Micro-Tech (688029 CH)

Overseas growth remained strong; domestic business expected to bottom out after VBP

BUY (Maintain)

Target Price	**RMB93.52**
(Previous TP	RMB90.60)
Up/Downside	**16.0%**
Current Price	**RMB80.60**

Micro-Tech reported 9M26 revenue of RMB2.5bn (+5.7% YoY), accounting for 72% of our previous FY26 forecast, modestly below the historical average of 74%. Attributable net profit declined 18.3% YoY to RMB416mn on FX losses. Excluding RMB105mn of FX losses and related tax effects, 9M26 attributable net profit would have increased 4.8% YoY to RMB503mn. For 3Q26, revenue declined 3.3% YoY to RMB788mn as the domestic business was under VBP pressure, while overseas sales maintained rapid growth. 3Q26 gross margin was 62.5%, down 1.4ppt YoY, as overseas mix improvement was offset by FX and domestic price pressure. Looking ahead, we expect continued overseas penetration and innovation should remain the main growth drivers. We believe the national VBP should largely clear domestic pricing risk over the next several years and the domestic business will bottom out in 2027E and return to growth in 2028E.

- **Overseas growth remains robust.** 3Q26 overseas revenue increased over 20% YoY to ~RMB590mn, or approximately 25% in constant currency, accounting for ~75% of total sales. Revenue from Americas increased 35% YoY in 3Q26, supported by expanding product coverage, and stronger channel reach following the acquisition of three Conmed product lines. Revenue from Europe rose a solid 16% YoY, led by Italy and Spain, while APAC was held back by yen weakness. Innovative products also remained strong overseas, with overseas revenue from innovative products in 3Q26 up 38% YoY.
- **Domestic business is expected to bottom out as 7th national VBP completed.** 3Q26 domestic revenue fell 38.4% YoY to ~RMB200mn, mainly due to channel de-stocking ahead of VBP implementation. We believe the channel inventory has now been largely cleared. Importantly, the Company won broadly in the 7th national VBP, in 21 categories in total, which should support further share consolidation. While near-term revenue and margin pressure is unavoidable, we think the national VBP materially reduced the domestic policy overhang. In our view, domestic business may bottom out in 2027E as VBP-driven volume growth is expected to largely offset the ASP decline. Form 2028E, innovative products should become a main driver to support domestic business to return to solid growth.
- **Maintain BUY.** We cut FY27-28E attributable net profit to RMB600mn/RMB733mn to reflect the GPM pressure due to VBP. However, we roll forward our DCF valuation basis from FY26E-35E to FY27E-35E as market focus increasingly shifts to FY27E. WACC and terminal growth assumptions are unchanged. Therefore, we derive our TP of RMB93.52 based on a 9-year DCF model. Risks: lower-than-expected volume growth following VBP implementation, overseas expansion deceleration, FX volatility.

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	2,755	3,184	3,325	3,727	4,303
YoY growth (%)	14.3	15.5	4.4	12.1	15.4
Attributable net profit (RMB mn)	553	570	552	600	733
YoY growth (%)	13.9	3.1	(3.3)	8.7	22.2
EPS (Reported) (RMB)	2.95	3.05	2.94	3.19	3.90
P/E (x)	27.3	26.4	27.5	25.2	20.7
Net gearing (%)	(49.3)	(30.2)	(38.9)	(42.3)	(45.9)

Source: Company data, Bloomberg, CMBIGM estimates

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Stock Data

Mkt Cap (RMB mn)	15,071.6
Avg 3 mths t/o (RMB mn)	200.4
52w High/Low (RMB)	88.58/67.50
Total Issued Shares (mn)	187.0

Source: FactSet

Shareholding Structure

Shenzhen Zhongke Merchants	22.2%
Nanjing New weichuang	19.6%

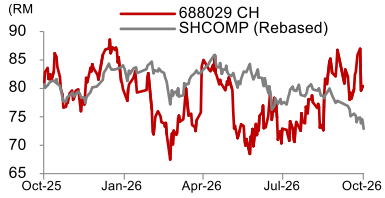
Source: SSE

Share Performance

	Absolute	Relative
1-mth	-7.1%	-0.8%
3-mth	10.0%	16.3%
6-mth	-5.2%	8.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

