

# Tigermed (300347 CH)

## Business stabilizing from late September

Tigermed 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. Tigermed's operating cash flows in 9M23 was RMB673mn, down 18.5% YoY.

- **Globalization to serve as a long-term driver.** Tigermed 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, Tigermed doubled its local clinical operation team to more than 110 staff in 1H23. In the Europe and US market, Tigermed 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 Tigermed 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 Tigermed.
- **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 Tigermed 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, Tigermed 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 Tigermed'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									
<b>Price per share (RMB per share)</b>	<b>80.31</b>									

Source: CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
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)
<b>Gross profit</b>	<b>1,514</b>	<b>2,271</b>	<b>2,808</b>	<b>3,128</b>	<b>4,038</b>	<b>5,159</b>
<b>Operating expenses</b>	<b>(655)</b>	<b>(911)</b>	<b>(1,038)</b>	<b>(1,193)</b>	<b>(1,391)</b>	<b>(1,741)</b>
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)
<b>Operating profit</b>	<b>859</b>	<b>1,359</b>	<b>1,771</b>	<b>1,934</b>	<b>2,646</b>	<b>3,419</b>
Gain/loss on financial assets at FVTPL	1,138	1,815	536	730	598	678
Investment gain/loss	284	312	103	149	100	100
<b>Net Interest income/(expense)</b>	<b>(88)</b>	<b>216</b>	<b>158</b>	<b>115</b>	<b>26</b>	<b>37</b>
Other income/expense	26	(19)	18	(37)	0	0
<b>Pre-tax profit</b>	<b>2,219</b>	<b>3,685</b>	<b>2,585</b>	<b>2,891</b>	<b>3,371</b>	<b>4,234</b>
Income tax	(190)	(293)	(314)	(353)	(411)	(516)
<b>After tax profit</b>	<b>2,029</b>	<b>3,392</b>	<b>2,272</b>	<b>2,539</b>	<b>2,960</b>	<b>3,718</b>
Minority interest	(279)	(518)	(265)	(36)	(326)	(446)
<b>Net profit</b>	<b>1,750</b>	<b>2,874</b>	<b>2,007</b>	<b>2,503</b>	<b>2,634</b>	<b>3,271</b>
<b>Adjusted net profit</b>	<b>708</b>	<b>1,232</b>	<b>1,540</b>	<b>1,680</b>	<b>2,081</b>	<b>2,655</b>
Gross dividends	262	433	476	593	625	776
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
<b>Current assets</b>	<b>11,646</b>	<b>10,852</b>	<b>11,107</b>	<b>11,866</b>	<b>11,720</b>	<b>12,417</b>
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
<b>Non-current assets</b>	<b>7,860</b>	<b>12,889</b>	<b>16,339</b>	<b>18,776</b>	<b>20,781</b>	<b>22,558</b>
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
<b>Total assets</b>	<b>19,506</b>	<b>23,741</b>	<b>27,447</b>	<b>30,641</b>	<b>32,500</b>	<b>34,974</b>
<b>Current liabilities</b>	<b>1,139</b>	<b>2,413</b>	<b>3,730</b>	<b>4,679</b>	<b>4,203</b>	<b>3,735</b>
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
<b>Non-current liabilities</b>	<b>508</b>	<b>723</b>	<b>1,036</b>	<b>1,036</b>	<b>1,036</b>	<b>1,036</b>
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
<b>Total liabilities</b>	<b>1,648</b>	<b>3,136</b>	<b>4,765</b>	<b>5,715</b>	<b>5,239</b>	<b>4,771</b>
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)
<b>Total shareholders equity</b>	<b>16,119</b>	<b>18,124</b>	<b>19,583</b>	<b>21,793</b>	<b>23,802</b>	<b>26,298</b>
Minority interest	1,740	2,482	3,098	3,134	3,459	3,905
<b>Total equity and liabilities</b>	<b>19,506</b>	<b>23,741</b>	<b>27,447</b>	<b>30,641</b>	<b>32,500</b>	<b>34,974</b>

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
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)
<b>Net cash from operations</b>	<b>999</b>	<b>1,424</b>	<b>1,357</b>	<b>1,618</b>	<b>2,241</b>	<b>2,850</b>
<b>Investing</b>						
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
<b>Net cash from investing</b>	<b>(2,367)</b>	<b>(2,783)</b>	<b>(2,789)</b>	<b>(1,821)</b>	<b>(1,602)</b>	<b>(1,322)</b>
<b>Financing</b>						
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
<b>Net cash from financing</b>	<b>9,339</b>	<b>(163)</b>	<b>809</b>	<b>822</b>	<b>(1,098)</b>	<b>(1,239)</b>
<b>Net change in cash</b>						
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
<b>Cash at the end of the year</b>	<b>9,960</b>	<b>8,378</b>	<b>7,783</b>	<b>8,476</b>	<b>8,017</b>	<b>8,307</b>
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec</b>						
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
<b>YE 31 Dec</b>						
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
<b>YE 31 Dec</b>						
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
<b>YE 31 Dec</b>						
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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SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM
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