Tigermed (300347 CH)

Solid growth amid COVID-19 outbreaks

1H22 earnings beat. Tigermed reported 1H22 revenue of RMB3,594mn, up 75% YoY, attributable net income of RMB1,192mn, down 5% YoY, and attributable recurring net income of RMB771mn, up 42% YoY. 1H22 revenue accounted for 51% of our full-year forecasts, mainly attributable to the continuous revenue contribution from COVID-19 related multi-regional clinical trials (MRCTs) as well as solid growth from emerging business (including medical registration, scientific affairs, medical translation, real world studies, etc.) and data management, statistical analysis (DMSA) and other services. Excluding COVID-19 revenue, 1H22 revenue increased by c.45% YoY. Gross profit margin (GPM) deteriorated to 39.7% in 1H22 from 47.6% in 1H21 while remained largely stable versus the 40.9% GPM in 2H21. GPM was understated due to large proportion of pass-through revenue from COVID-19 projects. Considering the shrinking size of COVID-19 related revenue, we expect Tigermed's GPM to recover in 2H22E. During 1H22, non-COVID-19 related new orders increased by c.37% YoY, indicating sustainable growth of core business.

- **Solid growth despite negative impact from COVID-19 outbreaks in 1H22.** Leveraging its nationwide clinical network, Tigermed was able to largely mitigate business disruptions caused by COVID-19 outbreak in China, especially in Shanghai and Jinlin. As a result, the Company delivered continuous growth in the number of ongoing clinical trials. As of Jun 2022, Tigermed operated 607 ongoing drug clinical trials (vs 567 as of Dec 2021), including 400 single-region clinical trials conducted in China (vs 385 as of Dec 2021) and 58 MRCTs (vs 50 as of Dec 2021). In addition, emerging businesses (including medical registration, scientific affairs, medical translation, real world studies, etc.) continued strong growth driven by solid demand, demonstrating Tigermed's enhanced integrated capabilities.
- **Human resources allocation focusing on high-margin business and overseas expansion.** Tigermed proactively reduced the team size of the low-margin site management organization (SMO) services to 2,503 staff as of Jun 2022 from 2,700+ as of Dec 2021. However, employee hirings for other business remained active, especially for its overseas business. Tigermed expanded its overseas team size to 1,151 staff as of Jun 2022 from 1,026 as of Dec 2021. We expect the Company to further enhance its overseas service capabilities via M&As.
- **Maintain BUY.** We slightly lift our TP from RMB173.39 to RMB175.15, based on a 10-year DCF model (WACC: 9.84%, terminal growth rate: 3.0%). We forecast revenue to grow 38%/31%/29% YoY and attributable adjusted net income to grow 39%/46%/32% YoY in FY22E/23E/24E.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	3,192	5,214	7,193	9,415	12,143
YoY growth (%)	13.9	63.3	38.0	30.9	29.0
Net profit (RMB mn)	2,029.0	3,391.7	2,834.6	3,584.0	4,586.5
YoY growth (%)	108.0	67.2	(16.4)	26.4	28.0
Adjusted net profit (RMB mn)	708.2	1,231.5	1,710.8	2,495.7	3,298.1
YoY growth (%)	26.9	73.9	38.9	45.9	32.1
EPS (Adjusted) (RMB)	0.89	1.42	1.96	2.86	3.78
Consensus EPS (RMB)	na	na	3.39	4.07	4.84
P/E (x)	44.2	47.3	35.8	28.3	22.1
Net gearing (%)	(61.1)	(42.2)	(34.2)	(31.2)	(31.2)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**RMB175.15**
(Previous TP	RMB173.39)
Up/Downside	**67.0%**
Current Price	**RMB104.91**

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Stock Data

Mkt Cap (RMB mn)	91,527.5
Avg 3 mths t/o (RMB mn)	104.2
52w High/Low (RMB)	175.03/79.30
Total Issued Shares (mn)	872.4

