

Mindray (300760 CH)

Firmly implement the globalization strategy

Bloomberg reported (15 Apr) that the European Union is set to launch an IPI investigation into China's procurement of medical devices, seeking to address concerns about the policy's unfair favouritism towards domestic suppliers in China. According to anonymous sources, the investigation could be announced as early as mid-April and may result in restricting Chinese companies' access to tenders in the EU. In May 2023, the US-European Union Trade and Technology Council (TTC) issued a statement indicating that the US and EU were exploring possible coordinated actions to address China's non-market policies and practices.

- The International Procurement Instrument (IPI) regulation acts as a new tool to tackle market protection in public procurement by third countries.** Under the IPI, the European Commission can initiate an investigation into a non-EU country's practice if it recurrently undermines EU companies' access to its procurement market. Upon initiation, the Commission will invite the third country concerned to enter into consultations and seek to eliminate or remedy any restrictive practices. The investigation can be suspended at any time if the third country takes satisfactory corrective actions. Otherwise, the European Commission will adopt an IPI measure in the form of a score adjustment or an exclusion of tenders. The IPI measure applies to procurement contracts of at least EUR15mn for works and concessions, and EUR5mn for goods and services, which expires after 5 years but may be extended for a further 5 years.
- The IPI regulation allows room for mediation. China is an important market for global medical device players.** Revenue from China accounted for 13% of Siemens Healthineers' total revenue in FY23. Moreover, a majority of medical device MNCs have established factories in China and complied with the identity of domestically-produced medical devices which enables them to access to China's government procurements. Therefore, we believe that the primary objective of the IPI investigation is to foster reciprocal access to international markets, rather than incurring losses for both parties involved. Given that the investigation can extend up to nine months, or even 14 months under justifiable circumstances, there remains a degree of uncertainty surrounding the outcome of the IPI process.
- Limited impact on Mindray's business. Mindray's revenue from Europe accounted for 5.9% of its total revenue in 1H23, which is relatively modest.** Additionally, Mindray does not hold any individual EU tenders with contract values exceeding EUR5mn. Furthermore, markets outside of Europe and America account for a significant portion of global medical device demand; for instance, Siemens Healthineers' revenue from regions outside the US and EMEA constituted 33% of its total revenue in FY23. Consequently, we believe that there is considerable potential for Mindray to further expand its business in markets beyond America and Europe.
- Maintain BUY.** We maintain our TP of RMB383.43 based on a 9-year DCF model (WACC: 9.0%, terminal growth rate: 3.0%).

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	25,270	30,366	35,654	42,817	51,366
YoY growth (%)	20.2	20.2	17.4	20.1	20.0
Attributable net profit (RMB mn)	8,002	9,607	11,611	13,864	16,579
YoY growth (%)	20.2	20.1	20.9	19.4	19.6
P/E (x)	42.1	34.9	29.0	24.3	20.3
Net gearing (%)	(57.0)	(72.5)	(71.0)	(72.0)	(73.2)

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	RMB383.43
(Previous TP)	RMB383.43)
Up/Downside	38.2%
Current Price	RMB277.50

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Stock Data

Mkt Cap (RMB mn)	335,758.6
Avg 3 mths t/o (RMB mn)	1,044.8
52w High/Low (RMB)	317.65/256.80
Total Issued Shares (mn)	1209.9

Source: FactSet

Shareholding Structure

Smartco Development Limited	27.0%
Magnifice (HK) Limited	24.5%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-5.8%	-3.2%
3-mth	-0.4%	-5.9%
6-mth	2.3%	7.8%

Source: FactSet

12-mth Price Performance

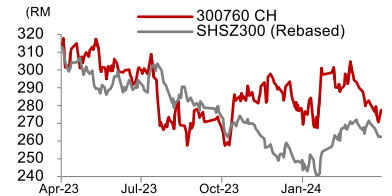


Figure 1: Risk-adjusted DCF valuation

DCF Valuation (in RMB mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
EBIT	12,715	15,200	18,185	21,705	25,653	30,130	35,220	40,966	47,461
Tax rate	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%
EBIT*(1-tax rate)	11,189	13,376	16,003	19,101	22,575	26,514	30,994	36,050	41,766
+ D&A	978	1,115	1,239	1,351	1,447	1,525	1,586	1,631	1,663
- Change in working capital	-225	-933	-1,115	-1,301	-1,479	-1,702	-1,942	-2,199	-2,461
- Capx	-2,935	-1,735	-1,735	-1,735	-1,635	-1,535	-1,435	-1,335	-1,235
FCFF	9,008	11,823	14,392	17,415	20,908	24,802	29,202	34,147	39,732
Terminal value									686,358

