

Tigermid (300347 CH)

Business stabilizing from late September

Tigermid reported 3Q23 revenue of RMB1,940mn, up 7.1% YoY (vs +3.3% YoY in 1H23), and attributable recurring net income of RMB405mn, down 3.8% YoY (vs +2.9% YoY in 1H23). 3Q23 revenue accounted for 24.9% of our 2023 full-year estimate, in line with its historical average, while attributable recurring net income represented 22.7% of our forecast, which fell short of its historical average of ~27%. If excluding COVID vaccine revenue, 3Q23 revenue would grow by ~18% YoY (vs ~27% YoY in 1H23). Management indicated a policy headwind impacting patient enrolments in 3Q23, which has already largely resumed normal by late Sep. Gross profit margin (GPM) in 3Q23 continuously rose to 41.2%, improving by 1.0ppt QoQ and 0.2ppt YoY. According to management, GPM would be ~41.7% if excluding COVID vaccine revenue, which declined 1.3ppt YoY. The adj. gross margin dilution was mainly due to the impact from policy headwinds, margin pressure from lab business and the strong recovery of low-margin SMO services. Additionally, new orders (excluding pass-through fees) signed in the quarter achieved positive growth amid the harsh business environment. Tigermid's operating cash flows in 9M23 was RMB673mn, down 18.5% YoY.

- **Globalization to serve as a long-term driver.** Tigermid acquired a Croatia-based clinical CRO, Marti Farm, in Jan 2023, further enhancing its service capability in Europe. Although the Company adjusted its personnel in Europe to reflect the post-COVID demand changes, Europe still plays a critical role for patient enrolments in MRCTs as well as for biosimilar projects. In the US, Tigermid doubled its local clinical operation team to more than 110 staff in 1H23. In the Europe and US market, Tigermid strategically aims to collaborate with small- to mid- sized companies with intention of incorporating China in their MRCTs (especially CGT projects) and Chinese clients going to overseas markets. Management expected the growth of the US and EU business to outpace that of Tigermid as a whole. Besides, Southeast Asia and Latin America market with large population bases continue to remain as strategic end markets for Chinese pharma companies in the long term, creating extra business opportunities for Tigermid.
- **ADC and obesity to trigger additional clinical demands.** Although the global biotech market has saw an initial inflection point in terms of financing, management of Tigermid pointed out the continuously decreasing risk tolerance of clients, leading to the longer waiting time from request-for-proposals (RFPs) to contract signing. However, management indicated that the successful POC and commercialization of certain products in international market, such as ADC and obesity drugs, will bring additional clinical demands to clinical CROs. Specifically, Tigermid has already observed a growing interest from client on obesity drugs.
- **Maintain BUY.** We revised our TP from RMB94.41 to RMB80.31, based on a 10-year DCF model (WACC: 11.5%, terminal growth: 3.0%), to factor in slower projection of recurring net income growth. We forecast Tigermid's revenue to grow 7.3%/ 24.9%/ 26.0% YoY and attributable recurring net income to grow 9.2%/ 23.8%/ 27.6% YoY in FY23E/ 24E/ 25E, respectively.

Earnings Summary

| (YE 31 Dec) | FY21A | FY22A | FY23E | FY24E | FY25E |
|------------------------------|-------|-------|-------|-------|--------|
| Revenue (RMB mn) | 5,214 | 7,085 | 7,604 | 9,498 | 11,965 |
| YoY growth (%) | 63.3 | 35.9 | 7.3 | 24.9 | 26.0 |
| Adjusted net profit (RMB mn) | 1,232 | 1,540 | 1,680 | 2,081 | 2,655 |
| EPS (Adjusted) (RMB) | 1.42 | 1.78 | 1.93 | 2.39 | 3.04 |
| Consensus EPS (RMB) | na | na | 2.74 | 3.25 | 3.96 |
| P/E (x) | 43.1 | 34.3 | 31.7 | 25.6 | 20.1 |

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

| | |
|---------------|-----------|
| Target Price | RMB80.31 |
| (Previous TP | RMB94.41) |
| Up/Downside | 31.5% |
| Current Price | RMB61.07 |

