

Venus Medtech (2500 HK)

Expect sales turnaround in 2023

Venus Medtech reported FY22 revenue of RMB406.5mn, down by 2.3% YoY due to the decreased volume of TAVR surgeries amid COVID-19 pandemic. Gross profit margin declined from 78.0% in 2021 to 77.2% due to the slight decrease in ASP. Given the significant losses incurred from the business termination of Keystone and the increase in R&D costs and administrative expenses after the acquisition of Cardiovalve, the attributable net loss widened from RMB373.6mn in 2021 to RMB1,057.7mn in 2022, missing our forecast of RMB409.6mn net loss in 2022.

■ **Business recovery from 2023.** In 2022, Venus completed its acquisition of Cardiovalve, which led to a leap of R&D expenses (+104.2% YoY) and administrative expenses (+49.5% YoY). Moreover, as TriGUARD3's application for FDA501(k) and NMPA approval were both suspended, the Company terminated the business operation of Keystone, leading to RMB22.0mn impairment provision of trade receivables and RMB416.2mn impairment loss of intangible assets and goodwill. However, we expect a recovery in the Company's product revenue in 2023E given 1) rebound in TAVR surgery demand post COVID-19 pandemic, 2) solid growth in overseas revenue. Thanks to the commercialization of VenusP-Valve, revenue contributed by the international market rose by 393.5% YoY to RMB51.9mn in 2022, and we expect strong growth in 2023E. We expect the net loss to narrow significantly in 2023E thanks to 1) strong sales recovery, 2) decrease in selling expense ratio given the Company's strategic focus on profitability, and 3) absence of one-off loss in 2023E.

■ **Comprehensive pipelines to support long-term growth.** In Mar 2023, Venus Medtech completed all the enrollment of the confirmatory clinical trials for Liwen RF, an ablation system for the treatment of HOCM. According to the results of six months follow-up of 38 patients, the success rate reached 92.11%. We expect Venus Medtech to submit the registration application of Liwen RF in late-2023E and obtain approval in 2024E. In Nov 2022, Cardiovalve, a subsidiary of Venus Medtech, initiated a multi-centered confirmatory clinical trial for its TMVR/TTVR product and has enrolled more than ten patients in Europe. We estimate Cardiovalve indicated for TTVR to receive commercial approval in 2026E. Besides, we expect DragonFly, the femoral vein mitral valve repair device developed by Valgen Medtech, to be approved in 2024E.

■ **Maintain BUY.** We expect Venus Medtech to maintain its dominant position in China's TAVR market and to see strong recovery in surgery volume in 2023E. We revised our TP to HK\$14.17 based on a 9-year DCF model (WACC: 10.1%, Terminal growth rate: 3.0%) in order to reflect the short-term profitability pressure.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	416	406	598	822	1,108
YoY growth (%)	50.6	(2.3)	47.1	37.5	34.7
Net profit (RMB mn)	(371)	(1,118)	(477)	(257)	65
EPS (Reported) (RMB cents)	(85.2)	(241.5)	(108.2)	(58.2)	14.8
P/E (x)	na	na	na	na	64.0
P/B (x)	0.9	1.1	1.3	1.4	1.4
ROE (%)	(8.1)	(29.1)	(14.9)	(8.6)	2.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$14.17
(Previous TP	HK\$19.69)
Up/Downside	31.7%
Current Price	HK\$10.76

China Healthcare

Jill WU, CFA
 (852) 3900 0842
 jillwu@cmbi.com.hk

Cathy WANG
 (852) 3916 1729
 cathywang@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	4,745.3
Avg 3 mths t/o (HK\$ mn)	14.0
52w High/Low (HK\$)	18.20/8.38
Total Issued Shares (mn)	441.0
Source: FactSet	

Shareholding Structure

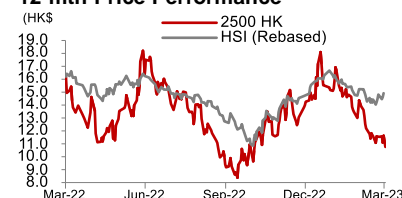
Ming Zhi Investments (BVI) Limited	9.4%
Horizon Beijing LLC	7.6%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-21.1%	-23.5%
3-mth	-24.5%	-26.8%
6-mth	17.2%	-1.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

