

Mindray (300760 CH)

Robust performance in a challenging industry environment

Mindray achieved a revenue of RMB20.5bn in 1H24, marking an 11.1% increase YoY, and reported an attributable net profit of RMB7.6bn, up 17.4% YoY. Despite the ongoing regulatory adjustments in the healthcare industry and the delay in medical equipment renewals projects, which have led to a cautious approach towards bidding and procurement activities in public hospitals, the revenue from domestic equipment business decreased by 12% YoY. However, thanks to the rapid growth of the IVD business and the domestic high-end/ultra-high-end ultrasound business, Mindray still demonstrated strong resilience and steady growth. The increase in the revenue share from IVD reagents and high-end ultrasounds drove the Company's gross margin up by 0.7 ppt YoY to 66.3% in 1H24. Additionally, Mindray announced a mid-term dividend plan, distributing a total cash dividend of approximately RMB4.9bn, which represents a payout ratio of more than 65%, indicating an ongoing increase in the dividend payout.

■ **Domestic equipment business faces pressure.** In 1H24, the continued delay in bidding and procurement activities led to a 12% YoY decrease in revenue from domestic equipment business. Due to the high market share of Mindray's Patient Monitoring and Life Support (PMLS) products in China, the domestic business was significantly affected by the industry environment, with the PMLS segment experiencing a 7.6% YoY decrease in revenue, including about a 20% drop in domestic revenue. The Medical Imaging segment benefited from the volume increase of the first domestic ultra-high-end ultrasound Resona A20 and other high-end ultrasounds, resulting in a 15.5% YoY revenue growth in this segment, with high-end and ultra-high-end ultrasound revenues increasing by over 40%.

■ **Accelerating the shift towards consumables-related business.** In 1H24, the IVD reagent business was minimally affected by domestic industry regulation, with revenue increasing by 28% YoY to RMB7.7bn, accounting for over 37% of total revenue. Domestic IVD revenue grew by over 25%, and domestic reagent revenue increased by 30%, with reagent revenue representing over 80% of domestic IVD revenue. Internationally, Mindray successfully penetrated over 60 overseas third-party chain laboratories in 1H24 and installed the first MT 8000 TLA, driving a more than 30% YoY increase in overseas IVD revenue. We believe that the continuous increase in domestic diagnostic demand and the implementation of IVD VBP are expected to help Mindray rapidly expand its domestic market share, while accelerated cooperation with high-end clients will support long-term rapid growth of the IVD overseas market. Additionally, the minimally invasive surgery business grew by 90% YoY in 1H24. The Company's acquisition of APT Medical also filled the gap in its cardiovascular consumables business. Currently, consumables-related businesses led by IVD already account for over 50% of the Company's domestic revenue.

■ **Maintain BUY.** We believe that industry regulation has not affected the essential demand for hospital procurement. As industry regulation becomes normalized and equipment renewal policies are implemented, hospital **procurement is expected to gradually recover**. Based on a 9-year DCF model, we adjust the target price to RMB 352.84 (WACC: 10.3%, perpetual growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	30,366	34,932	40,612	48,807	57,440
YoY growth (%)	20.2	15.0	16.3	20.2	17.7
Adjusted net profit (RMB mn)	9,525	11,434	13,643	16,229	19,054
YoY growth (%)	21.3	20.0	19.3	19.0	17.4
EPS (Adjusted) (RMB)	7.87	9.44	11.26	13.39	15.72
Adjusted P/E (x)	31.9	26.6	22.3	18.7	16.0
Net gearing (%)	(72.5)	(56.8)	(44.9)	(51.1)	(57.2)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price RMB352.84

(Previous TP) RMB383.49)

Up/Downside 40.7%

Current Price RMB250.80

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Stock Data

Mkt Cap (RMB mn)	303,453.2
Avg 3 mths t/o (RMB mn)	1,007.0
52w High/Low (RMB)	313.16/226.52
Total Issued Shares (mn)	1209.9

Source: FactSet

Shareholding Structure

Smartco Development Limited	27.0%
Magnifice (HK) Limited	24.5%

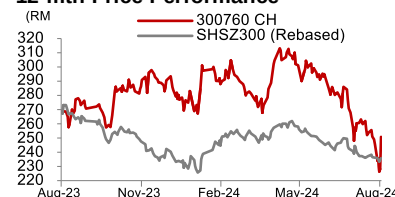
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.1%	2.5%
3-mth	-16.0%	-9.1%
6-mth	-13.3%	-8.2%

