

Tigermed (300347 CH)

Better business recovery outlook in 2021E

- Earnings beat in 2020.** Tigermed announced positive profit alert that its attributable net profit in 2020 rallied 100-115% YoY to RMB1,683-1,810mn (higher than our estimate of 90% YoY growth), and attributable recurring net profit grew 20-33% YoY to RMB670-742mn (vs our estimate of 23% YoY growth). Tigermed recognized RMB1.0-1.1bn one-off fair value gains and investment gains in 2020 vs RMB283mn one-off gains in 2019.
- Strong growth momentum continued despite challenging COVID-19 pandemic in 2020.** Recall that Tigermed's operation was interrupted by COVID-19 in the first half of 2020. As the pandemic got largely controlled in China, clinical trial operations started to normalize from 2Q20, leading to recovery in Tigermed's domestic revenue. However, the pandemic remained serious in overseas regions such as the US and Europe. As a result, the overseas CRO demand, such as data management services and Frontage's BIO, CMC, DMPK services, were negatively impacted. In 1H20, Tigermed received 42% of total revenue from overseas and 40% of gross profit from overseas. We forecast Tigermed to register 27% YoY revenue growth in 2H20E, accelerating from 9% YoY growth in 1H20. Looking into 2021, we expect the COVID-19 epidemic to gradually ease thanks to the wide availability of vaccines, which will drive further business recovery for Tigermed. We expect Tigermed's revenue growth to accelerate to 30% YoY in 2021E and 28% YoY in 2022E.
- Global expansion to drive long-term growth.** Given China's large patient pool, international pharmaceutical companies are including China as one site in MRCTs to speed up the enrollment of patients. Meanwhile, Chinese biotech companies are initiating more MRCTs for the purpose of product registration in overseas countries. Tigermed provides clinical CRO services for Chinese innovative drugs to go global and multinational enterprises' drugs to enter Chinese market. Meanwhile, we expect Tigermed to further expand its overseas business network to become a clinical CRO company with global operations. The Company already has established networks in Asia Pacific regions, while US market could be the next emphasis.
- Maintain BUY.** We raised our 2020E/21E net profit forecasts by 8.2%/0.3%, respectively, to factor in one-off gains and strong core business growth. We raised our DCF-based TP to RMB187.23 (WACC: 9.84%, Terminal growth: 4.0%).

Earnings Summary

| (YE 31 Dec) | FY18A | FY19A | FY20E | FY21E | FY22E |
|------------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn) | 2,301 | 2,803 | 3,320 | 4,313 | 5,517 |
| Revenue YoY growth (%) | 36.37 | 21.85 | 18.42 | 29.92 | 27.93 |
| Net income (RMB mn) | 472 | 842 | 1,729 | 1,370 | 1,839 |
| EPS (RMB) | 0.94 | 1.13 | 1.98 | 1.57 | 2.11 |
| EPS YoY growth (%) | 54.22 | 19.70 | 75.39 | -20.77 | 34.24 |
| Consensus EPS | N/A | N/A | 1.78 | 1.81 | 2.25 |
| P/E (x) | 177.86 | 148.58 | 84.71 | 106.92 | 79.65 |
| P/B (x) | 31.47 | 29.78 | 9.33 | 8.76 | 8.09 |
| Yield (%) | 0.21 | 0.17 | 0.29 | 0.23 | 0.31 |
| ROE (%) | 16.70 | 17.66 | 10.80 | 8.03 | 9.95 |
| Net gearing (%) | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price RMB187.23
(Previous TP) RMB146.43
Up/Downside +11.51%
Current Price RMB167.90

China Healthcare Sector

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Stock Data

| | |
|--------------------------|--------------|
| Mkt Cap (RMB mn) | 142,981 |
| Avg 3 mths t/o (RMB mn) | 910.24 |
| 52w High/Low (RMB) | 193.20/62.68 |
| Total Issued Shares (mn) | 749 |

Source: Bloomberg

Shareholding Structure

| | |
|------------|--------|
| Management | 37.11% |
| Temasek | 2.92% |
| Free float | 59.97% |

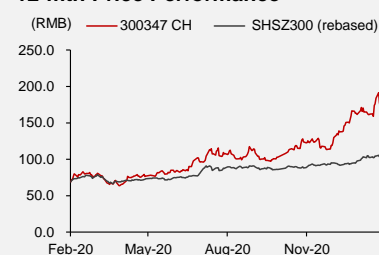
Source: SZSE

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 2.5% | -6.5% |
| 3-mth | 40.0% | 19.0% |
| 6-mth | 64.3% | 34.6% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: BDO CHINA

