

Tigermed (300347 CH)

Meaningful demand recovery in 1Q24

Tigermed reported 1Q24 revenue of RMB1,660mn, down 8.0% YoY, and attributable recurring net income of RMB303mn, down 20.5% YoY, which was mainly due to the substantially reduced gains on fair value changes and investment changes (RMB8mn in 1Q24 vs RMB198mn in 1Q23). 1Q24 revenue / attributable recurring net income accounted for 19.8%/ 18.0%, respectively, of our 2024 full-year estimates, which were largely in line with its pre-COVID average level. 1Q24 revenue would be flat compared with 1Q23 if excluding COVID vaccine related revenue. Gross profit margin (GPM) in 1Q24 was 37.8%, significantly improved by 5.0ppt QoQ, driven by ongoing cost management measures as well as the MoM GPM improvements of its lab services. According to mgt., GPM would be 38.5% in 1Q24, flat QoQ, if excluding COVID vaccine related revenue. Mgt. targets to grow the attributable recurring net income by 25-30% QoQ in 2Q24, considering the accelerated revenue conversion from contracts and the cost control measures.

- Demand experiencing meaningful recovery in 1Q24.** According to mgt., 1Q24 contract signings rebounded to double-digit growth, with Mar showing an acceleration compared to Jan and Feb. The upward trend has persisted into April. Specifically, orders from MNC and domestic pharma clients contributed to a notably larger proportion in total orders while orders from the U.S. and Australia remain robust. Encouragingly, there are signs of recovery in orders from domestic biotech firms, thanks to the recovery of biotech funding. Tigermed's BD team will continue to focus on exploring opportunities from MNC and domestic pharma clients.
- Strengthening cost control.** Tigermed plans to continue its cost control on SG&A expenses and GPM optimization. Mgt. indicated that, with its asset-light business model, Tigermed possesses ample leverage on cost controls, which, for instance, include increasing the utilization of decentralized clinical trial (DCT) platforms (applied in ~20% projects as compared with ~17% by end-2023), establishing integrated teams within specific therapeutic areas, and reallocating personnel across departments as needed.
- Globalization remaining a high priority.** In the global market, Tigermed strategically serves Chinese companies targeting global market, as well as overseas local clients with limited access to international CRO services. The company has recruited a local BD team in the U.S and is currently engaged in multiple projects with U.S. local clients. Tigermed intends to further expand team sizes in the U.S. and India to enhance its global operation.
- Maintain BUY.** We trim our TP from RMB68.57 to RMB66.82, based on a 10-year DCF model (WACC: 10.95%, terminal growth: 2.0%), to factor in the slower earnings projection and uncertainties in demand recovery pace. We forecast Tigermed's revenue to grow 11.3%/ 16.2%/ 20.6% YoY and attributable recurring net income to grow 11.9%/ 20.8%/ 25.6% YoY in 2024E/ 25E/ 26E, respectively.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	7,085	7,384	8,220	9,549	11,512
YoY growth (%)	35.9	4.2	11.3	16.2	20.6
Adjusted net profit (RMB mn)	1,540	1,477	1,653	1,997	2,509
YoY growth (%)	25.0	(4.0)	11.9	20.8	25.6
EPS (Adjusted) (RMB)	1.78	1.71	1.89	2.29	2.88
Consensus EPS (RMB)	na	na	2.46	2.86	3.25
Adjusted P/E (x)	32.4	33.8	30.5	25.2	20.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB66.82
(Previous TP)	RMB68.57
Up/Downside	15.8%
Current Price	RMB57.70

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Stock Data

Mkt Cap (RMB mn)	50,338.5
Avg 3 mths t/o (RMB mn)	1,003.7
52w High/Low (RMB)	93.00/37.85
Total Issued Shares (mn)	872.4

