

Venus Medtech (Hangzhou) Inc. (2500 HK)

Comprehensive portfolio in transcatheter solutions for structural heart diseases

Net loss narrowed in 2020. Venus reported 2020 revenue of RMB276mn (+18.3% YoY), and net loss narrowed from RMB381mn in 2019 to RMB182mn in 2020, which slightly missed our estimates. VenusA-Valve was still the major source of revenue, contributing 98.5% of total revenue. TriGUARD3 recorded RMB3.3mn revenue, accounting for 1.2% of total revenue. Gross profit margin retreated 1.1ppts mainly due to selling price decline of VenusA-Valve, partly offset by production cost saving. Meanwhile, selling expense ratio decreased 1.46ppts due to impact from COVID-19 and improved marketing efficiency via online promotions. R&D expenses decreased by 16.6% YoY to RMB167mn and admin expenses dropped 47.3% YoY to RMB104mn in 2020 due to one-off expense related to employee share incentives incurred in 2019.

- Expect strong recovery from COVID-19 impact.** The COVID-19 pandemic had led to delays in TAVR surgeries, especially during 1H20. In 2H20, the Company experienced a strong recovery thanks to the ease of the pandemic in China. We estimate that the sales volume of VenusA-Valve almost doubled HoH in 2H20 while the full-year commercial sales volume exceeded 2,000 units. We think Venus was still the major player in Chinese TAVR market with approximately 80% volume share in 2020. Our calculation shows that the average out-of-factory price of VenusA declined approximately 12% YoY to RMB131,000~131,500 in 2020. With the commercialization of VenusA-Plus valve, which is a second-generation retrievable TAVR product, we believe the blended ASP will stabilize and forecast RMB125,000 blended ASP in 2021E, assuming 20% of sales volume from VenusA-Plus and the remaining 80% from VenusA. We forecast the combined sales volume of VenusA and VenusA-Plus will be more than 4,000 in 2021E, indicating 100%+ YoY growth. The strong growth will be driven by both post-COVID recovery and fast channel penetration. The Company aims to lift the number of penetrated hospitals from 249 hospitals as of end-2020 to 350 by 2021E.
- Building comprehensive portfolio in transcatheter solutions for structural heart diseases.** Venus currently has two commercial stage TAVR products (VenusA and VenusA-Plus), one TAVR product in pre-registration stage (VenusA-Pro), two TAVR products in design stage (Venus PowerX and Venus Vitae), one TPVR product in registration stage (VenusP), one TMVR product in design stage (Limbus), one TTVR product and one surgical valve in design stage. In addition, Venus is developing an aortic valve repair device (Leaflex) which may complete FIM in 2Q21E. PowerX, Vitae and surgical valve are developed using the Company's leading dry tissue technology which intends to significantly extend TAVR products' durability.
- Maintain BUY.** We remain long-term positive on the Company given its leading position in China TAVR market. We trimmed our revenue forecast of 2021E/22E/23E by 31%/28%/24% to reflect the impact from COVID-19. We expect total revenue to grow 117%/ 72%/ 52% YoY in FY21E/22E/23E. We roll over our DCF-based TP to 2021 and derived our new TP of HK\$78.4 (WACC: 9.0%, terminal growth rate: 4.0%).

BUY (Maintain)

Target Price	HK\$78.4
(Previous TP)	HK\$95.67)
Up/Downside	+20.52%
Current Price	HK\$65.05

China Healthcare Sector

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Mkt. Cap. (HK\$ mn)	28,688
Avg. 3mths t/o (HK\$ mn)	223.83
52W High/Low (HK\$)	97.00/46.80
Total Issued Shares (mn)	432

Source: Bloomberg

Shareholding Structure

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

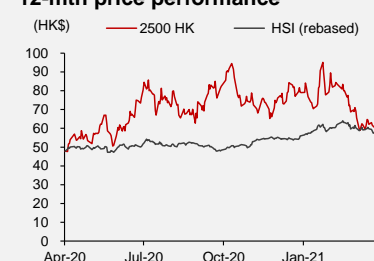
Source: HKEx, Bloomberg

Share performance

	Absolute	Relative
1-mth	-5.6%	-5.1%
3-mth	-17.7%	-22.6%
6-mth	-21.0%	-35.9%

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: Ernst & Young

Relative Reports:

- Rich heart valve pipeline portfolio - 31 Aug 2020
- First 5-yr follow-up results for Venus A and updated results for first retrievable TAVR in China - 6 Jul 2020
- Inline results; Moderate impact from COVID-19 - 29 Mar 2020