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Figure 1: Earnings revision

| RMB mn | New | | | Old | | | Diff (%) | | |
|------------------|--------|--------|--------|--------|--------|--------|------------|-----------|-----------|
| | FY20E | FY21E | FY22E | FY20E | FY21E | FY22E | FY20E | FY21E | FY22E |
| Revenue | 3,320 | 4,313 | 5,517 | 3,320 | 4,346 | 5,602 | 0.00% | -0.75% | -1.51% |
| Gross Profit | 1,592 | 2,055 | 2,644 | 1,573 | 2,072 | 2,686 | 1.18% | -0.78% | -1.57% |
| Operating Profit | 914 | 1,211 | 1,652 | 895 | 1,221 | 1,679 | 2.08% | -0.80% | -1.61% |
| Net profit | 1,729 | 1,370 | 1,839 | 1,597 | 1,366 | 1,834 | 8.27% | 0.30% | 0.28% |
| EPS (RMB) | 1.98 | 1.57 | 2.11 | 1.83 | 1.57 | 2.10 | 8.27% | 0.30% | 0.28% |
| Gross Margin | 47.96% | 47.66% | 47.91% | 46.26% | 46.48% | 47.94% | +1.70 ppt | +1.18 ppt | -0.03 ppt |
| Operating Margin | 27.53% | 28.08% | 29.94% | 27.57% | 29.00% | 29.97% | -0.04 ppt | -0.91 ppt | -0.03 ppt |
| Net Margin | 52.10% | 31.77% | 33.34% | 24.87% | 26.47% | 32.74% | +27.22 ppt | +5.30 ppt | +0.59 ppt |

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

| RMB mn | CMBIS | | | Consensus | | | Diff (%) | | |
|------------------|--------|--------|--------|-----------|--------|--------|------------|------------|------------|
| | FY20E | FY21E | FY22E | FY20E | FY21E | FY22E | FY20E | FY21E | FY22E |
| Revenue | 3,320 | 4,313 | 5,517 | 3,306 | 4,266 | 5,442 | 0.41% | 1.10% | 1.38% |
| Gross Profit | 1,592 | 2,055 | 2,644 | 1,557 | 2,025 | 2,615 | 2.27% | 1.50% | 1.10% |
| Operating Profit | 914 | 1,211 | 1,652 | 1,512 | 1,851 | 2,348 | -39.56% | -34.56% | -29.65% |
| Net profit | 1,729 | 1,370 | 1,839 | 1,519 | 1,585 | 1,979 | 13.85% | -13.55% | -7.06% |
| EPS (RMB) | 1.98 | 1.57 | 2.11 | 1.78 | 1.81 | 2.25 | 11.47% | -13.15% | -6.32% |
| Gross Margin | 47.96% | 47.66% | 47.91% | 47.09% | 47.47% | 48.05% | +0.87 ppt | +0.19 ppt | -0.14 ppt |
| Operating Margin | 27.53% | 28.08% | 29.94% | 45.74% | 43.39% | 43.15% | -18.20 ppt | -15.31 ppt | -13.21 ppt |
| Net Margin | 52.10% | 31.77% | 33.34% | 45.95% | 37.15% | 36.37% | +6.15 ppt | -5.38 ppt | -3.03 ppt |

Source: Company data, Bloomberg, CMBIS estimates

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 2,301 | 2,803 | 3,320 | 4,313 | 5,517 |
| Clinical field service | 1,103 | 1,347 | 1,638 | 2,096 | 2,683 |
| Clinical test technical service | 1,195 | 1,446 | 1,671 | 2,205 | 2,823 |
| Other business | 3 | 10 | 11 | 11 | 11 |
| Cost of sales | (1,309) | (1,500) | (1,728) | (2,257) | (2,874) |
| Gross profit | 992 | 1,303 | 1,592 | 2,055 | 2,644 |
| Business taxes | (9) | (11) | (12) | (16) | (21) |
| Selling expenses | (54) | (81) | (94) | (116) | (143) |
| Admin expenses | (314) | (350) | (415) | (518) | (607) |
| R&D expenses | (88) | (124) | (156) | (194) | (221) |
| Operating profit | 526 | 737 | 914 | 1,211 | 1,652 |
| Finance costs, net | (7) | (10) | (139) | (13) | (17) |
| Investment gains | 119 | 180 | 450 | 0 | 0 |
| Other gains | (31) | 203 | 841 | 428 | 548 |
| Pre-tax profit | 606 | 1,089 | 2,059 | 1,627 | 2,183 |
| Income tax | (99) | (114) | (212) | (163) | (218) |
| Minority interests | (35) | (134) | (118) | (94) | (126) |
| Net profit | 472 | 842 | 1,729 | 1,370 | 1,839 |

