

Tigermed (300347 CH)

To continue strong earnings momentum

Strong earnings growth in 2019. Tigermed reported preliminary earnings for 2019. Attributable net profit surged 80% YoY to RMB848mn which was mainly due to 1) 23% YoY revenue growth during the period, 2) RMB250 - 350mn one-off investment gains and disposal gains, and 3) spin-off of Shengtong (晟通) which provides logistics services, in 2Q19. We estimate the organic revenue growth in 2019E was around 28% YoY, excluding impact from the spin-off. We also calculate the core net profit increased 69% YoY in 2019. We estimate gross margin improved 5.0ppts to 48.2% in 2019 thanks to the spin-off of low margin logistics business and larger income from high-margin clinical trial technical services. We raised our earnings forecasts and raised SOTP-based TP to RMB91.8, implying 52x FY21E P/E.

- **Mild near-term impact from COVID-19 outbreak.** The progress of clinical trials in China were delayed due to the disease outbreak. However, hospitals in most regions besides Hubei have resumed operation since late Feb. We think the process of clinical trials will catch up from Mar and the overall impact on Tigermed's earnings will be mild and temporary.
- **Strong demand in high-quality clinical CRO in China.** The number of ongoing clinical trials in China has been increasing fast thanks to encouraging policies on drug innovation and pharma and biotech companies' rising focus on innovative drug development. In 2019, the total phase I-IV clinical trials in China rose 22% YoY. Increasing ongoing clinical trials drives the demand for high-quality clinical CRO services.
- **Global expansion opens up room for long-term growth.** As of end-2018, Tigermed operated 11 overseas offices in Asia Pacific, Europe and North America. Tigermed plans to list its subsidiary DreamCIS in KOSDAQ, which will further strengthen the Company's presence in South Korea market. Tigermed may also complete its dual-listing in HK stock exchange in 2020E. With sufficient capital raised overseas, we believe Tigermed will accelerate the acquisition process in global market.
- We revised up our forecasts and expect Tigermed's adjusted net profit to grow at 69%/37%/35% YoY in 2019E/20E/21E, respectively; and attributable net profit to increase 80%/19%/31% YoY in 2019E/20E/21E. Tigermed's financial assets for sale reached RMB1,360mn by 30 Jun, 2019, which will contribute meaningful investment gains over the long term.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	1,687	2,301	2,823	3,644	4,667
Revenue YoY growth (%)	43.63	36.37	22.71	29.09	28.05
Net income (RMB mn)	301	472	848	1,013	1,324
EPS (RMB)	0.61	0.94	1.13	1.35	1.77
EPS YoY growth (%)	104.03	54.22	19.82	19.46	30.73
P/E (x)	124.98	81.04	67.63	56.62	43.31
P/B (x)	15.10	14.34	13.56	11.86	10.19
Yield (%)	0.26	0.46	0.59	0.71	0.92
ROE (%)	11.86	16.70	17.45	18.42	20.91
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price RMB91.80
Up/Downside +20.01%
Current Price RMB76.50

China Healthcare Sector

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Stock Data

Mkt Cap (RMB mn)	57,336
Avg 3 mths t/o (RMB mn)	524.29
52w High/Low (RMB)	85.01/38.22
Total Issued Shares (mn)	749

Source: Bloomberg

Shareholding Structure

Management	37.11%
Temasek	2.92%
Free float	59.97%

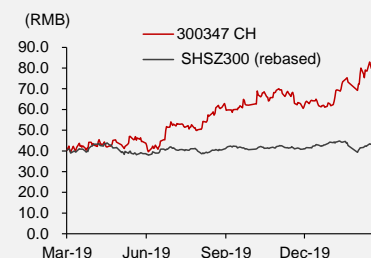
Source: SZSE

Share Performance

	Absolute	Relative
1-mth	4.4%	5.2%
3-mth	21.8%	22.8%
6-mth	25.4%	23.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: BDO CHINA