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	233	276	600	1029	1566
YoY growth (%)	102	18	117	72	52
Net income (RMB mn)	(381)	(182)	(42)	102	256
EPS (RMB)	(1.22)	(0.44)	(0.09)	0.23	0.58
Consensus EPS (RMB)	N/A	N/A	0.07	0.96	2.27
P/E (x)	N/A	N/A	N/A	234	93
P/B (x)	6	6	5	5	4
ROE (%)	(13)	(5)	(1)	2	5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

Figure 1: FY20A results review

YE 31 Dec (RMB mn)	2019A	2020A	YoY Change	CMBIS 2020E	Diff (%)
Revenue	233	276	18.34%	339	-18.61%
Cost of sales	(39)	(49)	26.32%	(53)	-7.23%
Gross profit	195	227	16.75%	287	-20.69%
Other income and gains	15	118	668.07%	45	160.33%
Selling and distribution expenses	(125)	(135)	8.03%	(115)	16.70%
Research and development costs	(201)	(167)	-16.60%	(136)	23.29%
Administrative expenses	(198)	(104)	-47.34%	(85)	22.74%
Other expenses	(45)	(122)	172.01%	(45)	172.01%
Profit from operations	(357)	(182)	N/A	(49)	N/A
Impairment losses on financial assets, net	(2)	0	-102.30%	(2)	-102.30%
Finance costs	(22)	(4)	-80.97%	(7)	-42.06%
Share of loss of an associate	-	1	N/A	0	N/A
Profit before taxation	(382)	(186)	N/A	(58)	N/A
Income tax expense	1	3	282.39%	0	N/A
Profit (loss) for the year	(381)	(183)	N/A	(58)	N/A
Non-controlling interests	(0)	(1)	1992.86%	0	N/A
Profit (loss) attributable to shareholders	(381)	(182)	N/A	(58)	N/A

Source: Company data, CMBIS estimates

Figure 2: CMBIS earnings revisions

(RMB mn)	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	600	1,029	1,566	864	1,423	2,046	-30.6%	-27.7%	-23.5%
Gross profit	506	889	1,360	748	1,252	1,801	-32.3%	-29.0%	-24.5%
Operating profit	(42)	120	301	224	519	833	N/A	-77.0%	-63.9%
Net profit	(42)	102	256	182	433	700	N/A	-76.5%	-63.4%
EPS (RMB)	(0.09)	0.23	0.58	0.45	1.07	1.73	N/A	-78.5%	-66.5%
Gross margin	84.3%	86.3%	86.8%	86.5%	88.0%	88.0%	-2.1 ppt	-1.7 ppt	-1.2 ppt
Operating margin	-6.9%	11.6%	19.2%	25.9%	36.5%	40.7%	-32.9 ppt	-24.9 ppt	-21.5 ppt
Net Margin	-6.9%	9.9%	16.3%	21.1%	30.5%	34.2%	-28.0 ppt	-20.6 ppt	-17.9 ppt

Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

(RMB mn)	CMBI			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	600	1,029	1,566	748	1,289	1,852	-19.8%	-20.1%	-15.5%
Gross profit	506	889	1,360	630	1,095	N/A	-19.7%	-18.9%	N/A
Operating profit	(42)	120	301	43	349	837	N/A	-65.7%	-64.0%
Net profit	(42)	102	256	-49	175	N/A	N/A	-41.9%	N/A
EPS (RMB)	(0.09)	0.23	0.58	0.16	0.75	2.05	N/A	-69.0%	-71.7%
Gross margin	84.3%	86.3%	86.8%	84.3%	85.0%	N/A	-0.1 ppt	+1.4 ppt	N/A
Operating margin	-6.9%	11.6%	19.2%	5.7%	27.1%	45.2%	-12.6 ppt	-15.4 ppt	-26.0 ppt
Net Margin	-6.9%	9.9%	16.3%	-6.6%	13.6%	N/A	-0.4 ppt	-3.7 ppt	N/A

