

# Venus Medtech (Hangzhou) Inc. (2500 HK)

**BUY (Maintain)**

## Inline results; Moderate impact from COVID-19

Venus Medtech's FY19 results were largely in line with our and market estimates. We expect moderate impact of COVID-19 on the Company and expect it to resume rapid growth from 2Q20E. We believe China TAVR is in its infancy with 65% CAGR in 2018-25E, mainly driven by 1) increasing number of hospitals and physicians eligible for TAVR procedures and 2) improving penetration and indication expansion. Venus Medtech provides comprehensive valve solutions and it is the dominator with the largest TAVR market share and the most KOL resources in China. We believe Venus Medtech will continue to occupy over 50% China TAVR market share in the next three years. We trimmed FY20/21E revenue forecasts by 5.3%/ 5.7% to reflect the impact from COVID-19 outbreak and lowered DCF-based TP HK\$52.0. Maintain BUY.

- FY19 results largely inline.** Venus Medtech reported FY19 revenue of RMB233mn, 2.6% above our estimate. VenusA Valve contributed 99.5% of the total revenue and the remaining income was from TAV8. We believe VenusA Valve occupied majority China TAVR market share in FY19. Net loss was RMB381mn, 11.5% higher than our estimate of RMB341mn. Due to the consolidation of Keystone, R&D expense rose 91% YoY to RMB201m in FY19. Besides, the Company booked RMB121m share awards and RMB25mn listing expenses in FY19.
- Near-term impact from COVID-19 outbreak.** Due to the COVID-19 outbreak, there were delays in production and suspension of marketing activities. TAVR surgeries was suspended during Feb due to the disease outbreak. We expect sales to gradually recover from March. The Company voluntarily withdrew the application for VenusA-Plus in Feb 2020 due to 1) the application was expected to expire three months after the submission of supplementary information, and 2) the outbreak of COVID-19 and the quarantine measures affected the review process by the NMPA. The Company plans to re-submit the application to the NMPA after the outbreak is over.
- Lowered FY20/21E revenue forecasts by 5.3%/ 5.7%.** Given the impact from COVID-19 outbreak and the delay of VenusA-Plus approval, we trimmed VenusA-Valve sales unit forecasts in FY20E/21E from 2,700/ 6,000 to 2,500/ 5,500. We lowered FY20/21E revenue forecasts by 5.3%/ 5.7%. We raised other expenses from RMB10mn to RMB45mn in FY20E, where the majority cost was associated with charitable donations. We lowered our FY20/21E net profit forecasts from RMB46mn/ RMB316mn to RMB16mn/ RMB277mn.
- Maintain BUY.** We remain long-term positive on the Company given its leading position in China TAVR market. We expect total revenue to grow 65%/ 129% YoY in FY20E/21E and estimate VenusA-Valve sales unit to be 2,500/ 5,500 in FY20E/21E. We trimmed DCF-based TP from HK\$54.9 to HK\$52.0 to reflect impact from COVID-19 (WACC:10.6%, terminal growth rate: 4.0%).

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	115	233	386	882	1398
YoY growth (%)	535	102	65	129	59
Net profit (RMB mn)	(300)	(381)	16	277	464
EPS (RMB)	N/A	(1.22)	0.04	0.68	1.15
YoY growth (%)	N/A	N/A	N/A	1650	68
Consensus EPS (RMB)	N/A	(1.22)	0.15	0.84	1.30
P/E (x)	N/A	N/A	N/A	59	35
P/B (x)	N/A	4	5.4	4.9	4.3
ROE (%)	(64)	(13)	0.5	8.3	12.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

Target Price	HK\$52.0
(Previous TP)	HK\$54.9)
Up/Downside	+15%
Current Price	HK\$45.20

### China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	18,282
Avg. 3mths t/o (HK\$ mn)	31.92
52W High/Low (HK\$)	50.5/35.2
Total Issued Shares (mn)	404