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Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	598	822	1,108	713	1,019	1,397	-16.1%	-19.3%	-20.7%
Gross profit	464	637	858	556	795	1,090	-16.7%	-19.8%	-21.2%
Operating profit	-476	-257	72	-359	-117	41	NA	NA	75.3%
Net profit	-477	-256	65	-362	-121	11	NA	NA	519.6%
EPS (RMB)	-1.08	-0.58	0.15	-0.82	-0.27	0.02	NA	NA	519.6%
Gross margin	77.50%	77.50%	77.50%	78.00%	78.00%	78.00%	0.50 ppt	0.50 ppt	0.50 ppt
Operating margin	-79.62%	-31.20%	6.48%	-50.28%	-11.48%	2.93%	-29.34 ppt	-19.71 ppt	3.55 ppt
Net Margin	-79.79%	-31.19%	5.89%	-50.78%	-11.83%	0.75%	-29.01 ppt	-19.36 ppt	5.13 ppt

Source: Company data, CMBIGM estimates

Figure 2: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
EBIT	-476	-257	72	140	246	385	572	801	1,080
Tax rate	2%	2%	2%	2%	2%	2%	2%	2%	2%
EBIT*(1-tax rate)	-467	-251	70	138	241	378	561	785	1,058
+ D&A	27	27	27	27	27	27	27	27	27
- Change in working capital	-111	-148	-165	-226	-150	-135	-106	-59	8
- Capex	-254	-150	-150	-800	-150	-150	-150	-150	-150
FCFF	-805	-523	-218	-861	-32	120	332	603	943
Terminal value									13,618
FCF + Terminal value	-805	-523	-218	-861	-32	120	332	603	14,561

Terminal growth rate	3.0%
WACC	10.1%
Cost of Equity	13.3%
Cost of Debt	5.0%
Equity Beta	1.0
Risk Free Rate	2.8%
Market Risk Premium	10.5%
Target Debt to Asset ratio	35.0%
Effective Corporate Tax Rate	15.0%

PV of enterprise value (RMB mn)	4,693
Net debt (RMB mn)	-808
Equity value (RMB mn)	5,501
Equity value (HK\$ mn)	6,251
# of shares outstanding (mn)	441
Price per share (HK\$)	14.17

Source: CMBIGM estimates

Figure 3: Sensitivity analysis

		WACC				
		9.1%	9.6%	10.1%	10.6%	11.1%
Terminal growth rate	4.0%	21.95	19.10	16.74	14.77	13.09
	3.5%	19.86	17.41	15.36	13.62	12.13
	3.0%	18.11	15.98	14.17	12.63	11.29
	2.5%	16.63	14.75	13.14	11.76	10.55
	2.0%	15.35	13.68	12.24	10.98	9.89

Figure 4: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	598	822	1,108	716	1,018	1,509	-16.5%	-19.2%	-26.6%
Gross Profit	464	637	858	557	789	1,143	-16.8%	-19.3%	-24.9%
Operating Profit	-476	-257	72	-287	-112	126	NA	NA	-43.2%
Net profit	-477	-256	65	-262	-93	98	NA	NA	-33.7%
EPS (RMB)	-1.08	-0.58	0.15	-0.59	-0.21	0.18	NA	NA	-19.2%
Gross Margin	77.50%	77.50%	77.50%	77.80%	77.53%	75.75%	-0.30 ppt	-0.03 ppt	+1.75 ppt
Operating Margin	-79.62%	-31.20%	6.48%	-40.03%	-10.97%	8.37%	-39.59 ppt	-20.23 ppt	-1.89 ppt
Net Margin	-79.79%	-31.19%	5.89%	-36.56%	-9.14%	6.52%	-43.22 ppt	-22.05 ppt	-0.63 ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	276	416	406	598	822	1,108
Cost of goods sold	(49)	(92)	(92)	(135)	(185)	(249)
Gross profit	227	324	314	464	637	858
Operating expenses	(410)	(685)	(1,390)	(940)	(894)	(787)
Selling expense	(135)	(216)	(260)	(311)	(370)	(443)
Admin expense	(104)	(129)	(192)	(150)	(123)	(111)
R&D expense	(167)	(258)	(527)	(449)	(370)	(222)
Others	(4)	(82)	(410)	(31)	(30)	(11)
Operating profit	(182)	(361)	(1,076)	(476)	(257)	72
Gain/loss on financial assets at FVTPL	0	(3)	(22)	0	0	0
Share of (losses)/profits of associates/JV	1	(12)	(14)	0	0	0
Net interest income/(expense)	(4)	(2)	(45)	(11)	(5)	(5)
Pre-tax profit	(186)	(378)	(1,156)	(487)	(262)	67
Income tax	3	6	34	10	5	(1)
Minority interest	(1)	2	(64)	0	0	0
Attributable net profit	(182)	(374)	(1,058)	(477)	(256)	65