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Stock Data

| | |
|--------------------------|--------------|
| Mkt Cap (RMB mn) | 53,278.6 |
| Avg 3 mths t/o (RMB mn) | 665.6 |
| 52w High/Low (RMB) | 124.93/57.41 |
| Total Issued Shares (mn) | 872.4 |

Source: FactSet

Shareholding Structure

| | |
|--------------|-------|
| Xiaoping Ye | 20.3% |
| HK investors | 20.2% |

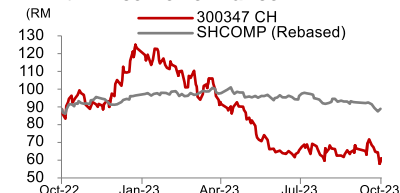
Source: HKEx

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | -10.6% | -8.0% |
| 3-mth | -7.7% | -1.7% |
| 6-mth | -33.3% | -27.4% |

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

| RMB mn | New | | | Old | | | Diff (%) | | |
|----------------------|--------|--------|--------|--------|--------|--------|----------|----------|----------|
| | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Revenue | 7,604 | 9,498 | 11,965 | 7,793 | 9,732 | 12,258 | -2.42% | -2.41% | -2.39% |
| Gross Profit | 3,128 | 4,038 | 5,159 | 3,207 | 4,190 | 5,284 | -2.47% | -3.64% | -2.37% |
| Operating Profit | 1,934 | 2,646 | 3,419 | 2,057 | 2,765 | 3,501 | -5.97% | -4.28% | -2.35% |
| Recurring net profit | 1,680 | 2,081 | 2,655 | 1,786 | 2,199 | 2,745 | -5.93% | -5.36% | -3.31% |
| Recurring EPS (RMB) | 1.93 | 2.39 | 3.04 | 2.05 | 2.52 | 3.15 | -5.93% | -5.36% | -3.31% |
| Gross Margin | 41.13% | 42.51% | 43.12% | 41.15% | 43.05% | 43.11% | -0.02ppt | -0.54ppt | +0.01ppt |
| Operating Margin | 25.44% | 27.86% | 28.57% | 26.40% | 28.41% | 28.56% | -0.96ppt | -0.54ppt | +0.01ppt |
| Net Margin | 22.10% | 21.91% | 22.19% | 22.92% | 22.59% | 22.40% | -0.83ppt | -0.68ppt | -0.21ppt |

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs consensus

| RMB mn | CMBIGM | | | Consensus | | | Diff (%) | | |
|----------------------|--------|--------|--------|-----------|--------|--------|----------|----------|----------|
| | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Revenue | 7,604 | 9,498 | 11,965 | 8,221 | 10,226 | 12,665 | -7.51% | -7.12% | -5.53% |
| Gross Profit | 3,128 | 4,038 | 5,159 | 3,446 | 4,324 | 5,385 | -9.23% | -6.62% | -4.20% |
| Operating Profit | 1,934 | 2,646 | 3,419 | 2,666 | 3,299 | 4,021 | -27.45% | -19.78% | -14.98% |
| Recurring net profit | 1,680 | 2,081 | 2,655 | 2,414 | 2,846 | 3,492 | -30.39% | -26.89% | -23.98% |
| Recurring EPS (RMB) | 1.93 | 2.39 | 3.04 | 2.74 | 3.25 | 3.96 | -29.68% | -26.61% | -23.14% |
| Gross Margin | 41.13% | 42.51% | 43.12% | 41.91% | 42.29% | 42.52% | -0.78ppt | +0.22ppt | +0.60ppt |
| Operating Margin | 25.44% | 27.86% | 28.57% | 32.43% | 32.26% | 31.75% | -6.99ppt | -4.40ppt | -3.18ppt |
| Net Margin | 22.10% | 21.91% | 22.19% | 29.36% | 27.83% | 27.57% | -7.27ppt | -5.92ppt | -5.38ppt |