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	40,612	48,807	57,440	41,996	49,635	57,739	-3.29%	-1.67%	-0.52%
Gross profit	27,011	32,632	38,522	28,025	33,291	38,883	-3.62%	-1.98%	-0.93%
Operating profit	15,928	19,150	22,578	15,948	19,125	22,572	-0.13%	0.13%	0.03%
Net profit	13,727	16,313	19,137	13,905	16,481	19,357	-1.27%	-1.02%	-1.13%
EPS (RMB)	11.32	13.45	15.78	11.47	13.59	15.97	-1.27%	-1.02%	-1.13%
Gross margin	66.51%	66.86%	67.06%	66.73%	67.07%	67.34%	-0.23ppt	-0.21ppt	-0.28ppt
Operating margin	39.22%	39.24%	39.31%	37.98%	38.53%	39.09%	+1.24ppt	+0.71ppt	+0.21ppt
Net margin	33.80%	33.42%	33.32%	33.11%	33.20%	33.52%	+0.69ppt	+0.22ppt	-0.21ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 2: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	15,520	18,708	22,020	25,741	30,042	35,069	40,885	47,557	55,097
Tax rate	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%
EBIT*(1-tax rate)	13,813	16,650	19,598	22,910	26,738	31,211	36,388	42,326	49,036
+ D&A	1,144	1,274	1,391	1,492	1,575	1,639	1,689	1,724	1,746
- Change in working capital	-617	-1,028	-1,087	-1,230	-1,425	-1,680	-1,945	-2,202	-2,481
- Capx	-7,936	-1,778	-1,778	-1,678	-1,578	-1,478	-1,378	-1,278	-1,178
FCFF	6,404	15,118	18,124	21,494	25,309	29,693	34,753	40,569	47,122
Terminal value									668,310

Terminal growth rate	3.0%
WACC	10.3%
Cost of Equity	13.5%
Cost of Debt	5.0%
Equity Beta	1.00
Risk Free Rate	3.0%
Market Risk Premium	10.5%
Target Debt to Asset ratio	35.0%
Effective Corporate Tax Rate	15.0%

Terminal value	277,413
Total PV	411,436
Net debt	-17,014
Minority	656
Equity value	427,793
# of shares (mn)	1,212
DCF per share (in RMB)	352.84

Source: CMBIGM estimates

Figure 3: Sensitivity analysis

		WACC				
		9.3%	9.8%	10.3%	10.8%	11.3%
Terminal growth rate	4.0%	475.94	430.22	391.95	359.47	331.58
	3.5%	444.39	404.66	370.95	342.00	316.90
	3.0%	417.88	382.88	352.84	326.79	304.00
	2.5%	395.29	364.10	337.06	313.41	292.57
	2.0%	375.81	347.74	323.19	301.56	282.38

Source: CMBIGM estimates

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	40,612	48,807	57,440	41,677	49,745	59,091	-2.56%	-1.89%	-2.79%
Gross profit	27,011	32,632	38,522	27,560	32,947	39,169	-1.99%	-0.95%	-1.65%
Operating profit	15,928	19,150	22,578	15,477	18,559	22,117	2.91%	3.19%	2.08%
Net profit	13,727	16,313	19,137	13,888	16,638	19,892	-1.16%	-1.96%	-3.79%
EPS (RMB)	11.32	13.45	15.78	11.47	13.76	16.43	-1.30%	-2.19%	-3.94%
Gross margin	66.51%	66.86%	67.06%	66.13%	66.23%	66.29%	+0.38ppt	+0.63ppt	+0.78ppt
Operating margin	39.22%	39.24%	39.31%	37.14%	37.31%	37.43%	+2.08ppt	+1.93ppt	+1.88ppt
Net margin	33.80%	33.42%	33.32%	33.32%	33.45%	33.66%	+0.48ppt	-0.02ppt	-0.35ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	25,270	30,366	34,932	40,612	48,807	57,440
Cost of goods sold	(8,843)	(10,885)	(11,821)	(13,601)	(16,175)	(18,918)
Gross profit	16,427	19,480	23,111	27,011	32,632	38,522
Operating expenses	(7,825)	(8,941)	(10,170)	(11,469)	(13,869)	(16,331)
Selling expense	(3,999)	(4,802)	(5,703)	(6,092)	(7,321)	(8,616)
Admin expense	(1,106)	(1,320)	(1,524)	(1,665)	(2,001)	(2,355)
R&D expense	(2,524)	(2,923)	(3,433)	(3,655)	(4,441)	(5,284)
Others	(196)	103	489	(58)	(105)	(75)
Operating profit	9,066	10,991	13,070	15,928	19,150	22,578
Gain/loss on financial assets at FVTPL	10	(21)	79	0	0	0
Investment gain/loss	1	(5)	(10)	0	0	0
Other gains/(losses)	453	478	60	387	387	387
Others	(49)	(37)	(59)	(59)	(59)	(59)
Pre-tax profit	9,017	10,954	13,011	15,869	19,091	22,519
Income tax	(1,013)	(1,343)	(1,433)	(1,746)	(2,100)	(2,477)
Minority interest	(2)	(4)	4	(396)	(679)	(905)
Net profit	8,004	9,611	11,578	14,123	16,991	20,042
Adjusted net profit	7,850	9,525	11,434	13,643	16,229	19,054
Gross dividends	4,252	5,456	7,032	8,923	10,685	12,631
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	21,335	30,606	26,875	25,904	32,692	40,738
Cash & equivalents	15,361	23,186	18,787	17,023	22,241	28,623
Account receivables	1,790	2,661	3,297	3,463	4,162	4,898
Inventories	3,565	4,025	3,979	4,605	5,476	6,405
Prepayment	238	289	268	268	268	268
Other current assets	380	445	545	545	545	545
Non-current assets	16,768	16,139	21,065	27,412	27,472	27,416
PP&E	3,772	4,261	5,490	6,851	8,083	9,197
Deferred income tax	596	755	1,313	1,313	1,313	1,313
Intangibles	2,061	1,977	2,225	1,841	1,457	1,073
Goodwill	4,218	4,403	5,062	11,147	11,147	11,147
Other non-current assets	6,120	4,743	6,976	6,260	5,473	4,685
Total assets	38,103	46,745	47,940	53,316	60,164	68,154
Current liabilities	8,629	11,770	10,103	10,278	10,820	11,398
Short-term borrowings	0	0	8	8	8	8
Account payables	2,281	2,291	2,690	2,866	3,408	3,986
Tax payable	474	573	653	653	653	653
Other current liabilities	5,874	8,906	6,751	6,751	6,751	6,751
Non-current liabilities	2,506	2,976	4,491	4,491	4,491	4,491
Long-term borrowings	0	0	1	1	1	1
Deferred income	105	93	109	109	109	109
Other non-current liabilities	2,401	2,883	4,381	4,381	4,381	4,381
Total liabilities	11,135	14,746	14,594	14,769	15,312	15,889
Share capital	1,216	1,212	1,212	1,212	1,212	1,212
Capital surplus	608	608	608	608	608	608
Other reserves	25,129	30,161	31,265	36,070	41,698	48,204
Total shareholders equity	26,953	31,981	33,085	37,890	43,518	50,025
Minority interest	15	18	261	656	1,335	2,240
Total equity and liabilities	38,103	46,745	47,940	53,316	60,164	68,154

