

Tigermid (300347 CH)

Core business growth remains solid

3Q22 earnings in line. Tigermid reported 3Q22 revenue of RMB1,812mn, up 35% YoY, attributable net income of RMB413mn, down 22% YoY, and attributable recurring net income of RMB421mn, up 29% YoY. Excluding COVID-19 revenue, we estimate 3Q22 revenue increased by c.42% YoY. The declining attributable net income in 3Q22 was mainly attributable to the fair value losses of RMB11mn, compared with fair value gains of RMB211mn in 3Q21. Gross profit margin (GPM) continuously improved to 40.9% in 3Q22 from 38.8% in 1Q22 and 40.6% in 2Q22, thanks to the shrinking size of the low-margin COVID-19 related revenue (due to pass-through revenue to sub-contractors in overseas markets) as well as the growth of US\$-denominated services, such as data management and statistical analysis (DMSA) and laboratory services provided by Frontage, which benefited from US\$ appreciation in 3Q22. Non-COVID-19 related new orders increased by c.35%/30% YoY in 9M22/3Q22, respectively, indicating sustainable growth of core business.

- **Consistently focus on high-margin business.** Management has prioritized the expansion of high-margin businesses, including clinical trials operation, DMSA and some emerging services while takes a relatively conservative strategy on the SMO business given its low profitability nature. According to management, the Company has further increased its market share in China clinical CRO market for innovative drugs to c.20% in 3Q22, which represented the Company's strong competency and high customer recognition. DMSA successfully sealed a strategic cooperation deal with a global Top10 pharma in the past quarter. Additionally, Tigermid has adopted a proactive hiring strategy and allocated more human resources to high margin business in 3Q22. We think the strategic change is critical and necessary for Tigermid to further enhance its leading position for its core business given the intensifying competition in China market in recent years.
- **Globalization on track.** Tigermid has built local BD teams to explore business opportunities in Europe and the US. The Company has participated in large-scale Phase III multi-regional clinical trials (MRCT) in multiple middle and western European countries. The Company also took full advantages of its experiences in COVID-19 vaccine projects of Chinese clients to expand business opportunities in developing countries, including Indonesia, Brazil, Chile and Pakistan. These developing countries could be potential markets for Chinese drug makers, which will create additional demand for Tigermid's clinical CRO services.
- **Maintain BUY.** We revise our TP from RMB175.15 to RMB147.43, based on a 10-year DCF model (WACC: 10.21%, terminal growth rate: 3.0%). We forecast Tigermid's revenue to grow 37%/29%/27% YoY and attributable recurring net income to grow 37%/40%/31% YoY in FY22E/23E/24E.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	3,192	5,214	7,157	9,228	11,719
YoY growth (%)	13.9	63.3	37.3	28.9	27.0
Attributable net profit (RMB mn)	1,749.8	2,874.2	2,143.9	2,918.3	3,739.0
YoY growth (%)	107.9	64.3	(25.4)	36.1	28.1
Adjusted net profit (RMB mn)	708.2	1,231.5	1,690.5	2,368.7	3,100.8
YoY growth (%)	26.9	73.9	37.3	40.1	30.9
EPS (Adjusted) (RMB)	0.89	1.42	1.94	2.72	3.55
Consensus EPS (RMB)	na	na	3.30	3.90	4.70
P/E (x)	44.2	47.3	32.2	23.6	18.4
Net gearing (%)	(61.1)	(42.2)	(34.9)	(32.6)	(33.0)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB147.43
(Previous TP)	RMB175.15)
Up/Downside	86.5%
Current Price	RMB79.06

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Stock Data

Mkt Cap (RMB mn)	68,973.4
Avg 3 mths t/o (RMB mn)	96.8
52w High/Low (RMB)	170.40/78.40
Total Issued Shares (mn)	872.4