Source: Company data, Bloomberg, CMBIGM estimates

Figure 3: Risk-adjusted DCF valuation

| DCF Valuation (in Rmb mn) | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E |
|---------------------------------|---------|--------|--------|--------|---------|---------|---------|---------|---------|---------|
| EBIT | 2,776 | 3,345 | 4,197 | 5,120 | 6,195 | 7,434 | 8,847 | 10,439 | 12,214 | 14,168 |
| Tax rate | 12.19% | 12.19% | 12.19% | 12.19% | 12.19% | 12.19% | 12.19% | 12.19% | 12.19% | 12.19% |
| EBIT*(1-tax rate) | 2,438 | 2,937 | 3,685 | 4,496 | 5,440 | 6,528 | 7,768 | 9,166 | 10,724 | 12,440 |
| + D&A | 264 | 295 | 323 | 388 | 461 | 544 | 637 | 739 | 849 | 968 |
| - Change in working capital | (250) | (289) | (375) | (450) | (535) | (632) | (739) | (857) | (986) | (1,124) |
| - Capex | (700) | (700) | (700) | (840) | (1,000) | (1,180) | (1,380) | (1,601) | (1,841) | (2,099) |
| FCFF | 1,751 | 2,243 | 2,933 | 3,593 | 4,366 | 5,261 | 6,286 | 7,447 | 8,747 | 10,186 |
| Terminal value | | | | | | | | | | 124,013 |
| Terminal growth rate | 3.00% | | | | | | | | | |
| WACC | 11.46% | | | | | | | | | |
| Cost of Equity | 14.55% | | | | | | | | | |
| Cost of Debt | 5.00% | | | | | | | | | |
| Equity Beta | 1.10 | | | | | | | | | |
| Risk Free Rate | 3.00% | | | | | | | | | |
| Market Risk Premium | 10.50% | | | | | | | | | |
| Target Debt to Asset ratio | 30.00% | | | | | | | | | |
| Effective Corporate Tax Rate | 15.00% | | | | | | | | | |
| PV of terminal value (RMB mn) | 41,906 | | | | | | | | | |
| Total PV (RMB mn) | 67,813 | | | | | | | | | |
| Net debt (RMB mn) | (5,383) | | | | | | | | | |
| Equity value (RMB mn) | 3,134 | | | | | | | | | |
| Minority (RMB mn) | 70,063 | | | | | | | | | |
| # of shares (mn) | 872 | | | | | | | | | |
| Price per share (RMB per share) | 80.31 | | | | | | | | | |

Source: CMBIGM estimates

Financial Summary

| INCOME STATEMENT | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
|--|---------|---------|---------|---------|---------|---------|
| YE 31 Dec (RMB mn) | | | | | | |
| Revenue | 3,192 | 5,214 | 7,085 | 7,604 | 9,498 | 11,965 |
| Cost of goods sold | (1,678) | (2,943) | (4,277) | (4,476) | (5,460) | (6,805) |
| Gross profit | 1,514 | 2,271 | 2,808 | 3,128 | 4,038 | 5,159 |
| Operating expenses | (655) | (911) | (1,038) | (1,193) | (1,391) | (1,741) |
| Selling expense | (97) | (129) | (150) | (186) | (209) | (263) |
| Admin expense | (391) | (547) | (630) | (716) | (836) | (1,047) |
| R&D expense | (157) | (212) | (235) | (264) | (313) | (389) |
| Others | (11) | (23) | (23) | (26) | (33) | (42) |
| Operating profit | 859 | 1,359 | 1,771 | 1,934 | 2,646 | 3,419 |
| Gain/loss on financial assets at FVTPL | 1,138 | 1,815 | 536 | 730 | 598 | 678 |
| Investment gain/loss | 284 | 312 | 103 | 149 | 100 | 100 |
| Net interest income/(expense) | (88) | 216 | 158 | 115 | 26 | 37 |
| Other income/expense | 26 | (19) | 18 | (37) | 0 | 0 |
| Pre-tax profit | 2,219 | 3,685 | 2,585 | 2,891 | 3,371 | 4,234 |
| Income tax | (190) | (293) | (314) | (353) | (411) | (516) |
| After tax profit | 2,029 | 3,392 | 2,272 | 2,539 | 2,960 | 3,718 |
| Minority interest | (279) | (518) | (265) | (36) | (326) | (446) |
| Net profit | 1,750 | 2,874 | 2,007 | 2,503 | 2,634 | 3,271 |
| Adjusted net profit | 708 | 1,232 | 1,540 | 1,680 | 2,081 | 2,655 |
| Gross dividends | 262 | 433 | 476 | 593 | 625 | 776 |

