

**BUY (Maintain)**

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

### Rich heart valve pipeline portfolio

**1H20 sales were impacted by COVID-19 pandemic.** Venus Medtech reported RMB102mn revenue in 1H20, down 5.0% YoY, accounting for 30% of our full-year forecast. Attributable net loss was RMB44mn in 1H20. VenusA Valve contributed 99.6% of the total revenue and the remaining was from TAV8. In 1H20, sales from VenusA-Valve decreased 4.9% YoY due to 1) a mild decrease in ASP, and 2) surgeries were disrupted due to the COVID-19 pandemic in China. The sales volume of VenusA-Valve recorded positive growth in 1H20, offset by the price decline. We maintain our forecast of 2,200 sales volume for VenusA-Valve in 2020E, up 42% YoY, expecting a potential recovery in surgery volume thanks to the improved situation of COVID-19 pandemic.

- Rich heart valve pipeline portfolio.** The Company's pipeline comprises one marketed TAVR product (VenusA-Valve), one registration stage TAVR product (VenusA-Plus), two TAVR products in design stage (Venus PowerX and Venus Vitae), one clinical stage TPVR product (VenusP-Valve), one TMVR product in design stage and one TTVR product in design stage. The Company is also developing one aortic valve repair device in pre-clinical stage (Leaflex). VenusA-Plus may receive the NMPA's approval by end-2020E, becoming the first retrievable TAVR product in China.
- PowerX and Vitae are potential next-generation TAVR products.** In CIT 2020 Conference, the Company disclosed two new TAVR products under development: post-release self-expanding valve PowerX system and new balloon-expandable valve Vitae system. Both PowerX and Vitae are preloaded dry valve systems, which are expected to significantly improve the anti-calcification performance and duration life of the valve by eliminating the traditional valvular treatment with glutaraldehyde while saving the loading time of during procedures. Both PowerX Valve and Vitae Valve are under animal studies and the Company is refining the design based on the animal studies. In addition, the Company licensed in Leaflex, an aortic valve repair device, from Pi-Cardia. Leaflex modifies leaflet calcium to restore mobility to the affected valve, thereby improving flow and reducing transvalvular gradient. The procedure is simple to perform, non-implant based and requires only a short hospital stay. The Company plans to conduct FIM (first-in-man) for Leaflex in 4Q20E.
- Maintain BUY.** We remain long-term positive on the Company given its leading position in China TAVR market. We expect total revenue to grow 45%/155%/65% YoY in FY20E/21E/22E. We slightly trimmed DCF-based TP from HK\$98.20 to HK\$95.67 to reflect impact from COVID-19 (WACC: 9.1%, terminal growth rate: 4.0%).

#### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	115	233	339	864	1423
YoY growth (%)	535	102	45	155	65
Net income (RMB mn)	(301)	(381)	(58)	182	433
EPS (RMB)	N/A	(1.22)	(0.14)	0.45	1.07
EPS YoY growth (%)	N/A	N/A	N/A	N/A	138
Consensus EPS (RMB)	N/A	N/A	0.07	0.96	2.27
P/E (x)	N/A	N/A	(439)	139	59
P/B (x)	N/A	6	9	8	7
ROE (%)	(64)	(13)	(2)	6	12
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

Target Price	HK\$95.67
(Previous TP)	HK\$98.2)
Up/Downside	+36%
Current Price	HK\$70.10

#### China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	28,353
Avg. 3mths t/o (HK\$ mn)	67.35
52W High/Low (HK\$)	87.90/35.20
Total Issued Shares (mn)	183

Source: Bloomberg

#### Shareholding Structure

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

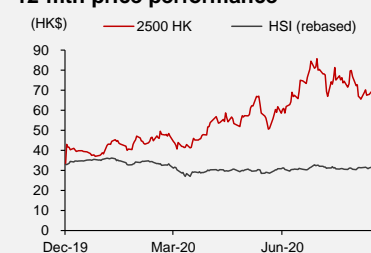
Source: HKEx, Bloomberg

#### Share performance

	Absolute	Relative
1-mth	-8.1%	-10.1%
3-mth	37.5%	24.1%
6-mth	46.2%	50.3%

Source: Bloomberg

#### 12-mth price performance



Source: Bloomberg

#### Auditor: Ernst & Young

#### Relative Reports:

1. First 5-yr follow-up results for VenusA and updated results for first retrievable TAVR in China – 6 Jul 2020
2. Inline results; Moderate impact from COVID-19 – 29 Mar 2020
3. First mover in the rapid-growing transcatheter valve market – 19 Feb 2020