Terminal growth rate	3.0%
WACC	9.0%
Cost of equity	11.5%
Cost of debt	5.0%
Equity beta	0.85
Risk-free rate	3.0%
Market risk premium	10.0%
Target debt to asset ratio	35.0%
Effective corporate tax rate	15.0%

Terminal value	316,999
Total PV	438,682
Net debt	-26,228
Minority	23
Equity value	464,887
# of shares (mn)	1,212
DCF per share (in Rmb)	383.43

Source: CMBIGM estimates

Figure 2: Sensitivity analysis

		WACC				
		8.0%	8.5%	9.0%	9.5%	10.0%
Terminal growth rate	4.0%	558.94	492.24	439.17	395.96	360.14
	3.5%	508.74	453.61	408.75	371.56	340.25
	3.0%	468.65	422.05	383.43	350.93	323.22
	2.5%	435.90	395.79	362.03	333.26	308.46
	2.0%	408.65	373.59	343.70	317.96	295.57

Source: CMBIGM estimates

Figure 3: CMBIGM estimates vs consensus

RMB mn	CMBIGM			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	35,654	42,817	51,366	35,525	42,687	51,057	0.36%	0.30%	0.60%
Gross profit	23,466	28,147	33,722	23,105	27,754	33,220	1.56%	1.42%	1.51%
Operating profit	13,236	15,798	18,884	12,896	15,584	18,722	2.64%	1.37%	0.87%
Net profit	11,611	13,864	16,579	11,618	13,986	16,818	-0.06%	-0.87%	-1.42%
EPS (RMB)	9.58	11.44	13.67	9.58	11.52	13.78	-0.02%	-0.74%	-0.79%
Gross margin	65.82%	65.74%	65.65%	65.04%	65.02%	65.06%	+0.78ppt	+0.72ppt	+0.59ppt
Operating margin	37.12%	36.90%	36.76%	36.30%	36.51%	36.67%	+0.82ppt	+0.39ppt	+0.1ppt
Net margin	32.57%	32.38%	32.28%	32.70%	32.76%	32.94%	-0.14ppt	-0.38ppt	-0.66ppt

Source: Company data, Bloomberg, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	21,026	25,270	30,366	35,654	42,817	51,366
Cost of goods sold	(7,366)	(8,843)	(10,885)	(12,188)	(14,670)	(17,644)
Gross profit	13,660	16,427	19,480	23,466	28,147	33,722
Operating expenses	(6,534)	(7,825)	(8,941)	(10,549)	(12,669)	(15,157)
Selling expense	(3,612)	(3,999)	(4,802)	(5,526)	(6,637)	(7,936)
Admin expense	(897)	(1,106)	(1,320)	(1,604)	(1,905)	(2,260)
R&D expense	(1,869)	(2,524)	(2,923)	(3,494)	(4,196)	(5,034)
Others	(156)	(196)	103	75	69	73
Operating profit	7,455	9,066	10,991	13,236	15,798	18,884
Gain/loss on financial assets at FVTPL	0	10	(21)	(21)	(21)	(21)
Investment gain/loss	(4)	1	(5)	(5)	(5)	(5)
Other gains/(losses)	334	453	478	346	346	346
Others	(17)	(49)	(37)	(37)	(37)	(37)
Pre-tax profit	7,438	9,017	10,954	13,199	15,761	18,847
Income tax	(779)	(1,013)	(1,343)	(1,584)	(1,891)	(2,262)
Minority interest	(2)	(2)	(4)	(4)	(5)	(6)
Attributable net profit	6,658	8,002	9,607	11,611	13,864	16,579
Adjusted net profit	6,540	7,850	9,525	11,525	13,778	16,493
Gross dividends	3,039	4,252	5,456	6,652	8,012	9,664
BALANCE SHEET						
YE 31 Dec (RMB mn)						
Current assets	21,632	21,335	30,606	34,142	40,160	47,470
Cash & equivalents	15,865	15,361	23,186	26,228	30,792	36,362
Account receivables	1,539	1,790	2,661	2,930	3,519	4,222
Inventories	3,541	3,565	4,025	4,249	5,115	6,151
Prepayment	206	238	289	289	289	289
Other current assets	481	380	445	445	445	445
Non-current assets	11,675	16,768	16,139	17,836	18,195	18,431
PP&E	3,199	3,772	4,261	5,696	6,994	8,169
Deferred income tax	502	596	755	755	755	755
Intangibles	1,145	2,061	1,977	1,628	1,280	932
Goodwill	1,225	4,218	4,403	4,403	4,403	4,403
Other non-current assets	5,604	6,120	4,743	5,353	4,763	4,172
Total assets	33,306	38,103	46,745	51,977	58,356	65,901
Current liabilities	8,236	8,629	11,770	12,039	12,560	13,184
Short-term borrowings	0	0	0	0	0	0
Account payables	1,500	2,281	2,291	2,559	3,081	3,705
Tax payable	347	474	573	573	573	573
Other current liabilities	6,389	5,874	8,906	8,906	8,906	8,906
Non-current liabilities	1,780	2,506	2,976	2,976	2,976	2,976
Long-term borrowings	0	0	0	0	0	0
Deferred income	157	105	93	93	93	93
Other non-current liabilities	1,623	2,401	2,883	2,883	2,883	2,883
Total liabilities	10,016	11,135	14,746	15,015	15,536	16,161
Share capital	1,216	1,216	1,212	1,212	1,212	1,212
Capital surplus	608	608	608	608	608	608
Other reserves	21,454	25,129	30,161	35,120	40,972	47,887
Total shareholders equity	23,278	26,953	31,981	36,940	42,792	49,707
Minority interest	13	15	18	23	28	34
Total equity and liabilities	33,306	38,103	46,745	51,977	58,356	65,901