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	9,017	10,954	13,011	15,869	19,091	22,519
Depreciation & amortization	717	911	1,039	1,144	1,274	1,391
Tax paid	(1,013)	(1,343)	(1,433)	(1,746)	(2,100)	(2,477)
Change in working capital	328	1,524	(1,652)	(617)	(1,028)	(1,087)
Others	(50)	96	96	96	61	(55)
Net cash from operations	8,999	12,141	11,062	14,746	17,298	20,291
Investing						
Capital expenditure	(1,402)	(1,916)	(2,689)	(2,000)	(2,000)	(2,000)
Acquisition of subsidiaries/ investments	(3,520)	0	(871)	(6,157)	0	0
Net proceeds from disposal of short-term investments	0	0	0	200	200	200
Others	110	(1,304)	2,867	22	22	22
Net cash from investing	(4,812)	(3,220)	(693)	(7,936)	(1,778)	(1,778)
Financing						
Dividend paid	(3,039)	(4,233)	(10,670)	(8,574)	(10,302)	(12,131)
Net borrowings	(441)	0	(19)	0	0	0
Proceeds from share issues	0	0	79	0	0	0
Others	(1,125)	(961)	(166)	0	0	0
Net cash from financing	(4,605)	(5,194)	(10,776)	(8,574)	(10,302)	(12,131)
Net change in cash						
Cash at the beginning of the year	15,723	15,133	18,974	18,787	17,023	22,241
Exchange difference	(171)	114	101	0	0	0
Cash at the end of the year	15,133	18,974	18,668	17,023	22,241	28,623
GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	20.2%	20.2%	15.0%	16.3%	20.2%	17.7%
Gross profit	20.3%	18.6%	18.6%	16.9%	20.8%	18.0%
Operating profit	21.6%	21.2%	18.9%	21.9%	20.2%	17.9%
Net profit	20.2%	20.1%	20.5%	22.0%	20.3%	18.0%
Adj. net profit	20.0%	21.3%	20.0%	19.3%	19.0%	17.4%
PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	65.0%	64.2%	66.2%	66.5%	66.9%	67.1%
Operating margin	35.9%	36.2%	37.4%	39.2%	39.2%	39.3%
Adj. net profit margin	31.1%	31.4%	32.7%	33.6%	33.3%	33.2%
Return on equity (ROE)	31.9%	32.6%	35.6%	39.8%	41.7%	42.9%
GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.7)	(0.6)	(0.4)	(0.5)	(0.6)
Current ratio (x)	2.5	2.6	2.7	2.5	3.0	3.6
Receivable turnover days	24.0	26.8	31.1	31.1	31.1	31.1
Inventory turnover days	146.7	127.3	123.6	123.6	123.6	123.6
Payable turnover days	78.0	76.6	76.9	76.9	76.9	76.9
VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	38.1	31.6	26.2	22.2	18.6	15.9
Adjusted P/E	38.8	31.9	26.6	22.3	18.7	16.0
P/B	11.3	9.5	9.1	7.9	6.8	5.8
P/CFPS	33.9	25.0	27.5	20.6	17.6	15.0
Div yield (%)	1.4	1.8	2.3	2.9	3.5	4.2

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

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