60	91	103	138	184
Financial assets at FVTPL	0	44	0	0	0	0
Other current assets	304	317	92	92	92	92
Non-current assets	764	958	1,670	2,785	2,912	2,935
PP&E	60	69	142	184	226	268
Deferred income tax	3	1	8	8	8	8
Investment in JVs & assos	0	38	76	76	76	76
Intangibles	185	233	305	1,378	1,463	1,444
Goodwill	480	487	520	520	520	520
Financial assets at FVTPL	0	64	477	477	477	477
Other non-current assets	36	65	142	142	142	142
Total assets	3,669	4,318	5,109	4,746	4,431	4,361
Current liabilities	568	406	209	212	217	225
Short-term borrowings	120	0	5	5	5	5
Account payables	1	5	9	12	17	25
Tax payable	2	0	0	0	0	0
Other current liabilities	445	400	194	194	194	194
Non-current liabilities	55	56	269	269	269	269
Long-term borrowings	0	0	167	167	167	167
Other non-current liabilities	55	56	102	102	102	102
Total liabilities	623	461	478	481	486	494
Share capital	404	423	441	441	441	441
Other reserves	2,633	3,392	4,105	3,695	3,333	3,212
Total shareholders equity	3,037	3,815	4,546	4,136	3,774	3,653
Minority interest	9	42	86	129	171	214
Total equity and liabilities	3,669	4,318	5,109	4,746	4,431	4,361

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(382)	(186)	(378)	(410)	(362)	(121)
Depreciation & amortization	29	38	52	27	27	27
Tax paid	(5)	(5)	(9)	0	0	0
Change in working capital	(77)	(140)	(147)	(45)	(130)	(171)
Others	132	56	25	4	4	4
Net cash from operations	(303)	(237)	(457)	(424)	(461)	(261)
Investing						
Capital expenditure	(16)	(50)	(82)	(50)	(50)	(50)
Acquisition of subsidiaries/ investments	(6)	(55)	(125)	(1,092)	(104)	0
Others	(9)	(194)	(446)	0	0	0
Net cash from investing	(31)	(298)	(653)	(1,142)	(154)	(50)
Financing						
Net borrowings	(233)	(113)	248	0	0	0
Proceeds from share issues	2,833	1,054	1,234	43	43	43
Share repurchases	0	0	(73)	0	0	0
Others	(23)	(14)	(18)	(4)	(4)	(4)
Net cash from financing	2,577	928	1,391	39	39	39
Net change in cash						
Cash at the beginning of the year	165	2,413	2,708	2,955	1,428	851
Exchange difference	5	(98)	(34)	0	0	0
Cash at the end of the year	2,413	2,708	2,955	1,428	851	579
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	102.2%	18.3%	50.6%	21.1%	41.5%	42.9%
Gross profit	96.7%	16.8%	42.7%	21.1%	41.5%	42.9%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	83.4%	82.3%	78.0%	78.0%	78.0%	78.0%
Operating margin	(153.2%)	(66.0%)	(86.7%)	(80.6%)	(50.3%)	(11.5%)
Return on equity (ROE)	(12.5%)	(4.72%)	(7.31%)	(8.63%)	(8.17%)	(2.76%)
GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	(0.7)	(0.8)	(0.6)	(0.3)	(0.2)	(0.1)
Current ratio (x)	5.1	8.3	16.5	9.2	7.0	6.3
Receivable turnover days	187.4	301.3	261.5	241.5	221.5	201.5
Inventory turnover days	193.4	442.2	356.1	336.1	316.1	296.1
Payable turnover days	11.4	39.1	34.4	40.0	40.0	40.0
VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/B	3.6	6.0	4.4	1.3	1.4	1.4
Div yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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