Source: Bloomberg

### Shareholding Structure

Management	25.93%
Employee	3.48%
Pre-IPO investors	48.27%
H-share free float	22.33%

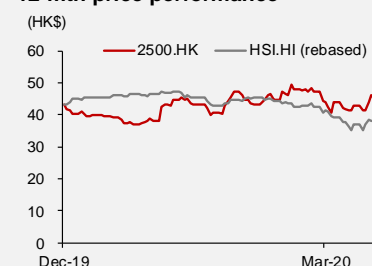
Source: HKEx, Bloomberg

### Share performance

	Absolute	Relative
1-mth	-5.7%	4.9%
3-mth	15.2%	38.4%
6-mth	N/A	N/A

Source: Bloomberg

### 12-mth price performance



Source: Bloomberg

**Auditor: Ernst & Young**

### Related Reports

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**Figure 1: FY19A results review**

(RMB mn)	FY18A	FY19A	YoY Change	CMBI FY19E	Diff (%)
VenusA-Valve	114	232	104.1%	225	3.2%
VenusP-Valve	0	0	N/A	0	N/A
TriGUARD3	0	0	N/A	0	N/A
V8 and TAV8	2	1	-25.6%	3	-52.4%
<b>Total revenue</b>	<b>115</b>	<b>233</b>	<b>102.3%</b>	<b>227</b>	<b>2.6%</b>
COGS	(16)	(39)	135.9%	(34)	13.2%
<b>Gross profit</b>	<b>99</b>	<b>195</b>	<b>96.7%</b>	<b>193</b>	<b>0.7%</b>
Other income	13	15	17.0%	2	669.2%
Distribution expenses	(67)	(125)	86.3%	(82)	52.2%
R&D expenses	(105)	(201)	91.4%	(180)	11.4%
Administrative expenses	(224)	(198)	-11.7%	(260)	-24.0%
Other expenses	(11)	(45)	294.6%	(10)	347.9%
<b>Operating profit</b>	<b>(295)</b>	<b>(357)</b>	<b>21.3%</b>	<b>(337)</b>	<b>6.2%</b>
Impairment losses on financial assets, net	(2)	(2)	29.7%	0	N/A
Net finance costs	(3)	(22)	579.9%	(5)	356.7%
Profit before tax	(300)	(382)	27.3%	(341)	11.8%
Income tax	(1)	1	-186.6%	0	N/A
Minority interest	0	0	-56.7%	0	N/A
<b>Net profit</b>	<b>(300)</b>	<b>(381)</b>	<b>26.7%</b>	<b>(341)</b>	<b>11.5%</b>

Source: Company data, CMBIS estimates

**Figure 2: CMBIS earnings revisions**

(RMB mn)	New		Old		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	386	882	407	934	-5.2%	-5.7%
Gross profit	332	767	350	813	-5.2%	-5.7%
Operating profit	25	301	51	338	-50.2%	-10.9%
Net profit	16	277	46	316	-65.5%	-12.5%
EPS (RMB)	0.04	0.68	0.11	0.78	-65.5%	-12.5%
Gross margin	86.0%	87.0%	86.0%	87.0%	-0.00ppt	-0.00 ppt
Operating margin	6.5%	34.1%	12.4%	36.1%	-5.91 ppt	-2.02 ppt
Net Margin	4.1%	31.4%	11.3%	33.8%	-7.16 ppt	-2.44 ppt

Source: Company data, CMBIS estimates

**Figure 3: CMBIS estimates vs consensus**

(RMB mn)	CMBI		Consensus		Diff (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	386	882	443	969	-13%	-9%
Gross profit	332	767	385	852	-14%	-10%
Operating profit	25	301	51	360	-50%	-17%
Net profit	16	277	42	300	-62%	-8%
EPS (RMB)	0.04	0.68	0.15	0.84	-74%	-19%
Gross margin	86.00%	87.00%	86.87%	88.00%	-0.87ppt	-1.00 ppt
Operating margin	6.53%	34.12%	11.43%	37.21%	-4.89 ppt	-3.09 ppt
Net Margin	4.10%	31.41%	9.41%	30.97%	-5.31 ppt	+0.43 ppt