Source: FactSet

Shareholding Structure

Xiaoping Ye	20.5%
HK investors	18.1%

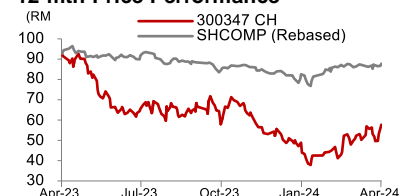
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	15.2%	13.0%
3-mth	31.4%	23.8%
6-mth	0.5%	-2.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	8,220	9,549	11,512	8,367	9,844	12,004	-1.75%	-3.00%	-4.10%
Gross Profit	3,228	3,842	4,722	3,292	3,975	4,950	-1.95%	-3.35%	-4.62%
Operating Profit	1,999	2,444	3,072	2,041	2,534	3,230	-2.08%	-3.55%	-4.89%
Adjusted net profit	1,653	1,997	2,509	1,687	2,070	2,638	-2.05%	-3.54%	-4.90%
Adjusted EPS (RMB)	1.89	2.29	2.88	1.93	2.37	3.02	-2.05%	-3.54%	-4.90%
Gross Margin	39.27%	40.24%	41.01%	39.35%	40.38%	41.24%	-0.08ppt	-0.14ppt	-0.22ppt
Operating Margin	24.32%	25.60%	26.68%	24.40%	25.74%	26.90%	-0.08ppt	-0.14ppt	-0.22ppt
Net Margin	20.11%	20.91%	21.79%	20.17%	21.03%	21.97%	-0.06ppt	-0.12ppt	-0.18ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	8,220	9,549	11,512	8,438	9,813	11,226	-2.58%	-2.69%	2.55%
Gross Profit	3,228	3,842	4,722	3,307	3,893	4,469	-2.39%	-1.31%	5.65%
Operating Profit	1,999	2,444	3,072	2,501	2,919	3,299	-20.08%	-16.27%	-6.89%
Adjusted net profit	1,653	1,997	2,509	2,187	2,582	2,841	-24.43%	-22.68%	-11.70%
Adjusted EPS (RMB)	1.89	2.29	2.88	2.46	2.86	3.25	-23.05%	-20.09%	-11.44%
Gross Margin	39.27%	40.24%	41.01%	39.19%	39.68%	39.81%	+0.08ppt	+0.56ppt	+1.20ppt
Operating Margin	24.32%	25.60%	26.68%	29.64%	29.75%	29.39%	-5.32ppt	-4.15ppt	-2.71ppt
Net Margin	20.11%	20.91%	21.79%	25.92%	26.31%	25.31%	-5.81ppt	-5.40ppt	-3.52ppt

Source: Bloomberg, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
EBIT	2,706	3,293	4,068	4,813	5,645	6,565	7,570	8,653	9,803	11,009
Tax rate	13.61%	13.61%	13.61%	13.61%	13.61%	13.61%	13.61%	13.61%	13.61%	13.61%
EBIT*(1-tax rate)	2,338	2,845	3,515	4,158	4,877	5,672	6,540	7,475	8,469	9,511
+ D&A	303	325	344	399	459	523	591	662	735	809
- Change in working capital	(178)	(197)	(291)	(338)	(389)	(443)	(501)	(561)	(622)	(685)
- Capex	(600)	(600)	(600)	(696)	(800)	(912)	(1,031)	(1,155)	(1,282)	(1,410)
FCFF	1,862	2,373	2,967	3,523	4,147	4,840	5,600	6,422	7,300	8,225
Terminal value										93,792
Terminal growth rate	2.00%									
WACC	10.95%									
Cost of Equity	14.55%									
Cost of Debt	5.00%									
Equity Beta	1.10									
Risk Free Rate	3.00%									
Market Risk Premium	10.50%									
Target Debt to Asset ratio	35.00%									
Effective Corporate Tax Rate	15.00%									
PV of terminal value (RMB mn)	33,196									
Total PV (RMB mn)	57,645									
Net debt (RMB mn)	(4,220)									
Minority interest (RMB mn)	3,566									
Equity value (RMB mn)	58,299									
# of shares (mn)	872									
Price per share (RMB per share)	66.82									

Source: CMBIGM estimates.

Figure 4: Sensitivity analysis of DCF model

		WACC				
		9.95%	10.45%	10.95%	11.45%	11.95%
Terminal growth rate	3.00%	84.51	77.84	72.03	66.94	62.45
	2.50%	80.63	74.58	69.27	64.59	60.43
	2.00%	77.23	71.70	66.82	62.49	58.61
	1.50%	74.24	69.15	64.63	60.59	56.97
	1.00%	71.58	66.87	62.66	58.88	55.47