Source: FactSet

Shareholding Structure

HK investors	25.9%
Xiaoping Ye	20.3%

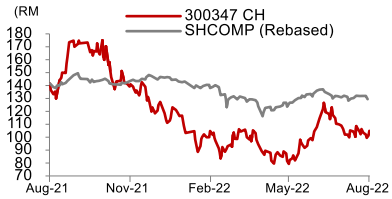
Source: Company

Share Performance

	Absolute	Relative
1-mth	-3.4%	-2.1%
3-mth	32.3%	27.0%
6-mth	0.1%	6.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

	New			Old			Diff (%)		
RMB mn	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	7,193	9,415	12,143	7,116	9,328	12,045	1.08%	0.93%	0.81%
Gross Profit	3,050	4,335	5,661	3,225	4,282	5,648	-5.43%	1.23%	0.22%
Operating Profit	2,039	3,030	4,003	2,047	2,737	3,654	-0.36%	10.71%	9.57%
Net profit	2,555	3,230	4,134	2,610	3,375	4,294	-2.10%	-4.28%	-3.74%
EPS (RMB)	2.93	3.70	4.74	2.99	3.87	4.92	-2.10%	-4.28%	-3.74%
Gross Margin	42.41%	46.04%	46.62%	46.26%	46.48%	46.89%	-3.85ppt	-0.44ppt	-0.27ppt
Operating Margin	28.35%	32.19%	32.97%	27.57%	29.00%	30.33%	+0.79ppt	+3.19ppt	+2.64ppt
Net Margin	35.52%	34.31%	34.04%	24.87%	26.47%	35.65%	+10.64ppt	+7.84ppt	-1.61ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
RMB mn	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	7,193	9,415	12,143	6,999	8,859	11,202	2.77%	6.28%	8.40%
Gross Profit	3,050	4,335	5,661	3,117	4,075	5,203	-2.16%	6.38%	8.81%
Operating Profit	2,039	3,030	4,003	3,238	3,947	4,727	-37.02%	-23.22%	-15.31%
Net profit	2,555	3,230	4,134	2,931	3,521	4,252	-12.84%	-8.26%	-2.78%
EPS (RMB)	2.93	3.70	4.74	3.39	4.07	4.84	-13.62%	-9.08%	-2.07%
Gross Margin	42.41%	46.04%	46.62%	44.54%	46.00%	46.44%	-2.14ppt	+0.04ppt	+0.18ppt
Operating Margin	28.35%	32.19%	32.97%	46.26%	44.55%	42.20%	-17.91ppt	-12.37ppt	-9.23ppt
Net Margin	35.52%	34.31%	34.04%	41.88%	39.74%	37.96%	-6.36ppt	-5.44ppt	-3.92ppt

Source: Company data, CMBIGM estimates

Figure 3: Valuation on risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
EBIT	3,010	3,918	5,093	6,570	8,409	10,680	13,457	16,821	20,858	25,656
Tax rate	10.19%	10.19%	10.19%	10.19%	10.19%	10.19%	10.19%	10.19%	10.19%	10.19%
EBIT*(1-tax rate)	2,703	3,518	4,574	5,901	7,553	9,592	12,086	15,107	18,733	23,041
+ D&A	174	197	223	250	277	305	332	359	384	407
- Change in working capital	(79)	(252)	(285)	(319)	(354)	(389)	(425)	(458)	(491)	(520)
- Capex	(2,300)	(1,913)	(2,161)	(2,421)	(2,687)	(2,956)	(3,222)	(3,479)	(3,723)	(3,946)
FCFF	**498**	**1,551**	**2,351**	**3,410**	**4,789**	**6,552**	**8,772**	**11,528**	**14,903**	**18,982**
Terminal value										**285,841**