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	7,438	9,017	10,954	13,199	15,761	18,847
Depreciation & amortization	483	717	911	978	1,115	1,239
Tax paid	(779)	(1,013)	(1,343)	(1,584)	(1,891)	(2,262)
Change in working capital	1,376	328	1,524	(225)	(933)	(1,115)
Others	352	(50)	96	(224)	(300)	(402)
Net cash from operations	8,870	8,999	12,141	12,145	13,751	16,308
Investing						
Capital expenditure	(1,183)	(1,402)	(1,916)	(2,000)	(2,000)	(2,000)
Acquisition of subsidiaries/ investments	0	(3,520)	0	0	0	0
Net proceeds from disposal of short-term investments	0	0	0	0	0	0
Others	(4,008)	110	(1,304)	(935)	265	265
Net cash from investing	(5,191)	(4,812)	(3,220)	(2,935)	(1,735)	(1,735)
Financing						
Dividend paid	(1,824)	(3,039)	(4,233)	(6,168)	(7,452)	(9,002)
Net borrowings	0	(441)	0	0	0	0
Proceeds from share issues	0	0	0	0	0	0
Others	(30)	(1,125)	(961)	0	0	0
Net cash from financing	(1,853)	(4,605)	(5,194)	(6,168)	(7,452)	(9,002)
Net change in cash						
Cash at the beginning of the year	14,094	15,723	15,133	23,186	26,228	30,792
Exchange difference	(197)	(171)	114	0	0	0
Cash at the end of the year	15,723	15,133	18,974	26,228	30,792	36,362
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	27.0%	20.2%	20.2%	17.4%	20.1%	20.0%
Gross profit	26.5%	20.3%	18.6%	20.5%	19.9%	19.8%
Operating profit	38.6%	21.6%	21.2%	20.4%	19.3%	19.5%
Net profit	42.2%	20.2%	20.1%	20.9%	19.4%	19.6%
Adj. net profit	41.7%	20.0%	21.3%	21.0%	19.5%	19.7%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	65.0%	65.0%	64.2%	65.8%	65.7%	65.7%
Operating margin	35.5%	35.9%	36.2%	37.1%	36.9%	36.8%
Adj. net profit margin	31.1%	31.1%	31.4%	32.3%	32.2%	32.1%
Return on equity (ROE)	31.8%	31.9%	32.6%	33.7%	34.8%	35.9%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	(0.7)	(0.6)	(0.7)	(0.7)	(0.7)	(0.7)
Current ratio (x)	2.6	2.5	2.6	2.8	3.2	3.6
Receivable turnover days	28.1	24.0	26.8	30.0	30.0	30.0
Inventory turnover days	143.8	146.7	127.3	127.3	127.3	127.3
Payable turnover days	68.0	78.0	76.6	76.6	76.6	76.6
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	50.7	42.1	34.9	29.0	24.3	20.3
P/B	14.5	12.5	10.5	9.1	7.9	6.8
EV/sales	15.2	12.7	10.3	8.7	7.1	5.8
EV/EBITDA	40.8	33.3	27.4	22.7	18.7	15.5
EV/EBIT	43.5	36.0	29.8	24.4	20.1	16.5
Div yield (%)	0.9	1.3	1.6	2.0	2.4	2.9

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

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