| BALANCE SHEET | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
|----------------------------------|--------|--------|--------|--------|--------|--------|
| YE 31 Dec (RMB mn) | | | | | | |
| Current assets | 11,646 | 10,852 | 11,107 | 11,866 | 11,720 | 12,417 |
| Cash & equivalents | 10,124 | 8,544 | 7,858 | 8,476 | 8,017 | 8,307 |
| Account receivables | 496 | 816 | 1,034 | 1,250 | 1,561 | 1,967 |
| Inventories | 5 | 6 | 22 | 6 | 7 | 9 |
| Prepayment | 28 | 59 | 59 | 59 | 59 | 59 |
| Other current assets | 994 | 1,426 | 2,134 | 2,074 | 2,074 | 2,074 |
| Non-current assets | 7,860 | 12,889 | 16,339 | 18,776 | 20,781 | 22,558 |
| PP&E | 300 | 438 | 566 | 893 | 1,189 | 1,456 |
| Deferred income tax | 80 | 101 | 121 | 121 | 121 | 121 |
| Investment in JVs & assos | 60 | 739 | 1,800 | 1,800 | 1,800 | 1,800 |
| Intangibles | 142 | 251 | 338 | 274 | 209 | 144 |
| Goodwill | 1,445 | 1,779 | 2,485 | 2,785 | 3,085 | 3,385 |
| Financial assets at FVTPL | 5,292 | 8,746 | 9,964 | 11,964 | 13,564 | 14,964 |
| Other non-current assets | 541 | 836 | 1,066 | 939 | 813 | 687 |
| Total assets | 19,506 | 23,741 | 27,447 | 30,641 | 32,500 | 34,974 |
| Current liabilities | 1,139 | 2,413 | 3,730 | 4,679 | 4,203 | 3,735 |
| Short-term borrowings | 0 | 492 | 1,849 | 2,849 | 2,349 | 1,849 |
| Account payables | 181 | 156 | 50 | 50 | 50 | 50 |
| Tax payable | 126 | 281 | 198 | 198 | 198 | 198 |
| Other current liabilities | 832 | 1,484 | 1,633 | 1,583 | 1,607 | 1,639 |
| Non-current liabilities | 508 | 723 | 1,036 | 1,036 | 1,036 | 1,036 |
| Long-term borrowings | 0 | 0 | 245 | 245 | 245 | 245 |
| Obligations under finance leases | 279 | 407 | 489 | 489 | 489 | 489 |
| Other non-current liabilities | 229 | 316 | 302 | 302 | 302 | 302 |
| Total liabilities | 1,648 | 3,136 | 4,765 | 5,715 | 5,239 | 4,771 |
| Share capital | 872 | 872 | 872 | 1,172 | 1,172 | 1,172 |
| Capital surplus | 11,998 | 11,887 | 11,852 | 13,762 | 15,772 | 18,267 |
| Retained earnings | 3,253 | 5,771 | 7,270 | 7,270 | 7,270 | 7,270 |
| Other reserves | (6) | (406) | (412) | (412) | (412) | (412) |
| Total shareholders equity | 16,119 | 18,124 | 19,583 | 21,793 | 23,802 | 26,298 |
| Minority interest | 1,740 | 2,482 | 3,098 | 3,134 | 3,459 | 3,905 |
| Total equity and liabilities | 19,506 | 23,741 | 27,447 | 30,641 | 32,500 | 34,974 |