	New			Old			Diff (%)		
RMB mn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	3,325	3,727	4,303	3,508	3,792	4,377	-5.23%	-1.71%	-1.70%
Gross profit	2,119	2,184	2,537	2,239	2,386	2,771	-5.37%	-8.48%	-8.47%
Operating profit	663	721	881	645	814	976	2.87%	-11.44%	-9.68%
Net profit	552	600	733	536	677	811	2.87%	-11.45%	-9.69%
EPS (RMB)	2.94	3.19	3.90	2.85	3.61	4.32	2.87%	-11.45%	-9.69%
Gross margin	63.74%	58.58%	58.95%	63.83%	62.92%	63.31%	-0.09ppt	-4.33ppt	-4.36ppt
Operating margin	19.95%	19.35%	20.48%	18.38%	21.48%	22.29%	+1.57ppt	-2.13ppt	-1.81ppt
Net margin	16.59%	16.09%	17.03%	15.28%	17.86%	18.54%	+1.31ppt	-1.77ppt	-1.51ppt

Source: CMBIGM estimates

Figure 2: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
EBIT	644	791	967	1,157	1,372	1,625	1,923	2,269	2,655
Tax rate	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.0%	15.0%
EBIT*(1-tax rate)	547	673	822	983	1,166	1,381	1,634	1,929	2,257
+ D&A	158	159	159	161	163	165	167	197	230
- Change in working capital	-52	-61	-64	-67	-68	-71	-73	-86	-100
- Capex	-180	-180	-180	-180	-180	-180	-180	-212	-249
FCFF	**474**	**591**	**737**	**898**	**1,081**	**1,296**	**1,548**	**1,827**	**2,138**
Terminal value									**24,992**

Terminal growth rate	**2.0%**
WACC	**10.7%**
Cost of Equity	13.5%
Cost of Debt	5.0%
Equity Beta	1.00
Risk Free Rate	3.0%
Market Risk Premium	10.5%
Target Debt to Asset ratio	30.0%
Effective Corporate Tax Rate	15.0%

Terminal value	9,991
Total PV	15,816
Net debt	-1,989
Minority interest	236
Equity value	17,568
# of shares (mn)	188
DCF per share (in RMB)	**93.52**

Source: CMBIGM estimates

Figure 3: Sensitivity analysis (RMB)

		WACC				
		9.7%	**10.2%**	**10.7%**	**11.2%**	**11.7%**
Terminal growth rate	**3.0%**	117.56	108.68	101.00	94.28	88.37
	2.5%	111.98	104.00	97.03	90.90	85.46
	2.0%	107.13	99.89	**93.52**	87.88	82.84
	1.5%	102.87	96.25	90.39	85.17	80.49
	1.0%	99.09	93.01	87.59	82.73	78.35

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	**2,411**	**2,755**	**3,184**	**3,325**	**3,727**	**4,303**
Cost of goods sold	(856)	(891)	(1,143)	(1,206)	(1,544)	(1,766)
Gross profit	**1,555**	**1,864**	**2,041**	**2,119**	**2,184**	**2,537**
Selling expense	(573)	(646)	(746)	(765)	(846)	(964)
Admin expense	(329)	(369)	(434)	(412)	(451)	(508)
R&D expense	(151)	(174)	(199)	(183)	(201)	(228)
Gain/loss on financial assets at FVTPL	0	(0)	1	1	1	1
Investment gain/loss	28	21	17	17	17	17
Other gains/(losses)	23	(35)	12	(114)	18	26
Operating profit	**555**	**659**	**692**	**663**	**721**	**881**
Others	10	0	(1)	(1)	(1)	(1)
Pre-tax profit	**565**	**660**	**691**	**663**	**721**	**881**
Income tax	(70)	(92)	(109)	(99)	(108)	(132)
Minority interest	(9)	(15)	(12)	(12)	(13)	(16)
Net profit	**486**	**553**	**570**	**552**	**600**	**733**
Adjusted net profit	**463**	**544**	**552**	**533**	**581**	**714**
Gross dividends	187	280	280	276	300	366