Source: Company data, CMBIS estimates

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

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(42)	120	301	509	788	1,157	1,554	1,981	2,464	2,994
Tax rate	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
EBIT*(1-tax rate)	(35)	102	256	433	669	984	1,321	1,683	2,094	2,545
+ D&A	27	27	27	27	27	27	27	27	27	27
- Change in working capital	(199)	(169)	(221)	(180)	(161)	(131)	(69)	(297)	(358)	(373)
- Capex	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)
FCFF	(258)	(91)	12	229	486	830	1,228	1,363	1,714	2,149
Terminal value										44,932
FCF + Terminal value	(258)	(91)	12	229	486	830	1,228	1,363	1,714	47,081
Discount factor	100%	92%	84%	77%	71%	65%	60%	55%	50%	46%
PV of FCF	(258)	(83)	10	177	344	540	733	747	862	21,722
Present value of enterprise (RMB mn)	24,795									
Net Debt	(3,903)									
Equity value (RMB mn)	28,698									
Equity value (HK\$ mn)	34,576									
# of shares outstanding (mn)	441									
Price per share (HK\$)	78.4									
Terminal growth rate	4.0%									
WACC	9.0%									
Cost of Equity	11.0%									
Cost of Debt	5.0%									
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)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	233	276	600	1029	1566
VenusA-Valve	232	272	527	901	1369
VenusP-Valve	0	0	51	78	108
TriGUARD3	0	3	19	46	81
V8 and TAV8	1	1	3	5	8
Cost of sales	(39)	(49)	(94)	(141)	(206)
Gross profit	195	227	506	889	1360
Other income	15	118	70	84	83
Selling & distribution expenses	(125)	(135)	(288)	(484)	(720)
Administrative expenses	(201)	(167)	(180)	(206)	(235)
R&D expenses	(198)	(104)	(120)	(134)	(157)
Other gains and losses	(45)	(122)	(30)	(30)	(30)
Operating profit	(357)	(182)	(42)	120	301
Net of impairment losses	(2)	0	0	0	0
Net finance costs	(22)	(4)	0	0	0
Pre-tax profit	(382)	(186)	(42)	120	301
Income tax	1	3	0	(18)	(45)
Minority interests	(0)	(1)	0	0	0
Net profit to shareholders	(381)	(182)	(42)	102	256

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit before tax	(382)	(186)	(42)	120	301
Depreciation and amortization	29	38	27	27	27
Change in working capital	(77)	(190)	(199)	(169)	(221)
Others	127	7	0	(18)	(45)
Net income tax paid	(5)	3	0	(18)	(45)
Net cash from operating	(303)	(331)	(214)	(41)	62
Capex	(25)	20	50	50	50
Acquisition of subsidiaries	(6)	280	0	0	0
Purchases of equity investments	0	23	0	0	0
Net purchases of financial assets	0	44	0	0	0
Others	0	1	0	0	0
Net cash from investing	(31)	320	50	50	50
Net proceeds from shares issued	2,833	985	1,199	0	0
Bank borrowing	(233)	0	0	0	0
Loans to related parties	0	0	0	0	0
Others	(23)	4	0	0	0
Net cash from financing	2,577	981	1,199	0	0
FX changes	5	0	0	0	0
Net change in cash	2,243	330	935	(91)	12
Cash at the beginning	165	2,413	2,708	3,643	3,552
Cash at the end	2,413	2,708	3,643	3,552	3,564

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	764	958	981	1,004	1,027
PP&E	60	100	142	184	226
Goodwill	480	487	487	487	487
Other intangible assets	185	233	214	195	176
Deferred tax assets	3	1	1	1	1
Equity investments at fair value	30	7	7	7	7
Prepayments, other receivables and other assets	7	27	27	27	27
Current assets	2,904	3,360	4,499	4,583	4,823
Inventories	25	60	78	98	115
Trade receivables	162	231	417	572	783
Prepayments, other receivables and other assets	303	35	35	35	35
Cash and cash equivalents	2,414	2,968	3,903	3,812	3,824
Others	0	67	67	67	67
Current liabilities	568	406	410	415	423
Trade payables	1	5	10	15	22
Lease liabilities	9	11	11	11	11
Other payables and accruals	397	358	358	358	358
Due to a related party	1	0	0	0	0
Bank borrowing	120	0	0	0	0
Others	41	31	31	31	31
Non-current liabilities	55	56	56	56	56
Lease liabilities	17	22	22	22	22
Deferred tax liabilities	37	33	33	33	33
Others	0	1	1	1	1
Total net assets	3,046	3,857	5,014	5,116	5,372
Minority interest	9	42	42	42	42
Shareholders' equity	3,037	3,815	4,973	5,074	5,330

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
VenusA-Valve	99	99	88	87	87
VenusP-Valve	0	0	8	8	7
TriGUARD3	0	1	3	4	5
V8 and TAV8	1	0	1	1	0
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	83	82	84	86	87
EBITDA margin	(142)	(56)	(2)	14	21
Pre-tax margin	(164)	(68)	(7)	12	19
Net margin	(163)	(66)	(7)	10	16
Effective tax rate	0	2	0	15	15
Balance sheet ratios					
Current ratio (x)	5	8	11	11	11
Trade receivables turnover	187	301	250	200	180
Trade payables turnover	11	39	39	39	39
Net debt to total equity	Net	Net	Net	Net	Net
Returns (%)					
ROE	(13)	(5)	(1)	2	5
ROA	(10)	(4)	(1)	2	4
Per share data					
EPS (RMB)	(1.22)	(0.44)	(0.09)	0.23	0.58
DPS (RMB)	0.00	0.00	0.00	0.00	0.00
BVPS (RMB)	9.79	9.42	11.37	11.60	12.18

Source: Company data, CMBIS estimates

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