

Tigermed (300347 CH)

Healthy growth amid challenging environment

1H23 earnings in line. Tigermed reported 1H23 revenue of RMB3,711mn, up 3.3% YoY, and attributable recurring net income of RMB793mn, up 2.9% YoY. 1H23 revenue / attributable recurring net income accounted for 45.4%/ 42.3%, respectively of our 2023 full-year estimates, which were in line with its pre-pandemic average level. Note that revenue growth accelerated on a quarterly basis, with -0.7% YoY in 1Q23 and +7.3% YoY in 2Q23, indicating business recovery after the pandemic, especially for clinical operation and SMO. Excluding COVID vaccine related revenue, 1H23 revenue grew by ~27% YoY. Gross profit margin (GPM) also sequentially improved, with +1.6ppt QoQ in 1Q23 and 0.5ppt QoQ in 2Q23, thanks to the decreased proportion of revenue from COVID-19 related projects which includes pass-through income to overseas sub-contractors.

■ **Fruitful globalization efforts.** Tigermed has used COVID-19 pandemic as an opportunity to expand overseas markets. In Jan 2023, Tigermed acquired a Croatia-based clinical CRO, Marti Farm, further enhancing its service capabilities in Europe. The Company has formed a local BD team in Europe, where it is currently running 35 clinical projects. In the US, Tigermed doubled the local clinical operation team to more than 110 staff, supporting the operation of more than 40 clinical projects, including multi-regional clinical trials (MRCTs). Additionally, Tigermed has been taking a proactive approach in Southeast Asia and Latin America market with 31 active clinical projects. Such regions are potential end markets for Chinese companies, creating business opportunities for Tigermed. With the growing global clinical operation capabilities, Tigermed added 8 MRCTs in 1H23.

■ **Business recovery after the COVID pandemic.** COVID outbreak in China in early 2023 had disrupted business operations of Tigermed. However, business operation resumed normal after the pandemic. According to management, clinical trial solution saw over 40% revenue growth in 1H23 if excluding COVID vaccine related revenue. SMO also experienced strong recovery after the pandemic, driving the 13.5% YoY growth in clinical-related and laboratory services in 1H23. Management indicated positive growth of orders signed in 1H23, while orders from US clinical services and real-world studies performed strong.

■ **Operating cash flow recovered in 2Q23.** Net operating cash flows declined by 91% YoY to RMB29mn in 1Q23 while strongly rebounded to RMB347mn in 2Q23, leading to positive 4% YoY growth in the total operating cash flows in 1H23. The cash flow recovery was mainly thanks to the effective management of receivables.

■ **Maintain BUY.** We revised our TP from RMB123.50 to RMB94.41, based on a 10-year DCF model (WACC: 11.5%, terminal growth: 3.0%), to factor in slower revenue growth projection given the soft global R&D demand and uncertainty of healthcare funding recovery. We forecast Tigermed's revenue to grow 10.0%/ 24.9%/ 25.9% YoY and attributable recurring net income to grow 16.0%/ 23.1%/ 24.9% YoY in FY23E/ 24E/ 25E, respectively.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	5,214	7,085	7,793	9,732	12,258
YoY growth (%)	63.3	35.9	10.0	24.9	25.9
Adjusted net profit (RMB mn)	1,232	1,534	1,786	2,199	2,745
EPS (Adjusted) (RMB)	1.42	1.78	2.05	2.52	3.15
Consensus EPS (RMB)	na	na	2.71	3.38	4.15
P/E (x) (adjusted)	45.4	36.2	31.5	25.6	20.5

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB94.41
(Previous TP)	RMB123.50
Up/Downside	46.5%
Current Price	RMB64.45

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Stock Data

Mkt Cap (RMB mn)	56,227.4
Avg 3 mths t/o (RMB mn)	591.2
52w High/Low (RMB)	124.93/59.77
Total Issued Shares (mn)	872.4