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	**3,291**	**3,321**	**3,642**	**3,999**	**4,349**	**4,771**
Cash & equivalents	1,209	1,887	1,438	1,913	2,109	2,416
Account receivables	411	434	537	498	548	621
Inventories	522	537	621	578	719	798
Prepayment	28	32	29	29	29	29
Other current assets	1,121	431	1,018	981	944	907
Non-current assets	**1,102**	**1,459**	**1,822**	**1,841**	**1,859**	**1,877**
PP&E	295	926	908	938	965	989
Deferred income tax	29	33	41	41	41	41
Intangibles	89	75	237	227	218	208
Goodwill	178	170	350	350	350	350
Other non-current assets	511	254	285	285	286	289
Total assets	**4,393**	**4,780**	**5,464**	**5,840**	**6,208**	**6,648**
Current liabilities	**650**	**806**	**1,004**	**1,096**	**1,155**	**1,216**
Short-term borrowings	0	0	190	200	120	90
Account payables	274	510	414	495	634	726
Tax payable	46	49	50	50	50	50
Other current liabilities	329	248	350	350	350	350
Non-current liabilities	**73**	**74**	**118**	**118**	**118**	**118**
Long-term borrowings	0	0	0	0	0	0
Deferred income	7	9	17	17	17	17
Other non-current liabilities	66	64	100	100	100	100
Total liabilities	**723**	**880**	**1,122**	**1,213**	**1,272**	**1,334**
Share capital	188	188	188	196	204	212
Capital surplus	110	110	110	110	110	110
Others	3,314	3,529	3,833	4,097	4,386	4,741
Total shareholders equity	**3,612**	**3,826**	**4,130**	**4,403**	**4,699**	**5,062**
Minority interest	58	73	212	224	236	252
Total equity and liabilities	**4,393**	**4,780**	**5,464**	**5,840**	**6,208**	**6,648**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**495**	**568**	**583**	**563**	**613**	**748**
Depreciation & amortization	83	102	144	158	158	159
Tax paid	(70)	(92)	(109)	(99)	(108)	(132)
Change in working capital	46	(61)	(48)	164	(52)	(61)
Others	(8)	96	118	194	68	79
Net cash from operations	**546**	**613**	**688**	**980**	**679**	**794**
Investing						
Capital expenditure	(256)	(270)	(255)	(180)	(180)	(180)
Acquisition of subsidiaries/ investments	(34)	(3)	(240)	0	0	0
Others	(848)	685	(430)	38	38	38
Net cash from investing	**(1,137)**	**412**	**(925)**	**(142)**	**(142)**	**(142)**
Financing						
Dividend paid	(105)	(283)	(282)	(334)	(223)	(277)
Net borrowings	0	0	116	10	(80)	(30)
Proceeds from share issues	2	0	8	8	8	8
Others	(12)	(74)	(46)	(46)	(46)	(46)
Net cash from financing	**(114)**	**(357)**	**(204)**	**(362)**	**(341)**	**(345)**
Net change in cash						
Cash at the beginning of the year	1,875	1,209	1,870	1,438	1,913	2,109
Exchange difference	40	(7)	7	0	0	0
Cash at the end of the year	**1,209**	**1,870**	**1,437**	**1,913**	**2,109**	**2,416**

GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	21.8%	14.3%	15.5%	4.4%	12.1%	15.4%
Gross profit	28.9%	19.8%	9.5%	3.8%	3.0%	16.2%
Operating profit	52.3%	18.9%	4.9%	(4.1%)	8.7%	22.2%
Net profit	47.0%	13.9%	3.1%	(3.3%)	8.7%	22.2%
Adj. net profit	54.7%	17.5%	1.4%	(3.4%)	9.1%	22.9%

PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	64.5%	67.7%	64.1%	63.7%	58.6%	59.0%
Operating margin	23.0%	23.9%	21.7%	20.0%	19.4%	20.5%
Adj. net profit margin	19.2%	19.7%	17.3%	16.0%	15.6%	16.6%
Return on equity (ROE)	14.2%	14.9%	14.3%	12.9%	13.2%	15.0%

GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Net debt to equity (x)	(0.3)	(0.5)	(0.3)	(0.4)	(0.4)	(0.5)
Current ratio (x)	5.1	4.1	3.6	3.6	3.8	3.9
Receivable turnover days	52.4	56.0	55.6	54.6	53.6	52.6
Inventory turnover days	232.1	216.7	184.8	175.0	170.0	165.0
Payable turnover days	129.2	160.5	147.5	150.0	150.0	150.0

VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	31.1	27.3	26.4	27.5	25.2	20.7
P/E (diluted)	31.1	27.3	26.4	27.5	25.2	20.7
P/B	19.9	16.5	13.5	12.6	12.0	11.4
Div yield (%)	1.2	1.9	1.9	1.8	2.0	2.4

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

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