

Tigermed (300347 CH)

Near term pressure from COVID-19 outbreak won't hurt long-term growth prospects

Strong earnings growth in 2019. Tigermed reported inline 2019 results with attributable net profit surged 78% YoY to RMB842mn which was mainly due to 1) 22% YoY revenue growth, 2) RMB278mn one-off investment gains and fair value gains, and 3) spin-off of Shengtong (晟通) in Feb 2019. Core net profit rose 56% YoY in 2019 to RMB658mn. We estimate the organic revenue growth in 2019E was around 27% YoY, excluding impact from the Shengtong spin-off. Gross margin improved 3.4ppts to 46.5% in 2019 thanks to the spin-off of low margin logistics business and improving operating efficiencies. To factor in the impact from COVID-19 outbreak, we trimmed 2020E/21E net profit forecasts by 17%/11% respectively and cut SOTP-based TP to RMB87.18, implying 56x FY21E P/E.

- **Short-term impact from COVID-19 outbreak.** The progress of clinical trials in China was delayed due to the COVID-19 outbreak. However, hospitals in most regions in China have resumed operation from Mar 2020. We think the overall impact on Tigermed's domestic income will be minimal. However, given that the virus outbreak in the US and Europe were more serious than in China, Tigermed's overseas orders could face some delays. We noticed that the daily increases in infections cases in the US and major European countries have peaked recently. Thus, we believe the impact on Tigermed's overseas business will last in short term.
- **Strong backlog growth indicates solid demand in high-quality clinical CRO services.** Tigermed recorded RMB4.2bn backlog additions in 2019, up 28% YoY while the Company had RMB5.0bn backlogs as of end-2019, up 36% YoY. 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. Tigermed participated in the development of 7 out of the 13 domestic innovative drugs approved in 2019, demonstrating its leading position in China's CRO industry.
- **Global expansion opens up room for long-term growth.** Tigermed's subsidiary DreamCIS will be listed in KOSDAQ, which will further strengthen the Company's presence in South Korea. In Nov 2019, Tigermed announced to establish a JV with Accerise to provide MRCT services in Japan. Tigermed also acquired 3.06% stake in EPS, a Japanese CRO company, in Dec 2019. Tigermed may complete its dual-listing in HKEX in 2020E. With sufficient capital raised overseas, we believe Tigermed will accelerate the acquisition process in global market.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	2,301	2,803	3,381	4,428	5,711
Revenue YoY growth (%)	36.37	21.85	20.60	30.96	29.00
Net income (RMB mn)	472	842	841	1,172	1,591
EPS (RMB)	0.94	1.13	1.12	1.56	2.12
EPS YoY growth (%)	54.22	19.70	(0.69)	39.37	35.72
Consensus EPS	N/A	N/A	1.06	1.42	1.85
P/E (x)	81.50	68.09	68.56	49.19	36.25
P/B (x)	14.42	13.65	11.87	10.04	8.31
Yield (%)	0.45	0.36	0.36	0.50	0.68
ROE (%)	16.70	17.66	15.50	18.46	20.93
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	RMB87.18
(Previous TP	HKD91.80)
Up/Downside	+13.31%
Current Price	RMB76.94

China Healthcare Sector

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Stock Data

Mkt Cap (RMB mn)	57,664
Avg 3 mths t/o (RMB mn)	611.77
52w High/Low (RMB)	85.01/38.79
Total Issued Shares (mn)	749

Source: Bloomberg

Shareholding Structure

Management	37.11%
Temasek	2.92%
Free float	59.97%

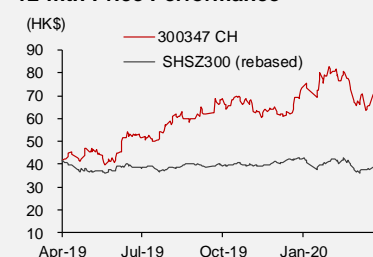
Source: SZSE

Share Performance

	Absolute	Relative
1-mth	15.5%	9.4%
3-mth	4.8%	13.4%
6-mth	12.2%	13.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: BDO CHINA

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- **Maintain BUY.** Tigermed disclosed preliminary 1Q20 results and its attributable net profit rose 58-88% YoY due to one-off gains. Core earnings was largely flattish in 1Q20 due to the COVID-19 impact. We trimmed our forecasts and expect Tigermed's adjusted net profit to grow 18%/38%/36% YoY in 2020E/21E/22E, respectively. We like Tigermed given its leading industry position and big overseas expansion potential.