Source: FactSet

Shareholding Structure

HK investors	24.8%
Xiaoping Ye	20.3%

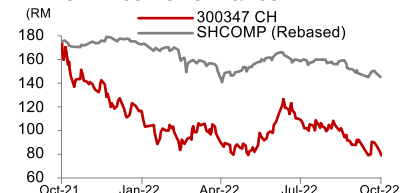
Source: Company

Share Performance

	Absolute	Relative
1-mth	-9.5%	-6.1%
3-mth	-27.5%	-20.8%
6-mth	-11.4%	-12.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	7,157	9,228	11,719	7,193	9,415	12,143	-0.49%	-1.99%	-3.49%
Gross Profit	3,034	4,177	5,396	3,050	4,335	5,661	-0.52%	-3.64%	-4.68%
Operating Profit	2,025	2,894	3,790	2,039	3,030	4,003	-0.71%	-4.51%	-5.32%
Attributable net profit	2,144	2,918	3,739	2,555	3,230	4,134	-16.08%	-9.65%	-9.55%
EPS (RMB)	2.46	3.35	4.29	2.93	3.70	4.74	-16.08%	-9.65%	-9.55%
Gross Margin	42.39%	45.26%	46.05%	46.26%	46.48%	46.62%	-3.87ppt	-1.22ppt	-0.57ppt
Operating Margin	28.29%	31.36%	32.34%	27.57%	29.00%	32.97%	+0.72ppt	+2.36ppt	-0.63ppt
Net Margin	29.95%	31.62%	31.91%	24.87%	26.47%	34.04%	+5.08ppt	+5.16ppt	-2.14ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	7,157	9,228	11,719	7,090	8,973	11,244	0.95%	2.84%	4.22%
Gross Profit	3,034	4,177	5,396	3,120	4,143	5,231	-2.74%	0.82%	3.16%
Operating Profit	2,025	2,894	3,790	2,070	3,653	4,459	-2.18%	-20.79%	-15.00%
Attributable net profit	2,144	2,918	3,739	3,006	3,427	4,140	-28.68%	-14.84%	-9.69%
EPS (RMB)	2.46	3.35	4.29	3.30	3.90	4.70	-25.58%	-14.23%	-8.85%
Gross Margin	42.39%	45.26%	46.05%	44.00%	46.17%	46.52%	-1.61ppt	-0.91ppt	-0.47ppt
Operating Margin	28.29%	31.36%	32.34%	29.20%	40.71%	39.66%	-0.91ppt	-9.35ppt	-7.31ppt
Net Margin	29.95%	31.62%	31.91%	42.40%	38.19%	36.82%	-12.44ppt	-6.57ppt	-4.91ppt

Source: Company data, Bloomberg, 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	2,516	3,556	4,623	5,963	7,633	9,694	12,215	15,268	18,933	23,287
Tax rate	10.96%	10.96%	10.96%	10.96%	10.96%	10.96%	10.96%	10.96%	10.96%	10.96%
EBIT*(1-tax rate)	2,240	3,166	4,116	5,310	6,796	8,631	10,875	13,594	16,857	20,734
+ D&A	179	211	238	267	296	326	355	384	411	435
- Change in working capital	(76)	(232)	(262)	(293)	(326)	(358)	(390)	(422)	(451)	(478)
- Capex	(2,380)	(1,738)	(1,964)	(2,199)	(2,441)	(2,685)	(2,927)	(3,161)	(3,382)	(3,585)
FCFF	(38)	1,408	2,129	3,084	4,326	5,914	7,914	10,396	13,434	17,106
Terminal value										244,246
Terminal growth rate	3.00%									
WACC	10.21%									
Cost of Equity	13.43%									
Cost of Debt	5.00%									
Equity Beta	0.95									
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)	92,357									
Total PV (RMB mn)	123,971									
Net debt (RMB mn)	(7,359)									
Equity value (RMB mn)	2,708									
Minority (RMB mn)	128,622									
# of shares (mn)	872									
Price per share (RMB per share)	147.43									

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	7,157	9,228	11,719
Cost of goods sold	(1,500)	(1,678)	(2,943)	(4,123)	(5,051)	(6,323)
Gross profit	1,303	1,514	2,271	3,034	4,177	5,396
Operating expenses	(566)	(655)	(911)	(1,009)	(1,283)	(1,606)
Selling expense	(81)	(97)	(129)	(151)	(190)	(236)
Admin expense	(350)	(391)	(547)	(617)	(786)	(986)
R&D expense	(124)	(157)	(212)	(225)	(285)	(356)
Others	(11)	(11)	(23)	(17)	(22)	(28)
Operating profit	737	859	1,359	2,025	2,894	3,790
Gain/loss on financial assets at FVTPL	185	1,138	1,815	413	562	662
Investment gain/loss	180	284	312	106	100	100
Net Interest income/(expense)	(10)	(88)	216	146	67	89
Other income/expense	(3)	26	(19)	(29)	0	0
Pre-tax profit	1,089	2,219	3,685	2,662	3,623	4,642
Income tax	(114)	(190)	(293)	(292)	(397)	(509)
Minority interest	(134)	(279)	(518)	(226)	(308)	(394)
Net profit	975	2,029	3,392	2,370	3,226	4,133
Adjusted net profit	558	708	1,232	1,690	2,369	3,101
Gross dividends	208	262	433	323	440	564