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	5,214	7,085	7,384	8,220	9,549	11,512
Cost of goods sold	(2,943)	(4,277)	(4,536)	(4,992)	(5,706)	(6,791)
Gross profit	2,271	2,808	2,849	3,228	3,842	4,722
Operating expenses	(911)	(1,038)	(1,127)	(1,229)	(1,398)	(1,650)
Selling expense	(129)	(150)	(187)	(200)	(223)	(258)
Admin expense	(547)	(630)	(650)	(716)	(822)	(979)
R&D expense	(212)	(235)	(262)	(283)	(319)	(373)
Others	(23)	(23)	(28)	(30)	(34)	(40)
Operating profit	1,359	1,771	1,722	1,999	2,444	3,072
Gain/loss on financial assets at FVTPL	1,815	536	353	307	449	597
Investment gain/loss	312	103	338	400	400	400
Net interest income/(expense)	216	158	108	72	60	71
Other income/expense	(19)	18	(32)	0	0	0
Pre-tax profit	3,685	2,585	2,489	2,778	3,353	4,140
Income tax	(293)	(314)	(339)	(378)	(456)	(563)
After tax profit	3,392	2,272	2,150	2,400	2,897	3,576
Minority interest	(518)	(265)	(125)	(140)	(169)	(208)
Net profit	2,874	2,007	2,025	2,261	2,728	3,368
Adjusted net profit	1,232	1,540	1,477	1,653	1,997	2,509
Gross dividends	433	476	491	548	662	817
BALANCE SHEET						
	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	10,852	11,107	11,344	11,271	12,840	14,959
Cash & equivalents	8,544	7,858	7,420	7,347	8,709	10,521
Account receivables	816	1,034	1,261	1,277	1,484	1,789
Inventories	6	22	23	7	8	9
Prepayment	59	59	57	57	57	57
Other current assets	1,426	2,134	2,583	2,583	2,583	2,583
Non-current assets	12,889	16,339	18,337	19,633	20,609	21,565
PP&E	438	566	639	864	1,067	1,251
Deferred income tax	101	121	135	135	135	135
Investment in JVs & assos	739	1,800	2,977	2,977	2,977	2,977
Intangibles	251	338	371	297	223	149
Goodwill	1,779	2,485	2,764	3,064	3,364	3,664
Financial assets at FVTPL	8,746	9,964	10,232	11,232	11,932	12,632
Other non-current assets	836	1,066	1,219	1,065	911	757
Total assets	23,741	27,447	29,681	30,904	33,449	36,523
Current liabilities	2,413	3,730	4,139	4,260	4,570	4,886
Short-term borrowings	492	1,849	1,970	2,270	2,570	2,870
Account payables	156	50	79	79	79	79
Tax payable	281	198	221	221	221	221
Other current liabilities	1,484	1,633	1,870	1,691	1,701	1,716
Non-current liabilities	723	1,036	1,088	1,088	1,088	1,088
Long-term borrowings	0	245	434	434	434	434
Obligations under finance leases	407	489	423	423	423	423
Other non-current liabilities	316	302	231	231	231	231
Total liabilities	3,136	4,765	5,227	5,349	5,659	5,974
Share capital	872	872	872	872	872	872
Capital surplus	11,887	11,852	11,709	13,421	15,487	18,038
Retained earnings	5,771	7,270	8,775	8,775	8,775	8,775
Other reserves	(406)	(412)	(329)	(1,079)	(1,079)	(1,079)
Total shareholders equity	18,124	19,583	21,027	21,989	24,055	26,606
Minority interest	2,482	3,098	3,427	3,566	3,735	3,943
Total equity and liabilities	23,741	27,447	29,681	30,904	33,449	36,523

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	3,685	2,585	2,489	2,778	3,353	4,140
Depreciation & amortization	197	285	339	303	325	344
Tax paid	(293)	(314)	(339)	(378)	(456)	(563)
Change in working capital	(235)	(692)	(835)	(178)	(197)	(291)
Others	(1,930)	(507)	(503)	(779)	(909)	(1,068)
Net cash from operations	1,424	1,358	1,150	1,746	2,115	2,561
Investing						
Capital expenditure	(369)	(449)	(314)	(300)	(300)	(300)
Acquisition of subsidiaries/ investments	(90)	(663)	(357)	(300)	(300)	(300)
Net proceeds from disposal of short-term investments	(2,140)	(1,779)	(968)	(293)	149	297
Others	(185)	102	105	0	0	0
Net cash from investing	(2,783)	(2,789)	(1,534)	(893)	(451)	(303)
Financing						
Dividend paid	(284)	(492)	(590)	(476)	(602)	(746)
Net borrowings	492	1,607	684	300	300	300
Proceeds from share issues	272	315	386	0	0	0
Others	(643)	(621)	(488)	(750)	0	0
Net cash from financing	(163)	809	(8)	(926)	(302)	(446)
Net change in cash						
Cash at the beginning of the year	9,960	8,378	7,783	7,420	7,347	8,709
Exchange difference	(60)	27	9	0	0	0
Cash at the end of the year	8,378	7,783	7,400	7,347	8,709	10,521
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	63.3%	35.9%	4.2%	11.3%	16.2%	20.6%
Gross profit	50.0%	23.7%	1.4%	13.3%	19.0%	22.9%
Operating profit	58.2%	30.3%	(2.8%)	16.1%	22.3%	25.7%
Net profit	64.3%	(30.2%)	0.9%	11.6%	20.7%	23.5%
Adj. net profit	73.9%	25.0%	(4.0%)	11.9%	20.8%	25.6%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	43.6%	39.6%	38.6%	39.3%	40.2%	41.0%
Operating margin	26.1%	25.0%	23.3%	24.3%	25.6%	26.7%
Adj. net profit margin	23.6%	21.7%	20.0%	20.1%	20.9%	21.8%
Return on equity (ROE)	16.8%	10.6%	10.0%	10.5%	11.9%	13.3%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.4)	(0.3)	(0.2)	(0.2)	(0.2)	(0.3)
Current ratio (x)	4.5	3.0	2.7	2.6	2.8	3.1
Receivable turnover days	45.9	47.6	56.7	56.7	56.7	56.7
Inventory turnover days	0.7	1.2	1.8	0.5	0.5	0.5
Payable turnover days	20.9	8.8	5.2	5.2	5.2	5.2
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E (adjusted)	40.7	32.4	33.8	30.5	25.2	20.1
P/B	2.8	2.5	2.4	2.3	2.1	1.9
P/CFPS	35.1	36.8	43.4	28.8	23.8	19.7
Div yield (%)	0.9	1.0	1.0	1.1	1.3	1.6

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

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