Figure 1: Earnings revision

RMB mn	FY19A	New FY20E	FY21E	FY19E	Old FY20E	FY21E	FY19A	Diff (%) FY20E	FY21E
Revenue	2,803	3,381	4,428	2,823	3,644	4,667	-0.71%	-7.22%	-5.12%
Gross Profit	1,303	1,564	2,058	1,359	1,772	2,297	-4.12%	-11.74%	-10.40%
Operating Profit	737	932	1,284	820	1,114	1,492	-10.12%	-16.34%	-13.94%
Net profit	842	841	1,172	848	1,013	1,324	-0.71%	-16.98%	-11.48%
EPS (RMB)	1.13	1.12	1.56	1.13	1.35	1.77	0.00%	-17.04%	-11.86%
Gross Margin	46.49%	46.26%	46.48%	48.14%	48.63%	49.22%	-1.65 ppt	-2.37 ppt	-2.74 ppt
Operating Margin	26.29%	27.57%	29.00%	29.05%	30.57%	31.97%	-2.75 ppt	-3.00 ppt	-2.97 ppt
Net Margin	30.04%	24.87%	26.47%	30.04%	27.80%	28.37%	0.00 ppt	-2.92 ppt	-1.90 ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn	FY19A	CMBI FY20E	FY21E	FY19E	Consensus FY20E	FY21E	FY19A	Diff (%) FY20E	FY21E
Revenue	2,803	3,381	4,428	2,937	3,702	4,744	-4.56%	-8.67%	-6.66%
Gross Profit	1,303	1,564	2,058	1,357	1,728	2,250	-4.01%	-9.48%	-8.54%
Operating Profit	737	932	1,284	960	1,278	1,713	-23.23%	-27.07%	-25.04%
Net profit	842	841	1,172	784	1,055	1,413	7.41%	-20.28%	-17.06%
EPS (RMB)	1.13	1.12	1.56	1.06	1.42	1.85	6.70%	-21.07%	-15.86%
Gross Margin	46.49%	46.26%	46.48%	46.22%	46.67%	47.43%	0.27 ppt	-0.41 ppt	-0.96 ppt
Operating Margin	26.29%	27.57%	29.00%	32.69%	34.52%	36.11%	-6.39 ppt	-6.96 ppt	-7.11 ppt
Net Margin	30.04%	24.87%	26.47%	26.69%	28.50%	29.78%	3.35 ppt	-3.62 ppt	-3.32 ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 3: Peers valuation comparison

Company	Ticker	Rating	Mkt Cap (US\$ mn)	Net profit YoY			P/E (x)			P/B (x)		ROE (%)	
				FY19A	FY20E	FY21E	FY19A	FY20E	FY21E	FY19A	FY20E	FY19A	FY20E
H-share													
WuXi AppTec	2359 HK	NR	22,990	-18.0%	54.2%	31.5%	80.8	59.5	46.6	8.8	8.3	10.6	13.8
WuXi Biologics	2269 HK	Buy	19,512	60.8%	26.8%	40.7%	108.8	89.5	63.6	8.6	8.1	9.7	9.5
Pharmaron	3759 HK	NR	6,957	64.3%	26.2%	39.8%	62.2	52.9	39.0	5.2	4.4	10.9	8.6
Frontage	1521 HK	NR	1,038	64.3%	30.4%	28.3%	55.6	36.8	28.6	4.3	3.2	12.0	8.9
Viva	1873 HK	NR	955	193.5%	48.2%	40.1%	21.5	16.2	11.4	3.6	2.9	26.2	19.0
Average				73.0%	37.2%	36.1%	66.0	49.9	36.7	6.1	5.3	13.9	12.1
A-share													
WuXi AppTec	603259 CH	Buy	22,990	-18.0%	54.2%	31.5%	81.8	53.9	41.0	8.7	7.8	11.0	14.7
Tigermid	300347 CH	Buy	8,152	-0.1%	39.4%	35.7%	68.1	68.6	49.2	13.6	11.9	17.7	15.5
Pharmaron	300759 CH	NR	6,957	64.3%	26.2%	39.8%	62.2	66.7	49.2	5.2	5.8	10.9	9.0
Joinn Laboratories	603127 CH	NR	2,049	64.7%	41.0%	35.8%	52.1	59.0	43.9	11.3	13.8	24.1	23.8
Asymchem Laboratories	002821 CH	NR	5,963	29.3%	32.4%	30.9%	53.5	57.7	44.2	9.8	11.2	19.9	18.0
Average				28.1%	38.6%	34.8%	63.5	61.2	45.5	9.7	10.1	16.7	16.2