Cash flow summary

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|--|--------------|--------------|----------------|---------------|---------------|
| Total net profit | 507 | 975 | 1,848 | 1,464 | 1,965 |
| Depreciation and amortization | 61 | 47 | 41 | 52 | 62 |
| Change in working capital | 8 | (169) | 45 | (228) | (257) |
| Investment loss (gain) | (119) | (180) | (450) | 0 | 0 |
| Other operating activities | 65 | (147) | (537) | (415) | (532) |
| Operating cash flow | 522 | 528 | 947 | 873 | 1,238 |
| Capex | (92) | (103) | (150) | (150) | (150) |
| Purchase of investment assets | (843) | (1,015) | (1,200) | (1,200) | (1,200) |
| Other investing activities | 568 | 479 | 300 | 428 | 548 |
| Investing cash flow | (367) | (638) | (1,050) | (922) | (802) |
| Net proceeds from shares issued | 59 | 1,441 | 10,167 | 0 | 0 |
| Bank borrowing | 340 | 180 | 0 | 0 | 0 |
| Acquisition of non-controlling interests | (127) | (266) | (567) | (352) | (471) |
| Dividends and interests paid | (262) | 80 | 0 | 0 | 0 |
| Other financing activities | 10 | 1,434 | 9,600 | (352) | (471) |
| Financing cash flow | 10 | 1,434 | 9,600 | (352) | (471) |
| FX changes | 7 | 15 | 0 | 0 | 0 |
| Net change in cash | 173 | 1,339 | 9,497 | (400) | (35) |
| Cash at the beginning of the year | 525 | 698 | 2,042 | 11,539 | 11,139 |
| Cash at the year end | 704 | 2,042 | 11,539 | 11,139 | 11,104 |

Balance sheet

| YE 31 Dec (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---|--------------|--------------|---------------|---------------|---------------|
| Non-current assets | 2,677 | 4,163 | 6,304 | 7,602 | 8,890 |
| Fixed asset | 255 | 252 | 371 | 479 | 576 |
| 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 | 4,685 | 5,881 | 7,077 |
| Current assets | 1,603 | 3,370 | 12,873 | 12,741 | 13,011 |
| Cash | 704 | 2,042 | 11,539 | 11,139 | 11,104 |
| Inventories | 1 | 1 | 2 | 3 | 4 |
| Trade and bills receivables | 782 | 1,080 | 1,091 | 1,359 | 1,663 |
| Prepayments, deposits and other receivables | 47 | 26 | 26 | 26 | 26 |
| Other current assets | 69 | 220 | 214 | 214 | 214 |
| Current liabilities | 1,209 | 1,791 | 1,848 | 1,889 | 1,936 |
| Borrowings | 603 | 864 | 864 | 864 | 864 |
| Trade and other payables | 44 | 185 | 185 | 185 | 185 |
| Other current liabilities | 562 | 742 | 799 | 840 | 887 |
| 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 | 17,109 | 18,234 | 19,744 |
| Minority interest | 366 | 1,296 | 1,414 | 1,508 | 1,634 |
| Shareholders' equity | 2,669 | 4,225 | 15,694 | 16,726 | 18,110 |

Key ratios

| YE 31 Dec | FY18A | FY19A | FY20E | FY21E | FY22E |
|-------------------------------------|----------|----------|----------|----------|----------|
| Sales mix (%) | | | | | |
| Clinical trial technical services | 48 | 48 | 49 | 49 | 49 |
| Clinical trial consulting services | 52 | 52 | 50 | 51 | 51 |
| Other business | 0 | 0 | 0 | 0 | 0 |
| Total | 100 | 100 | 100 | 100 | 100 |
| Profit & loss ratios (%) | | | | | |
| Gross margin | 43 | 46 | 48 | 48 | 48 |
| EBITDA margin | 29 | 41 | 67 | 39 | 41 |
| Pre-tax margin | 26 | 39 | 62 | 38 | 40 |
| Net margin | 21 | 30 | 52 | 32 | 33 |
| Effective tax rate | 16 | 10 | 10 | 10 | 10 |
| Balance sheet ratios | | | | | |
| Current ratio (x) | 1 | 2 | 7 | 7 | 7 |
| Trade receivables turnover days | 112 | 121 | 120 | 115 | 110 |
| 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 | 11 | 8 | 10 |
| ROA | 12 | 13 | 10 | 7 | 9 |
| Per share | | | | | |
| EPS (RMB) | 0.94 | 1.13 | 1.98 | 1.57 | 2.11 |
| DPS (RMB) | 0.35 | 0.28 | 0.49 | 0.39 | 0.52 |
| BVPS (RMB) | 5.34 | 5.64 | 17.99 | 19.17 | 20.75 |

Source: Company data, CMBIS estimates

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