Terminal growth rate	**3.00%**
WACC	**9.84%**
Cost of Equity	12.85%
Cost of Debt	5.00%
Equity Beta	0.90
Risk Free Rate	2.50%
Market Risk Premium	11.50%
Target Debt to Asset ratio	35.00%
Effective Corporate Tax Rate	15.00%
Terminal value (RMB mn)	111,820
Total PV (RMB mn)	148,219
Net debt (RMB mn)	(7,353)
Equity value (RMB mn)	2,761
Minority (RMB mn)	152,811
# of shares (mn)	872
Price per share (RMB per share)	**175.15**

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Revenue	**2,803**	**3,192**	**5,214**	**7,193**	**9,415**	**12,143**
Cost of goods sold	(1,500)	(1,678)	(2,943)	(4,143)	(5,081)	(6,482)
Gross profit	**1,303**	**1,514**	**2,271**	**3,050**	**4,335**	**5,661**
Operating expenses	**(566)**	**(655)**	**(911)**	**(1,011)**	**(1,304)**	**(1,658)**
Selling expense	(81)	(97)	(129)	(156)	(199)	(251)
Admin expense	(350)	(391)	(547)	(620)	(802)	(1,022)
R&D expense	(124)	(157)	(212)	(218)	(281)	(357)
Others	(11)	(11)	(23)	(17)	(22)	(29)
Operating profit	**737**	**859**	**1,359**	**2,039**	**3,030**	**4,003**
Gain/loss on financial assets at FVTPL	185	1,138	1,815	813	587	712
Investment gain/loss	180	284	312	186	300	300
Net Interest income/(expense)	**(10)**	**(88)**	**216**	**146**	**73**	**91**
Other income/expense	(3)	26	(19)	(29)	0	0
Pre-tax profit	**1,089**	**2,219**	**3,685**	**3,156**	**3,991**	**5,107**
Income tax	(114)	(190)	(293)	(322)	(407)	(520)
Minority interest	(134)	(279)	(518)	(280)	(354)	(453)
Net profit	**975**	**2,029**	**3,392**	**2,835**	**3,584**	**4,587**
Adjusted net profit	**558**	**708**	**1,232**	**1,711**	**2,496**	**3,298**
Gross dividends	208	262	433	385	487	623

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	**3,370**	**11,646**	**10,852**	**11,565**	**11,663**	**12,675**
Cash & equivalents	2,042	10,124	8,544	9,145	8,938	9,574
Account receivables	1,080	496	816	985	1,290	1,663
Inventories	1	5	6	6	7	9
Prepayment	26	28	59	59	59	59
Other current assets	220	994	1,426	1,369	1,369	1,369
Non-current assets	**4,163**	**7,860**	**12,889**	**16,015**	**18,618**	**21,200**
PP&E	252	300	438	682	903	1,102
Deferred income tax	91	80	101	101	101	101
Investment in JVs & assos	110	60	739	739	739	739
Intangibles	96	142	251	211	171	131
Goodwill	1,158	1,445	1,779	1,779	1,779	1,779
Financial assets at FVTPL	2,250	5,292	8,746	11,746	14,246	16,746
Other non-current assets	205	541	836	758	680	602
Total assets	**7,533**	**19,506**	**23,741**	**27,580**	**30,281**	**33,875**
Current liabilities	**1,791**	**1,139**	**2,413**	**3,802**	**3,406**	**3,036**
Short-term borrowings	864	0	492	1,792	1,342	892
Account payables	185	181	156	156	156	156
Tax payable	112	126	281	281	281	281
Other current liabilities	629	832	1,484	1,573	1,627	1,707
Non-current liabilities	**220**	**508**	**723**	**723**	**723**	**723**
Long-term borrowings	37	0	0	0	0	0
Obligations under finance leases	118	279	407	407	407	407
Other non-current liabilities	66	229	316	316	316	316
Total liabilities	**2,011**	**1,648**	**3,136**	**4,525**	**4,129**	**3,759**
Share capital	750	872	872	872	872	872
Capital surplus	1,708	11,998	11,887	14,056	16,800	20,310
Other reserves	1,768	3,248	5,365	5,365	5,365	5,365
Total shareholders equity	**4,225**	**16,119**	**18,124**	**20,293**	**23,037**	**26,547**
Minority interest	1,296	1,740	2,482	2,761	3,115	3,568
Total equity and liabilities	**7,533**	**19,506**	**23,741**	**27,580**	**30,281**	**33,875**