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	2,823	3,644	4,667	2,967	3,904	5,101	-4.8%	-6.7%	-8.5%
Gross Profit	1,359	1,772	2,297	1,353	1,795	2,381	0.5%	-1.3%	-3.5%
Operating Profit	820	1,114	1,492	785	1,110	1,526	4.4%	0.4%	-2.2%
Net profit	848	1,013	1,324	690	956	1,330	22.8%	6.0%	-0.5%
EPS (RMB)	1.1	1.4	1.8	0.9	1.3	1.8	22.8%	6.0%	-0.5%
Gross Margin	48.15%	48.62%	49.23%	45.60%	45.98%	46.67%	2.6 ppt	2.6 ppt	2.6 ppt
Operating Margin	29.03%	30.56%	31.97%	26.48%	28.42%	29.91%	2.6 ppt	2.1 ppt	2.1 ppt
Net Margin	30.03%	27.79%	28.37%	23.27%	24.48%	26.08%	3.8 ppt	3.3 ppt	2.3 ppt

Source: Company data, CMBIS estimates

Figure 2: CMBI estimates vs consensus

RMB mn	CMBI			Consensus			Diff (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	2,823	3,644	4,667	3,002	3,911	5,066	-6.0%	-6.8%	-7.9%
Gross Profit	1,359	1,772	2,297	1,367	1,794	2,339	-0.6%	-1.3%	-1.8%
Operating Profit	820	1,114	1,492	930	1,255	1,657	-11.9%	-11.3%	-10.0%
Net profit	848	1,013	1,324	752	992.6	1,319	12.7%	2.0%	0.4%
EPS (RMB)	1.1	1.4	1.8	0.991	1.367	1.824	14.1%	-1.2%	-3.2%
Gross Margin	48.15%	48.62%	49.23%	45.54%	45.88%	46.18%	2.6 ppt	2.7 ppt	3.1 ppt
Operating Margin	29.03%	30.56%	31.97%	30.99%	32.09%	32.71%	-2.0 ppt	-1.5 ppt	-0.7 ppt
Net Margin	30.03%	27.79%	28.37%	25.05%	25.38%	26.04%	5.0 ppt	2.4 ppt	2.3 ppt

Source: Company data, Bloomberg, CMBIS estimates

Figure 3: Peers valuation comparison

Company	Ticker	Rating	Mkt Cap (US\$ mn)	Net profit YoY			P/E (x)			P/B (x)		ROE (%)	
				FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY19E	FY20E
H-share													
WuXi AppTec	2359 HK	NR	24,958	-4.2%	30.7%	28.4%	79.5	59.7	47.2	8.4	7.5	11.0	13.1
WuXi Biologics	2269 HK	Buy	11,123	54.3%	42.8%	46.8%	134.8	94.4	64.3	14.6	12.7	13.6	17.3
Pharmaron	3759 HK	NR	6,357	52.1%	37.3%	30.0%	69.3	50.6	39.7	8.8	7.7	16.5	17.9
Frontage	1521 HK	NR	1,239	93.2%	32.8%	32.1%	61.5	36.2	27.9	4.1	3.6	13.9	10.3
Viva	1873 HK	NR	850	58.7%	100.7%	50.2%	38.0	17.3	9.5	3.1	2.8	13.7	13.9
	Average			50.8%	48.9%	37.5%	76.6	51.6	37.7	7.8	6.8	13.7	14.5
A-share													
WuXi AppTec	603259 CH	Buy	24,958	-5.7%	33.2%	26.5%	81.5	61.2	48.3	8.6	7.7	11.0	13.1
Tigermid	300347 CH	Buy	6,507	79.6%	19.5%	30.7%	67.6	56.6	43.3	13.6	11.9	17.5	18.4
Pharmaron	300759 CH	NR	6,358	52.1%	37.3%	30.0%	83.8	61.2	47.9	10.6	9.3	16.5	17.9
Joinn Laboratories	603127 CH	NR	1,657	45.8%	41.4%	37.2%	73.1	51.2	37.3	14.9	12.3	20.2	23.7
Asymchem Laboratories	002821 CH	NR	5,926	32.9%	31.5%	31.3%	72.6	55.2	42.0	13.6	11.2	18.9	20.4
	Average			40.9%	32.6%	31.1%	75.7	57.1	43.8	12.3	10.5	16.8	18.7