Source: FactSet

Shareholding Structure

HK investors	22.4%
Xiaoping Ye	20.3%

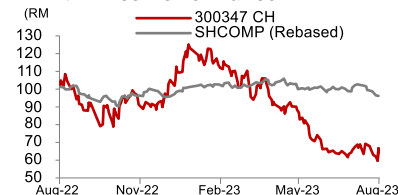
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.7%	3.7%
3-mth	-25.8%	-22.4%
6-mth	-42.5%	-38.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	7,793	9,732	12,258	8,174	10,217	12,678	-4.66%	-4.74%	-3.31%
Gross Profit	3,207	4,190	5,284	3,494	4,425	5,564	-8.22%	-5.30%	-5.03%
Operating Profit	2,057	2,765	3,501	2,318	2,954	3,758	-11.24%	-6.41%	-6.84%
Recurring net profit	1,786	2,199	2,745	1,875	2,345	2,938	-4.74%	-6.23%	-6.56%
Recurring EPS (RMB)	2.05	2.52	3.15	2.15	2.69	3.37	-4.74%	-6.23%	-6.56%
Gross Margin	41.15%	43.05%	43.11%	43.91%	44.20%	44.50%	-2.76ppt	-1.14ppt	-1.39ppt
Operating Margin	26.40%	28.41%	28.56%	29.71%	30.00%	30.30%	-3.32ppt	-1.60ppt	-1.74ppt
Net Margin	22.92%	22.59%	22.40%	23.32%	23.47%	23.70%	-0.39ppt	-0.88ppt	-1.30ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	7,793	9,732	12,258	8,467	10,666	13,225	-7.96%	-8.75%	-7.31%
Gross Profit	3,207	4,190	5,284	3,631	4,641	5,813	-11.69%	-9.71%	-9.10%
Operating Profit	2,057	2,765	3,501	2,632	3,318	4,112	-21.84%	-16.67%	-14.86%
Recurring net profit	1,786	2,199	2,745	2,330	2,886	3,604	-23.33%	-23.81%	-23.82%
Recurring EPS (RMB)	2.05	2.52	3.15	2.71	3.38	4.15	-24.47%	-25.48%	-24.08%
Gross Margin	41.15%	43.05%	43.11%	42.89%	43.51%	43.96%	-1.74ppt	-0.45ppt	-0.85ppt
Operating Margin	26.40%	28.41%	28.56%	31.09%	31.11%	31.09%	-4.69ppt	-2.70ppt	-2.53ppt
Net Margin	22.92%	22.59%	22.40%	27.52%	27.06%	27.25%	-4.59ppt	-4.47ppt	-4.85ppt

Source: Company data, Bloomberg, CMBIGM estimates

Figure 3: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	2,948	3,453	4,269	5,465	6,940	8,744	10,930	13,554	16,671	20,339
Tax rate	12.21%	12.21%	12.21%	12.21%	12.21%	12.21%	12.21%	12.21%	12.21%	12.21%
EBIT*(1-tax rate)	2,588	3,031	3,748	4,797	6,093	7,677	9,596	11,899	14,635	17,855
+ D&A	264	295	323	397	485	586	704	838	988	1,156
- Change in working capital	(108)	(255)	(327)	(403)	(491)	(594)	(713)	(849)	(1,002)	(1,172)
- Capex	(1,572)	(1,612)	(1,332)	(1,638)	(1,999)	(2,418)	(2,902)	(3,453)	(4,075)	(4,767)
FCFF	1,171	1,460	2,412	3,154	4,087	5,250	6,684	8,434	10,547	13,072
Terminal value										159,152
Terminal growth rate	3.00%									
WACC	11.46%									
Cost of Equity	14.55%									
Cost of Debt	5.00%									
Equity Beta	1.10									
Risk Free Rate	3.00%									
Market Risk Premium	10.50%									
Target Debt to Asset ratio	30.00%									
Effective Corporate Tax Rate	15.00%									
PV of terminal value (RMB mn)	53,780									
Total PV (RMB mn)	79,964									
Net debt (RMB mn)	(5,540)									
Equity value (RMB mn)	3,136									
Minority (RMB mn)	82,368									
# of shares (mn)	872									
Price per share (RMB per share)	94.41									

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	3,192	5,214	7,085	7,793	9,732	12,258
Cost of goods sold	(1,678)	(2,943)	(4,277)	(4,586)	(5,542)	(6,974)
Gross profit	1,514	2,271	2,808	3,207	4,190	5,284
Operating expenses	(655)	(911)	(1,038)	(1,150)	(1,426)	(1,783)
Selling expense	(97)	(129)	(150)	(171)	(214)	(270)
Admin expense	(391)	(547)	(630)	(698)	(856)	(1,073)
R&D expense	(157)	(212)	(235)	(255)	(321)	(398)
Others	(11)	(23)	(23)	(27)	(34)	(43)
Operating profit	859	1,359	1,771	2,057	2,765	3,501
Gain/loss on financial assets at FVTPL	1,138	1,815	536	730	588	668
Investment gain/loss	284	312	103	198	100	100
Net interest income/(expense)	(88)	216	158	115	59	73
Other income/expense	26	(19)	18	(37)	0	0
Pre-tax profit	2,219	3,685	2,585	3,063	3,512	4,342
Income tax	(190)	(293)	(314)	(374)	(429)	(530)
After tax profit	2,029	3,392	2,272	2,689	3,083	3,812
Minority interest	(279)	(518)	(265)	(38)	(339)	(457)
Net profit	1,750	2,874	2,007	2,651	2,744	3,354
Adjusted net profit	708	1,232	1,540	1,786	2,199	2,745
Gross dividends	262	433	476	629	651	795