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**1,089**	**2,219**	**3,685**	**3,156**	**3,991**	**5,107**
Depreciation & amortization	47	150	197	174	197	218
Tax paid	(114)	(190)	(293)	(322)	(407)	(520)
Change in working capital	(169)	(41)	(235)	(79)	(252)	(295)
Others	(326)	(1,140)	(1,930)	(1,089)	(960)	(1,104)
Net cash from operations	**528**	**999**	**1,424**	**1,840**	**2,569**	**3,406**
Investing						
Capital expenditure	(103)	(156)	(369)	(300)	(300)	(300)
Acquisition of subsidiaries/ investments	(72)	(194)	(90)	0	0	0
Net proceeds from disposal of short-term investments	(513)	(1,867)	(2,140)	(2,000)	(1,613)	(1,488)
Others	49	(150)	(185)	0	0	0
Net cash from investing	**(638)**	**(2,367)**	**(2,783)**	**(2,300)**	**(1,913)**	**(1,788)**
Financing						
Dividend paid	(266)	(271)	(284)	(239)	(414)	(532)
Net borrowings	180	(903)	492	1,300	(450)	(450)
Proceeds from share issues	1,441	11,212	272	0	0	0
Others	80	(698)	(643)	0	0	0
Net cash from financing	**1,434**	**9,339**	**(163)**	**1,061**	**(864)**	**(982)**
Net change in cash						
Cash at the beginning of the year	698	2,037	9,960	8,544	9,145	8,938
Exchange difference	15	(47)	(60)	0	0	0
Cash at the end of the year	**2,037**	**9,960**	**8,378**	**9,145**	**8,938**	**9,574**

GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	21.8%	13.9%	63.3%	38.0%	30.9%	29.0%
Gross profit	31.4%	16.2%	50.0%	34.3%	42.1%	30.6%
Operating profit	40.2%	16.6%	58.2%	50.0%	48.6%	32.1%
Net profit	92.4%	108.0%	67.2%	(16.4%)	26.4%	28.0%
Adj. net profit	56.3%	26.9%	73.9%	38.9%	45.9%	32.1%

PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	46.5%	47.4%	43.6%	42.4%	46.0%	46.6%
Operating margin	26.3%	26.9%	26.1%	28.4%	32.2%	33.0%
Adj. net profit margin	19.9%	22.2%	23.6%	23.8%	26.5%	27.2%
Return on equity (ROE)	17.7%	11.4%	16.5%	12.3%	13.7%	15.2%

GEARING/LIQUIDITY/ACTIVITIES	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Net debt to equity (x)	(0.2)	(0.6)	(0.4)	(0.3)	(0.3)	(0.3)
Current ratio (x)	1.9	10.2	4.5	3.0	3.4	4.2
Receivable turnover days	121.2	90.1	45.9	50.0	50.0	50.0
Inventory turnover days	0.2	0.6	0.7	0.5	0.5	0.5
Payable turnover days	27.9	39.8	20.9	20.9	20.9	20.9

VALUATION	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
P/E	44.7	44.2	47.3	35.8	28.3	22.1
P/E (diluted)	44.7	44.3	47.4	35.8	28.3	22.1
P/B	6.8	4.3	6.6	4.0	3.5	3.0
P/CFPS	71.3	77.4	95.4	49.7	35.6	26.9
Div yield (%)	0.6	0.3	0.3	0.4	0.5	0.7

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

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