Source: Company data, Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Revenue	2,301	2,803	3,381	4,428	5,711
Clinical field service	1,103	1,347	1,592	2,070	2,649
Clinical test technical service	1,195	1,446	1,778	2,348	3,052
Other business	3	10	10	10	10
Cost of sales	(1,309)	(1,500)	(1,817)	(2,369)	(3,035)
Gross profit	992	1,303	1,564	2,058	2,676
Business taxes	(9)	(11)	(13)	(17)	(22)
Selling expenses	(54)	(81)	(95)	(120)	(148)
Admin expenses	(314)	(350)	(389)	(465)	(543)
R&D expenses	(88)	(124)	(135)	(173)	(217)
Operating profit	526	737	932	1,284	1,746
Finance costs, net	(7)	(10)	(10)	(13)	(17)
Investment gains	119	180	0	0	0
Other gains	(31)	203	225	328	440
Pre-tax profit	606	1,089	1,147	1,598	2,169
Income tax	(99)	(114)	(172)	(240)	(325)
Minority interests	(35)	(134)	(134)	(186)	(253)
Net profit	472	842	841	1,172	1,591

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Total net profit	507	975	975	1,358	1,844
Depreciation and amortization	61	47	39	45	51
Change in working capital	8	(169)	124	(153)	(302)
Investment loss (gain)	(119)	(180)	0	0	0
Other operating activities	65	(147)	(205)	(304)	(413)
Operating cash flow	522	528	933	947	1,180
Capex	(92)	(103)	(100)	(100)	(100)
Acquisition of subsidiaries	(843)	(1,015)	(800)	(800)	(800)
Other investing activities	568	479	0	0	0
Investing cash flow	(367)	(638)	(900)	(900)	(900)
Net proceeds from shares issued	59	1,441	0	0	0
Bank borrowing	340	180	0	0	0
Acquisition of non-controlling interests	(127)	(266)	(218)	(303)	(410)
Dividends and interests paid	(262)	80	0	0	0
Other financing activities	10	1,434	(218)	(303)	(410)
Financial cash flow	10	1,434	(218)	(303)	(410)
FX changes	7	15	0	0	0
Net change in cash	173	1,339	(185)	(256)	(130)
Cash at the beginning	525	698	2,042	1,857	1,601
Cash at the end	704	2,042	1,857	1,601	1,471

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Non-current assets	2,677	4,163	5,249	6,431	7,720
Fixed asset	255	252	323	388	446
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	3,677	4,801	6,037
Current assets	1,603	3,370	3,114	3,043	3,256
Cash	704	2,042	1,857	1,601	1,471
Inventories	1	1	2	3	4
Trade and bills receivables	782	1,080	1,019	1,213	1,565
Prepayments, deposits and other receivables	47	26	26	26	26
Other current assets	69	220	210	200	190
Current liabilities	1,209	1,791	1,855	1,897	1,948
Borrowings	603	864	864	864	864
Trade and other payables	44	185	185	185	185
Other current liabilities	562	742	806	848	899
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	6,288	7,357	8,807
Minority interest	366	1,296	1,430	1,616	1,869
Shareholders' equity	2,669	4,225	4,859	5,741	6,939

Key ratios

YE 31 Dec	FY18A	FY19E	FY20E	FY21E	FY22E
Sales mix (%)					
Clinical trial technical services	48	48	47	47	46
Clinical trial consulting services	52	52	53	53	53
Other business	0	0	0	0	0
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	43	46	46	46	47
EBITDA margin	29	41	35	37	39
Pre-tax margin	26	39	34	36	38
Net margin	21	30	25	26	28
Effective tax rate	16	10	15	15	15
Balance sheet ratios					
Current ratio (x)	1	2	2	2	2
Trade receivables turnover days	112	121	110	100	100
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	15	18	21
ROA	12	13	12	14	17
Per share					
EPS (RMB)	0.94	1.13	1.12	1.56	2.12
DPS (RMB)	0.35	0.28	0.28	0.39	0.52
BVPS (RMB)	5.34	5.64	6.48	7.66	9.26

Source: Company data, CMBIS estimates

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