**Figure 1: CMBIS earnings revisions**

(RMB mn)	New			Old			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	339	864	1,423	344	946	1,544	-1.5%	-8.6%	-7.8%
Gross profit	287	748	1,252	296	823	1,359	-3.2%	-9.1%	-7.8%
Operating profit	-49	224	519	9	324	616	N/A	-31.0%	-15.7%
Net profit	-58	182	433	0	299	515	N/A	-39.1%	-15.9%
EPS (RMB)	-0.14	0.45	1.07	0.00	0.74	1.27	N/A	-39.1%	-15.9%
Gross margin	84.50%	86.50%	88.00%	86.00%	87.00%	88.00%	-1.50ppt	-0.50 ppt	0.00 ppt
Operating margin	-14.32%	25.91%	36.49%	2.65%	34.30%	39.89%	-16.97 ppt	-8.39 ppt	-3.40 ppt
Net Margin	-17.09%	21.10%	30.46%	-0.08%	31.65%	33.39%	-17.01 ppt	-10.54 ppt	-2.93 ppt

Source: Company data, CMBIS estimates

**Figure 2: CMBIS estimates vs consensus**

(RMB mn)	CMBI			Consensus			Diff (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	339	864	1,423	390	928	1,443	-12.9%	-6.9%	-1.4%
Gross profit	287	748	1,252	332	812	1,270	-13.8%	-8.0%	-1.4%
Operating profit	-49	224	519	-20	334	519	-144.4%	-32.8%	0.1%
Net profit	-58	182	433	-14	292	452	-327.2%	-37.4%	-4.0%
EPS (RMB)	-0.14	0.45	1.07	0.07	0.96	2.27	-304.7%	-52.8%	-52.8%
Gross margin	84.50%	86.50%	88.00%	85.33%	87.53%	88.00%	-0.83 ppt	-1.03 ppt	0.00 ppt
Operating margin	-14.32%	25.91%	36.49%	-5.10%	35.93%	35.97%	-9.22 ppt	-10.02 ppt	+0.52 ppt
Net Margin	-17.09%	21.10%	30.46%	-7.57%	29.52%	N/A	-13.61 ppt	-10.30 ppt	-0.83 ppt

Source: Company data, CMBIS estimates

**Figure 3: Peers' valuation**

Company	Ticker	Rating	TP	Price	Mkt cap	PER(x)		PBR(x)		EV/EBITDA (x)		ROE(%)	
						FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Venus Medtech	2500 HK	BUY	95.7	70.10	28,353	N/A	139.0	8.5	8.0	(1,089.6)	94.3	(1.9)	5.8
Kindly Medical	1501 HK	BUY	**	58.00	9,628	67.6	53.7	5.3	6.5	N/A	N/A	11.0	11.0
Chunli Medical	1858 HK	N/A	N/A	40.65	14,059	36.0	26.7	11.4	8.3	36.4	27.5	31.4	30.2
Weigao Group	1066 HK	N/A	N/A	18.22	82,397	33.8	27.6	4.2	3.7	22.0	18.5	12.8	14.6
Microport	853 HK	N/A	N/A	34.70	62,622	447.7	235.6	13.9	13.2	128.5	78.9	3.5	5.6
Lifetech	1302 HK	N/A	N/A	2.36	10,219	51.0	39.4	6.7	5.8	N/A	N/A	13.0	13.8
AK Medical	1789 HK	BUY	**	20.00	22,280	54.3	38.5	10.5	8.6	41.7	31.4	21.9	24.7
<b>Average</b>						<b>115.1</b>	<b>70.3</b>	<b>8.7</b>	<b>7.7</b>	<b>57.1</b>	<b>39.1</b>	<b>15.6</b>	<b>16.7</b>

Source: Bloomberg, CMBIS estimates; Note: \*\*= TP under review

**Figure 4: Base case valuation on risk-adjusted DCF valuation**

DCF Valuation (in Rmb mn)	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(49)	224	519	833	1,219	1,637	2,146	2,690	3,296	3,945	4,615
Tax rate	0%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(49)	190	441	708	1,036	1,391	1,824	2,287	2,802	3,354	3,923
+ D&A	27	27	27	27	27	27	27	27	27	27	27
- Change in working capital	(17)	(305)	(318)	(361)	(387)	(481)	(568)	(650)	(718)	(764)	(779)
- Capex	(50)	(50)	(80)	(80)	(80)	(50)	(50)	(50)	(50)	(50)	(50)
<b>FCFF</b>	<b>(89)</b>	<b>(138)</b>	<b>71</b>	<b>293</b>	<b>596</b>	<b>887</b>	<b>1,233</b>	<b>1,614</b>	<b>2,061</b>	<b>2,567</b>	<b>3,121</b>
<b>Terminal value</b>											<b>63,609</b>
FCF + Terminal value	(89)	(138)	71	293	596	887	1,233	1,614	2,061	2,567	66,730
Discount factor	100%	92%	84%	77%	71%	65%	59%	54%	50%	46%	42%
<b>PV of FCF</b>	<b>(89)</b>	<b>(126)</b>	<b>59</b>	<b>226</b>	<b>421</b>	<b>574</b>	<b>731</b>	<b>877</b>	<b>1,027</b>	<b>1,172</b>	<b>27,924</b>
Present value of enterprise (RMB mn)	32,795										
Net Debt	(1,916)										
Equity value (RMB mn)	34,711										
Equity value (HK\$ mn)	38,697										
# of shares outstanding (mn)	404										
<b>Price per share (HK\$)</b>	<b>95.7</b>										
<b>Terminal growth rate</b>	<b>4.0%</b>										
<b>WACC</b>	<b>9.1%</b>										
Cost of Equity	11.0%										
Cost of Debt	5.5%										
Equity Beta	0.8										
Risk Free Rate	3.0%										
Market Risk Premium	10.0%										
Target Debt to Asset ratio	30.0%										
Effective Corporate Tax Rate	15.0%										