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	11,646	10,852	11,107	10,384	10,334	11,108
Cash & equivalents	10,124	8,544	7,858	7,134	6,806	7,219
Account receivables	496	816	1,034	1,110	1,387	1,746
Inventories	5	6	22	6	8	10
Prepayment	28	59	59	59	59	59
Other current assets	994	1,426	2,134	2,074	2,074	2,074
Non-current assets	7,860	12,889	16,339	18,576	20,581	22,358
PP&E	300	438	566	893	1,189	1,456
Deferred income tax	80	101	121	121	121	121
Investment in JVs & assos	60	739	1,800	1,800	1,800	1,800
Intangibles	142	251	338	274	209	144
Goodwill	1,445	1,779	2,485	2,785	3,085	3,385
Financial assets at FVTPL	5,292	8,746	9,964	11,764	13,364	14,764
Other non-current assets	541	836	1,066	939	813	687
Total assets	19,506	23,741	27,447	28,959	30,915	33,466
Current liabilities	1,139	2,413	3,730	3,182	2,705	2,239
Short-term borrowings	0	492	1,849	1,349	849	349
Account payables	181	156	50	50	50	50
Tax payable	126	281	198	198	198	198
Other current liabilities	832	1,484	1,633	1,586	1,609	1,643
Non-current liabilities	508	723	1,036	1,036	1,036	1,036
Long-term borrowings	0	0	245	245	245	245
Obligations under finance leases	279	407	489	489	489	489
Other non-current liabilities	229	316	302	302	302	302
Total liabilities	1,648	3,136	4,765	4,218	3,741	3,275
Share capital	872	872	872	872	872	872
Capital surplus	11,998	11,887	11,852	13,875	15,969	18,528
Retained earnings	3,253	5,771	7,270	7,270	7,270	7,270
Other reserves	(6)	(406)	(412)	(412)	(412)	(412)
Total shareholders equity	16,119	18,124	19,583	21,606	23,699	26,258
Minority interest	1,740	2,482	3,098	3,136	3,475	3,932
Total equity and liabilities	19,506	23,741	27,447	28,959	30,915	33,466

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	2,219	3,685	2,585	3,063	3,512	4,342
Depreciation & amortization	150	197	285	264	295	323
Tax paid	(190)	(293)	(314)	(374)	(429)	0
Change in working capital	(41)	(235)	(692)	(108)	(255)	(327)
Others	(1,140)	(1,930)	(507)	(983)	(748)	(1,371)
Net cash from operations	999	1,424	1,357	1,861	2,376	2,966
Investing						
Capital expenditure	(156)	(369)	(449)	(400)	(400)	(400)
Acquisition of subsidiaries/ investments	(194)	(90)	(663)	(300)	(300)	(300)
Net proceeds from disposal of short-term investments	(1,867)	(2,140)	(1,779)	(872)	(912)	(632)
Others	(150)	(185)	102	0	0	0
Net cash from investing	(2,367)	(2,783)	(2,789)	(1,572)	(1,612)	(1,332)
Financing						
Dividend paid	(271)	(284)	(492)	(514)	(591)	(722)
Net borrowings	(903)	492	1,607	(500)	(500)	(500)
Proceeds from share issues	11,212	272	315	0	0	0
Others	(698)	(643)	(621)	0	0	0
Net cash from financing	9,339	(163)	809	(1,014)	(1,091)	(1,222)
Net change in cash						
Cash at the beginning of the year	2,037	9,960	8,378	7,858	7,134	6,806
Exchange difference	(47)	(60)	27	0	0	0
Cash at the end of the year	9,960	8,378	7,783	7,134	6,806	7,219
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	13.9%	63.3%	35.9%	10.0%	24.9%	25.9%
Gross profit	16.2%	50.0%	23.7%	14.2%	30.7%	26.1%
Operating profit	16.6%	58.2%	30.3%	16.2%	34.4%	26.6%
Net profit	107.9%	64.3%	(30.2%)	32.1%	3.5%	22.2%
Adj. net profit	26.9%	73.9%	25.0%	16.0%	23.1%	24.9%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	47.4%	43.6%	39.6%	41.2%	43.1%	43.1%
Operating margin	26.9%	26.1%	25.0%	26.4%	28.4%	28.6%
Adj. net profit margin	22.2%	23.6%	21.7%	22.9%	22.6%	22.4%
Return on equity (ROE)	17.2%	16.8%	10.6%	12.9%	12.1%	13.4%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.6)	(0.4)	(0.3)	(0.3)	(0.2)	(0.3)
Current ratio (x)	10.2	4.5	3.0	3.3	3.8	5.0
Receivable turnover days	90.1	45.9	47.6	52.0	52.0	52.0
Inventory turnover days	0.6	0.7	1.2	0.5	0.5	0.5
Payable turnover days	39.8	20.9	8.8	8.8	8.8	8.8
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E (Adjusted)	72.5	45.4	36.2	31.5	25.6	20.5
P/B	3.2	3.1	2.8	2.6	2.4	2.1
P/CFPS	77.4	95.4	62.5	30.2	23.7	19.0
Div yield (%)	0.3	0.3	0.6	1.1	1.2	1.4

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

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