Source: Company data, CMBIS estimates

Figure 4: Peers' valuation

Company	Ticker	Rating	TP	Price	Mkt cap	PER(x)		PBR(x)		EV/EBITDA (x)		ROE(%)	
			LC	LC	LC mn	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Venus Medtech	2500 HK	BUY	52.0	45.20	18,282	N/A	59.2	5.4	4.9	276.6	44.1	0.5	8.3
Kindly Medical	1501 HK	BUY	39.3	36.75	6,101	36.1	27.6	3.7	3.4	10.0	7.3	10.1	12.8
Chunli Medical	1858 HK	N/A	N/A	89.60	12,395	32.6	NA	8.8	NA	33.0	26.3	35.1	28.3
Weigao Group	1066 HK	N/A	N/A	9.28	41,967	17.0	14.5	2.1	1.9	11.9	10.4	12.7	13.4
Microport	853 HK	N/A	N/A	17.68	30,515	81.5	61.6	6.8	6.3	43.1	35.9	9.6	11.6
Lifetech	1302 HK	N/A	N/A	1.91	8,252	37.2	32.4	5.8	4.4	30.6	25.2	14.8	15.3
AK Medical	1789 HK	BUY	17.9	16.00	17,699	51.2	37.1	8.4	7.2	36.7	26.7	16.4	19.4
					<b>Average</b>	<b>42.6</b>	<b>34.6</b>	<b>5.9</b>	<b>4.6</b>	<b>27.5</b>	<b>22.0</b>	<b>16.4</b>	<b>16.8</b>

Source: Bloomberg, CMBIS estimates

## Financial Statements

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Revenue</b>	<b>115</b>	<b>233</b>	<b>386</b>	<b>882</b>	<b>1398</b>
VenusA-Valve	114	232	344	697	1090
VenusP-Valve	0	0	14	90	118
TriGUARD3	0	0	26	89	182
V8 and TAV8	2	1	2	5	8
Cost of sales	(16)	(39)	(54)	(115)	(168)
<b>Gross profit</b>	<b>99</b>	<b>195</b>	<b>332</b>	<b>767</b>	<b>1230</b>
Other income	13	15	20	19	20
Selling & distribution expenses	(67)	(125)	(123)	(264)	(391)
Administrative expenses	(105)	(201)	(100)	(88)	(126)
R&D expenses	(224)	(198)	(58)	(88)	(133)
Other gains and losses	(11)	(45)	(45)	(45)	(45)
<b>Operating profit</b>	<b>(295)</b>	<b>(357)</b>	<b>25</b>	<b>301</b>	<b>555</b>
Net of impairment losses	(2)	(2)	(2)	(2)	(2)
Net finance costs	(3)	(22)	(7)	(7)	(7)
<b>Pre-tax profit</b>	<b>(300)</b>	<b>(382)</b>	<b>16</b>	<b>291</b>	<b>546</b>
Income tax	(1)	1	0	(15)	(82)
Minority interests	0	0	0	0	0
<b>Net profit to shareholders</b>	<b>(300)</b>	<b>(381)</b>	<b>16</b>	<b>277</b>	<b>464</b>

### Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Profit before tax</b>	<b>(300)</b>	<b>(382)</b>	<b>16</b>	<b>291</b>	<b>546</b>
Depreciation and amortization	10	27	27	27	27
Change in working capital	(102)	(337)	(42)	(288)	(295)
Others	240	23	7	(7)	(75)
Net income tax paid	0	1	0	(15)	(82)
<b>Net cash from operating</b>	<b>(151)</b>	<b>(669)</b>	<b>8</b>	<b>23</b>	<b>203</b>
Capex	(27)	(40)	(50)	(50)	(80)
Acquisition of subsidiaries	0	(193)	(6)	0	(280)
Purchases of equity investments	0	(0)	0	0	0
Net purchases of financial assets	13	13	0	0	0
Others	(181)	167	(274)	0	280
<b>Net cash from investing</b>	<b>(194)</b>	<b>(53)</b>	<b>(330)</b>	<b>(50)</b>	<b>(80)</b>
Net proceeds from shares issued	445	2,558	0	0	0
Bank borrowing	19	434	0	0	0
Loans to related parties	0	0	0	0	0
Others	(11)	(22)	(7)	(7)	(7)
<b>Net cash from financing</b>	<b>453</b>	<b>2,970</b>	<b>(7)</b>	<b>(7)</b>	<b>(7)</b>
FX changes	(2)	0	0	0	0
Net change in cash	108	2,248	(329)	(34)	116
Cash at the beginning	59	165	2,413	2,084	2,050
<b>Cash at the end</b>	<b>165</b>	<b>2,413</b>	<b>2,084</b>	<b>2,050</b>	<b>2,166</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>744</b>	<b>764</b>	<b>1,067</b>	<b>1,090</b>	<b>1,143</b>
PP&E	47	60	102	144	216
Goodwill	472	480	480	480	480
Other intangible assets	191	185	446	427	408
Deferred tax assets	3	3	3	3	3
Equity investments at fair value	29	30	30	30	30
Prepayments, other receivables and other assets	2	7	7	7	7
<b>Current assets</b>	<b>291</b>	<b>2,904</b>	<b>2,618</b>	<b>2,873</b>	<b>3,286</b>
Inventories	17	25	28	60	89
Trade receivables	81	162	201	459	728
Prepayments, other receivables and other assets	28	303	303	303	303
Cash and cash equivalents	166	2,414	2,085	2,050	2,166
Others	0	0	0	0	0
<b>Current liabilities</b>	<b>496</b>	<b>568</b>	<b>569</b>	<b>571</b>	<b>572</b>
Trade payables	1	1	2	4	5
Lease liabilities	6	9	9	9	9
Other payables and accruals	381	397	397	397	397
Due to a related party	1	1	1	1	1
Bank borrowing	80	120	120	120	120
Others	28	41	41	41	41
<b>Non-current liabilities</b>	<b>68</b>	<b>55</b>	<b>55</b>	<b>55</b>	<b>55</b>
Lease liabilities	15	17	17	17	17
Deferred tax liabilities	39	37	37	37	37
Others	14	0	0	0	0
<b>Total net assets</b>	<b>470</b>	<b>3,046</b>	<b>3,062</b>	<b>3,338</b>	<b>3,803</b>
Minority interest	9	9	9	9	9
<b>Shareholders' equity</b>	<b>462</b>	<b>3,037</b>	<b>3,053</b>	<b>3,330</b>	<b>3,794</b>

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
VenusA-Valve	99	99	89	79	78
VenusP-Valve	0	0	4	10	8
TriGUARD3	0	0	7	10	13
V8 and TAV8	1	1	0	1	1
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	86	83	86	87	88
EBITDA margin	(232)	(142)	14	37	42
Pre-tax margin	(164)	(164)	4	33	39
Net margin	(261)	(163)	4	31	33
Effective tax rate	(0)	0	0	5	15
<b>Balance sheet ratios</b>					
Current ratio (x)	1	5	5	5	6
Trade receivables turnover days	156	187	187	187	187
Trade payables turnover days	30	11	11	11	11
Net debt to total equity	Net	Net	Net	Net	Net
<b>Returns (%)</b>					
ROE	(64)	(13)	1	8	12
ROA	(29)	(10)	0	7	10
<b>Per share data</b>					
EPS (RMB)	N/A	(1.22)	0.04	0.68	1.15
DPS (RMB)	N/A	0.00	0.00	0.00	0.00
BVPS (RMB)	N/A	9.79	7.57	8.25	9.40

Source: Company data, CMBIS estimates

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