Source: 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>339</b>	<b>864</b>	<b>1423</b>
VenusA-Valve	114	232	303	712	1154
VenusP-Valve	0	0	9	58	78
TriGUARD3	0	0	26	89	183
V8 and TAV8	2	1	2	5	8
Cost of sales	(16)	(39)	(53)	(117)	(171)
<b>Gross profit</b>	<b>99</b>	<b>195</b>	<b>287</b>	<b>748</b>	<b>1252</b>
Other income	13	15	45	40	38
Selling & distribution expenses	(67)	(125)	(115)	(259)	(413)
Administrative expenses	(105)	(201)	(136)	(156)	(171)
R&D expenses	(224)	(198)	(85)	(104)	(142)
Other gains and losses	(11)	(45)	(45)	(45)	(45)
<b>Operating profit</b>	<b>(295)</b>	<b>(357)</b>	<b>(49)</b>	<b>224</b>	<b>519</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>(58)</b>	<b>215</b>	<b>510</b>
Income tax	(1)	1	0	(32)	(76)
Minority interests	(0)	(0)	0	0	0
<b>Net profit to shareholders</b>	<b>(301)</b>	<b>(381)</b>	<b>(58)</b>	<b>182</b>	<b>433</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>(58)</b>	<b>215</b>	<b>510</b>
Depreciation and amortization	10	29	27	27	27
Change in working capital	(102)	(77)	(17)	(305)	(318)
Others	240	127	7	(25)	(69)
Net income tax paid	0	(5)	0	(32)	(76)
<b>Net cash from operating</b>	<b>(151)</b>	<b>(303)</b>	<b>(41)</b>	<b>(89)</b>	<b>150</b>
Capex	(27)	(25)	(50)	(50)	(80)
Acquisition of subsidiaries	(193)	(6)	(280)	0	0
Purchases of equity investments	0	0	0	0	0
Net purchases of financial assets	13	0	0	0	0
Others	12	0	0	0	0
<b>Net cash from investing</b>	<b>(194)</b>	<b>(31)</b>	<b>(330)</b>	<b>(50)</b>	<b>(80)</b>
Net proceeds from shares issued	445	2,833	0	0	0
Bank borrowing	19	(233)	0	0	0
Loans to related parties	0	0	0	0	0
Others	(11)	(23)	(7)	(7)	(7)
<b>Net cash from financing</b>	<b>453</b>	<b>2,577</b>	<b>(7)</b>	<b>(7)</b>	<b>(7)</b>
FX changes	(2)	5	0	0	0
Net change in cash	108	2,243	(378)	(146)	63
Cash at the beginning	59	165	2,413	2,035	1,889
<b>Cash at the end</b>	<b>165</b>	<b>2,413</b>	<b>2,035</b>	<b>1,889</b>	<b>1,952</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>2,544</b>	<b>2,705</b>	<b>3,087</b>
Inventories	17	25	28	62	90
Trade receivables	81	162	177	450	741
Prepayments, other receivables and other assets	28	303	303	303	303
Cash and cash equivalents	166	2,414	2,036	1,890	1,953
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>2,988</b>	<b>3,170</b>	<b>3,604</b>
Minority interest	9	9	9	9	9
<b>Shareholders' equity</b>	<b>462</b>	<b>3,037</b>	<b>2,979</b>	<b>3,161</b>	<b>3,595</b>

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
VenusA-Valve	99	99	89	82	81
VenusP-Valve	0	0	3	7	5
TriGUARD3	0	0	8	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	85	87	88
EBITDA margin	(232)	(142)	(6)	29	38
Pre-tax margin	(164)	(164)	(17)	25	36
Net margin	(261)	(163)	(17)	21	30
Effective tax rate	(0)	0	0	15	15
<b>Balance sheet ratios</b>					
Current ratio (x)	1	5	4	5	5
Trade receivables turnover	156	187	187	187	187
Trade payables turnover	30	11	11	11	11
Net debt to total equity	Net	Net	Net	Net	Net
<b>Returns (%)</b>					
ROE	(64)	(13)	(2)	6	12
ROA	(29)	(10)	(2)	5	10
<b>Per share data</b>					
EPS (RMB)	N/A	(1.22)	(0.14)	0.45	1.07
DPS (RMB)	N/A	0.00	0.00	0.00	0.00
BVPS (RMB)	N/A	9.79	7.39	7.84	8.91

Source: Company data, CMBIS estimates

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