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	3,360	3,440	2,469	1,589	1,257	2,248
Cash & equivalents	2,708	2,955	1,879	884	399	1,219
Account receivables	231	302	303	413	522	642
Inventories	60	91	104	144	188	240
Financial assets at FVTPL	44	0	0	0	0	0
Other current assets	317	92	182	147	147	147
Non-current assets	958	1,670	2,811	3,038	3,161	3,284
PP&E	69	142	318	460	602	744
Deferred income tax	1	8	10	10	10	10
Investment in JVs & assos	38	76	70	70	70	70
Intangibles	233	305	611	696	677	658
Goodwill	487	520	1,239	1,239	1,239	1,239
Financial assets at FVTPL	64	477	388	388	388	388
Other non-current assets	65	142	175	175	175	175
Total assets	4,318	5,109	5,280	4,627	4,418	5,532
Current liabilities	406	209	492	274	279	285
Short-term borrowings	0	5	223	0	0	0
Account payables	5	9	9	13	18	25
Tax payable	0	0	5	5	5	5
Other current liabilities	400	194	255	255	255	255
Non-current liabilities	56	269	1,159	1,159	1,159	2,159
Long-term borrowings	0	167	1,061	1,061	1,061	2,061
Other non-current liabilities	56	102	98	98	98	98
Total liabilities	461	478	1,652	1,433	1,438	2,444
Share capital	423	441	441	441	441	441
Other reserves	3,392	4,105	3,167	2,690	2,433	2,498
Total shareholders equity	3,815	4,546	3,608	3,131	2,874	2,939
Minority interest	42	86	23	66	108	151
Total equity and liabilities	4,318	5,109	5,283	4,630	4,421	5,535

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(186)	(378)	(1,156)	(487)	(262)	67
Depreciation & amortization	38	52	27	27	27	27
Tax paid	(5)	(9)	34	10	5	(1)
Change in working capital	(140)	(147)	(18)	(111)	(148)	(165)
Others	56	25	45	11	5	5
Net cash from operations	(237)	(457)	(1,068)	(551)	(372)	(67)
Investing						
Capital expenditure	(50)	(82)	(184)	(150)	(150)	(150)
Acquisition of subsidiaries/ investments	(55)	(125)	(1,092)	(104)	0	0
Others	(194)	(446)	1	0	0	0
Net cash from investing	(298)	(653)	(1,275)	(254)	(150)	(150)
Financing						
Net borrowings	(113)	248	791	(223)	0	1,000
Proceeds from share issues	1,054	1,234	43	43	43	43
Share repurchases	0	(73)	0	0	0	0
Others	(14)	(18)	(45)	(11)	(5)	(5)
Net cash from financing	928	1,391	789	(191)	37	1,037
Net change in cash						
Cash at the beginning of the year	2,413	2,708	2,955	1,879	884	399
Exchange difference	(98)	(34)	0	0	0	0
Cash at the end of the year	2,708	2,955	1,401	884	399	1,219
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	18.3%	50.6%	(2.3%)	47.1%	37.5%	34.7%
Gross profit	16.8%	42.7%	(3.2%)	47.6%	37.5%	34.7%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	82.3%	78.0%	77.3%	77.5%	77.5%	77.5%
Operating margin	(66.0%)	(86.7%)	(264.7%)	(79.6%)	(31.2%)	6.5%
EBITDA margin	(56.3%)	(80.3%)	(258.0%)	(75.1%)	(27.9%)	8.9%
Return on equity (ROE)	(5.3%)	(8.9%)	(27.4%)	(14.2%)	(8.5%)	2.2%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.8)	(0.6)	(0.4)	(0.3)	(0.1)	(0.4)
Current ratio (x)	8.3	16.5	5.0	5.8	4.5	7.9
Receivable turnover days	301.3	261.5	268.7	248.7	228.7	208.7
Inventory turnover days	442.2	356.1	406.5	386.5	366.5	346.5
Payable turnover days	39.1	34.4	35.5	35.5	35.5	35.5
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	na	na	na	na	64.0
P/B	1.0	0.9	1.1	1.3	1.4	1.4
EV/Sales	4.5	3.1	6.4	5.6	4.7	2.7
EV/EBIT	(6.8)	(3.6)	(2.4)	(7.1)	(15.0)	42.3
EV/EBITDA	(8.0)	(3.9)	(2.5)	(7.5)	(16.8)	30.7

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

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong. Tel: (852) 3900 0888 Fax: (852) 3900 0800

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