Source: Company data, Bloomberg, CMBIS estimates

Financial Summary

Income statement

YE Dec 31 (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue	1,687	2,301	2,823	3,644	4,667
Clinical field service	820	1,103	1,336	1,711	2,156
Clinical test technical service	826	1,195	1,480	1,925	2,503
Other business	41	3	8	8	8
Cost of sales	(963)	(1,309)	(1,464)	(1,873)	(2,369)
Gross profit	724	992	1,359	1,772	2,297
Business taxes	(5)	(9)	(10)	(13)	(17)
Selling expenses	(40)	(54)	(83)	(98)	(121)
Admin expenses	(236)	(314)	(328)	(401)	(490)
R&D expenses	(50)	(88)	(118)	(146)	(177)
Operating profit	394	526	820	1,114	1,492
Finance costs, net	(12)	(7)	(30)	(11)	(14)
Investment gains	53	119	297	228	250
Other gains	(4)	(31)	(16)	(40)	(40)
Pre-tax profit	431	606	1,071	1,291	1,687
Income tax	(99)	(99)	(153)	(194)	(253)
Minority interests	(31)	(35)	(71)	(84)	(110)
Net profit	301	472	848	1,013	1,324

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Total net profit	332	507	918	1,097	1,434
Depreciation and amortization	33	61	62	67	72
Change in working capital	(27)	8	(71)	(186)	(216)
Investment loss (gain)	(53)	(119)	(297)	(228)	(250)
Other operating activities	31	65	51	53	56
Operating cash flow	315	522	664	803	1,097
Capex	(1,008)	(843)	(400)	(500)	(700)
Acquisition of subsidiaries	(536)	(28)	0	0	0
Other investing activities	697	504	(100)	(100)	(100)
Investing cash flow	(846)	(367)	(500)	(600)	(800)
Net proceeds from shares issued	715	59	1,650	0	0
Bank borrowing	75	340	0	0	0
Acquisition of non-controlling interests	(62)	(127)	(369)	(416)	(544)
Dividends and interests paid	(25)	(262)	0	0	0
Other financing activities	702	10	1,281	(416)	(544)
Financial cash flow	702	10	1,281	(416)	(544)
FX changes	(9)	7	0	0	0
Net change in cash	162	173	1,445	(213)	(247)
Cash at the beginning	364	525	704	2,150	1,937
Cash at the end	537	704	2,150	1,937	1,690

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	2,238	2,677	3,392	4,113	5,050
Fixed asset	202	255	300	340	375
Intangible assets	17	28	23	18	13
Financial assets available for sale	792	1,222	1,916	2,644	3,594
Goodwill	1,049	1,033	1,016	976	936
Other non-current assets	178	139	137	135	133
Current assets	1,346	1,603	3,119	3,104	3,089
Cash	537	704	2,150	1,937	1,690
Inventories	0	1	2	3	3
Trade and bills receivables	632	782	851	1,048	1,279
Prepayments, deposits and other receivables	31	47	47	47	47
Other current assets	146	69	69	69	69
Current liabilities	733	1,209	1,209	1,221	1,236
Borrowings	242	603	603	603	603
Trade and other payables	34	44	44	44	44
Other current liabilities	457	562	562	574	589
Non-current liabilities	49	37	39	41	43
Borrowings	17	3	3	3	3
Other non-current liabilities	31	34	36	38	40
Total net assets	2,801	3,034	5,263	5,955	6,860
Minority interest	310	366	1,036	1,120	1,231
Shareholders' equity	2,491	2,669	4,227	4,835	5,629

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Clinical trial technical services	49	48	47	47	46
Clinical trial consulting services	49	52	52	53	54
Other business	2	0	0	0	0
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	43	43	48	49	49
EBITDA margin	28	29	41	38	38
Pre-tax margin	26	26	38	35	36
Net margin	18	21	30	28	28
Effective tax rate	23	16	14	15	15
Balance sheet ratios					
Current ratio (x)	2	1	3	3	2
Trade receivables turnover days	117	112	110	105	100
Trade payables turnover days	12	11	11	11	11
Net debt to equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Returns (%)					
ROE	12	17	17	18	21
ROA	9	12	14	15	18
Per share					
EPS (RMB)	0.61	0.94	1.13	1.35	1.77
DPS (RMB)	0.20	0.35	0.45	0.54	0.71
BVPS (RMB)	5.07	5.34	5.64	6.45	7.51

Source: Company data, CMBIS estimates

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