

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				

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%

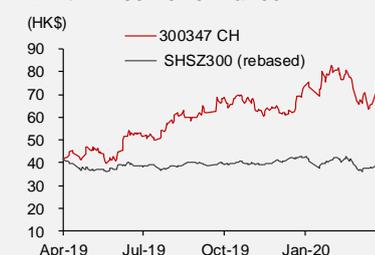
Source: SZSE

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	New			Old			Diff (%)		
	FY19A	FY20E	FY21E	FY19E	FY20E	FY21E	FY19A	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	CMBI			Consensus			Diff (%)		
	FY19A	FY20E	FY21E	FY19E	FY20E	FY21E	FY19A	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						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E
Revenue	2,301	2,803	3,381	4,428	5,711	Total net profit	507	975	975	1,358	1,844
Clinical field service	1,103	1,347	1,592	2,070	2,649	Depreciation and amortization	61	47	39	45	51
Clinical test technical service	1,195	1,446	1,778	2,348	3,052	Change in working capital	8	(169)	124	(153)	(302)
Other business	3	10	10	10	10	Investment loss (gain)	(119)	(180)	0	0	0
Cost of sales	(1,309)	(1,500)	(1,817)	(2,369)	(3,035)	Other operating activities	65	(147)	(205)	(304)	(413)
Gross profit	992	1,303	1,564	2,058	2,676	Operating cash flow	522	528	933	947	1,180
Business taxes	(9)	(11)	(13)	(17)	(22)	Capex	(92)	(103)	(100)	(100)	(100)
Selling expenses	(54)	(81)	(95)	(120)	(148)	Acquisition of subsidiaries	(843)	(1,015)	(800)	(800)	(800)
Admin expenses	(314)	(350)	(389)	(465)	(543)	Other investing activities	568	479	0	0	0
R&D expenses	(88)	(124)	(135)	(173)	(217)	Investing cash flow	(367)	(638)	(900)	(900)	(900)
Operating profit	526	737	932	1,284	1,746	Net proceeds from shares issued	59	1,441	0	0	0
Finance costs, net	(7)	(10)	(10)	(13)	(17)	Bank borrowing	340	180	0	0	0
Investment gains	119	180	0	0	0	Acquisition of non-controlling interests					
Other gains	(31)	203	225	328	440	Dividends and interests paid	(127)	(266)	(218)	(303)	(410)
Pre-tax profit	606	1,089	1,147	1,598	2,169	Other financing activities	(262)	80	0	0	0
Income tax	(99)	(114)	(172)	(240)	(325)	Financial cash flow	10	1,434	(218)	(303)	(410)
Minority interests	(35)	(134)	(134)	(186)	(253)	FX changes	7	15	0	0	0
Net profit	472	842	841	1,172	1,591	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						Key ratios					
YE 31 Dec (RMB mn)	FY18A	FY19E	FY20E	FY21E	FY22E	YE 31 Dec	FY18A	FY19E	FY20E	FY21E	FY22E
Non-current assets	2,677	4,163	5,249	6,431	7,720	Sales mix (%)					
Fixed asset	255	252	323	388	446	Clinical trial technical services	48	48	47	47	46
Intangible assets	28	96	91	85	79	Clinical trial consulting services	52	52	53	53	53
Financial assets available for sale	1,222	0	0	0	0	Other business	0	0	0	0	0
Goodwill	1,033	1,158	1,158	1,158	1,158	Total	100	100	100	100	100
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	Profit & loss ratios (%)					
Cash	704	2,042	1,857	1,601	1,471	Gross margin	43	46	46	46	47
Inventories	1	1	2	3	4	EBITDA margin	29	41	35	37	39
Trade and bills receivables	782	1,080	1,019	1,213	1,565	Pre-tax margin	26	39	34	36	38
Prepayments, deposits and other receivables	47	26	26	26	26	Net margin	21	30	25	26	28
Other current assets	69	220	210	200	190	Effective tax rate	16	10	15	15	15
Current liabilities	1,209	1,791	1,855	1,897	1,948	Balance sheet ratios					
Borrowings	603	864	864	864	864	Current ratio (x)	1	2	2	2	2
Trade and other payables	44	185	185	185	185	Trade receivables turnover days	112	121	110	100	100
Other current liabilities	562	742	806	848	899	Trade payables turnover days	11	28	28	28	28
Non-current liabilities	37	220	220	220	220	Net debt to equity ratio (%)	Net cash				
Borrowings	3	37	37	37	37						
Other non-current liabilities	34	184	184	184	184	Returns (%)					
Total net assets	3,034	5,522	6,288	7,357	8,807	ROE	17	18	15	18	21
Minority interest	366	1,296	1,430	1,616	1,869	ROA	12	13	12	14	17
Shareholders' equity	2,669	4,225	4,859	5,741	6,939	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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