| CASH FLOW | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| YE 31 Dec (RMB mn) | | | | | | |
| Operating | | | | | | |
| Profit before taxation | 2,219 | 3,685 | 2,585 | 2,891 | 3,371 | 4,234 |
| Depreciation & amortization | 150 | 197 | 285 | 264 | 295 | 323 |
| Tax paid | (190) | (293) | (314) | (353) | (411) | 0 |
| Change in working capital | (41) | (235) | (692) | (250) | (289) | (375) |
| Others | (1,140) | (1,930) | (507) | (934) | (724) | (1,332) |
| Net cash from operations | 999 | 1,424 | 1,357 | 1,618 | 2,241 | 2,850 |
| Investing | | | | | | |
| Capital expenditure | (156) | (369) | (449) | (400) | (400) | (400) |
| Acquisition of subsidiaries/ investments | (194) | (90) | (663) | (300) | (300) | (300) |
| Net proceeds from disposal of short-term investments | (1,867) | (2,140) | (1,779) | (1,121) | (902) | (622) |
| Others | (150) | (185) | 102 | 0 | 0 | 0 |
| Net cash from investing | (2,367) | (2,783) | (2,789) | (1,821) | (1,602) | (1,322) |
| Financing | | | | | | |
| Dividend paid | (271) | (284) | (492) | (478) | (598) | (739) |
| Net borrowings | (903) | 492 | 1,607 | 1,000 | (500) | (500) |
| Proceeds from share issues | 11,212 | 272 | 315 | 300 | 0 | 0 |
| Others | (698) | (643) | (621) | 0 | 0 | 0 |
| Net cash from financing | 9,339 | (163) | 809 | 822 | (1,098) | (1,239) |
| Net change in cash | | | | | | |
| Cash at the beginning of the year | 2,037 | 9,960 | 8,378 | 7,858 | 8,476 | 8,017 |
| Exchange difference | (47) | (60) | 27 | 0 | 0 | 0 |
| Cash at the end of the year | 9,960 | 8,378 | 7,783 | 8,476 | 8,017 | 8,307 |
| GROWTH | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| Revenue | 13.9% | 63.3% | 35.9% | 7.3% | 24.9% | 26.0% |
| Gross profit | 16.2% | 50.0% | 23.7% | 11.4% | 29.1% | 27.8% |
| Operating profit | 16.6% | 58.2% | 30.3% | 9.2% | 36.8% | 29.2% |
| Net profit | 107.9% | 64.3% | (30.2%) | 24.7% | 5.2% | 24.2% |
| Adj. net profit | 26.9% | 73.9% | 25.0% | 9.2% | 23.8% | 27.6% |
| PROFITABILITY | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| Gross profit margin | 47.4% | 43.6% | 39.6% | 41.1% | 42.5% | 43.1% |
| Operating margin | 26.9% | 26.1% | 25.0% | 25.4% | 27.9% | 28.6% |
| Adj. net profit margin | 22.2% | 23.6% | 21.7% | 22.1% | 21.9% | 22.2% |
| Return on equity (ROE) | 17.2% | 16.8% | 10.6% | 12.1% | 11.6% | 13.1% |
| GEARING/LIQUIDITY/ACTIVITIES | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| Net debt to equity (x) | (0.6) | (0.4) | (0.3) | (0.2) | (0.2) | (0.2) |
| Current ratio (x) | 10.2 | 4.5 | 3.0 | 2.5 | 2.8 | 3.3 |
| Receivable turnover days | 90.1 | 45.9 | 47.6 | 60.0 | 60.0 | 60.0 |
| Inventory turnover days | 0.6 | 0.7 | 1.2 | 0.5 | 0.5 | 0.5 |
| Payable turnover days | 39.8 | 20.9 | 8.8 | 8.8 | 8.8 | 8.8 |
| VALUATION | 2020A | 2021A | 2022A | 2023E | 2024E | 2025E |
| YE 31 Dec | | | | | | |
| P/E (diluted) | 68.7 | 43.1 | 34.3 | 31.7 | 25.6 | 20.1 |
| P/B | 4.8 | 7.5 | 4.3 | 2.4 | 2.2 | 2.0 |
| P/CFPS | 77.4 | 95.4 | 62.5 | 32.9 | 23.8 | 18.7 |
| Div yield (%) | 0.3 | 0.3 | 0.6 | 1.1 | 1.2 | 1.5 |

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

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| | |
|-----------------------|---|
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