BALANCE SHEET	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Current assets	3,370	11,646	10,852	11,766	11,916	12,898
Cash & equivalents	2,042	10,124	8,544	9,351	9,216	9,856
Account receivables	1,080	496	816	980	1,264	1,605
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	15,610	17,799	19,959
PP&E	252	300	438	777	1,084	1,362
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	11,246	13,246	15,246
Other non-current assets	205	541	836	758	680	602
Total assets	7,533	19,506	23,741	27,376	29,715	32,857
Current liabilities	1,791	1,139	2,413	4,001	3,554	3,127
Short-term borrowings	864	0	492	1,992	1,492	992
Account payables	185	181	156	156	156	156
Tax payable	112	126	281	281	281	281
Other current liabilities	629	832	1,484	1,572	1,625	1,698
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	4,724	4,277	3,850
Share capital	750	872	872	872	872	872
Capital surplus	1,708	11,998	11,887	13,707	16,186	19,361
Other reserves	1,768	3,248	5,365	5,365	5,365	5,365
Total shareholders equity	4,225	16,119	18,124	19,944	22,423	25,598
Minority interest	1,296	1,740	2,482	2,708	3,015	3,409
Total equity and liabilities	7,533	19,506	23,741	27,376	29,715	32,857

CASH FLOW	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	1,089	2,219	3,685	2,662	3,623	4,642
Depreciation & amortization	47	150	197	179	211	240
Tax paid	(114)	(190)	(293)	(292)	(397)	(509)
Change in working capital	(169)	(41)	(235)	(76)	(232)	(270)
Others	(326)	(1,140)	(1,930)	(609)	(729)	(852)
Net cash from operations	528	999	1,424	1,864	2,476	3,251
Investing						
Capital expenditure	(103)	(156)	(369)	(400)	(400)	(400)
Acquisition of subsidiaries/ investments	(72)	(194)	(90)	0	0	0
Net proceeds from disposal of short-term investments	(513)	(1,867)	(2,140)	(1,980)	(1,338)	(1,238)
Others	49	(150)	(185)	0	0	0
Net cash from investing	(638)	(2,367)	(2,783)	(2,380)	(1,738)	(1,638)
Financing						
Dividend paid	(266)	(271)	(284)	(177)	(373)	(474)
Net borrowings	180	(903)	492	1,500	(500)	(500)
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)	1,323	(873)	(974)
Net change in cash						
Cash at the beginning of the year	698	2,037	9,960	8,544	9,351	9,216
Exchange difference	15	(47)	(60)	0	0	0
Cash at the end of the year	2,037	9,960	8,378	9,351	9,216	9,856
GROWTH	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Revenue	21.8%	13.9%	63.3%	37.3%	28.9%	27.0%
Gross profit	31.4%	16.2%	50.0%	33.6%	37.7%	29.2%
Operating profit	40.2%	16.6%	58.2%	48.9%	42.9%	31.0%
Net profit	92.4%	108.0%	67.2%	(30.1%)	36.1%	28.1%
Adj. net profit	56.3%	26.9%	73.9%	37.3%	40.1%	30.9%
PROFITABILITY	2019A	2020A	2021A	2022E	2023E	2024E
YE 31 Dec						
Gross profit margin	46.5%	47.4%	43.6%	42.4%	45.3%	46.0%
Operating margin	26.3%	26.9%	26.1%	28.3%	31.4%	32.3%
Adj. net profit margin	19.9%	22.2%	23.6%	23.6%	25.7%	26.5%
Return on equity (ROE)	28.3%	19.9%	19.8%	12.5%	15.2%	17.2%
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	2.9	3.4	4.1
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	32.2	23.6	18.4
P/E (diluted)	44.7	44.3	47.4	32.2	23.6	18.4
P/B	6.8	4.3	6.6	3.0	2.7	2.4
P/CFPS	71.3	77.4	95.4	37.0	27.9	21.2
Div yield (%)	0.6	0.3	0.3	0.5	0.6	0.8

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

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